NV5 Global, Inc.
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

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 001-35849

NV5 Global, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**45-3458017**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
	33021

200 South Park Road, Suite 350 Hollywood, Florida (Address of principal executive offices)	**(Zip Code)**

(954) 495-2112

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

As of November 2, 2016, there were 10,395,243 shares outstanding of the registrant's common stock, $0.01 par value.

NV5 GLOBAL, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NV5 Global, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share data)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 53,066	$ 23,476
Accounts receivable, net of allowance for doubtful accounts of $1,895 and $1,536 as of September 30, 2016 and December 31, 2015, respectively	64,102	47,747
Prepaid expenses and other current assets	1,195	1,092
Deferred income tax assets	1,496	1,440
Total current assets	119,859	73,755
Property and equipment, net	3,762	3,091
Intangible assets, net	22,740	12,367
Goodwill	37,472	21,679
Other assets	1,014	877
Total Assets	$ 184,847	$ 111,769
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,632	$ 6,658
Accrued liabilities	13,013	9,564
Income taxes payable	755	813
Billings in excess of costs and estimated earnings on uncompleted contracts	215	293
Client deposits	109	110
Current portion of contingent consideration	442	458
Current portion of notes payable and other obligations	6,192	4,347
Total current liabilities	32,358	22,243
Contingent consideration, less current portion	467	821
Notes payable and other obligations, less current portion	9,963	6,360

Deferred income tax liabilities	1,727	1,582
Total liabilities	44,515	31,006
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $0.01 par value; 45,000,000 shares authorized, 10,394,283 and 8,124,627 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	104	81
Additional paid-in capital	113,488	62,260
Retained earnings	26,740	18,422
Total stockholders' equity	140,332	80,763
Total liabilities and stockholders' equity	$ 184,847	$ 111,769

See accompanying notes to consolidated financial statements (unaudited).

NV5 Global, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands, except share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Gross revenues	$60,091	$48,701	$160,888	$112,335
Direct costs:				
Salaries and wages	20,274	16,856	53,744	39,122
Sub-consultant services	8,854	6,859	22,246	15,306
Other direct costs	3,307	3,455	8,209	8,120
Total direct costs	32,435	27,170	84,199	62,548
Gross Profit	27,656	21,531	76,689	49,787
Operating Expenses:				
Salaries and wages, payroll taxes and benefits	14,096	10,549	40,575	25,258
General and administrative	4,415	3,422	12,640	9,162
Facilities and facilities related	2,066	1,565	5,803	3,429
Depreciation and amortization	1,604	1,048	4,285	2,446
Total operating expenses	22,181	16,584	63,303	40,295
Income from operations	5,475	4,947	13,386	9,492
Other expense:				
Interest expense	(81)	(78)	(221)	(180)
Total other expense	(81)	(78)	(221)	(180)
Income before income tax expense	5,394	4,869	13,165	9,312
Income tax expense	(1,990)	(1,867)	(4,847)	(3,492)
Net income	$3,404	$3,002	$8,318	$5,820

Earnings per share:				
Basic	$0.34	$0.40	$0.94	$0.90
Diluted	$0.33	$0.38	$0.90	$0.84
Weighted average common shares outstanding:				
Basic	9,941,517	7,516,063	8,826,090	6,454,158
Diluted	10,353,793	7,943,131	9,215,365	6,945,274

See accompanying notes to consolidated financial statements (unaudited).

NV5 Global, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

(in thousands, except share data)

	Common Stock		Additional Paid-In	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance, December 31, 2015	**8,124,627**	**$ 81**	**$ 62,260**	**$ 18,422**	**$80,763**
Stock compensation	-	-	1,704	-	1,704
Restricted stock issuance, net	123,333	1	(1)	-	-
Proceeds from secondary offering, net of costs	1,955,000	20	47,127	-	47,147
Proceeds from exercise of unit warrant	140,000	2	1,006	-	1,008
Stock issuance for acquisitions	42,368	-	1,075	-	1,075
Tax benefit from stock based compensation	-	-	155	-	155
Payment of contingent consideration with common stock	8,955	-	162	-	162
Net income	-	-	-	8,318	8,318
Balance, September 30, 2016	**10,394,283**	**$ 104**	**$ 113,488**	**$ 26,740**	**$140,332**

See accompanying notes to consolidated financial statements (unaudited).

