NV5 Global, Inc.
Form 10-Q
August 03, 2017

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 July 1, 2017

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, 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	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

As of August 1, 2017, there were 10,755,185 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)

	July 1, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$19,492	$35,666
Accounts receivable, net of allowance for doubtful accounts of $2,694 and $1,992 as of July 1, 2017 and December 31, 2016, respectively	104,474	75,511
Prepaid expenses and other current assets	3,876	1,874
Total current assets	127,842	113,051
Property and equipment, net	7,888	6,683
Intangible assets, net	71,094	40,861
Goodwill	98,536	59,380
Other assets	1,163	1,511
Total Assets	$306,523	$221,486
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$18,945	$13,509
Accrued liabilities	19,453	17,316
Income taxes payable	781	1,134
Billings in excess of costs and estimated earnings on uncompleted contracts	1,620	228
Client deposits	106	106
Current portion of contingent consideration	2,549	564
Current portion of notes payable and other obligations	11,010	10,764
Total current liabilities	54,464	43,621
Contingent consideration, less current portion	125	1,875
Notes payable and other obligations, less current portion	71,817	21,632
Deferred income tax liabilities, net	22,049	6,197
Total liabilities	148,455	73,325
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, 10,744,736 and 10,566,528 shares issued and outstanding as of July 1, 2017 and December 31, 2016, respectively	107	106
Additional paid-in capital	121,343	118,026
Retained earnings	36,618	30,029
Total stockholders' equity	158,068	148,161
Total liabilities and stockholders' equity	$306,523	$221,486

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		Six Months Ended	
	July 1, 2017	**June 30, 2016**	**July 1, 2017**	**June 30, 2016**
Gross revenues	$83,736	$55,892	$147,795	$100,797
Direct costs ***(excluding depreciation and amortization)*****:**				
Salaries and wages	25,663	18,216	47,016	33,470
Sub-consultant services	13,106	8,809	21,056	13,392
Other direct costs	3,607	2,658	6,641	4,902
Total direct costs	42,376	29,683	74,713	51,764
Gross Profit	41,360	26,209	73,082	49,033
Operating Expenses:				
Salaries and wages, payroll taxes and benefits	21,110	14,038	39,757	26,479
General and administrative	7,140	4,127	12,569	8,225
Facilities and facilities related	2,991	2,016	5,615	3,737
Depreciation and amortization	3,253	1,439	5,754	2,681
Total operating expenses	34,494	21,620	63,695	41,122
Income from operations	6,866	4,589	9,387	7,911
Other expense:				
Interest expense	(279)	(71)	(518)	(140)
Total other expense	(279)	(71)	(518)	(140)
Income before income tax expense	6,587	4,518	8,869	7,771
Income tax expense	(2,268)	(1,659)	(2,280)	(2,857)
Net Income and Comprehensive Income	$4,319	$2,859	$6,589	$4,914
Earnings per share:				
Basic	$0.42	$0.33	$0.65	$0.59
Diluted	$0.40	$0.31	$0.61	$0.57
Weighted average common shares outstanding:				
Basic	10,171,969	8,793,471	10,127,610	8,262,248
Diluted	10,723,804	9,172,944	10,721,744	8,640,022

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, 2016	**10,566,528**	**$ 106**	**$ 118,026**	**$ 30,029**	**$ 148,161**
Stock compensation	-	-	1,582	-	1,582
Restricted stock issuance, net	130,016	1	(1)	-	-
Stock issuance for acquisitions	46,472	-	1,674	-	1,674
Payment of contingent consideration with common stock	1,720	-	62	-	62
Net income	-	-	-	6,589	6,589
Balance, July 1, 2017	**10,744,736**	**$ 107**	**$ 121,343**	**$ 36,618**	**$ 158,068**

See accompanying notes to consolidated financial statements (unaudited).

