

NV5 Holdings, Inc.  
Form 10-Q  
November 13, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2013

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 Holdings, Inc.**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>45-3458017</b> (I.R.S. Employer Identification No.)
<b>200 South Park Road, Suite 350</b>	<b>33021</b>
<b>Hollywood, Florida 33021</b> (Address of principal executive offices)	<b>(zip code)</b>
<b>(954) 495-2112</b> (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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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 11, 2013, there were 5,482,782 shares outstanding of the registrant's common stock, \$0.01 par value.

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**NV5 HOLDINGS, INC.**  
**FORM 10-Q QUARTERLY REPORT**  
**QUARTER ENDED SEPTEMBER 30, 2013**

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.**

NV5 Holdings, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	September 30, 2013 <i>(unaudited)</i>	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,771	\$ 2,294
Accounts receivable, net of allowance for doubtful accounts of \$1,374 and \$1,631 as of September 30, 2013 and December 31, 2012, respectively	17,977	15,052
Prepaid expenses and other current assets	381	311
Deferred income tax assets	511	543
<b>Total current assets</b>	<b>25,640</b>	<b>18,200</b>
Property and equipment, net	1,315	1,273
Intangible assets, net	3,250	2,758
Goodwill	7,106	5,857
Cash surrender value of officers' life insurance	684	656
Other assets	119	600
Deferred income tax assets	715	619
<b>Total Assets</b>	<b>\$ 38,829</b>	<b>\$ 29,963</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,667	\$ 3,261
Accrued liabilities	4,744	3,082
Income taxes payable	107	1,992
Billings in excess of costs and estimated earnings on uncompleted contracts	394	430
Client deposits	110	47
Current portion of contingent consideration	333	
Current portion of stock repurchase obligation	713	772
Current portion of notes payable	1,732	3,538
<b>Total current liabilities</b>	<b>12,800</b>	<b>13,122</b>
Contingent consideration, less current portion	634	
Stock repurchase obligation, less current portion	1,068	1,621
Notes payable, less current portion	2,843	3,851
<b>Total liabilities</b>	<b>17,345</b>	<b>18,594</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: \$0.01 par value; 5,000,000 shares authorized, no shares issued and outstanding		

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Common stock, \$0.01 par value, 45,000,000 shares authorized, 4,279,844 and 2,600,000 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	43	26
Additional paid-in capital	16,939	9,065
Retained earnings	4,502	2,278
Total stockholders' equity	21,484	11,369
Total liabilities and stockholders' equity	\$ 38,829	\$ 29,963

*See accompanying notes to consolidated financial statements.*

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NV5 Holdings, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands, except share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Gross contract revenues</b>	\$ 18,588	\$ 16,565	\$ 51,317	\$ 45,486
<b>Direct costs (excluding depreciation and amortization):</b>				
Salaries and wages	5,315	4,642	14,747	12,672
Sub-consultant services	3,535	2,826	9,010	7,514
Other direct costs	598	537	1,508	1,486
Total direct costs	9,448	8,005	25,265	21,672
<b>Gross profit</b>	9,140	8,560	26,052	23,814
<b>Operating Expenses:</b>				
Salaries and wages, payroll taxes and benefits	5,024	4,603	14,772	14,123
General and administrative	1,698	1,586	4,540	4,675
Facilities and facilities related	847	851	2,510	2,458
Depreciation and amortization	403	376	1,126	1,089
Total operating expenses	7,972	7,416	22,948	22,345
<b>Income from operations</b>	1,168	1,144	3,104	1,469
<b>Other (expense) income:</b>				
Interest expense	(26)	(101)	(162)	(275)
Total other (expense)	(26)	(101)	(162)	(275)
Income before income tax expense	1,142	1,043	2,942	1,194
Income tax expense	(211)	(364)	(718)	(413)
<b>Net income and comprehensive income</b>	\$ 931	\$ 679	\$ 2,224	\$ 781
<b>Basic Earnings per Share</b>	\$ 0.25	\$ 0.31	\$ 0.68	\$ 0.34
<b>Diluted Earnings per Share</b>	\$ 0.23	\$ 0.27	\$ 0.63	\$ 0.31

*See accompanying notes to consolidated financial statements.*

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NV5 Holdings, Inc. and Subsidiaries

CONSOLIDATED STATEMENT of CHANGES IN STOCKHOLDER S EQUITY

(UNAUDITED)

(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
<b>Balance, December 31, 2012</b>	<b>2,600,000</b>	<b>\$ 26</b>	<b>\$ 9,065</b>	<b>\$ 2,278</b>	<b>\$ 11,369</b>
Stock compensation			237		237
Proceeds from initial public offering, net of offering costs	1,610,000	16	7,638		7,654
Restricted stock issuance, net	69,844	1	(1)		
Net income				2,224	2,224
<b>Balance, September 30, 2013</b>	<b>4,279,844</b>	<b>\$ 43</b>	<b>\$ 16,939</b>	<b>\$ 4,502</b>	<b>\$ 21,484</b>

*See accompanying notes to consolidated financial statements.*

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NV5 Holdings, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine Months Ended	
	September 30, 2013	September 30, 2012
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 2,224	\$ 781
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,126	1,089
Provision for doubtful accounts	22	294
Stock compensation	237	152
Fair value adjustment to contingent consideration	18	
Deferred income taxes	(64)	(1,044)
Changes in operating assets and liabilities:		
Accounts receivable	(1,682)	(1,824)
Prepaid expenses and other assets	(9)	(459)
Net change in cash surrender value of officers' life insurance	(28)	(4)
Accounts payable	1,019	1,293
Accrued liabilities	1,386	180
Income taxes payable	(1,885)	(510)
Client deposits	(20)	(116)
Billings in excess of costs and estimated earnings on uncompleted contracts	(37)	(111)
Net cash provided by (used in) operating activities	2,307	(279)
<b>Cash Flows From Investing Activities:</b>		
Cash paid for acquisitions	(1,617)	(1,000)
Purchase of property and equipment	(407)	(445)
Net cash used in investing activities	(2,024)	(1,445)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from initial public offering	9,660	
Initial public offering costs	(1,580)	
Borrowings	517	2,250
Payments on long-term debt	(3,791)	(1,029)
Payments on stock repurchase obligation	(612)	(637)
Payments made for repurchase of common stock		(54)
Net cash provided by financing activities	4,194	530
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
Cash and cash equivalents beginning of period	2,294	2,762
Cash and cash equivalents end of period	\$ 6,771	\$ 1,568



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*See accompanying notes to consolidated financial statements.*

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NV5 Holdings, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

(UNAUDITED)

(in thousands)

	Nine Months Ended	
	September 30, 2013	September 30, 2012
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 192	\$ 252
Cash paid for income taxes	\$ 2,416	\$ 1,968
<b>Non-cash investing and financing activities:</b>		
Contingent consideration (earn-out)	\$ 949	\$
Note payable issued for stock repurchase	\$	\$ 1,062
Notes and stock payable for acquisitions	\$ 697	\$ 2,500
Reclassification of previously capitalized initial public offering costs from other assets to additional paid-in capital upon completion of initial public offering (including costs incurred prior to 2013)	\$ 426	\$
	<i>See accompanying notes to consolidated financial statements.</i>	

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NV5 Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except shares and per share data)

**Note 1 - Organization and Nature of Business Operations**

*Business*

NV5 Holdings, Inc. ( *Holdings* ) and its subsidiaries (collectively, the *Company* , *we* or *our* ) is a provider of professional and technical consulting and certification services to public and private sector clients. We focus on the infrastructure, construction, real estate and environmental markets. The scope of our projects includes planning, design, consulting, permitting, inspection and field supervision, and management oversight. We also provide forensic engineering, litigation support, condition assessment and compliance certification. We operate our business through a network of 22 locations in California, Colorado, Utah, Florida and New Jersey. We conduct our operations through two primary operating subsidiaries: (i) Nolte Associates, Inc. ( *Nolte* ), which began operations in 1949, was incorporated as a California corporation in 1957 and in which we acquired a controlling interest in August 2010, and (ii) NV5, Inc. ( *NV5* ), which was incorporated as a Delaware corporation in 2009.

Holdings was incorporated as a Delaware corporation in September 2011 as part of a Plan of Reorganization (the *Reorganization* ), and owns all of the outstanding shares of Nolte and NV5.

*Significant Transactions*

Pursuant to a series of Buy-Sell agreements with selling stockholders, NV5 ( *Successor* ) gained control of Nolte ( *Predecessor* ) through the acquisition of a 57% interest in the common stock of Nolte on August 3, 2010, an additional 3% interest on December 31, 2010, and an additional 3% interest during the period of August 2011 through September 2011 (the *Nolte Transaction* ). On August 18, 2011, the Board of Directors of Nolte unanimously approved the terms of the Reorganization, whereby the holders of the remaining 37% non-controlling interest in Nolte tendered each of their owned shares of Nolte common stock for 2.5 shares of *Holdings* 's common stock, with Nolte becoming a wholly owned subsidiary of *Holdings*. On October 6, 2011, NV5 and Nolte completed the Reorganization and, thereafter, *Holdings* (i) issued shares of its common stock to the stockholders of NV5 in exchange for the contribution of their shares of NV5 common stock to *Holdings*, and (ii) Nolte became a wholly-owned subsidiary of *Holdings*.

Pursuant to an Asset Purchase Agreement, the *Company* acquired the North American operations for construction quality assurance, testing and geotechnical engineering services from Bureau Veritas North America in March 2010 ( *BV* and the *BV Transaction* ).

On July 27, 2012, the *Company* acquired certain assets and assumed certain liabilities of Kaderabek Company ( *Kaco* ), a 30-person engineering firm headquartered in Miami, Florida. *Kaco* commenced operations in 1984 and its development and engineering teams have worked on projects in South Florida, the Caribbean and Central America.

On April 30, 2013, the *Company* acquired certain assets and assumed certain liabilities of Consilium Partners ( *Consilium* or *Consilium Partners* ), a 20-person owner 's representation and program management firm that serves both public and private clients, such as municipalities, major hospitality firms and institutional real estate owners (see Note 4).

On July 8, 2013, the *Company* acquired certain assets and assumed certain liabilities of the Tampa, Florida division of Pitman-Hartenstein & Associates ( *PH&A* ). *PH&A* specializes in transportation infrastructure engineering (see Note 4).

On August 12, 2013, the *Company* acquired certain assets and assumed certain liabilities of Dunn Environmental, Inc. ( *Dunn* ). *Dunn* specializes in environmental and hydrogeology sciences in Northern California (see Note 4).

The acquisitions referenced above were accounted for as business combinations under the acquisition method of accounting. Under this method, the assets acquired, liabilities assumed and non-controlling interest, if any, were recorded in the *Company* 's consolidated financial statements at their respective fair values as of the acquisition dates, and the results of these acquisitions are included in the *Company* 's consolidated results from the respective dates of acquisition.

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On March 7, 2013, the Company's Board of Directors approved a 1.3866-for-1 forward stock split of its outstanding common shares, to be effected immediately prior to the consummation of an initial public offering. The stock split resulted in the issuance of 724,916 additional shares of common stock. All information presented in the accompanying consolidated financial statements has been retroactively adjusted to reflect this stock split.

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On March 26, 2013, the Company priced its initial public offering of 1,400,000 units. Each unit was sold at an offering price of \$6.00 per unit and consists 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. The units began trading on The Nasdaq Capital Market ( "Nasdaq" ) on March 27, 2013 and traded solely as units through September 26, 2013. The units sold in our initial public offering were registered under the Securities Act on a registration statement on Form S-1 (No. 333-186229), which was declared effective by the SEC on March 26, 2013. On March 28, 2013, the underwriter of the offering exercised its option to purchase up to an additional 210,000 units, solely to cover over-allotments. The closing of the offering occurred, and was recorded, on April 2, 2013, upon which we received net proceeds of approximately \$8.7 million after deducting underwriters' discounts, legal and offering expenses and issued 1,610,000 units.

On September 27, 2013, the common stock and warrants comprising the Company's units began trading separately on the Nasdaq under the symbols NVEE and NVEEW, respectively. In connection with the separate trading of the common stock and warrants, the Company's units ceased trading under the symbol NVEEU on the close of the markets on September 26, 2013 and the units were delisted from Nasdaq.

On September 27, 2013, the warrants became exercisable at an exercise price of \$7.80 per share (see exception below). The warrant exercise period expires on March 27, 2018 or earlier upon redemption. We may call the warrants for redemption as follows: (i) at a price of \$0.01 for each warrant at any time while the warrants are exercisable, so long as a registration statement relating to the common stock issuable upon exercise of the warrants is effective and current; (ii) upon not less than 30 days prior written notice of redemption to each warrant holder; and (iii) if, and only if, the reported last sale price of the common stock equals or exceeds \$12.00 per share for the 20-trading-day period ending on the third business day prior to the notice of redemption to warrant holders.

On September 27, 2013 and continuing until October 11, 2013 (the "Temporary Reduction Expiration Time" ), the Company temporarily reduced the exercise price of all of our outstanding public warrants from \$7.80 per share to \$6.00 per share. All such warrants properly exercised in accordance with their respective terms prior to the Temporary Reduction Expiration Time were accepted by the Company at the reduced \$6.00 per share exercise price and one share of the Company's registered common stock per warrant was issued to the exercising warrant holder. After the Temporary Reduction Expiration Time, the exercise price of the public warrants automatically reverted to the warrant exercise price of \$7.80 per share included in the original terms of the public warrants and the reduced exercise price was no longer in effect. Except for the reduced \$6.00 per share exercise price of the warrants during the Temporary Reduction Expiration Time, the terms of the public warrants remain unchanged. During the Temporary Reduction Expiration Time, 1,196,471, or approximately 74% of the outstanding public warrants were exercised at the reduced exercise price of \$6.00 per share. The temporary reduction in the warrant exercise price generated net cash proceeds to the Company of approximately \$6.7 million after deducting underwriters' discounts, legal and offering expenses. All such proceeds were received subsequent to September 30, 2013, and as a result, neither the temporary reduction of the exercise price, nor the receipt of the cash proceeds therefrom had any impact on the accompanying consolidated financial statements.

**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 ( "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 GAAP have been condensed or omitted. The consolidated financial statements include the accounts of Holdings and its subsidiaries, all of which were wholly owned for all periods presented. All intercompany accounts and transactions have been eliminated.

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 our Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for the three and nine months ended September 30, 2013 and cash flows for the nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for any future interim period or for the full 2013 fiscal year.

*Use of Estimates*

The preparation of 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 financial statements and the reported amount of revenues and expenses during the reporting period. These estimates and assumptions are based on management's most recent

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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.

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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 valuation of our intangible assets, revenue recognition on the percentage-of-completion method, allowances for uncollectible accounts and reserves for professional liability claims.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash on deposit with financial institutions and investments in high quality overnight money market funds, all of which have maturities of three months or less when purchased. The Company from time to time may be exposed to credit risk with its bank deposits in excess of the FDIC insurance limits and with uninsured money market investments. Management believes cash and cash equivalent balances are not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

### *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 66% and 75% of our revenues for the nine months ended September 30, 2013 and 2012, respectively, are from California-based projects and approximately 18% and 20% of revenues for the nine months ended September 30, 2013 and 2012, respectively, are from one client. Furthermore, approximately 44% and 45% of our accounts receivable as of September 30, 2013 and December 31, 2012, respectively, is from government and government-related contracts. As management continually evaluates the creditworthiness of these and future clients, the risk of credit default is considered limited.

### *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, cash equivalents, accounts receivable, cash surrender value of officers' life insurance, accounts payable, income taxes payable, accrued liabilities and debt obligations to meet the definition of financial instruments. The carrying amount of cash, cash equivalents, accounts receivable, cash surrender value of officers' life insurance, 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 measures contingent consideration liabilities recognized in connection with business combinations at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy. We use a probability-weighted approach as a valuation technique to determine the fair value of the contingent consideration. The significant unobservable inputs used in the fair value measurements are projections over the earn-out period (generally one year), and the probability outcome percentages we assign 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 earn-out obligation. As such, the contingent consideration is classified within Level 3. Items classified as Level 3 within the valuation hierarchy, consisting of contingent consideration liabilities related to recent acquisitions, were valued based on various estimates, including probability of success, discount rates and amount of time until the conditions of the contingent payments are achieved.

### *Property and Equipment*

Property and equipment is stated at cost. Property and equipment acquired in a business combination is stated at fair value at the acquisition date. The Company capitalizes the cost of improvements to property and equipment that increase the value or extend the useful lives of the assets. Normal repair and maintenance costs are expensed as incurred. Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the remaining terms of the related lease agreement.

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<b>Asset</b>	<b>Depreciation Period</b>
Office furniture and equipment	5 Years
Computer equipment	3 Years
Survey and field equipment	5 Years
Leasehold improvements	Lesser of the estimated useful lives or remaining term of the lease



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Property and equipment balances are periodically reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. 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 is measured as the difference between fair value and carrying value, with fair value typically based on a discounted cash flow model. The Company has not recognized an impairment charge relating to property and equipment during the three and nine months ended September 30, 2013 and 2012.

*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 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 not 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. We are 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 our reporting units. If the carrying value of the assets and liabilities 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. We have elected to perform our annual goodwill impairment review on August 1 of each year. On August 1, 2013, we conducted our annual impairment test on the goodwill using the quantitative method of evaluating goodwill. Based on this quantitative analysis we determined the fair value of each of our reporting units exceeded the carrying value of the reporting unit. Therefore, the goodwill was not impaired and the Company did not recognize an impairment charge relating to goodwill as of August 1, 2013 and no indicators, events or changes in circumstances indicated that goodwill was impaired during the period from August 2, 2013 through September 30, 2013. There were no indicators, events or changes in circumstances to indicate that goodwill is impaired during the three and nine months ended September 30, 2013.

Identifiable intangible assets primarily include customer backlog, customer relationships, tradenames and non-compete agreements. Amortizable intangible assets are amortized 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 is measured as the difference between fair value and carrying value, with fair value typically based on a discounted cash flow model. The Company has not recognized an impairment charge relating to amortizable intangible assets during the three and nine months ended September 30, 2013 and 2012.

See Note 7 for further information on goodwill and identified intangible assets.

*Earnings per Share*

Basic earnings per share is calculated by dividing net income attributable to the Company available to common stockholders by the weighted average number of common shares outstanding for the three and nine months ended September 30, 2013 and 2012. 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 ASC 260, 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, 2013 and 2012 exclude 484,089 and 415,027 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, 2013 includes non-vested restricted shares and units, issuable shares related to acquisition, and the warrants associated with our initial public offering. The warrants were dilutive for only a portion of the periods then ended. As discussed in Note 1, subsequent to September 30, 2013, the Company received cash proceeds from the exercise of a portion of these warrants, and issued 1,196,471 additional shares of common stock, all of which will be considered in the calculation of basic weighted average shares outstanding for the three months and year ending December 31, 2013.



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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, 2013 and 2012:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Numerator:</b>				
Net income <i>basic and diluted</i>	\$ 931	\$ 679	\$ 2,224	\$ 781
<b>Denominator:</b>				
Basic weighted average shares outstanding	3,795,754	2,215,774	3,259,104	2,282,082
Effect of dilutive non-vested restricted shares and units	290,864	218,195	256,954	213,861
Effect of issuable shares related to acquisitions	35,393	49,737	14,518	16,580
Effect of warrants	11,270		3,757	
Diluted weighted average shares outstanding	4,133,281	2,483,706	3,534,333	2,512,523

*Revenue Recognition*

We enter into contracts with our clients that contain two principal types of pricing provisions: cost-reimbursable and fixed-price. The majority of our contracts are cost-reimbursable contracts that fall under the subcategory of time and materials contracts.

*Cost-reimbursable contracts.* Cost-reimbursable contracts consist of two similar contract types: time and materials contracts and cost-plus contracts.

Time and materials contracts are common for smaller scale professional and technical consulting and certification services projects. Under these types of contracts, there is no predetermined fee. Instead, we negotiate hourly billing rates and charge our clients based upon actual hours expended on a project. In addition, any direct project expenditures are passed through to the client and are typically reimbursed. These contracts may have a fixed-price element in the form of an initial not-to-exceed or guaranteed maximum price provision.

Cost-plus contracts are the predominant contracting method used by U.S. federal, state, and local governments. These contracts provide for reimbursement of the actual costs and overhead (at predetermined rates) we incur, plus a predetermined fee. Under some cost-plus contracts, our fee may be based on quality, schedule, and other performance factors.

*Fixed-price contracts.* Fixed-price contracts also consist of two contract types: lump-sum contracts and fixed-unit price contracts.

Lump-sum contracts typically require the performance of all of the work under the contract for a specified lump-sum fee, subject to price adjustments if the scope of the project changes or unforeseen conditions arise. Many of our lump-sum contracts are negotiated and arise in the design of projects with a specified scope and project deliverables.

Fixed-unit price contracts typically require the performance of an estimated number of units of work at an agreed price per unit, with the total payment under the contract determined by the actual number of units performed.

Revenues from engineering services are recognized when services are performed and the revenues are earned in accordance with the accrual basis of accounting.

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Revenues from long-term contracts are recognized on the percentage-of-completion method, generally measured by the direct costs incurred to date as compared to the estimated total direct costs for each contract. The Company includes other direct costs (for example, third party field labor, subcontractors, or the procurement of materials or equipment) in contract revenues and cost of revenue when the costs of these items are incurred, and the Company is responsible for the ultimate acceptability of such costs. Recognition of revenue under this method is dependent upon the accuracy of a variety of estimates, including engineering progress, materials quantities, achievement of milestones, labor productivity and cost estimates. Due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates.

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If estimated total costs on contracts indicate a loss or reduction to percentage of revenue recognized to date, these losses or reductions are recognized in the period in which the revisions are known. The cumulative effect of revisions to revenues, estimated costs to complete contracts, including penalties, incentive awards, change orders, claims, anticipated losses and others are recorded in the period in which the revisions are identified and the loss can be reasonably estimated. Such revisions could occur in any reporting period and the effects on the results of operations for that reporting period may be material depending on the size of the project or the adjustment.

Change orders and claims typically result from changes in scope, specifications, design, performance, materials, sites, or period of completion. Costs related to change orders and claims are recognized when incurred. Change orders are included in total estimated contract revenue when it is probable that the change order will result in an addition to the contract value and can be reliably estimated.

Federal Acquisition Regulations ( FAR ), which are applicable to the Company's federal government contracts and may be incorporated in local and state agency contracts, limit the recovery of certain specified indirect costs on contracts. Cost-plus contracts covered by FAR or certain state and local agencies also may require an audit of actual costs and provide for upward or downward adjustments if actual recoverable costs differ from billed recoverable costs.

Unbilled work results when the appropriate contract revenue amount has been recognized in accordance with the percentage-of-completion accounting method, but a portion of the revenue recorded cannot be billed currently due to the billing terms defined in the contract. Unbilled amounts as of the reporting date are included within accounts receivable in the accompanying consolidated balance sheets. In certain circumstances, the contract may allow for billing terms that result in the cumulative amounts billed in excess of contract revenues recognized. The liability Billings in excess of costs and estimated earnings on uncompleted contracts represents billings in excess of contract revenues recognized on these contracts as of the reporting date.

### *Advertising*

Advertising costs are charged to expense in the period incurred and amounted to \$36 and \$35 for the three months ended September 30, 2013 and 2012, respectively, and \$77 and \$124 for the nine months ended September 30, 2013 and 2012, respectively.

### *Allowance for Doubtful Accounts*

The Company reports its billed and unbilled receivables net of an allowance for doubtful accounts. The allowance is estimated based on management's evaluation of the contracts involved and the financial condition of clients. Factors the Company considers include, but are not limited to: client type federal government or commercial client, historical performance, historical collection trends and general economic conditions. The allowance is increased by the Company's provision for doubtful accounts which is charged against income. All recoveries on receivables previously charged off are credited to the accounts receivable recovery account which are included in income, while direct charge-offs of receivables are deducted from the allowance.

### *Professional Liability Expense*

The Company maintains insurance for business risks including professional liability. For professional liability risks, the Company's retention amount under its claims-made insurance policies includes an accrual for claims incurred but not reported for any potential liability, including any legal expenses, to be incurred for such claims if they occur. The Company's accruals are based upon historical expense and management's judgment. The Company maintains insurance coverage for various aspects of its business and operations; however the Company has elected to retain a portion of losses that may occur through the use of deductibles, limits and retentions under our insurance programs. Our insurance coverage may subject the Company to some future liability for which it is only partially insured or completely uninsured. Management believes its estimated accrual for errors, omission and professional liability claims is sufficient and any additional liability over amounts accrued is not expected to have a material effect on the Company's consolidated results of operations or financial position.

### *Leases*

The Company's office leases are classified as operating leases and rent expense is included in facilities and facilities related expense in the Company's consolidated statements of comprehensive income. Some lease terms include rent and other concessions and rent escalation clauses which are included in computing minimum lease payments. Minimum lease payments are recognized on a straight-line basis over the minimum lease term. The variance of rent expense recognized from the amounts contractually due pursuant to the underlying leases is reflected as a short-term liability in the Company's consolidated balance sheets.

### *Segment Information*

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The Company reports segment information in accordance with ASC Topic No. 280 *Segment Reporting* ( Topic No. 280 ). The Company has identified operating segments at the subsidiary entity level. However, each entity s operating performance has been aggregated into one reportable segment. Each entity s operations meet the aggregation criteria set forth in Topic No. 280. The Company s operating segments are aggregated for financial reporting purposes because they are similar in each of the following areas: economic characteristics, class of customer, nature of service and distribution methods.

**Table of Contents***Income Taxes*

The Company accounts for income taxes in accordance with ASC Topic No. 740 *Income Taxes* ( Topic No. 740 ). Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. A valuation allowance against the Company's deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for a valuation allowance, management is required to make assumptions and to apply judgment, including forecasting future earnings, taxable income, and the mix of earnings in the jurisdictions in which the Company operates. Management periodically assesses the need for a valuation allowance based on the Company's current and anticipated results of operations. The need for and the amount of a valuation allowance can change in the near term if operating results and projections change significantly.

The Company recognizes the consolidated financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company applies the uncertain tax position guidance to all tax positions for which the statute of limitations remains open. Generally, the Company remains subject to income tax examinations by our major taxing authorities from inception in 2009. Nolte generally is no longer subject to income tax examinations by its major taxing authorities for years ending before September 28, 2006. The Company's policy is to classify interest accrued as interest expense and penalties as operating expenses. As of September 30, 2013 and December 31, 2012, the Company does not have any material uncertain tax positions.

**Note 3 Recent Accounting Pronouncements**

In December 2011, the FASB issued amended guidance requiring companies to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This guidance is required to be applied retrospectively for all prior periods presented and is effective for annual periods for fiscal years beginning on or after January 1, 2013, and interim periods within those annual fiscal years. The adoption of this standard did not have a material impact on consolidated results of operations and financial condition.

In July 2012, the FASB issued ASU 2012-02, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* in Accounting Standards Update No. 2012-02. This update amends ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* and permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, *Intangibles - Goodwill and Other - General Intangibles Other than Goodwill*. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. As the Company does not currently have any indefinite-lived intangible assets, the adoption of ASU 2012-02 did not impact our financial position or results of operations.

**Note 4 Business Acquisitions**

On April 30, 2013, we acquired certain assets and assumed certain liabilities of Consilium Partners, a 20-person owner's representation and program management firm that serves both public and private clients, such as municipalities, major hospitality firms and institutional real estate owners. Consilium Partners possesses specialized expertise in managing technically demanding projects, while having an affinity for leading teams and cultivating teamwork with the people who ultimately determine a project's success. The purchase price was \$1,083 consisting of cash, notes and common stock plus an earn-out of up to \$1,000 in cash and/or our common stock. Payment of the \$1,000 earn-out is based on the achievement of a certain agreed upon metric for calendar year 2013, and if achieved, is payable in three annual installments beginning in January 31, 2014 consisting of cash and/or our common stock.

On July 8, 2013, we acquired certain assets and assumed certain liabilities of the Tampa, Florida division of Pitman-Hartenstein & Associates ( PH&A ). PH&A specializes in transportation infrastructure engineering. The purchase price was \$980 consisting of cash and notes.

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On August 12, 2013, the Company acquired certain assets and assumed certain liabilities of Dunn Environmental, Inc. ( Dunn ). Dunn specializes in environmental and hydrogeology sciences in Northern California. The purchase price was \$250 consisting of cash, notes and common stock.

Under the acquisition method of accounting, the Company recognized the assets acquired and the liabilities assumed at their fair values and recorded an allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition dates. Goodwill was recorded based on the amount by which the purchase prices exceeded the fair value of the net assets acquired and the amount attributable to the reputation of the businesses acquired, the workforces in place and the synergies to be achieved from these acquisition. The allocation of the purchase prices to identifiable intangible assets (customer relationships, customer backlog, trade name and non-compete) are based on valuations performed to determine the fair values of such assets as of the acquisition dates.

The fair values of earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. We estimated the fair value of contingent earn-out payments as part of the initial purchase price of Consilium and record the estimated fair value of contingent consideration as a liability on the consolidated balance sheet as of September 30, 2013. We consider several factors when determining that contingent earn-out liabilities are part of the purchase price, including the following: (1) the valuation of our 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 (2) the former owners of acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of our other key employees. The contingent earn-out payments are not affected by employment termination.

We measure our earn-out (contingent consideration) liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy. We use a probability-weighted approach as a valuation technique to determine the fair value of the contingent consideration. The significant unobservable inputs used in the fair value measurements are projections over the earn-out period (generally one year), and the probability outcome percentages we assign 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 earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities.

We review and re-assess the estimated fair value of contingent consideration 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 following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition dates for acquisitions closed during 2013:

Accounts receivable	\$ 1,266
Property and equipment	38
Other assets	4
Intangible assets:	
Customer relationships	724
Trade name	106
Customer backlog	269
Non-compete	115
<b>Total Assets</b>	<b>2,522</b>
Liabilities	(508)
<b>Net assets acquired</b>	<b>\$ 2,014</b>
Consideration paid (Cash, Notes and stock)	\$ 2,314
Contingent earn-out liability (Cash and stock)	949



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Total Consideration	\$ 3,263
Excess consideration over the amounts assigned to the net assets acquired (Goodwill)	\$ 1,249

For income tax purposes, goodwill from these acquisitions is deductible over a 15-year period.

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The consolidated financial statements of the Company include the results of operations from the businesses acquired from their respective dates of acquisition to September 30, 2013 and include gross revenues and net income of approximately \$2 million and \$0.2 million, respectively. Included in general and administrative expense for the nine and three months ended September 30, 2013 is \$25 and \$19, respectively of acquisition-related costs pertaining to our acquisition activities. The Company's preliminary determination is that these acquisitions, individually and in the aggregate do not constitute significant business combinations and, therefore, historical financial statements and related pro forma financial statements are not required to be disclosed. The fair value of the contingent consideration obligation increased by \$18 during the nine and three months ended September 30, 2013 as a result of increased probability of achieving agreed upon metric and accretion of imputed interest on the obligation.

**Note 5 Accounts Receivable, net**

Accounts receivable, net, consists of the following:

	September 30, 2013	December 31, 2012
Billed	\$ 12,860	\$ 11,907
Unbilled	5,926	4,270
Contract retentions	565	506
	19,351	16,683
Less: allowance for doubtful accounts	(1,374)	(1,631)
Accounts receivable, net	\$ 17,977	\$ 15,052

Billed accounts receivable represent amounts billed to clients that remain uncollected as of the balance sheet date. Unbilled accounts receivable represent recognized revenues pending billing pursuant to contract terms or accounts billed after period end, and are expected to be billed and collected within the next 12 months.

**Note 6 Property and Equipment, net**

Property and equipment, net, consists of the following:

	September 30, 2013	December 31, 2012
Office furniture and equipment	\$ 221	\$ 255
Computer equipment	961	861
Survey and field equipment	1,007	898
Leasehold improvements	1,029	1,032
	3,218	3,046
Accumulated depreciation	(1,903)	(1,773)
Property and equipment net	\$ 1,315	\$ 1,273

Depreciation expense for the three months ended September 30, 2013 and 2012 was \$139 and \$148, respectively, and \$404 and \$486 for the nine months ended September 30, 2013 and 2012, respectively.

**Note 7 Goodwill and Intangible Assets, net**

*Goodwill*

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The table set forth below shows the change in goodwill during the period from December 31, 2012 through September 30, 2013:

<b>Goodwill as of December 31, 2012</b>	<b>\$ 5,857</b>
2013 acquisitions	1,249
<b>Goodwill as of September 30, 2013</b>	<b>\$ 7,106</b>

**Table of Contents***Intangible assets*

Intangible assets, net, at September 30, 2013 and December 31, 2012 consists of the following:

	September 30, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	\$ 4,275	\$ (1,491)	\$ 2,784	\$ 3,551	\$ (1,093)	\$ 2,458
Trade names	858	(786)	72	752	(581)	171
Customer backlog	885	(665)	220	616	(572)	44
Non-compete agreements	207	(33)	174	92	(7)	85
<b>Total</b>	<b>\$ 6,225</b>	<b>\$ (2,975)</b>	<b>\$ 3,250</b>	<b>\$ 5,011</b>	<b>\$ (2,253)</b>	<b>\$ 2,758</b>

Trade names are amortized on a straight-line basis over their estimated lives ranging from one to three years. Customer backlog and customer relationships are amortized based on the future expected revenues, with weighted average amortization periods ranging from 1 to 9 years. Non-compete agreements are amortized over their contractual lives ranging from 4 to 5 years.

Amortization expense for the three months ended September 30, 2013 and 2012 was \$263 and \$228, respectively, and \$721 and \$603 for the nine months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013, the future estimated aggregate amortization related to intangible assets is as follows:

Period ending September 30,	
2014	\$ 885
2015	668
2016	507
2017	390
2018	262
Thereafter	538
<b>Total</b>	<b>\$ 3,250</b>

**Note 8 Accrued Liabilities**

Accrued liabilities consist of the following:

	September 30, 2013	December 31, 2012
Stock payable for acquisition	\$ 237	
Deferred rent	521	614
Payroll and related taxes	1,494	632
Professional fees	180	235
Benefits	848	294
Compensated absences	1,232	1,054
Other	232	253
<b>Total</b>	<b>\$ 4,744</b>	<b>\$ 3,082</b>



**Table of Contents****Note 9 Notes Payable**

Notes payable consists of the following:

	September 30, 2013	December 31, 2012
Two line of credit facilities totaling \$4,000 (the Line Facilities), due October 30, 2013, interest payable monthly at prime rate plus 1% with a minimum of 4.50% until maturity, collateralized by substantially all Company assets, guaranteed by certain stockholders and a wholly owned subsidiary, and contain cross default provisions with each other and with the note payable described below (1)	\$	\$ 1,983
Note payable to bank (the Term Loan), interest at prime rate (minimum 5.0%), due February 1, 2015, payable in monthly installments of \$46 and a lump sum of the remaining principal balance outstanding at maturity, collateralized by substantially all Company assets, guaranteed by certain stockholders	1,282	1,696
Note payable to former stockholder of Nolte, interest at prime rate plus 1% (maximum 7.0%), due July 29, 2017, payable in quarterly principal installments of \$119. Unsecured and subordinated to note payable to bank (2)	1,827	2,184
\$2,000 uncollateralized promissory note issued to the former owner of Kaco (bearing interest at 3.0% for the first year and 200 basis points over the one-year LIBOR for the years thereafter), payable in three equal payments of \$500 each due on the first, second and third anniversaries of the effective date of July 27, 2012	1,000	1,500
\$200 uncollateralized promissory note issued to the former owners of Consilium (bearing interest at 4.0%), payable in three equal payments of \$66 each due on the first, second and third anniversaries of the effective date of April 30, 2013	200	
\$168 uncollateralized promissory note issued in conjunction with PH&A acquisition (bearing interest at 4.0%), payable in two equal payments of \$84 each due on December 31, 2013 and December 31, 2014	168	
\$92 uncollateralized promissory note issued to the former owner of Dunn (bearing interest at 4.0%), payable in two equal payments of \$46 each due on the first and second anniversaries of the effective date of August 12, 2013	92	
Other	6	26
<b>Total debt</b>	<b>4,575</b>	<b>7,389</b>
Less: current maturities	(1,732)	(3,538)
<b>Long-term debt, net of current maturities</b>	<b>\$ 2,843</b>	<b>\$ 3,851</b>

(1) During the first quarter we borrowed \$517 under the Line Facilities, however on April 4, 2013, we repaid the outstanding principal balance of \$2,500 to the bank. Our capacity to borrow under the Line Facilities as of November 13, 2013 is \$4,000. On October 18, 2013, we extended the maturity dates of the Line Facilities to November 30, 2013 as we continue to work with our lender to extend and/or expand the capacity of the Line Facilities.

(2) On March 12, 2013, the note holder provided his irrevocable confirmation that he will not elect to convert any portion of this note into common stock of the Company now or in the future.

Future contractual maturities of long-term debt as of September 30, 2013 are as follows:

Period ending September 30,

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2014	\$ 1,732
2015	1,903
2016	543
2017	397
Total	\$ 4,575

**Table of Contents****Note 10 Stock Repurchase Obligation**

The Stock Repurchase Obligation at September 30, 2013 and December 31, 2012 represents notes payable for the repurchase of common stock of certain former stockholders of Nolte. These notes are unsecured and subordinated to bank debt and the maintenance of related debt covenants, and bear interest from 3.25% to 4.25%. The rates adjust annually based on the prime rate. The notes require quarterly interest and principal payments of approximately \$180 through 2019. The outstanding balance of the stock repurchase obligation was \$1,781 and \$2,393 as of September 30, 2013 and December 31, 2012, respectively.

Future maturities of these notes as of September 30, 2013 are as follows:

	Period ending September 30,
2014	\$ 713
2015	474
2016	196
2017	133
2018	132
Thereafter	133
<b>Total</b>	<b>\$ 1,781</b>

**Note 11 Leases**

The Company leases various office facilities from unrelated parties. These leases expire through 2017 and, in certain cases, provide for escalating rental payments and reimbursement for operating costs. The Company also leases office space from a stockholder on a month-to-month basis and the former owner of Kaco which became a stockholder on December 28, 2012 in conjunction with the Kaco acquisition. The Company recognized lease expense of \$744 and \$706 during the three months ended September 30, 2013 and 2012, respectively, and \$2,164 and \$2,090 during the nine months ended September 30, 2013 and 2012, respectively, which is included in Facilities and facilities related in the consolidated statements of comprehensive income. Included in these amounts are \$59 and \$48 for the three months ended September 30, 2013 and 2012, respectively, and \$178 and \$77 for the nine months ended September 30, 2013 and 2012, respectively, for office leases with stockholders of the Company.

**Note 12 Commitments and Contingencies***Litigation, Claims and Assessments*

From time to time the Company may become subject to threatened and/or asserted claims arising in the ordinary course of business. Management is not aware of any matters, either individually or in the aggregate, that are reasonably possible to have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

**Note 13 Officers Life Insurance**

Investments in life insurance policies were made with the intention of utilizing them as a long-term funding source for post-retirement benefits. However, they do not represent a committed funding source for these obligations and are subject to claims from creditors. This plan was terminated in conjunction with the Nolte Transaction, and the Company has no further financial obligations under these policies as of September 30, 2013.

The net cash surrender value of these policies at September 30, 2013 and December 31, 2012 was \$684 and \$656, respectively.

**Note 14 Stock-Based Compensation**

During September and October 2011, we adopted, and our stockholders approved, respectively, our 2011 Equity Incentive Plan, as amended (the 2011 Equity Plan), which was subsequently amended and restated in March 2013, which provides our directors, executive officers, and other employees with additional incentives by allowing them to acquire an ownership interest in our business and, as a result, encouraging them to



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contribute to our success. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units, and other cash-based or stock-based awards. A total of 554,658 shares of common stock are authorized and reserved for issuance under the 2011 Equity Plan. This reserve automatically increases on each January 1 from 2014 through 2023, by an amount equal to the smaller of (i) 3.5% of the number of shares issued and outstanding on the immediately preceding December 31, or (ii) an amount determined by our Board of Directors.

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During the nine months ended September 30, 2013, we granted from the 2011 Equity Plan 74,675 restricted shares to management and employees and 8,508 restricted stock units to non-employee directors with an aggregate deferred compensation amount of approximately \$654. The fair value of these shares and units are based on the quoted market values of the Company's equity as of the grant dates, which is a weighted-average of \$7.87 per share. The restricted shares granted provide for service based vesting after three years following the grant date and the restricted stock units granted provide for service based vesting as of the day immediately preceding the first annual meeting of the stockholders of the Company following the grant date.

During April 2012, we granted from the 2011 Equity Plan 39,657 restricted shares to management and employees of which 2,565 shares forfeited during 2012 with an aggregate deferred compensation amount of approximately \$268. During the nine and three months ended September 30, 2013, there were 4,574 and 207 shares, respectively, forfeited. The fair value of these shares is based on the estimated fair value of the Company's equity as of the grant date, which was estimated at \$7.21 per share. These awards provide for service based vesting after three years.

In 2010, prior to the inception of the 2011 Equity Plan, the Company issued 377,104 restricted shares to management and employees of the Company with an aggregate deferred compensation amount of approximately \$765. This grant was not part of the 2011 Equity Plan. Each award is service based, and vests after five years or upon certain other events, subject to each award agreement. The fair value of these shares was calculated based on the estimated fair value of the Company's equity as of the grant date, which was approximately \$2.03 per share.

Share-based compensation expense relating to restricted stock awards during the three months ended September 30, 2013 and 2012 was \$121 and \$58, respectively, and for the nine months ended September 30, 2013 and 2012 was \$237 and \$152, respectively. As of September 30, 2013, no shares or units have vested since the Plan inception, and approximately \$982 of deferred compensation, which is expected to be recognized over the next 1.6 years, is unrecognized at September 30, 2013.

**Note 15 Income Taxes**

As of September 30, 2013, the Company had net current and net non-current deferred income tax assets of \$511 and \$715, respectively. As of December 31, 2012, the Company had current and net non-current deferred income tax assets of \$543 and \$619, respectively. Deferred income tax assets consist primarily of accounting reserves and certain research and development tax credits not currently utilized for tax purposes. Deferred income tax liabilities primarily relate to intangible assets and accounting basis adjustments where the Company has a future obligation for tax purposes.

Our consolidated effective income tax rate was 24.4% and 18.5% for the nine and three months ended September 30, 2013, respectively. The difference between the effective tax rate and the combined statutory federal and state tax rate of 39.0% is principally due to the domestic production activities deduction and research and development credits as well as higher tax deductions realized on our 2012 federal and state tax returns filed during the third quarter of 2013. The effective tax rate for the nine months ended September 30, 2013 also includes the discrete tax benefit of 5.7% related to the retroactive legislative reinstatement on January 2, 2013 of the Research and Development tax credit for the year ended December 31, 2012, which is required to be included in the period the reinstatement was enacted into law. Our consolidated effective income tax rate was 34.6% and 34.9% for the nine and three months ended September 30, 2012, respectively. The reduction in the effective tax rate compared to the combined statutory federal and state tax rate of 39.0% is due primarily to the domestic production activities deduction during 2012.

In 2011, the California Franchise Tax Board initiated an examination of Nolte's state of California tax filings and raised various questions about approximately \$700 of research and development tax credits generated and included on Nolte's state of California tax returns for the years 2005-2010. Nolte responded to these inquiries, but in the fourth quarter of 2012, the California Franchise Tax Board denied these credits in full.

Nolte has appealed the ruling and engaged a specialist firm to assist with the appeal. Nolte is vigorously defending its position and believes this position meets the recognition criteria under ASC 740-10. Nolte believes it has appropriate documentation to support the credits in full. Accordingly, Nolte has not recorded a liability for uncertain tax benefits related to these state or federal research and development credits. An adverse outcome could have an adverse impact on our financial position, results of operations and cash flows.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements included elsewhere in this Quarterly Report and the audited financial statements for the year ended December 31, 2012, included in our Annual Report on Form 10-K (File No. 001-35849). This Quarterly Report contains, in addition to unaudited historical information, forward-looking statements, which involve risk and uncertainties. The words believe, expect, estimate, may, will, could, plan, or continue and similar expressions are intended to identify forward-looking statements. Our actual results could differ significantly from the results discussed in such forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the headings Risk Factors in our 2012 Annual Report on Form 10-K and this Quarterly Report on Form 10-Q, if any. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q.*

#### **Overview**

We are a provider of professional and technical engineering and consulting solutions to public and private sector clients. We focus on the infrastructure, construction, real estate, and environmental markets. The scope of our projects includes planning, design, consulting, permitting, inspection and field supervision, and management oversight. We also provide forensic engineering, litigation support, condition assessment, and compliance certification. Our primary clients include U.S. federal, state, municipal, and local governments; military and defense clients; and public agencies. We also serve quasi-public and private sector clients from the education, healthcare, energy, and utilities fields, including schools, universities, hospitals, health care providers, insurance providers, large utility service providers, and large and small energy producers.

We conduct our operations through two primary operating subsidiaries: (i) Nolte, which began operations in 1949 and was incorporated as a California corporation in 1957, and (ii) NV5, which was incorporated as a Delaware corporation in 2009. In March 2010, NV5 acquired the construction quality assurance operations of Bureau Veritas North America, Inc. In August 2010, NV5 acquired a majority of the outstanding shares of Nolte and succeeded to substantially all of Nolte's business. Because NV5's business prior to the Nolte acquisition was insignificant, Nolte is considered to be our historical accounting predecessor for financial statement reporting purposes. In October 2011, NV5 and Nolte completed a reorganization transaction in which NV5 Holdings was incorporated as a Delaware corporation, acquired all of the outstanding shares of NV5 and Nolte, and as a result, became the holding company under which NV5 and Nolte conduct operations.

On July 27, 2012, we acquired certain assets and assumed certain liabilities of Kaco, a 30-person engineering firm headquartered in Miami, Florida. Kaco commenced operations in 1984 and its development and engineering teams have worked on projects in South Florida, the Caribbean and Central America during the last 25 years. The purchase price was \$3.5 million, consisting of \$1.0 million in cash, a note in the aggregate principal amount of \$2.0 million payable over three years, and 69,330 shares of common stock with an agreed value of \$0.5 million, or \$7.21 per share.

On April 30, 2013, we acquired certain assets and assumed certain liabilities of Consilium Partners (Consilium or Consilium Partners), a 20-person owner's representation and program management firm that serves both public and private clients, such as municipalities, major hospitality firms and institutional real estate owners (see below).

On July 8, 2013, the Company acquired certain assets and assumed certain liabilities of the Tampa, Florida division of Pitman-Hartenstein & Associates (PH&A). PH&A specializes in transportation infrastructure engineering (see below).

On August 12, 2013, the Company acquired certain assets and assumed certain liabilities of Dunn Environmental, Inc. (Dunn). Dunn specializes in environmental and hydrogeology sciences in Northern California (see below).

#### **Key Trends, Developments and Challenges**

*Initial public offering.* On March 26, 2013, the Company priced its initial public offering of 1,400,000 units. Each unit was sold at an offering price of \$6.00 per unit and consists 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. The units began trading on The Nasdaq Capital Market (Nasdaq) on March 27, 2013 and traded solely as units through September 26, 2013. The units sold in our initial public offering were registered under the Securities Act on a registration statement on Form S-1 (No. 333-186229), which was declared effective by



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the SEC on March 26, 2013. On March 28, 2013, the underwriter of the offering exercised its option to purchase up to an additional 210,000 units, solely to cover over-allotments. The closing of the offering occurred, and was recorded, on April 2, 2013, upon which we received net proceeds of approximately \$8.7 million after deducting underwriters' discounts, legal and offering expenses and issued 1,610,000 units.

On September 27, 2013, the common stock and warrants comprising the Company's units began trading separately on the Nasdaq under the symbols NVEE and NVEEW, respectively. In connection with the separate trading of the common stock and warrants, the Company's units ceased trading under the symbol NVEEU on the close of the markets on September 26, 2013 and the units were delisted from Nasdaq.

On September 27, 2013, the warrants became exercisable at an exercise price of \$7.80 per share (see exception below). The warrant exercise period expires on March 27, 2018 or earlier upon redemption. We may call the warrants for redemption as follows: (i) at a price of \$0.01 for each warrant at any time while the warrants are exercisable, so long as a registration statement relating to the common stock issuable upon exercise of the warrants is effective and current; (ii) upon not less than 30 days prior written notice of redemption to each warrant holder; and (iii) if, and only if, the reported last sale price of the common stock equals or exceeds \$12.00 per share for the 20-trading-day period ending on the third business day prior to the notice of redemption to warrant holders.

On September 27, 2013 and continuing until October 11, 2013 (the Temporary Reduction Expiration Time), we temporarily reduced the exercise price of all of our outstanding public warrants from \$7.80 per share to \$6.00 per share. All such warrants properly exercised in accordance with their respective terms prior to the Temporary Reduction Expiration Time were accepted by the Company at the reduced \$6.00 per share exercise price and one share of the Company's registered common stock per warrant was issued to the exercising warrant holder. After the Temporary Reduction Expiration Time, the exercise price of the public warrants automatically reverted to the warrant exercise price of \$7.80 per share included in the original terms of the public warrants and the reduced exercise price was no longer in effect. Except for the reduced \$6.00 per share exercise price of the warrants during the Temporary Reduction Expiration Time, the terms of the public warrants remain unchanged. During the Temporary Reduction Expiration Time, 1,196,471, or approximately 74% of the outstanding public warrants were exercised at the reduced exercise price of \$6.00 per share. The temporary reduction in the warrant exercise price generated net cash proceeds to the Company of approximately \$6.7 million after deducting underwriters' discounts, legal and offering expenses. All such proceeds were received subsequent to September 30, 2013, and as a result, neither the temporary reduction of the exercise price, nor the receipt of the cash proceeds therefrom had any impact on the accompanying consolidated financial statements.

*Acquisitions.* On April 30, 2013, we acquired certain assets and assumed certain liabilities of Consilium Partners, a 20-person owner's representation and program management firm that serves both public and private clients, such as municipalities, major hospitality firms and institutional real estate owners. Consilium Partners possesses specialized expertise in managing technically demanding projects, while having an affinity for leading teams and cultivating teamwork with the people who ultimately determine a project's success. The purchase price was approximately \$1.1 million consisting of cash, notes and common stock plus an earn-out of up to \$1.0 million in cash and/or our common stock. Payment of the \$1.0 million earn-out is based on the achievement of a certain agreed upon metric for calendar year 2013, and if achieved, is payable in three annual installments beginning in January 31, 2014 consisting of cash and/or our common stock. This acquisition supplements our established infrastructure presence nationally, especially in the Rocky Mountain region, while being accretive to our earnings. In addition, this acquisition complements and strengthens our capabilities in program management, an area of strategic growth for us.

On July 8, 2013, we acquired certain assets and assumed certain liabilities of the Tampa, Florida division of Pitman-Hartenstein & Associates, which specializes in transportation infrastructure engineering for an all-cash purchase price of approximately \$980,000. This acquisition strengthens our platform by now allowing us to deliver transportation engineering services to the Southeastern U.S., as we have in California and the Rocky Mountain region.

On August 12, 2013, the Company acquired certain assets and assumed certain liabilities of Dunn Environmental, Inc. (Dunn). Dunn specializes in environmental and hydrogeology sciences in Northern California. The purchase price was approximately \$250,000 consisting of cash, note and stock. This acquisition adds to our environmental services in Northern California serving both public and private sector clients.

*Backlog.* As of September 30, 2013, we had approximately \$58.4 million of gross revenue backlog expected to be recognized over the next 12 months compared to gross revenue backlog of approximately \$45 million as of December 31, 2012. We include in backlog only those contracts for which funding has been provided and work authorizations have been received. We cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, certain of our contracts with the U.S. federal government and other clients are terminable at the discretion of the client, with or without cause. These types of backlog reductions could adversely affect our revenue and margins. Accordingly, our backlog as of any particular date is an uncertain indicator of our future earnings.



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*Shift in service mix.* We group our capabilities into five core vertical service offerings. Historically, we have concentrated on the verticals of infrastructure, engineering and support services, and construction and quality assurance. We believe, however, that further development of three service offerings - public and private consulting and outsourcing, asset management consulting, and occupational, health, safety, and environmental consulting - will become increasingly important to our business as we continue to grow organically and through strategic acquisitions. Revenues derived from these three types of services offerings are mostly generated under cost-reimbursable contracts. The methods of billing for these three services are expected to include both time and materials or cost-plus basis.

*Tax credit dispute.* In 2011, the California Franchise Tax Board initiated an examination of Nolte's state of California tax filings and raised various questions about approximately \$0.7 million of research and development tax credits generated and included on Nolte's tax returns for the years 2005-2010. We responded to these inquiries, but in the fourth quarter of 2012, the California Franchise Tax Board denied these credits in full.

Nolte has appealed the ruling and engaged a specialist firm to assist with the appeal. We are vigorously defending Nolte's position and believe this position meets the recognition criteria under ASC 740-10. Nolte believes it has appropriate documentation to support the credits in full. Accordingly, we have not recorded a liability for uncertain tax benefits related to these state or federal research and development credits. An adverse outcome could have an adverse impact on our financial position, results of operations and cash flows.

## **Components of Income and Expense**

### ***Contract Revenues***

We enter into contracts with our clients that contain two principal types of pricing provisions: cost-reimbursable and fixed-price. The majority of our contracts are cost-reimbursable contracts that fall under the relatively low-risk subcategory of time and materials contracts.

*Cost-reimbursable contracts.* Cost-reimbursable contracts consist of two similar contract types: time and materials contracts and cost-plus contracts.

Time and materials contracts are common for smaller scale professional and technical consulting and certification services projects. Under these types of contracts, there is no predetermined fee. Instead, we negotiate hourly billing rates and charge our clients based upon actual hours expended on a project. In addition, any direct project expenditures are passed through to the client and are typically reimbursed. These contracts may have a fixed-price element in the form of an initial not-to-exceed or guaranteed maximum price provision.

Cost-plus contracts are the predominant contracting method used by U.S. federal, state, and local governments. These contracts provide for reimbursement of the actual costs and overhead (predetermined rates) we incur, plus a predetermined fee. Under some cost-plus contracts, our fee may be based on quality, schedule, and other performance factors.

For the nine months ended September 30, 2013 and 2012, cost-reimbursable contracts represented approximately 88% and 93%, respectively, of our total contract revenues.

*Fixed-price contracts.* Fixed-price contracts also consist of two contract types: lump-sum contracts and fixed-unit price contracts.

Lump-sum contracts typically require the performance of all of the work under the contract for a specified lump-sum fee, subject to price adjustments if the scope of the project changes or unforeseen conditions arise. Many of our lump-sum contracts are negotiated and arise in the design of projects with a specified scope and project deliverables.

Fixed-unit price contracts typically require the performance of an estimated number of units of work at an agreed price per unit, with the total payment under the contract determined by the actual number of units performed.

For the nine months ended September 30, 2013 and 2012, fixed-price contracts represented approximately 12% and 7%, respectively, of our total contract revenues.

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Revenues from engineering services are recognized when services are performed and the revenues are earned in accordance with the accrual basis of accounting. Revenues from long-term contracts are recognized on the percentage-of-completion method, generally measured by the direct costs incurred to date as compared to the estimated total direct costs for each contract. See Critical Accounting Policies and Estimates Revenue Recognition.



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**Table of Contents*****Direct Costs of Contract Revenues (excluding depreciation and amortization)***

Direct costs of contract revenues consist primarily of that portion of technical and non-technical salaries and wages incurred in connection with fee generating projects. Direct costs of contract revenues also include production expenses, subconsultant services, and other expenses that are incurred in connection with our fee generating projects. Direct costs of contract revenues exclude that portion of technical and non-technical salaries and wages related to marketing efforts, vacations, holidays, and other time not spent directly generating fees under existing contracts. Such costs are included in operating expenses. Additionally, payroll taxes, bonuses, and employee benefit costs for all of our personnel, facilities costs, and depreciation and amortization are included in operating expenses since no allocation of these costs is made to direct costs of contract revenues. We expense direct costs of contract revenues when incurred.

***Operating Expenses***

Operating 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 revenues for those employees who provide our services. Operating expenses also include facility costs, depreciation and amortization, professional services, legal and accounting fees, and administrative operating costs. We expense operating costs when incurred.

***Factors Affecting Comparability***

We have set forth below selected factors that we believe have had, or can be expected to have, a significant effect on the comparability of recent or future results of operations:

***Recent Acquisitions***

On July 27, 2012, we acquired certain assets and assumed certain liabilities of Kaco, a 30-person engineering firm headquartered in Miami, Florida. As a result of this acquisition in 2012, we commenced recognizing revenues and amortizing intangible assets during the third quarter of 2012, primarily affecting the comparability between the three and nine months ended September 30, 2013 and the comparable periods of 2012.

On April 30, 2013, we acquired certain assets and assumed certain liabilities of Consilium Partners, a 20-person owner's representation and program management firm that serves both public and private clients, such as municipalities, major hospitality firms and institutional real estate owners. As a result of this acquisition in 2013, we commenced recognizing revenues and amortizing intangible assets during the second quarter of 2013, primarily affecting the comparability between the three and nine months ended September 30, 2013 and the comparable periods of 2012.

On July 8, 2013, we acquired certain assets and assumed certain liabilities of the Tampa, Florida division of Pitman-Hartenstein & Associates, which specializes in transportation infrastructure engineering. As a result of this acquisition in 2013, we commenced recognizing revenues and amortizing intangible assets during the third quarter of 2013, primarily affecting the comparability between the three and nine months ended September 30, 2013 and the comparable periods of 2012.

On August 12, 2013, the Company acquired certain assets and assumed certain liabilities of Dunn Environmental, Inc. (Dunn). Dunn specializes in environmental and hydrogeology sciences in Northern California. As a result of this acquisition in 2013, we commenced recognizing revenues and amortizing intangible assets during the third quarter of 2013, primarily affecting the comparability between the three and nine months ended September 30, 2013 and the comparable periods of 2012.

***Public Company Expenses***

As a result of our initial public offering, we became a public company and our securities are listed on The NASDAQ Capital Market. As such, we are required to comply with laws, regulations, and requirements that we did not need to comply with as a private company, including certain provisions of the Sarbanes-Oxley Act and related Securities and Exchange Commission (the "SEC") regulations, as well as the requirements of NASDAQ. Compliance with the requirements of being a public company have required us to increase our operating expenses in order to pay our employees, legal counsel, and accountants to assist us in, among other things, external reporting, instituting and monitoring a more comprehensive compliance and board governance function, establishing and maintaining internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, and preparing and distributing periodic public reports in compliance with our obligations under the federal securities laws. In addition, being a public company will make it more expensive for us to obtain director and officer liability insurance. We estimate that incremental annual public company costs will be between \$0.5 million and \$1.0 million.

*Stock-Based Compensation*

In 2010, prior to the inception of our 2011 Equity Plan, we issued 377,104 restricted shares of common stock to management and employees with an aggregate deferred compensation amount of approximately \$765,000. Each award is service based, and vests after five years or upon certain other events, subject to each award agreement. The fair value of these shares was calculated based on the estimated fair value of our equity as of the grant date, which was approximately \$2.03 per share.

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The 2011 Equity Plan was initially approved in October 2011 and subsequently amended and restated in March 2013. A total of 554,658 shares of common stock are authorized and reserved for issuance under the 2011 Equity Plan. This reserve automatically increases on each January 1 from 2014 through 2023, by an amount equal to the smaller of (i) 3.5% of the number of shares issued and outstanding on the immediately preceding December 31, or (ii) an amount determined by our board of directors. The 2011 Equity Plan is intended to make available incentives that will assist us to attract, retain, and motivate employees, officers, consultants, and directors by allowing them to acquire an ownership interest in our business, and, as a result, encouraging them to contribute to our success. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units, and other cash-based or stock-based awards. As a result, we may incur material non-cash, stock-based compensation expenses in future periods.

During the nine months ended September 30, 2013, we granted from the 2011 Equity Plan 74,675 restricted shares to management and employees and 8,508 restricted stock units to non-employee directors with an aggregate deferred compensation amount of approximately \$654,000. The fair value of these shares and units are based on the quoted market values of the Company's equity as of the grant dates, which is a weighted-average of \$7.87 per share. The restricted shares granted provide for service based vesting after three years following the grant date and the restricted stock units granted provide for service based vesting as of the day immediately preceding the first annual meeting of the stockholders of the Company following the grant date.

During April 2012, we granted from the 2011 Equity Plan 39,657 restricted shares to management and employees of which 2,565 shares forfeited during 2012 with an aggregate deferred compensation amount of approximately \$268,000. During the nine and three months ended September 30, 2013, there were 4,574 and 207 shares, respectively, forfeited. The fair value of these shares is based on the estimated fair value of the Company's equity as of the grant date, which was estimated at \$7.21 per share. These awards provide for service based vesting after three years.

Share-based compensation expense relating to restricted shares and units during the three months ended September 30, 2013 and 2012 was approximately \$121,000 and \$58,000, respectively, and for the nine months ended September 30, 2013 and 2012 was approximately \$237,000 and \$152,000, respectively. As of September 30, 2013, no shares or units have vested since the Plan inception, and approximately \$982,000 of deferred compensation, which is expected to be recognized over the next 1.6 years, is unrecognized at September 30, 2013.

**Jumpstart Our Business Startups Act of 2012**

We are an emerging growth company within the meaning of the rules under the Securities Act of 1933, as amended (the "Securities Act"), and we will utilize certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies. For example, we will not have to provide an auditor's attestation report on our internal controls in future annual reports on Form 10-K as otherwise required by Section 404(b) of the Sarbanes-Oxley Act. The JOBS Act also permits us, as an emerging growth company, to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We are choosing to opt out of this provision and, as a result, we will comply with new or revised accounting standards when they are required to be adopted by issuers. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

**Critical Accounting Policies and Estimates**

The discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with U.S. GAAP. During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions, including those discussed below. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our financial statements. Our estimates and assumptions are evaluated periodically and adjusted when necessary. The more significant estimates affecting amounts reported in our consolidated financial statements relate to the revenue recognition on the percentage-of-completion method, reserves for professional liability claims, allowances for doubtful accounts, valuation of our intangible assets and income taxes.

We describe below the following critical accounting policies that involve our more significant judgments and estimates used in the preparation of our financial statements. For further information on all of our significant policies, see Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

***Revenue Recognition***

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Revenue from engineering services is recognized when services are performed and the revenue is earned in accordance with the accrual basis of accounting. Revenues from long-term contracts are recognized on the percentage-of-completion method, generally measured by the direct costs incurred to date as compared to the estimated total direct costs for each contract. We include other direct

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costs (for example, third-party field labor, subcontractors, or the procurement of materials or equipment) in contract revenues and cost of revenue when the costs of these items are incurred and we are responsible for the ultimate acceptability of such costs. Recognition of revenue under this method is dependent upon the accuracy of a variety of estimates, including engineering progress, materials quantities, achievement of milestones, labor productivity, and cost estimates. Due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates.

If estimated total costs on contracts indicate a loss or reduction to percentage of revenue recognized to date, these losses or reductions are recognized in the period in which the revisions are determined. The cumulative effect of revisions to revenues, estimated costs to complete contracts, including penalties, incentive awards, change orders, claims, anticipated losses and others are recorded in the period in which the revisions are identified and the loss can be reasonably estimated. Such revisions could occur in any reporting period and the effects on the results of operation for that reporting period may be material depending on the size of the project or the adjustment.

Change orders and claims typically result from changes in scope, specifications, design, performance, materials, sites, or period of completion. Costs related to change orders and claims are recognized when incurred. Change orders are included in total estimated contract revenue when it is probable that the change order will result in an addition to the contract value and can be reliably estimated.

Federal Acquisition Regulations ( FAR ), which are applicable to our federal government contracts and may be incorporated in local and state agency contracts, limit the recovery of certain specified indirect costs on contracts. Cost-plus contracts covered by FAR or certain state and local agencies also may require an audit of actual costs and provide for upward or downward adjustments if actual recoverable costs differ from billed recoverable costs.

Unbilled work results when the appropriate contract revenue amount has been recognized in accordance with the percentage-of-completion accounting method, but a portion of the revenue recorded cannot be billed currently due to the billing terms defined in the contract. Unbilled amounts as of the reporting date are included within accounts receivable in the accompanying consolidated balance sheets. In certain circumstances, the contract may allow for billing terms that result in the cumulative amounts billed being in excess of contract revenues recognized. The liability Billings in excess of costs and estimated earnings on uncompleted contracts represents billings in excess of contract revenues recognized on these contracts as of the reporting date.

***Professional Liability Expense***

We maintain insurance for business risks, including professional liability. For professional liability risks, our retention amount under our claims-made insurance policies includes an accrual for claims incurred but not reported for any potential liability, including any legal expenses, to be incurred for such claims if they occur. Our accruals are based upon historical expense and management's judgment. We maintain insurance coverage for various aspects of our business and operations; however, we have elected to retain a portion of losses that may occur through the use of deductibles, limits and retentions under our insurance programs. Our insurance coverage may subject us to some future liability for which we are only partially insured or completely uninsured. Management believes its estimated accrual for errors, omissions, and professional liability claims is sufficient and any additional liability over amounts accrued is not expected to have a material adverse effect on our results of operations or financial position.

***Allowance for Doubtful Accounts***

We record billed and unbilled receivables net of an allowance for doubtful accounts. The allowance is estimated based on management's evaluation of the contracts involved and the financial condition of clients. Factors considered include, among other things, client type (federal government or private client), historical performance, historical collection trends, and general economic conditions. The allowance is increased by our provision for doubtful accounts, which is charged against income. All recoveries on receivables previously charged off are credited to the accounts receivable recovery account included in income, while direct charge-offs of receivables are deducted from the allowance.

***Goodwill and Related Intangible Assets***

Goodwill is the excess cost of 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 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

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include: macroeconomic and industry conditions, cost factors, overall financial performance and other relevant entity-specific events. If the entity determines that this threshold is not 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. We are required to make certain subjective and complex judgments in assessing whether an

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event of impairment of goodwill has occurred, including assumptions and estimates used to determine the fair value of our reporting units. If the carrying value of the assets and liabilities 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. We have elected to perform our annual goodwill impairment review on August 1 of each year. On August 1, 2013, we conducted our annual impairment test on the goodwill using the quantitative method of evaluating goodwill. Based on this quantitative analysis we determined the fair value of each of our reporting units exceeded the carrying value of the reporting unit. Therefore, the goodwill was not impaired and the Company did not recognize an impairment charge relating to goodwill as of August 1, 2013 and no indicators, events or changes in circumstances indicated that goodwill was impaired during the period from August 2, 2013 through September 30, 2013. There were no indicators, events or changes in circumstances to indicate that goodwill is impaired during the three and nine months ended September 30, 2013.

Identifiable intangible assets primarily include customer backlog, customer relationships, tradenames and non-compete agreements. Amortizable intangible assets are amortized 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 is measured as the difference between fair value and carrying value, with fair value typically based on a discounted cash flow model. The Company has not recognized an impairment charge relating to amortizable intangible assets during the three and nine months ended September 30, 2013 and 2012.

***Contingent Consideration***

The fair values of earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. We estimated the fair value of contingent earn-out payments as part of the initial purchase price of Consilium and record the estimated fair value of contingent consideration as a liability on the consolidated balance sheet as of September 30, 2013. We consider several factors when determining that contingent earn-out liabilities are part of the purchase price, including the following: (1) the valuation of our 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 (2) the former owners of acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of our other key employees. The contingent earn-out payments are not affected by employment termination.

We measure our earn-out (contingent consideration) liabilities recognized in connection with business combinations at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy. We use a probability-weighted approach as a valuation technique to determine the fair value of the contingent consideration. The significant unobservable inputs used in the fair value measurements are projections over the earn-out period (generally one year), and the probability outcome percentages we assign 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 earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities.

We review and re-assess the estimated fair value of contingent consideration 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.

***Income Taxes***

We account for income taxes in accordance with ASC Topic No. 740 *Income Taxes* ( Topic No. 740 ). Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. A valuation allowance against our deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for a valuation allowance, management is required to make assumptions and to apply judgment, including forecasting future earnings, taxable income, and the mix of earnings in the jurisdictions in which we operate. Management periodically assesses the need for a valuation allowance based on our current and anticipated results of operations. The need for and the amount of a valuation allowance can change in the near term if operating results and projections change significantly.

The Company recognizes the consolidated financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon

ultimate settlement with the relevant tax authority. The Company applies the uncertain tax position



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guidance to all tax positions for which the statute of limitations remains open. Generally, we remain subject to income tax examinations by our major taxing authorities from inception in 2009. Nolte generally is no longer subject to income tax examinations by its major taxing authorities for years ending before September 28, 2006. Our policy is to classify interest accrued as interest expense and penalties as operating expenses. As of September 30, 2013 and December 31, 2012, we did not have any material uncertain tax positions.

**Results of Operations**

The following table represents our results of operations for the periods indicated (in thousands):

	Three Months Ended September 30, 2013		2012		Nine Months Ended September 30, 2013		2012	
	\$	% of gross contract revenues	\$	% of gross contract revenues	\$	% of gross contract revenues	\$	% of gross contract revenues
Gross contract revenues	\$ 18,588	100.0%	\$ 16,565	100.0%	\$ 51,317	100.0%	\$ 45,486	100.0%
Direct costs	9,448	50.8%	8,005	48.3%	25,265	49.2%	21,672	47.7%
Gross profit	9,140	49.2%	8,560	51.7%	26,052	50.8%	23,814	52.3%
Operating expenses	7,972	42.9%	7,416	44.8%	22,948	44.7%	22,345	49.1%
Income from operations	1,168	6.3%	1,144	6.9%	3,104	6.0%	1,469	3.2%
Other expense	(26)	(0.1%)	(101)	(0.6%)	(162)	(0.3%)	(275)	(0.6%)
Income tax expense	(211)	(1.2%)	(364)	(2.2%)	(718)	(1.4%)	(413)	(0.9%)
Net income	\$ 931	5.0%	\$ 679	4.1%	\$ 2,224	4.3%	\$ 781	1.7%

**Three and Nine Months Ended September 30, 2013 compared to Three and Nine Months Ended September 30, 2012**

**Gross contract revenues.** Our contract revenues increased approximately \$2.0 million and \$5.8 million for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. The increases in revenues are due to organic growth primarily from the start of new projects as well as the contribution from our acquisitions in 2013. We are currently unaware of delays in current projects and therefore are not anticipating such to influence future revenues. These revenues could be affected by changes in economic conditions and the impact thereof on our public and quasi-public sector funded projects.

**Direct costs.** Our direct costs increased approximately \$1.4 million and \$3.6 million for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. The increase in direct costs is primarily due to an increase in utilization from our professional staff as a result of an increase in projects compared to the same period last year. Direct costs of contracts include direct labor and all costs incurred in connection with and directly for the benefit of client contracts. The level of direct costs of contracts may fluctuate between reporting periods due to a variety of factors including the amount of sub-consultant costs we incur during a period. On those projects where we are responsible for subcontract labor or third-party materials and equipment, we reflect the amounts of such items in both revenues and costs. To the extent that we incur a significant amount of pass-through costs in a period, our direct costs of contracts are likely to increase as well.

As a percentage of revenues, direct costs of contracts were 50.8% and 49.2% for the three and nine months ended September 30, 2013, respectively, compared to 48.3% and 47.7% for the three and nine months ended September 30, 2012, respectively. The relationship between direct costs of contracts and revenues will fluctuate between reporting periods depending on a variety of factors, including the mix of business during the reporting periods being compared as well as the level of margins earned from the various types of services provided. Revenues from sub-consultant costs typically have lower margins associated with them. It is not unusual for us to experience an increase or decrease in such revenues without experiencing a corresponding increase or decrease in our gross margins and operating profit.

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*Operating expenses.* Our operating expenses increased approximately \$0.6 million for the nine and three months ended September 30, 2013 compared to the same periods in 2012. The increase in operating expenses was due to additional administrative expenses as a result of becoming a public company in March

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2013, however this increase was partially offset by reduction in our indirect compensation expense due to the increased utilization from our professional staff. Operating expenses include the costs of the marketing and support staffs, other marketing expenses, management and administrative personnel costs, payroll taxes, bonuses and all employee benefits and the portion of salaries and wages not allocated to direct costs of contract revenues. Operating expenses also include facility costs, depreciation and amortization, professional services, legal and accounting fees, and administrative operating costs. We expense operating costs when incurred. Operating expenses typically fluctuate as a result of changes in headcount (both corporate and field locations) and the amount of spending required to support our professional services activities, which normally require additional overhead costs. Therefore, when our professional services revenues increase or decrease, it is not unusual to see a corresponding change in operating expenses.

As a percentage of revenues, operating expenses were 42.9% and 44.7% for the three and nine months ended September 30, 2013, respectively, compared to 44.8% and 49.1% for the three and nine months ended September 30, 2012, respectively. These decreases were the result of the increase in utilization of our professional staff due to the increase in projects compared to the same periods last year, internal focus on performance optimization and the scalability of operations.

*Income taxes.* Our consolidated effective income tax rate was 24.4% and 18.5% for the nine and three months ended September 30, 2013, respectively. The difference between the effective tax rate and the combined statutory federal and state tax rate of 39.0% is principally due to the domestic production activities deduction and research and development credits as well as higher tax deductions realized on our 2012 federal and state tax returns filed during the third quarter of 2013. The effective tax rate for the nine months ended September 30, 2013 also includes the discrete tax benefit of 5.7% related to the retroactive legislative reinstatement on January 2, 2013 of the Research and Development tax credit for the year ended December 31, 2012, which is required to be included in the period the reinstatement was enacted into law. Our consolidated effective income tax rate was 34.6% and 34.9% for the nine and three months ended September 30, 2012, respectively. The reduction in the effective tax rate compared to the combined statutory federal and state tax rate of 39.0% is due primarily to the domestic production activities deduction during 2012.

## **Liquidity and Capital Resources**

Our principal sources of liquidity are our cash and cash equivalents balances, cash flow from operations, our lines of credit, and access to financial markets. Our principal uses of cash are operating expenses, working capital requirements, capital expenditures, repayment of debt, and acquisition expenditures. An additional use of cash during 2012 and 2013 is for the payment of income taxes as a result of our acquisition of Nolte during 2010, whereby Nolte was required to switch from a cash basis taxpayer to an accrual basis taxpayer. We believe our sources of liquidity, including cash flow from operations, existing cash and cash equivalents, proceeds from our recent initial public offering, proceeds from the exercise of warrants issued in connection therewith, and borrowing capacity under our credit facilities will be sufficient to meet our projected cash requirements. This includes the increased operating expenses we began to incur in April 2013 and will continue to incur in connection with our change in status to a publicly traded company, such as financial and accounting personnel we have hired or will hire and our planned strategic acquisition activity for at least the next twelve months. We will monitor our capital requirements thereafter to ensure our needs are in line with available capital resources.

We believe our experienced employees and management team are our most valuable resources. Attracting, training, and retaining key personnel have been and will remain critical to our success. To achieve our human capital goals, we intend to remain focused on providing our personnel with entrepreneurial opportunities to increase client contact within their areas of expertise and to expand our business within our service offerings.

On March 26, 2013, the Company priced its initial public offering of 1,400,000 units. Each unit was sold at an offering price of \$6.00 per unit and consists 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. The units began trading on The Nasdaq Capital Market ( Nasdaq ) on March 27, 2013 and traded solely as units through September 26, 2013. The units sold in our initial public offering were registered under the Securities Act on a registration statement on Form S-1 (No. 333-186229), which was declared effective by the SEC on March 26, 2013. On March 28, 2013, the underwriter of the offering exercised its option to purchase up to an additional 210,000 units, solely to cover over-allotments. The closing of the offering occurred, and was recorded, on April 2, 2013, upon which we received net proceeds of approximately \$8.7 million after deducting underwriters' discounts, legal and offering expenses and issued 1,610,000 units.

On September 27, 2013, the common stock and warrants comprising the Company's units began trading separately on the Nasdaq under the symbols NVEE and NVEEW, respectively. In connection with the separate trading of the common stock and warrants, the Company's units ceased trading under the symbol NVEEU on the close of the markets on September 26, 2013 and the units were delisted from Nasdaq.

On September 27, 2013, the warrants became exercisable at an exercise price of \$7.80 per share (see exception below). The warrant exercise period expires on March 27, 2018 or earlier upon redemption. We may call the warrants for redemption as follows: (i) at a price of \$0.01 for

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each warrant at any time while the warrants are exercisable, so long as a registration statement relating to the common stock issuable upon exercise of the warrants is effective and current: (ii) upon not less than 30 days prior written notice of redemption to each warrant holder; and (iii) if, and only if, the reported last sale price of the common stock equals or exceeds \$12.00 per share for the 20-trading-day period ending on the third business day prior to the notice of redemption to warrant holders.

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On September 27, 2013 and continuing until October 11, 2013 (the Temporary Reduction Expiration Time), we temporarily reduced the exercise price of all of our outstanding public warrants from \$7.80 per share to \$6.00 per share. All such warrants properly exercised in accordance with their respective terms prior to the Temporary Reduction Expiration Time were accepted by the Company at the reduced \$6.00 per share exercise price and one share of the Company's registered common stock per warrant was issued to the exercising warrant holder. After the Temporary Reduction Expiration Time, the exercise price of the public warrants automatically reverted to the warrant exercise price of \$7.80 per share included in the original terms of the public warrants and the reduced exercise price was no longer in effect. Except for the reduced \$6.00 per share exercise price of the warrants during the Temporary Reduction Expiration Time, the terms of the public warrants remain unchanged. During the Temporary Reduction Expiration Time, 1,196,471, or approximately 74% of the outstanding public warrants were exercised at the reduced exercise price of \$6.00 per share. The temporary reduction in the warrant exercise price generated net cash proceeds to the Company of approximately \$6.7 million after deducting underwriters' discounts, legal and offering expenses. All such proceeds were received subsequent to September 30, 2013, and as a result, neither the temporary reduction of the exercise price, nor the receipt of the cash proceeds therefrom had any impact on the accompanying consolidated financial statements.

We have broad discretion over the use of the net proceeds from the initial public offering and the exercise of the warrants. We currently intend to use the net proceeds primarily for general corporate purposes, including working capital, sales and marketing activities, general and administrative matters and capital expenditures. We may also use a portion of the net proceeds to expand our current business through acquisitions or investments in other complementary strategic businesses. To the extent any net proceeds are used to repay any debt obligations, the aggregate outstanding balance of our notes payable to banks, former owners of acquired companies and non-controlling interest holders in Nolte as of September 30, 2013 was approximately \$1.8 million with interest rates ranging from 3.0% to 5.0%.

### ***Cash Flows***

As of September 30, 2013, our cash and cash equivalents totaled \$6.8 million and accounts receivable, net of allowance for doubtful accounts, totaled \$18.0 million, compared to \$2.3 million and \$15.1 million, respectively, on December 31, 2012. As of September 30, 2013, our accounts payable and accrued liabilities were \$4.7 million and \$4.7 million, respectively, compared to \$3.3 million and \$3.1 million, respectively, on December 31, 2012. Also, as of September 30, 2013, we had notes payable and stock repurchase obligations of \$4.6 million and \$1.8 million, respectively, compared to \$7.4 million and \$2.4 million, respectively, on December 31, 2012.

### ***Operating activities***

For the nine months ended September 30, 2013, net cash provided by operating activities amounted to \$2.3 million primarily attributable to net income of \$2.2 million which included non-cash charges of \$1.1 million from depreciation and amortization, and increases of \$2.4 million in accounts payable and accrued liabilities partially offset by an increase of \$1.7 million to accounts receivable and decreases of \$2.0 million in deferred and income taxes payable. During 2013, we made income tax payments of approximately \$2.4 million, which included payment of income taxes as a result of our acquisition of Nolte during 2010 whereby Nolte was required to switch from a cash basis taxpayer to an accrual basis taxpayer.

For the nine months ended September 30, 2012, net cash used in operating activities amounted to \$0.3 million primarily attributable to net income of \$0.8 million which included non-cash charges of \$1.1 million from depreciation and amortization and increase of \$1.3 million in accounts payable partially offset by an increase of \$1.8 million in accounts receivable and decreases in deferred and income taxes payable of \$1.6 million. During 2012, we made income tax payments of approximately \$2.0 million, which included payment of income taxes as a result of our acquisition of Nolte during 2010 whereby Nolte was required to switch from a cash basis taxpayer to an accrual basis taxpayer.

### ***Investing activities***

For the nine months ended September 30, 2013, net cash used in investing activities amounted to \$2.0 million primarily resulting from cash used for the acquisitions during 2013 and purchase of property and equipment from our ongoing operations.

For the nine months ended September 30, 2012, net cash used in investing activities amounted to \$1.4 million primarily resulting from cash used for the acquisition of Kaco of \$1.0 million and for the purchase of property and equipment from our ongoing operations.

### ***Financing activities***

For the nine months ended September 30, 2013, net cash provided by financing activities amounted to \$4.2 million primarily attributable to gross proceeds of \$9.66 million from our initial public offering which was partially offset by initial public offering costs paid of \$1.6 million. Also contributing to the net cash provided by financing activities were borrowings of \$0.5 million from the Line Facilities, offset by repayments

of \$3.8 million towards long-term debt and \$0.6 million in stock repurchase obligations.

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For the nine months ended September 30, 2012, net cash provided by financing activities amounted to \$0.5 million primarily attributable to proceeds from borrowings of \$2.2 million from the Line Facilities, offset by scheduled repayments of \$1.0 million towards long-term debt and \$0.6 million in stock repurchase obligations. In addition, we made payments of \$0.1 million for the repurchase of our common stock.

### *Financing*

Our Line Facilities, totaling \$4.0 million, each had a maturity date of October 30, 2013; however on October 18, 2013, we extended the maturity date of the Line Facilities to November 30, 2013 as we continue to work with our lender to extend and/or expand the capacity of the Line Facilities. The interest rate is prime rate plus 1% with a minimum of 4.50%. Mr. Dickerson Wright, our Chairman, Chief Executive Officer and President, and the Wright Family Trust, of which Mr. Wright is the trustee, have provided guarantees to our lender in connection with our Line Facilities and Term Loan (as defined below). Mr. Wright's guarantee remains in effect for the term of the Line Facilities and Term Loan, regardless of his continuing employment. The Line Facilities contain cross default provisions with each other as well as cross default provisions with the note payable described below. In addition, the Line Facilities contain an annual maximum debt to tangible net worth covenant ratio of 2.30:1 and financial reporting covenant provisions. As of December 31, 2012, our debt to tangible net worth ratio was 2.33:1 which exceeded the maximum requirement; however, our lender waived this covenant through the maturity date of the loan through October 30, 2013. As of September 30, 2013, we were in compliance with this covenant and all other covenant provisions of the Line Facilities. As of September 30, 2013 and December 31, 2012, the outstanding balance on the Line Facilities were approximately \$0 million and \$2.0 million, respectively. Our capacity to borrow under the Line Facilities as of November 13, 2013 is \$4.0 million.

We have a note payable to a bank (the Term Loan). On March 14, 2012, we amended the note payable to extend the maturity date from August 7, 2012 to February 1, 2015. The interest rate continues at prime rate with a minimum of 5.0%. The amended note continues to be payable in monthly principal installments of \$46,000 with a lump sum of the remaining principal balance outstanding due at maturity. The amended note is collateralized by substantially all of our assets and is guaranteed by certain of our stockholders, NV5 Holdings, and Nolte, which guarantee in the case of Mr. Wright remains in effect for the term of the Term Loan regardless of his continuing employment. As of September 30, 2013 and December 31, 2012, we had outstanding balances of approximately \$1.3 million and \$1.7 million, respectively, in connection with the Term Loan.

The note held by the seller of the Nolte business (the Nolte Note) is currently outstanding with a maturity date of July 29, 2017. The Nolte Note bears interest at the prime rate plus 1%, subject to a maximum rate of 7.0%. Under the terms of the Nolte Note, as amended, we pay quarterly principal installments of approximately \$0.1 million plus interest. The Nolte Note is unsecured and is subordinated to our bank note, although we are permitted to make our periodic principal and interest payments. The outstanding balance of the Nolte Note was approximately \$1.8 million and \$2.2 million as of September 30, 2013 and December 31, 2012, respectively.

On July 27, 2012, we acquired certain assets and assumed certain liabilities of Kaco, a 30-person engineering firm headquartered in Miami, Florida. Kaco commenced operations in 1984 and its development and engineering teams have worked on projects in South Florida, the Caribbean, and Central America during the last 25 years. The purchase price was \$3.5 million, consisting of \$1.0 million in cash; a note in the aggregate principal amount of \$2.0 million (the Kaco Note) (bearing interest at 3.0% for the first year and 200 basis points over the one-year LIBOR for the years thereafter), which is payable as follows: \$0.5 million due by (and paid on) December 28, 2012 and three equal payments of \$0.5 million each due on the first, second and third anniversaries of the effective date of July 27, 2012; and 69,330 shares of common stock with an agreed value of \$0.5 million, or \$7.21 per share. The outstanding balance of the Kaco Note was \$1.0 million and \$1.5 million as of September 30, 2013 and December 31, 2012, respectively.

On April 30, 2013, we acquired certain assets and assumed certain liabilities of Consilium Partners, a 20-person owner's representation and program management firm that serves both public and private clients, such as municipalities, major hospitality firms and institutional real estate owners. The purchase price was approximately \$1.1 million consisting of cash, notes and common stock plus an earn-out of up to \$1.0 million in cash and/or our common stock. Payment of the \$1.0 million earn-out is based on the achievement of a certain agreed upon metric for calendar year 2013, and if achieved, is payable in three annual installments beginning in January 31, 2014 consisting of cash and/or our common stock. The note is an uncollateralized promissory note in the aggregate principal amount of \$200,000 (bearing interest at 4.0%), payable in three equal payments of \$66,666 each due on the first, second and third anniversaries of the effective date of April 30, 2013. The outstanding balance of this note was \$200,000 as of September 30, 2013.

On July 8, 2013, we acquired certain assets and assumed certain liabilities of the Tampa, Florida division of Pitman-Hartenstein & Associates, which specializes in transportation infrastructure engineering for an all-cash purchase price of approximately \$980,000. The note is uncollateralized promissory note in the aggregate principal amount of \$168,000 (bearing interest at 4.0%), payable in two equal payments of \$84,000 each due on December 31, 2013 and December 31, 2014. The outstanding balance of this note was \$168,000 as of September 30, 2013.





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On August 12, 2013, the Company acquired certain assets and assumed certain liabilities of Dunn Environmental, Inc. ( Dunn ). Dunn specializes in environmental and hydrogeology sciences in Northern California. The purchase price was approximately \$250,000 consisting of cash, note and stock. The note is an uncollateralized promissory note in the aggregate principal amount of approximately \$92,000 (bearing interest at 4.0%), payable in two equal payments of approximately \$46,000 each due on the first and second anniversaries of the effective date of August 12, 2013. The outstanding balance of this note was \$96,000 as of September 30, 2013.

### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of September 30, 2013.

### **Effects of Inflation**

Based on our analysis of the periods presented, we believe that inflation has not had a material effect on our operating results. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

### **Recent Accounting Pronouncements**

In December 2011, the FASB issued amended guidance requiring companies to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This guidance is required to be applied retrospectively for all prior periods presented and is effective for annual periods for fiscal years beginning on or after January 1, 2013, and interim periods within those annual fiscal years. The adoption of this standard did not have a material impact on our consolidated results of operations and financial condition.

In July 2012, the FASB issued ASU 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment in Accounting Standards Update No. 2012-02. This update amends ASU 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment and permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. As the Company does not currently have indefinite-lived intangible assets, the adoption of ASU 2012-02 did not impact our financial position or results of operations.

### **Cautionary Statement about Forward Looking Statements**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Forward-looking statements include, but are not limited to, statements regarding our expectations, hopes, beliefs, intentions, or strategies regarding the future. In addition, any statements that refer to projections, forecasts, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words anticipates, believe, continue, could, estimate, expect, intend, may, might, plan, possible, potential, predict, project, similar expressions, may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward looking.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

our ability to retain the continued service of our key professionals and to identify, hire and retain additional qualified professionals;

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changes in demand from the local and state government and private clients that we serve;

general economic conditions, nationally and globally, and their effect on the market for our services;

fluctuations in our results of operations;

the government's funding and budgetary approval process;

the possibility that our contracts may be terminated by our clients;

our ability to win new contracts and renew existing contracts;

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our dependence on a limited number of clients;

our ability to successfully execute our mergers and acquisitions strategy, including the integration of new companies into our business;

our ability to successfully manage our growth strategy;

competitive pressures and trends in our industry and our ability to successfully compete with our competitors;

the credit and collection risks associated with our clients;

changes in laws, regulations, or policies;

the enactment of legislation that could limit the ability of local, state and federal agencies to contract for our privatized services;

our ability to complete our backlog of uncompleted projects as currently projected;

the risk of employee misconduct or our failure to comply with laws and regulations;

our ability to control, and operational issues pertaining to, business activities that we conduct with business partners and other third parties; and

control by our principal stockholder and the existence of certain anti-takeover measures in our governing documents.

The forward-looking statements contained or incorporated by reference in this report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties, or assumptions, many of which are beyond our control, that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described in Item 1A. Risk Factors in our Form 10-K for the year ended December 31, 2012. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports filed with the SEC. Our Form 10-K filing for the fiscal year ended December 31, 2012 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995, as amended. Readers can find them in Item 1A. Risk Factors of that filing and under the same heading of this filing. You may obtain a copy of our Form 10-K through our website, [www.nv5.com](http://www.nv5.com). Information contained on our website is not incorporated into this report. In addition to visiting our website, you may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, D.C. 20549 or at [www.sec.gov](http://www.sec.gov). Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES.**

**Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e), under the Exchange Act. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's disclosure controls and procedures, were effective such that the information relating to the Company required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to the Company's management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that have occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

From time to time, we are subject to various legal proceedings that arise in the normal course of our business activities. As of the date of this Quarterly Report, we are not a party to any litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our results of operations or financial position.

**ITEM 1A. RISK FACTORS.**

For the quarter ended September 30, 2013, there are no material changes to the risk factors set forth in Item 1A, Risk Factors of our Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

**Use of Proceeds from Our Initial Public Offering and Warrant Exercise**

On March 26, 2013, the Company priced its initial public offering of 1,400,000 units. Each unit was sold at an offering price of \$6.00 per unit and consists 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. The units began trading on The Nasdaq Capital Market ( Nasdaq ) on March 27, 2013 and traded solely as units through September 26, 2013. The units sold in our initial public offering were registered under the Securities Act on a registration statement on Form S-1 (No. 333-186229), which was declared effective by the SEC on March 26, 2013. On March 28, 2013, the underwriter of the offering exercised its option to purchase up to an additional 210,000 units, solely to cover over-allotments. The closing of the offering occurred, and was recorded, on April 2, 2013, upon which we received net proceeds of approximately \$8.7 million after deducting underwriters' discounts, legal and offering expenses of approximately \$1.0 million and issued 1,610,000 units.

On September 27, 2013, the common stock and warrants comprising the Company's units began trading separately on the Nasdaq under the symbols NVEE and NVEEW, respectively. In connection with the separate trading of the common stock and warrants, the Company's units ceased trading under the symbol NVEEU on the close of the markets on September 26, 2013 and the units were delisted from Nasdaq.

On September 27, 2013, the warrants became exercisable at an exercise price of \$7.80 per share (see exception below). The warrant exercise period expires on March 27, 2018 or earlier upon redemption. We may call the warrants for redemption as follows: (i) at a price of \$0.01 for each warrant at any time while the warrants are exercisable, so long as a registration statement relating to the common stock issuable upon exercise of the warrants is effective and current; (ii) upon not less than 30 days prior written notice of redemption to each warrant holder; and (iii) if, and only if, the reported last sale price of the common stock equals or exceeds \$12.00 per share for the 20-trading-day period ending on the third business day prior to the notice of redemption to warrant holders.

On September 27, 2013 and continuing until October 11, 2013 (the Temporary Reduction Expiration Time), we temporarily reduced the exercise price of all of our outstanding public warrants from \$7.80 per share to \$6.00 per share. All such warrants properly exercised in accordance with their respective terms prior to the Temporary Reduction Expiration Time were accepted by the Company at the reduced \$6.00 per share exercise price and one share of the Company's registered common stock per warrant was issued to the exercising warrant holder. After the Temporary Reduction Expiration Time, the exercise price of the public warrants automatically reverted to the warrant exercise price of \$7.80 per share included in the original terms of the public warrants and the reduced exercise price was no longer in effect. Except for the reduced \$6.00 per share exercise price of the warrants during the Temporary Reduction Expiration Time, the terms of the public warrants remain unchanged. During the Temporary Reduction Expiration Time, 1,196,471, or approximately 74% of the outstanding public warrants were exercised at the reduced exercise price of \$6.00 per share. The temporary reduction in the warrant exercise price generated net cash proceeds to the Company of approximately \$6.7 million after deducting underwriters' discounts, legal and offering expenses of approximately \$0.5 million. All such proceeds were received subsequent to September 30, 2013, and as a result, neither the temporary reduction of the exercise price, nor the receipt of the cash proceeds therefrom had any impact on the accompanying consolidated financial statements.

We will have broad discretion over the use of the net proceeds from the initial public offering and the exercise of the warrants. We currently intend to use the net proceeds primarily for general corporate purposes, including working capital, sales and marketing activities, general and

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administrative matters and capital expenditures. We may also use a portion of the net proceeds to expand our current business through acquisitions or investments in other complementary strategic businesses. To the extent any net proceeds are used to repay any debt obligations, the aggregate outstanding balance of our notes payable to banks, former owners of acquired companies and non-controlling interest holders in Nolte as of September 30, 2013 was approximately \$1.8 million with interest rates ranging from 3.0% to 5.0%. During the second quarter of 2013, we used these proceeds to repay obligations of \$2.5 million under our Lines Facilities and approximately \$1.6 million for the acquisitions we closed during 2013. We invested the net proceeds in short- and intermediate-term interest-bearing high quality overnight money market funds, pending their use as described above.

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable

**ITEM 5. OTHER INFORMATION.**

None

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<b>Number</b>	<b>Description</b>
4.1	Amended and Restated Warrant Agreement, dated September 24, 2013, between the Registrant and Registrar and Transfer Company (Incorporated by reference to Exhibit 4.1 to Form 8-K filed with the SEC on September 27, 2013)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed herewith.

\*\* Furnished herewith. This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filings of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

\*\*\* Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NV5 HOLDINGS, INC.**

By: /s/ Michael P. Rama

**Michael P. Rama**

**Vice President and Chief Financial Officer**

**(Principal Financial and Accounting Officer)**

Date: November 13, 2013