NV5 Global, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine Months Ended	
	September 30, 2016	**September 30, 2015**
Cash Flows From Operating Activities:		
Net income	$ 8,318	$ 5,820
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,285	2,446
Provision for doubtful accounts	246	263
Stock compensation	1,704	1,229
Change in fair value of contingent consideration	88	72
Loss on disposal of leasehold improvements	2	-
Excess tax benefit from stock based compensation	(155)	(1,536)
Deferred income taxes	88	383
Changes in operating assets and liabilities, net of impact of acquisitions:		
Accounts receivable	(7,795)	(10,122)
Prepaid expenses and other assets	372	427
Accounts payable	2,892	(2,016)
Accrued liabilities	476	1,933
Income taxes payable	96	967
Billings in excess of costs and estimated earnings on uncompleted contracts	(78)	(221)
Client deposits	147	(13)
Net cash provided by (used in) operating activities	10,686	(368)
Cash Flows From Investing Activities:		
Cash paid for acquisitions	(24,388)	(10,427)
Purchase of property and equipment	(566)	(428)
Net cash used in investing activities	(24,954)	(10,855)
Cash Flows From Financing Activities:		
Proceeds from secondary offerimg	51,319	32,068
Payments of secondary offering costs	(4,172)	(2,649)
Exercise of warrants costs	-	(217)
Payments on notes payable	(4,156)	(7,660)
Payments of contingent consideration	(296)	(533)
Excess tax benefit from stock based compensation	155	1,536
Payments on stock repurchase obligation	-	(935)
Proceeds from exercise of unit warrant	1,008	3,186
Net cash provided by financing activities	43,858	24,796

Net increase in Cash and Cash Equivalents	29,590	13,573
Cash and cash equivalents – beginning of period	23,476	6,872
Cash and cash equivalents – end of period	$ 53,066	$ 20,445

See accompanying notes to consolidated financial statements (unaudited).

NV5 Global, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine Months Ended September 30, 2016	September 30, 2015
Supplemental disclosures of cash flow information:		
Cash paid for interest	$255	$ 164
Cash paid for income taxes	$4,642	$ 2,114
Non-cash investing and financing activities:		
Contingent consideration (earn-out)	$-	$ 1,307
Notes payable and other obligations for acquisitions	$9,333	$ 9,250
Stock issuance for acquisitions	$1,075	$ 900
Payment of contingent consideration with common stock	$162	$ 100

See accompanying notes to consolidated financial statements (unaudited).

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

Note 1 - Organization and Nature of Business Operations

Business

NV5 Global, Inc. and its subsidiaries (collectively, the "Company" or "NV5 Global") is a provider of professional and technical engineering and consulting solutions to public and private sector clients in the infrastructure, energy, construction, real estate and environmental markets, operating through a network of 72 offices in 26 states in the United States and internationally in Macau, Shanghai, Hong Kong and Vietnam. The Company's clients include the U.S. federal, state and local governments, and the private sector. NV5 Global provides a wide range of services, including, but not limited to, planning, design, consulting, permitting, inspection and field supervision, management oversight, forensic engineering, litigation support, condition assessment and compliance certification.

Equity Transactions

Secondary offering

On May 13, 2016, the Company priced a secondary offering of 1,700,000 shares of the Company's common stock (the "Firm Shares"). Each share was sold at an offering price of $26.25 per share. The shares sold were registered under the Securities Act of 1933, as amended (the "Securities Act"), on an effective registration statement on Form S-3 (Registration No. 333-206644) pursuant to the Securities Act. In addition, the Company granted the underwriters of this secondary offering a 30-day option to purchase an additional 255,000 shares (the "Option Shares") of common stock to cover over-allotments. On May 18, 2016, the Company closed on the Firm Shares, for which we received net proceeds of approximately $41,000 after deducting the underwriting discount and estimated offering expenses payable by the Company and issued 1,700,000 shares. On June 3, 2016, the Company closed on the full exercise of the Option

Shares by the underwriters of the secondary offering with respect to an additional 255,000 shares of its common stock, for which we received net proceeds of approximately $6,200 after deducting the underwriters' discount.

Warrant exercise

In conjunction with the Company's initial public offering on March 26, 2013, the underwriter received a warrant to acquire up to 140,000 units at an exercise price of $7.80 per unit ("Unit Warrant"). Each of these units consisted of one share of the Company's common stock and one warrant to purchase one share of the Company's common stock at an exercise price of $7.80 per share, which warrant expires on March 27, 2018. On March 23, 2016, the underwriter paid $1,008 to the Company to initiate the exercise of the Unit Warrant. On March 29, 2016, the Company delivered 140,000 shares of common stock to the underwriter, and, on May 5, 2016, the Company completed the exercise of the Unit Warrant by delivery of the warrant.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements of the Company are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for reporting of interim financial information. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. The consolidated financial statements include the accounts of NV5 Global, Inc. and those of its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited interim consolidated financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and results of operations of the Company as of the dates and for the periods presented. Accordingly, these statements should be read in conjunction with the financial statements and notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying consolidated balance sheet as of December 31, 2015 has been derived from those financial statements. The results of operations and cash flows for the interim periods presented are not necessarily indicative of the results to be expected for any future interim period or for the full 2016 fiscal year.

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NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's most recent assessment of underlying facts and circumstances using the most recent information available. Actual results could differ significantly from these estimates and assumptions, and the differences could be material.

Estimates and assumptions are evaluated periodically and adjusted when necessary. The more significant estimates affecting amounts reported in the consolidated financial statements relate to the fair value estimates used in accounting for business combinations including the valuation of identifiable intangible assets and contingent consideration, fair value estimates in determining the fair value of its reporting units for goodwill impairment assessment, revenue recognition on the percentage-of-completion method, allowances for uncollectible accounts and provision for income taxes.

Concentration of Credit Risk

Trade receivable balances carried by the Company are comprised of accounts from a diverse client base across a broad range of industries and are not collateralized. However, approximately 35% and 43% of the Company's gross revenues for the nine months ended September 30, 2016 and 2015, respectively, are from California-based projects. The Company does not have any client representing more than 10% of gross revenues during the nine months ended September 30, 2016 and 2015. Approximately 50% and 63% of the Company's accounts receivable as of September 30, 2016 and December 31, 2015, respectively, are from government and government-related contracts. Management continually evaluates the creditworthiness of these and future clients and provides for bad debt reserves as necessary.

Fair Value of Financial Instruments

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company considers cash and cash equivalents, accounts receivable, accounts payable, income taxes payable, accrued liabilities and debt obligations to meet the definition of financial instruments. As of September 30, 2016 and December 31, 2015, the carrying amount of cash and cash equivalents, accounts receivable, accounts payable, income taxes payable and accrued liabilities approximate their fair value due to the relatively short period of time between their origination and their expected realization or payment. The carrying amounts of debt obligations approximate their fair values as the terms are comparable to terms currently offered by local lending institutions for arrangements with similar terms to industry peers with comparable credit characteristics.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company applies the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations*, in the accounting for its acquisitions, which requires recognition of the assets acquired and the liabilities assumed at their acquisition date fair values, separately from goodwill. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the tangible and identifiable intangible assets acquired and liabilities assumed. The allocation of the purchase price to identifiable intangible assets (customer relationships, customer backlog, trade name and non-compete) is based on valuations performed to determine the fair values of such assets as of the acquisition dates. The Company engaged a third-party independent valuation specialist to assist in the determination of fair values of tangible and intangible assets acquired and liabilities assumed for the 2016 and 2015 acquisitions, other than Allwyn and Weir acquisitions which was prepared internally. The fair values of earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. The Company estimates the fair value of contingent earn-out payments as part of the initial purchase price and records the estimated fair value of contingent consideration as a liability on the consolidated balance sheet. Changes in the estimated fair value of contingent earn-out payments are included in General and Administrative expenses on the Consolidated Statements of Net Income and Comprehensive Income.

Several factors are considered when determining contingent consideration liabilities as part of the purchase price, including whether (i) the valuation of the acquisitions is not supported solely by the initial consideration paid, and the contingent earn-out formula is a critical and material component of the valuation approach to determining the purchase price; and (ii) the former owners of the acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of other key employees. The contingent earn-out payments are not affected by employment termination.

We review and re-assess the estimated fair value of contingent consideration liabilities on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

The Company measures contingent consideration recognized in connection with business combinations at fair value on a recurring basis using significant unobservable inputs classified within Level 3, as defined in the accounting guidance. The Company uses a probability-weighted discounted cash flow approach as a valuation technique to determine the fair value of the contingent consideration liabilities on the acquisition date and at each reporting period. The significant unobservable inputs used in the fair value measurements are projections over the earn-out period, and the probability outcome percentages that are assigned to each scenario. Significant increases or decreases to either of these inputs in isolation could result in a significantly higher or lower liability with a higher liability capped by the contractual maximum of the contingent consideration liabilities. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate on the acquisition date and amount paid will be recorded in earnings (see Note 10).

Goodwill and Intangible Assets

Goodwill is the excess of consideration paid for an acquired entity over the amounts assigned to assets acquired, including other identifiable intangible assets and liabilities assumed in a business combination. To determine the amount of goodwill resulting from a business combination, the Company performs an assessment to determine the acquisition date fair value of the acquired company’s tangible and identifiable intangible assets and liabilities.

Goodwill is required to be evaluated for impairment on an annual basis or whenever events or changes in circumstances indicate the asset may be impaired. An entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. These qualitative factors include: macroeconomic and industry conditions, cost factors, overall financial performance and other relevant entity-specific events. If the entity determines that this threshold is met, then performing the two-step quantitative impairment test is unnecessary. The two-step impairment test requires a comparison of the carrying value of the assets and liabilities associated with a reporting unit, including goodwill, with the fair value of the reporting unit. The Company determines fair value through multiple valuation techniques, and weights the results accordingly. NV5 Global is required to make certain subjective and complex judgments in assessing whether an event of impairment of goodwill has occurred, including assumptions and estimates used to determine the fair value of its reporting units. If the carrying value of a reporting unit exceeds the fair value of the reporting unit, the Company would calculate the implied fair value of its reporting unit goodwill as compared to the carrying value of its reporting unit goodwill to determine the appropriate impairment charge, if any. The Company has elected to perform its annual goodwill impairment review on August 1 of each year. The Company historically conducts its annual impairment tests on the goodwill using the quantitative method of evaluating goodwill.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(in thousands, except share data)

Identifiable intangible assets primarily include customer backlog, customer relationships, trade names and non-compete agreements. Amortizable intangible assets are amortized on a straight-line basis over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the assets may be impaired. If an indicator of impairment exists, the Company compares the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then impairment, if any, is measured as the difference between fair value and carrying value, with fair value typically based on a discounted cash flow model.

See Note 7 for further information on goodwill and identified intangibles.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. In accordance with the FASB ASC 260, *Earnings per Share*, the effect of potentially dilutive securities is not considered during periods of loss or if the effect is anti-dilutive. The weighted average number of shares outstanding in calculating basic earnings per share for the three and nine months ended September 30, 2016 and 2015 exclude 434,082 and 411,893 non-vested restricted shares, respectively, issued since 2010. These non-vested restricted shares are not included in basic earnings per share until the vesting requirement is met. The weighted average number of shares outstanding in calculating diluted earnings per share for the three and nine months ended September 30, 2016 and 2015 includes, if outstanding, non-vested restricted shares and units, issuable shares related to acquisitions, and the shares and warrants associated with the Company's initial public offering. In calculating diluted earnings per share for the three and nine months ended September 30, 2016 and 2015, there were no potentially anti-dilutive securities.

The following table represents a reconciliation of the net income and weighted average shares outstanding for the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended		**Nine Months Ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Numerator:				
Net income – basic and diluted	$3,404	$3,002	$8,318	$5,820
Denominator:				
Basic weighted average shares outstanding	9,941,517	7,516,063	8,826,090	6,454,158
Effect of dilutive non-vested restricted shares and units	203,997	314,930	209,032	379,429
Effect of issuable shares related to acquisitions	102,810	18,205	55,551	11,723
Effect of warrants	105,469	93,933	124,692	99,964
Diluted weighted average shares outstanding	10,353,793	7,943,131	9,215,365	6,945,274

Note 3 – Recent Accounting Pronouncements

In March 2016, FASB issued Accounting Standards Update 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09 simplifies the accounting for share-based payment award transactions including: income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the requirements of ASU 2016-09 and have not yet determined its impact on our consolidated financial statements.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires lessees to recognize, in the balance sheet, a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset over the lease term. The amendments in this accounting standard update are to be applied using a modified retrospective approach and are effective for fiscal years beginning after December 15, 2018. We are currently evaluating the requirements of ASU 2016-02 and have not yet determined its impact on our consolidated financial statements.

In November 2015, FASB issued ASU 2015-17— *Balance Sheet Classification of Deferred Taxes*. As part of FASB's accounting simplification initiative, ASU 2015-17 removes the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Instead, the update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for entities for fiscal years beginning after December 15, 2016, with prospective or retrospective application to all periods presented. Early application is permitted. The Company does not expect the impact of this ASU to be material to its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU was originally effective for annual reporting periods beginning after December 15, 2016 and early adoption is permitted as of the original effective date. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU and management has not yet determined which method it will apply. In July 2015, FASB voted to approve a one-year deferral of the effective date to December 31, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. As a result, ASU 2014-09 will become effective for us in the first quarter of our fiscal year ending December 31, 2018. The Company is currently evaluating the impact of adopting ASU 2014-09 on the Company's consolidated net income, financial position and cash flows.

Note 4 – Business Acquisitions

On September 12, 2016, the Company acquired certain assets of Weir Environmental, L.L.C. (“Weir”), a New Orleans, Louisiana-based emergency remediation and environmental assessment firm. Weir also provides residential and commercial property loss consulting services. The purchase price of this acquisition was $1,000 including $300 in cash, $500 promissory note (bearing interest at 3.0%), payable in four installments of $125, due on the first, second, third and fourth anniversaries of September 12, 2016, the effective date of the acquisition (see Note 9) and $200 of the Company’s common stock (6,140 shares) as of the closing date of the acquisition.

On May 20, 2016, the Company acquired Dade Moeller & Associates, Inc., a North Carolina corporation ("Dade Moeller"). Dade Moeller provides professional services in radiation protection, health physics, and worker safety to government and commercial facilities. Dade Moeller's technical expertise includes radiation protection, industrial hygiene and safety, environmental services and laboratory consulting. This acquisition expanded the Company’s environmental, health and safety services and allows the Company to offer these services on a broader scale within its existing network. The purchase price of this acquisition was $20,000 including $10,000 in cash, $6,000 in promissory notes (bearing interest at 3.5%), payable in four installments of $1,500, due on the first, second, third and fourth anniversaries of May 20, 2016, the effective date of the acquisition (see Note 9), $1,000 of the Company’s common stock (36,261 shares) as of the closing date of the acquisition, and $3,000 in stock or a combination of cash and shares of the Company’s stock, at our discretion, payable in three installments of $1,000, due on the first, second and third anniversaries of May 20, 2016. In order to ultimately determine the fair values of tangible and intangible assets acquired and liabilities assumed for Dade Moeller, we engaged a third-party independent valuation specialist to assist in the determination of fair values of tangible and intangible assets acquired and liabilities, however as of the date of this report, the valuation was not final. We expect to finalize the purchase price allocation with respect to this transaction by the end of the fourth quarter of 2016.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

On February 1, 2016, the Company acquired Sebesta, Inc. (“Sebesta”), a St. Paul, Minnesota-based mechanical, electrical and plumbing (“MEP”) engineering and energy management company. Primary clients include federal and state governments, power and utility companies, and major educational, healthcare, industrial and commercial property owners throughout the United States. The purchase price of this acquisition was $14,000 paid from cash on hand. This acquisition expanded the Company’s MEP engineering and energy and allows the Company to offer these services on a broader scale within its existing network. In addition, this acquisition strengthens the Company’s geographic diversification and allows the Company to continue expanding its national footprint. In order to ultimately determine the fair values of tangible and intangible assets acquired and liabilities assumed for Sebesta, we engaged a third-party independent valuation specialist to assist in the determination of fair values of tangible and intangible assets acquired and liabilities.

On July 1, 2015, the Company acquired all of the outstanding equity interests of the RBA, a New Jersey based infrastructure engineering firm focused on the provision of transportation engineering, planning, and construction inspection, environmental engineering, civil engineering, surveying, and architecture services to public and private clients throughout the East Coast. The purchase price of up to $13,000 included $8,000 in cash, less $1,900 held back to cover liabilities associated with RBA’s deferred compensation plan which was paid to the RBA stockholders in July 2015, $4,000 promissory notes (bearing interest at the rate of 3.0% per annum), payable in four installments of $1,000, due on the first, second, third and fourth anniversaries of July 1, 2015, the effective date of the acquisition (see Note 9). The purchase price also included a non-interest bearing earn-out of up to $1,000 payable in cash or the Company’s common stock, subject to the achievement of certain agreed upon financial metrics for the years ended 2016 and 2017. The earn-out of $1,000 is non-interest bearing and was recorded at its estimated fair value of $406, based on a probability-weighted approach valuation technique used to determine the fair value of the contingent consideration on the acquisition date. As of September 30, 2016 and December 31, 2015, the fair value of this contingent consideration is approximately $533 and $446, respectively. Furthermore, at closing the Company assumed and paid off approximately $4,000 of RBA’s indebtedness.

On June 24, 2015, the Company acquired certain assets of Allwyn, an environmental services firm based in Phoenix, Arizona, that specializes in environmental assessment, radon mitigation, NEPA planning and permitting, NQA-1 compliance, geotechnical engineering, construction materials testing and inspection, and water resources projects. The purchase price of up to $1,300 included up to $800 in cash and a $500 promissory note (bearing interest at 3.5%), payable in three installments of $167, due on the first, second and third anniversaries of June 24, 2015, the effective date of the acquisition (see Note 9).

On April 22, 2015, the Company acquired all of the outstanding equity interests of Mendoza, a San Francisco based program management firm, with seven offices throughout California, that specializes in the provision of construction program consulting services to public and private clients in the transportation and clean water/wastewater industries. The purchase price of up to $4,000 included up to $500 in cash, a $3,000 short-term promissory note, based on the collection of acquired accounts receivable and work in process, payable within one year, and a $500 promissory note (bearing interest at 3%), payable in two installments of $250, due on the first and second anniversaries of April 22, 2015, the effective date of the acquisition (see Note 9).

On January 30, 2015, the Company acquired all of the outstanding equity interests of Joslin, Lesser & Associates, Inc. ("JLA"), a program management and owner's representation consulting firm that primarily services government owned facilities and public K through 12 school districts in the Boston, MA area. The purchase price of up to $5,500 included $2,250 in cash, a $1,250 promissory note (bearing interest at 3.5%), payable in four installments of $313, due on the first, second, third, and fourth anniversaries of January 30, 2015, the effective date of the acquisition (see Note 9), and $1,000 of the Company's common stock (89,968 shares) as of the closing date of the acquisition. The purchase price also included a non-interest bearing earn-out of up to $1,000 payable in cash, notes and the Company's common stock, subject to the achievement of certain agreed upon metrics for calendar year 2015. The earn-out of $1,000 is non-interest bearing and was recorded at its estimated fair value of $901, based on a probability-weighted approach valuation technique used to determine the fair value of the contingent consideration on the acquisition date. The note and the earn-out are due to a related party individual. As of September 30, 2016 and December 31, 2015, this contingent consideration was $375 and $500, respectively.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed as of the acquisition date for the acquisitions closed during 2016 and final fair values of the assets acquired and liabilities assumed as of the acquisition dates for the acquisitions closed during 2015:

	September 30, 2016	**December 31, 2015**
Cash	$ 1	$ 1,033
Accounts receivable	8,807	16,050
Property and equipment	1,315	793
Prepaid expenses	474	457
Other assets	286	118
Intangible assets:		
Customer relationships	10,669	5,833
Trade name	1,119	1,035
Customer backlog	1,663	1,510
Non-compete	224	613
Favorable (unfavorable) lease	(225)	778
Total Assets	24,333	28,220
Liabilities	(5,328)	(13,521)
Deferred tax liabilities	-	(2,238)
Net assets acquired	19,005	12,461
Consideration paid (Cash, Notes and/or stock)	34,798	21,691
Contingent earn-out liability (Cash and stock)	-	1,307
Total Consideration	34,798	22,998
Excess consideration over the amounts assigned to the net assets acquired (Goodwill)	$ 15,793	$ 10,537

Goodwill was recorded based on the amount by which the purchase price exceeded the fair value of the net assets acquired and the amount is attributable to the reputation of the business acquired, the workforce in place and the synergies to be achieved from these acquisitions. The goodwill acquired during the nine months ended September 30, 2016 was assigned to the program management (the “PM”) reportable segment. Goodwill of approximately $15,199 is expected to be deductible for income tax purposes for the 2016 acquisitions.

The consolidated financial statements of the Company for the three and nine months ended September 30, 2016 include the results of operations from the businesses acquired during 2016 from its date of acquisition to September 30, 2016. For the three and nine months ended September 30, 2016, the results include gross revenues of $12,363 and $27,481, respectively, and pre-tax income of approximately $1,108 and $2,560, respectively. The consolidated financial statements of the Company for the three and nine months ended September 30, 2015 include the results of operations from the businesses acquired during 2015 from their respective dates of acquisition to September 30, 2015. For the three and nine months ended September 30, 2015, the results include gross revenues of approximately $16,504 and $22,630, respectively and pre-tax income of $2,147 and $3,659, respectively. Included in general and administrative expense for the three and nine months ended September 30, 2016 is $8 and $439, respectively, of acquisition-related costs pertaining to the Company’s acquisition activities.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

The following table presents the unaudited, pro forma consolidated results of operations (in thousands, except per share amounts) for the three and nine months ended September 30, 2016 and 2015 as if the RBA, Sebesta and Dade Moeller acquisitions had occurred as of January 1, 2015. The pro forma information provided below is compiled from the financial statements of these acquisitions and includes pro forma adjustments for amortization expense, reduction in certain expenses and the income tax impact of these adjustments. The pro forma results are not necessarily indicative of (i) the results of operations that would have occurred had these acquisitions operations actually been acquired on January 1, 2015; or (ii) future results of operations:

For the three months ended		**For the nine months ended**	
September 30, 2016	**September 30,**	**September 30,**	**September 30,**