NV5 Global, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Six Months Ended July 1, 2017			June 30, 2016		
Cash Flows From Operating Activities:						
Net income	$	6,589		$	4,914	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		5,754			2,681	
Provision for doubtful accounts		189			212	
Stock compensation		1,582			1,049	
Change in fair value of contingent consideration		42			87	
Loss on disposal property and equipment		-			2	
Excess tax benefit from stock based compensation		-			(155	)
Deferred income taxes		286			52	
Changes in operating assets and liabilities, net of impact of acquisitions:						
Accounts receivable		(8,485	)		(6,419	)
Prepaid expenses and other assets		(355	)		30	
Accounts payable		(5	)		3,730	
Accrued liabilities		(2,106	)		460	
Income taxes payable		(353	)		52	
		1,392			(135	)

Billings in excess of costs and estimated earnings on uncompleted contracts		
Client deposits	(44)	134
Net cash provided by operating activities	4,486	6,694
Cash Flows From Investing Activities:		
Cash paid for acquisitions (net of cash received from acquisitions)	(61,037)	(24,085)
Purchase of property and equipment	(991)	(428)
Net cash used in investing activities	(62,028)	(24,513)
Cash Flows From Financing Activities:		
Proceeds from borrowings from Senior Credit Facility	47,000	-
Proceeds from secondary offering	-	51,319
Payments of secondary offering costs	-	(4,075)
Payments on notes payable	(5,070)	(2,711)
Payments of contingent consideration	(562)	(296)
Excess tax benefit from stock based compensation	-	155
Proceeds from exercise of unit warrant	-	1,008
Net cash provided by financing activities	41,368	45,400
Net (decrease) increase in Cash and Cash Equivalents	(16,174)	27,581
Cash and cash equivalents – beginning of period	35,666	23,476

Cash and cash equivalents – end of period	$	19,492	$	51,057

See accompanying notes to consolidated financial statements (unaudited).

NV5 Global, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Six Months Ended	
	July 1, 2017	**June 30, 2016**
Supplemental disclosures of cash flow information:		
Cash paid for interest	$486	$122
Cash paid for income taxes	$2,349	$2,743
Non-cash investing and financing activities:		
Contingent consideration (earn-out)	$818	$-
Notes payable and other obligations for acquisitions	$8,950	$8,833
Stock issuance for acquisitions	$1,674	$875
Payment of contingent consideration and other obligations with common stock	$62	$163

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 out of more than 100 locations nationwide and abroad 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.

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 (“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 condensed or 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 consolidated financial statements and notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The accompanying consolidated balance sheet as of December 31, 2016 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 2017 fiscal year.

Fiscal Year

Effective March 7, 2017, the Audit Committee of our Board of Directors and the Board of Directors approved a change in our fiscal year-end and financial accounting cycle. With effect from January 1, 2017, the Company commenced reporting its financial results on a 52/53 week fiscal year ending on the Saturday closest to December 31st (whether or not in the following calendar year), with interim calendar quarters ending on the Saturday closest to the end of such calendar quarter (whether or not in the following calendar quarter). As such, in calendar year 2017, the first fiscal quarter ended on April 1, 2017, the second fiscal quarter ended on July 1, 2017, the third fiscal quarter will end on September 30, 2017, and the fiscal year will end on December 30, 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

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 the Company's 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 32% and 35% of the Company's gross revenues for the six months ended July 1, 2017 and June 30, 2016, respectively, are from California-based projects. The Company does not have any clients individually representing more than 10% of gross revenues during the six months ended July 1, 2017 and June 30, 2016. Furthermore, approximately 55% and 71% of the Company's accounts receivable as of July 1, 2017 and December 31, 2016, respectively, are for public and quasi-public projects. 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 July 1, 2017 and December 31, 2016, 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.

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. Generally, the Company engages a third-party independent valuation specialist to assist in management's determination of fair values of tangible and intangible assets acquired and liabilities assumed. 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.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share data)

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. 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). Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in income from operations.

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.

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.

NV5 Global, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS