

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2022

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: 001-38479

Construction Partners, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

290 Healthwest Drive, Suite 2
Dothan, Alabama

(Address of principal executive offices)

26-0758017

(I.R.S. Employer
Identification No.)

36303

(Zip Code)

Registrant's telephone number, including area code: (334) 673-9763

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A common stock, par value \$0.001 per share	ROAD	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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

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

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

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

As of May 4, 2022, the registrant had 41,192,039 shares of Class A common stock, \$0.001 par value, and 11,352,915 shares of Class B common stock, \$0.001 par value, outstanding.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements related to future events, business strategy, future performance, future operations, backlog, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek," "anticipate," "plan," "continue," "estimate," "expect," "may," "will," "project," "predict," "potential," "targeting," "intend," "could," "might," "should," "believe," "outlook" and variations of such words or their negative and similar expressions. Forward-looking statements should not be read as a guarantee of future performance or results, and may 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 management's belief, based on currently available information, as to the outcome and timing of future events. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those expressed in such forward-looking statements. When evaluating forward-looking statements, you should consider the risk factors and other cautionary statements described in this Quarterly Report on Form 10-Q and under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. We believe the expectations reflected in the forward-looking statements contained in this report are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking statements should not be unduly relied upon.

Important factors that could cause actual results or events to differ materially from those expressed in forward-looking statements include, but are not limited to:

- declines in public infrastructure construction and reductions in government funding, including the funding by transportation authorities and other state and local agencies;
 - risks related to our operating strategy;
 - competition for projects in our local markets;
 - risks associated with our capital-intensive business;
 - government inquiries, requirements and initiatives, including those related to funding for public infrastructure construction, land use, environmental, health and safety matters, and government contracting requirements and other laws and regulations;
 - unfavorable economic conditions and restrictive financing markets;
 - our ability to successfully identify, manage and integrate acquisitions;
 - our ability to obtain sufficient bonding capacity to undertake certain projects;
 - our ability to accurately estimate the overall risks, requirements or costs when we bid on or negotiate contracts that are ultimately awarded to us;
 - the cancellation of a significant number of contracts or our disqualification from bidding for new contracts;
 - risks related to adverse weather conditions;
 - climate change and related laws and regulations;
 - our substantial indebtedness and the restrictions imposed on us by the terms thereof;
 - our ability to manage our supply chain in a manner that ensures that we are able to obtain adequate raw materials, equipment and essential supplies;
 - our ability to retain key personnel and maintain satisfactory labor relations, and to manage or mitigate any labor shortages, turnover and labor cost increases;
 - property damage and other claims and insurance coverage issues;
-

- the outcome of litigation or disputes, including employment-related, workers' compensation and breach of contract claims;
- risks related to our information technology systems and infrastructure, including cybersecurity incidents;
- our ability to maintain effective internal control over financial reporting; and
- other events outside of our control.

These factors are not necessarily all of the important factors that could cause actual results or events to differ materially from those expressed in the forward-looking statements. Other unknown or unpredictable factors could also cause actual results or events to differ materially from those expressed in the forward-looking statements. Our future results will depend upon various other risks and uncertainties, including those described in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date hereof. We undertake no obligation to update or revise any forward-looking statements after the date on which any such statement is made, whether as a result of new information, future events or otherwise, except as required by law.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
**CONSTRUCTION PARTNERS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)**

	March 31, 2022 (unaudited)	September 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,608	\$ 57,251
Restricted cash	1,721	—
Contracts receivable including retainage, net	170,739	158,170
Costs and estimated earnings in excess of billings on uncompleted contracts	24,409	23,023
Inventories	69,500	53,792
Prepaid expenses and other current assets	17,982	7,790
Total current assets	<u>313,959</u>	<u>300,026</u>
Property, plant and equipment, net	454,630	404,832
Operating lease right-of-use assets	11,508	6,535
Goodwill	132,789	85,422
Intangible assets, net	3,986	4,163
Investment in joint venture	108	108
Restricted investments	6,203	—
Other assets	14,392	5,534
Total assets	<u>\$ 937,575</u>	<u>\$ 806,620</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 87,323	\$ 86,390
Billings in excess of costs and estimated earnings on uncompleted contracts	46,441	33,719
Current portion of operating lease liabilities	2,078	1,395
Current maturities of long-term debt	10,000	10,000
Accrued expenses and other current liabilities	16,832	26,459
Total current liabilities	<u>162,674</u>	<u>157,963</u>
Long-term liabilities:		
Long-term debt, net of current maturities and deferred debt issuance costs	317,303	206,175
Operating lease liabilities, net of current portion	9,631	5,302
Deferred income taxes, net	19,527	17,362
Other long-term liabilities	13,338	10,919
Total long-term liabilities	<u>359,799</u>	<u>239,758</u>
Total liabilities	<u>522,473</u>	<u>397,721</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$ 0.001; 10,000,000 shares authorized at March 31, 2022 and September 30, 2021 and no shares issued and outstanding	—	—
Class A common stock, par value \$ 0.001; 400,000,000 shares authorized, 41,193,222 shares issued and 41,192,039 outstanding at March 31, 2022 and 36,600,639 issued and outstanding at September 30, 2021	41	37
Class B common stock, par value \$ 0.001; 100,000,000 shares authorized, 14,275,867 shares issued and 11,352,915 outstanding at March 31, 2022 and 18,614,791 shares issued and 15,691,839 outstanding at September 30, 2021	15	19
Additional paid-in capital	251,817	248,571
Treasury stock, at cost, 1,183 shares of Class A common stock, par value \$ 0.001	(39)	—
Treasury stock, at cost, 2,922,952 shares of Class B common stock, par value \$ 0.001	(15,603)	(15,603)
Accumulated other comprehensive income (loss), net	6,880	(23)
Retained earnings	171,991	175,898
Total stockholders' equity	<u>415,102</u>	<u>408,899</u>
Total liabilities and stockholders' equity	<u>\$ 937,575</u>	<u>\$ 806,620</u>

See notes to consolidated financial statements (unaudited).

CONSTRUCTION PARTNERS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited in thousands, except share and per share data)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2022	2021	2022	2021
Revenues	\$ 243,385	\$ 179,112	\$ 528,349	\$ 370,041
Cost of revenues	230,888	161,040	482,888	321,375
Gross profit	12,497	18,072	45,461	48,666
General and administrative expenses	(25,000)	(24,475)	(49,946)	(44,559)
Gain on sale of equipment, net	1,014	9	1,455	342
Operating income (loss)	(11,489)	(6,394)	(3,030)	4,449
Interest expense, net	(859)	(298)	(2,123)	(766)
Other income	43	244	159	409
Income (loss) before provision for income taxes and earnings from investment in joint venture	(12,305)	(6,448)	(4,994)	4,092
Provision for income taxes	(2,887)	(1,513)	(1,087)	1,167
Earnings from investment in joint venture	—	—	—	11
Net income (loss)	(9,418)	(4,935)	(3,907)	2,936
Other comprehensive income, net of tax				
Unrealized gain on interest rate swap contract, net	5,580	—	7,025	—
Unrealized loss on restricted investments, net	(122)	—	(122)	—
Other comprehensive income	5,458	—	6,903	—
Comprehensive income (loss)	\$ (3,960)	\$ (4,935)	\$ 2,996	\$ 2,936
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.18)	\$ (0.10)	\$ (0.08)	\$ 0.06
Diluted	\$ (0.18)	\$ (0.10)	\$ (0.08)	\$ 0.06
Weighted average number of common shares outstanding:				
Basic	51,793,443	51,686,652	51,744,052	51,586,846
Diluted	51,793,443	51,686,652	51,744,052	51,673,582

See notes to consolidated financial statements (unaudited).

CONSTRUCTION PARTNERS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited in thousands, except share data)

	For the six months ended March 31, 2022								
	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
September 30, 2021	36,600,639	\$ 37	18,614,791	\$ 19	\$ 248,571	\$ (15,603)	\$ 175,898	\$ (23)	\$ 408,899
Net income	—	—	—	—	—	—	5,511	—	5,511
Equity-based compensation expense	—	—	—	—	1,504	—	—	—	1,504
Issuance of stock awards	145,921	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	(39)	—	—	(39)
Other comprehensive income	—	—	—	—	—	—	—	1,445	1,445
Conversion of Class B common stock to Class A common stock	4,338,924	4	(4,338,924)	(4)	—	—	—	—	—
December 31, 2021	41,085,484	\$ 41	14,275,867	\$ 15	\$ 250,075	\$ (15,642)	\$ 181,409	\$ 1,422	\$ 417,320
Net income (loss)	—	—	—	—	—	—	(9,418)	—	(9,418)
Equity-based compensation expense	—	—	—	—	1,742	—	—	—	1,742
Issuance of stock awards	107,738	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	5,458	5,458
March 31, 2022	41,193,222	\$ 41	14,275,867	\$ 15	\$ 251,817	\$ (15,642)	\$ 171,991	\$ 6,880	\$ 415,102

	For the six months ended March 31, 2021								
	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
September 30, 2020	33,875,884	\$ 34	20,828,813	\$ 21	\$ 245,022	\$ (15,603)	\$ 155,721	\$ —	\$ 385,195
Net income	—	—	—	—	—	—	7,871	—	7,871
Equity-based compensation expense	—	—	—	—	395	—	—	—	395
December 31, 2020	33,875,884	\$ 34	20,828,813	\$ 21	\$ 245,417	\$ (15,603)	\$ 163,592	\$ —	\$ 393,461
Net income	—	—	—	—	—	—	(4,935)	—	(4,935)
Conversion of Class B common stock to Class A common stock	1,332,952	1	(1,332,952)	(1)	—	—	—	—	—
Equity-based compensation expense	—	—	—	—	460	—	—	—	460
Issuance of stock awards	510,733	—	—	—	—	—	—	—	—
March 31, 2021	35,719,569	\$ 35	19,495,861	\$ 20	\$ 245,877	\$ (15,603)	\$ 158,657	\$ —	\$ 388,986

See notes to consolidated financial statements (unaudited).

CONSTRUCTION PARTNERS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited in thousands)

	For the Six Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net income (loss)	\$ (3,907)	\$ 2,936
Adjustments to reconcile net income to net cash, cash equivalents and restricted cash provided by operating activities:		
Depreciation, depletion, accretion and amortization of long-lived assets	33,047	23,385
Amortization of deferred debt issuance costs and debt discount	128	127
Unrealized gain on derivative instruments	(2,130)	(2,377)
Provision for bad debt	130	361
Gain on sale of equipment, net	(1,455)	(342)
Equity-based compensation expense	3,246	855
Earnings from investment in joint venture	—	(11)
Distribution of earnings from investment in joint venture	—	100
Deferred income tax benefit	(245)	—
Other non-cash adjustments	39	(24)
Changes in operating assets and liabilities, net of acquisition:		
Contracts receivable including retainage	(3,821)	6,263
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,261)	(9,802)
Inventories	(13,665)	(3,482)
Prepaid expenses and other current assets	(8,150)	(4,343)
Other assets	350	(1,275)
Accounts payable	(2,426)	(2,464)
Billings in excess of costs and estimated earnings on uncompleted contracts	12,304	(7,261)
Accrued expenses and other current liabilities	(11,957)	(8)
Other long-term liabilities	3,067	(240)
Net cash provided by operating activities, net of acquisitions	<u>3,294</u>	<u>2,398</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(34,703)	(26,898)
Proceeds from sale of equipment	3,777	927
Business acquisitions, net of cash acquired	(102,893)	(84,494)
Purchase of restricted investments	(6,358)	—
Net cash used in investing activities	<u>(140,177)</u>	<u>(110,465)</u>
Cash flows from financing activities:		
Proceeds from revolving credit facility	116,000	—
Repayments of long-term debt	(5,000)	(6,500)
Purchase of treasury stock	(39)	—
Net cash provided by (used in) financing activities	<u>110,961</u>	<u>(6,500)</u>
Net change in cash and cash equivalents	<u>(25,922)</u>	<u>(114,567)</u>
Cash, cash equivalents and restricted cash:		
Cash, cash equivalents and restricted cash, beginning of period	57,251	148,316
Cash, cash equivalents and restricted cash, end of period	<u>\$ 31,329</u>	<u>\$ 33,749</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 3,375	\$ 1,303
Cash paid for income taxes	\$ 1,076	\$ 3,318
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 5,983	\$ 615
Cash paid for operating lease liabilities	\$ 1,144	\$ 1,234
Non-cash items:		
Property, plant and equipment included with accounts payable at period end	\$ 1,042	\$ 1,663
Non-compete agreements to seller in business combination	\$ —	\$ 1,700
Amounts payable to seller in business combination	\$ 600	\$ 250

See notes to consolidated financial statements (unaudited).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 - General

Business Description

Construction Partners, Inc. (the “Company”) is a civil infrastructure company that specializes in the construction and maintenance of roadways across Alabama, Florida, Georgia, North Carolina and South Carolina. Through its wholly owned subsidiaries, the Company provides a variety of products and services to both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports, and commercial and residential developments. The Company’s primary operations consist of (i) manufacturing and distributing hot mix asphalt (“HMA”) for both internal use and sales to third parties in connection with construction projects, (ii) paving activities, including the construction of roadway base layers and application of asphalt pavement, (iii) site development, including the installation of utility and drainage systems, (iv) mining aggregates, such as sand, gravel and construction stone, that are used as raw materials in the production of HMA and for sales to third parties, and (v) distributing liquid asphalt cement for both internal use and sales to third parties in connection with HMA production.

The Company was formed as a Delaware corporation in 2007 as a holding company to facilitate an acquisition growth strategy in the HMA paving and construction industry. SunTx Capital Partners (“SunTx”), a private equity firm based in Dallas, Texas, has owned a controlling interest in the Company’s stock since the Company’s inception.

On October 1, 2021, Construction Partners Risk Management, Inc., a captive insurance company and wholly-owned subsidiary of the Company (the “Captive”), commenced operations. The purpose of the Captive is to provide general liability, automobile liability and workers’ compensation insurance coverage to the Company and its subsidiaries.

Seasonality

The use and consumption of the Company’s products and services fluctuate due to seasonality. The Company’s products are used, and its construction operations and production facilities are located, outdoors. Therefore, seasonal changes and other weather-related conditions, in particular, extended snowy, rainy or cold weather in the winter, spring or fall and major weather events, such as hurricanes, tornadoes, tropical storms and heavy snows, can adversely affect the Company’s business and operations through a decline in both the use of the Company’s products and demand for the Company’s services. In addition, construction materials production and shipment levels follow activity in the construction industry, which typically occurs in the spring, summer and fall. Warmer and drier weather during the third and fourth quarters of the Company’s fiscal year typically result in higher activity and revenues during those quarters. The first and second quarters of the Company’s fiscal year typically have lower levels of activity due to less favorable weather conditions.

Note 2 - Significant Accounting Policies

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. These interim consolidated statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), which permit reduced disclosure for interim periods. The Company’s Consolidated Balance Sheets as of September 30, 2021 were derived from the Company’s audited financial statements for the fiscal year then ended, but do not include all necessary disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) with respect to annual financial statements. In the opinion of management, these unaudited consolidated financial statements include all recurring adjustments and normal accruals necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the dates and periods presented. These consolidated financial statements and accompanying notes should be read in conjunction with the Company’s audited annual consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2021 (the “2021 Form 10-K”). Results for interim periods are not necessarily indicative of the results to be expected for a full fiscal year or for any future period.

Management’s Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets, liabilities, stockholders’ equity, revenues and expenses during the reporting period, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used in accounting for items such as recognition of revenues and cost of revenues, marketable securities, mineral reserves, goodwill and other intangible assets, business acquisition accounting estimates, valuation of operating lease right-of-use assets, allowance for doubtful accounts, valuation allowances related to income taxes, accruals for potential liabilities related to lawsuits or insurance claims, asset retirement

obligations, the fair value of derivative instruments and the fair value of equity-based compensation awards. Estimates are continually evaluated based on historical information and actual experience; however, actual results could differ from these estimates.

A description of certain critical accounting policies of the Company is presented below. Additional critical accounting policies and the underlying judgments and uncertainties are described in the notes to the Company's annual consolidated financial statements included in the 2021 Form 10-K.

Cash and Cash Equivalents

Cash consists principally of currency on hand and demand deposits at commercial banks. Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less. The Company maintains demand accounts, money market accounts and certificates of deposit at several banks. From time to time, account balances have exceeded the maximum available federal deposit insurance coverage limit. The Company has not experienced any losses in such accounts and regularly monitors its credit risk.

Restricted Cash

Restricted cash represents cash held in a fiduciary capacity by the Captive for the payment of casualty insurance claims for the Company's subsidiaries. The Company had restricted cash of \$1.7 million and \$0.0 million at March 31, 2022 and September 30, 2021, respectively.

Restricted Investments

The Company's restricted investments consist of debt securities, which are held in a fiduciary capacity by the Captive for the payment of casualty insurance claims for the Company's subsidiaries. The Company determines the classification of its securities at the time of purchase and re-evaluates the determination at each balance sheet date. The Company has classified these securities as available-for-sale. As a result, these securities are carried at their fair value based on quoted market prices. Unrealized gains and losses are reported as components of accumulated other comprehensive income (loss), net. These securities have been classified as non-current assets, based on their respective maturity dates. The Company had restricted investments of \$6.2 million and \$0.0 million at March 31, 2022 and September 30, 2021, respectively.

Contracts Receivable Including Retainage, Net

Contracts receivable are generally based on amounts billed and currently due from customers, amounts currently due but unbilled, and amounts retained by customers pending completion of a project. It is common in the Company's industry for a small portion of either progress billings or the contract price, typically 10%, to be withheld by the customer until the Company completes a project to the satisfaction of the customer in accordance with the applicable contract terms. Such amounts, defined as retainage, represent a contract asset and are included on the Consolidated Balance Sheets as "Contracts receivable including retainage, net." Based on the Company's experience with similar contracts in recent years, billings for such retainage balances are generally collected within one year of the completion of the project.

Contracts receivable including retainage, net is stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible accounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts, type of service performed, current economic conditions, historical losses and other information available to management. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and an adjustment to the contract receivable.

Contract Assets and Contract Liabilities

Billing practices for the Company's contracts are governed by the contract terms of each project based on (i) progress toward completion approved by the owner, (ii) achievement of milestones or (iii) pre-agreed schedules. Billings do not necessarily correlate with revenues recognized under the cost-to-cost input method (formerly known as the percentage-of-completion method). The Company records contract assets and contract liabilities to account for these differences in timing.

The contract asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," arises when the Company recognizes revenues for services performed under its construction projects, but the Company is not yet entitled to bill the customer under the terms of the contract. Amounts billed to customers are excluded from this asset and reflected on the Consolidated Balance Sheets as "Contracts receivable including retainage, net." Included in costs and estimated earnings in excess of billings on uncompleted contracts are amounts the Company seeks or will seek to collect from customers or others for (i) errors, (ii) changes in contract specifications or design, (iii) contract change orders in dispute, unapproved as to scope and price, or (iv) other customer-related causes of unanticipated additional contract costs (such as claims). Such amounts are recorded to the extent that the amount can be reasonably

estimated and recovery is probable. Claims and unapproved change orders made by the Company may involve negotiation and, in rare cases, litigation. Unapproved change orders and claims also involve the use of estimates, and revenues associated with unapproved change orders and claims are included in the transaction price for which it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. The Company did not recognize any material amounts associated with claims and unapproved change orders during the periods presented.

The contract liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents the Company's obligation to transfer goods or services to a customer for which the Company has been paid by the customer or for which the Company has billed the customer under the terms of the contract. Revenue for future services reflected in this account are recognized, and the liability is reduced, as the Company subsequently satisfies the performance obligation under the contract.

Costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts are typically resolved within one year and are not considered significant financing components.

Concentration of Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of contracts receivable including retainage. In the normal course of business, the Company provides credit to its customers and does not generally require collateral. The Company monitors concentrations of credit risk associated with these receivables on an ongoing basis. The Company has not historically experienced significant credit losses, due primarily to management's assessment of customers' credit ratings. The Company principally deals with recurring customers, state and local governments and well-known local companies whose reputations are known to management. The Company performs credit checks for significant new customers and generally requires progress payments for significant projects. The Company generally has the ability to file liens against the property if payments are not made on a timely basis. No single customer accounted for more than 10% of the Company's contracts receivable including retainage, net balance at March 31, 2022 or September 30, 2021.

Projects performed for various departments of transportation accounted for 30.8% and 26.1% of consolidated revenues for the three months ended March 31, 2022 and 2021, respectively, and for 32.3% and 27.0% of consolidated revenues for the six months ended March 31, 2022 and 2021, respectively. Customers that accounted for more than 10% of consolidated revenues during the three and six months ended March 31, 2022 and 2021 are presented below:

	% of Consolidated Revenues					
	For the Three Months Ended March 31,			For the Six Months Ended March 31,		
	2022	2021		2022	2021	
Florida Department of Transportation	12.5 %	9.5 %		11.2 %	9.1 %	

Revenues from Contracts with Customers

The Company derives revenues from contracts with its customers, predominantly by performing construction services for both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential developments. These projects are performed for a mix of federal, state, municipal and private customers. In addition, the Company generates revenues from the sale of construction materials, including HMA, aggregates, liquid asphalt and ready-mix concrete, to third-party public and private customers pursuant to contracts with those customers. The following table reflects, for the periods presented, (i) revenues generated from public infrastructure construction projects and the sale of construction materials to public customers and (ii) revenues generated from private infrastructure construction projects and the sale of construction materials to private customers.

	% of Consolidated Revenues					
	For the Three Months Ended March 31,			For the Six Months Ended March 31,		
	2022	2021		2022	2021	
Private	42.1 %	41.8 %		40.5 %	41.2 %	
Public	57.9 %	58.2 %		59.5 %	58.8 %	

Revenues derived from construction projects are recognized over time as the Company satisfies its performance obligations by transferring control of the asset created or enhanced by the project to the customer. Recognition of revenues and cost of revenues for construction projects requires significant judgment by management, including, among other things, estimating total costs expected to be incurred to complete a project and measuring progress toward completion. Management reviews contract estimates regularly to assess revisions of estimated costs to complete a project and measurement of progress toward completion.

Management believes the Company maintains reasonable estimates based on prior experience; however, many factors contribute to changes in estimates of contract costs. Accordingly, estimates made with respect to uncompleted projects are subject to change as each project progresses and better estimates of contract costs become available. All contract costs are recorded as incurred, and revisions to estimated total costs are reflected as soon as the obligation to perform is determined. Provisions are recognized for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue, regardless of the stage of completion. When the Company incurs additional costs related to work performed by subcontractors, the Company may be able to utilize contractual provisions to back charge the subcontractors for those costs. A reduction to costs related to back charges is recognized when estimated recovery is probable and the amount can be reasonably estimated. Contract costs consist of (i) direct costs on contracts, including labor, materials, and amounts payable to subcontractors and (ii) indirect costs related to contract performance, such as insurance, employee benefits, and equipment (primarily depreciation, fuel, maintenance and repairs).

Progress toward completion is estimated using the input method, measured by the relationship of total cost incurred through the measurement date to total estimated costs required to complete the project (cost-to-cost method). The Company believes this method best depicts the transfer of goods and services to the customer because it represents satisfaction of the Company's performance obligation under the contract, which occurs as the Company incurs costs. The Company measures percentage of completion based on the performance of a single performance obligation under its construction projects. Each of the Company's construction contracts represents a single performance obligation to complete a defined construction project. This is because goods and services promised for delivery to a customer are not distinct, as the customer cannot benefit from any individual portion of the services on its own. All deliverables under a contract are part of a project defined by a customer and represent a series of integrated goods and services that have the same pattern of delivery to the customer and use the same measure of progress toward satisfaction of the performance obligation as the customer's asset is created or enhanced by the Company. The Company's obligation is not satisfied until the entire project is complete.

Revenue recognized during a reporting period is based on the cost-to-cost input method applied to the total transaction price, including adjustments for variable consideration, such as liquidated damages, penalties or bonuses, related to the timeliness or quality of project performance. The Company includes variable consideration in the estimated transaction price at the most likely amount to which the Company expects to be entitled or the most likely amount the Company expects to incur, in the case of liquidated damages or penalties. Such amounts are included in the transaction price for which it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. The Company accounts for changes to the estimated transaction price using a cumulative catch-up adjustment.

The majority of the Company's public construction contracts are fixed unit price contracts. Under fixed unit price contracts, the Company is committed to providing materials or services required by a contract at fixed unit prices (for example, dollars per ton of asphalt placed). The Company's private customer contracts are primarily fixed total price contracts, also known as lump sum contracts, which require that the total amount of work be performed for a single price. Contract cost is recorded as incurred, and revisions in contract revenue and cost estimates are reflected in the accounting period when known. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract change orders, penalty provisions and final contract settlements, may result in revisions to estimated revenues and costs and are recognized in the period in which the revisions are determined.

Change orders are modifications of an original contract that effectively change the existing provisions of the contract and become part of the single performance obligation that is partially satisfied at the date of the contract modification. This is because goods and services promised under change orders are generally not distinct from the remaining goods and services under the existing contract, due to the significant integration of services performed in the context of the contract. Accordingly, change orders are generally accounted for as a modification of the existing contract and single performance obligation. We account for the modification using a cumulative catch-up adjustment. Either the Company or its customers may initiate change orders, which may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work.

Revenues derived from the sale of HMA, aggregates, ready-mix concrete, and liquid asphalt are recognized at a point in time, which is when control of the product is transferred to the customer. Generally, that point in time is when the customer accepts delivery at its facility or receives product in its own transport vehicles from one of the Company's HMA plants or aggregates facilities. Upon purchase, the Company generally provides an invoice or similar document detailing the goods transferred to the customer. The Company generally offers payment terms customary in the industry, which typically require payment ranging from point-of-sale to 30 days following purchase.

Income Taxes

The provision for income taxes includes federal and state income taxes. Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying values and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which the temporary differences are expected to be reversed or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Management evaluates the realization of deferred tax assets and establishes a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized. Deferred tax assets and deferred tax liabilities are presented on a net basis by taxing authority and classified as non-current on the Consolidated Balance Sheets.

Earnings per Share

Basic net income per share attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per common share attributable to common stockholders is the same as basic net income per share attributable to common stockholders, but includes dilutive unvested stock awards using the treasury stock method.

Fair Value Measurements

The Company measures and discloses certain financial assets and liabilities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are classified using the following hierarchy:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3. Inputs are unobservable for the asset or liability and include situations in which there is little, if any, market activity for the asset or liability. The inputs used in the determination of fair value are based on the best information available under the circumstances and may require significant management judgment or estimation.

The Company endeavors to utilize the best available information in measuring fair value.

The Company's financial instruments include cash and cash equivalents, restricted cash, contracts receivable including retainage, accounts payable and accrued expenses reflected as current assets and current liabilities on its Consolidated Balance Sheets at March 31, 2022 and September 30, 2021. Due to the short-term nature of these instruments, management considers their carrying value to approximate their fair value.

The Company also has debt securities reflected as restricted investments on its Consolidated Balance Sheets at March 31, 2022 and September 30, 2021. These investments are adjusted to fair value at each balance sheet date based on quoted prices which are considered Level 1 inputs.

The Company also has a Term Loan and a Revolving Credit Facility, as defined and further described in Note 8 - Debt. The carrying value of amounts outstanding under these credit facilities is reflected as long-term debt, net of current maturities and current maturities of long-term debt on the Company's Consolidated Balance Sheets at March 31, 2022 and September 30, 2021. Due to the variable rate or short-term nature of these instruments, management considers their carrying value to approximate their fair value.

The Company also has derivative instruments. The fair value of commodity and interest rate swaps are based on forward and spot prices, as described in Note 16 - Fair Value Measurements.

Level 3 fair values are used to value acquired mineral reserves and leased mineral interests. The fair values of mineral reserves and leased mineral interests are determined using an excess earnings approach, which requires management to estimate future cash flows. The estimate of future cash flows is based on available historical information and forecasts determined by management but is inherently uncertain. Key assumptions in estimating future cash flows include sales price, volumes and expected profit margins, net of capital requirements. The present value of the projected net cash flows represents the fair value assigned to mineral reserves and mineral interests. The discount rate is a significant assumption used in the valuation model and is based on the required rate of return that a hypothetical market participant would assume if purchasing the acquired business.

Management applies fair value measurement guidance to its impairment analysis for tangible and intangible assets, including goodwill.

Comprehensive Income

The Company reports comprehensive income in its Consolidated Statements of Comprehensive Income and Consolidated Statements of Stockholders' Equity. Comprehensive income comprises two subsets: net income and other comprehensive income (OCI). OCI includes adjustments for changes in fair value of an interest rate swap contract derivative and debt securities. For additional information about comprehensive income, see Note 18 - Other Comprehensive Income.

Note 3 - Accounting Standards

New Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, "Simplifying the Accounting for Income Taxes," which adds new guidance to simplify the accounting for income taxes and changes the accounting for certain income tax transactions. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company adopted this guidance effective October 1, 2021 as required and noted no material impact to the Company's consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting," which provides optional expedients and exceptions for applying GAAP to contract modification and hedging relationships affected by reference rate reform. The guidance only applies to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued as a result of reference rate reform. This optional guidance was effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company does not expect such adoption to have a material impact on the Company's consolidated financial statements.

Note 4 - Business Acquisitions

On March 7, 2022, the Company acquired substantially all of the assets of Southern Asphalt, Inc., an asphalt paving company headquartered in Burgaw, North Carolina. The transaction provides access to the Wilmington, North Carolina metro area market. On March 18, 2022, the Company acquired substantially all of the assets of GAC Contractors, Inc., an asphalt paving, grading and sitework company headquartered in Panama City, Florida. The transaction enhances the Company's operational resources and capabilities in the growing Panama City, Florida market area.

On October 1, 2021, the Company acquired all of the capital stock of King Asphalt, Inc., a HMA production and paving company headquartered in Liberty, South Carolina. The transaction established the Company's first platform company in South Carolina and added three HMA plants in the Greenville, South Carolina metro area. On October 18, 2021, the Company acquired substantially all of the assets of J. Miller Construction Inc., a grading and site work company headquartered in Pensacola, Florida. The transaction enhanced the Company's vertical integration of construction services and supplemented the Company's capabilities in the greater Pensacola, Florida market area.

These acquisitions were accounted for as business combinations in accordance with FASB Accounting Standards Codification Topic 805 Business Combinations ("ASC"). The Company consulted with independent third parties to assist in the valuation process. The Company expects to finalize these values as soon as practicable and no later than one year from the acquisition date. Identifiable tangible assets acquired and liabilities assumed were recorded at their estimated fair values based on the methodology described under "Fair Value Measurements" in Note 2 - Significant Accounting Policies. The amount of the purchase price exceeding the net fair value of identifiable assets acquired and liabilities assumed was recorded as provisional goodwill in the amount of approximately \$46.4 million, which is deductible for income tax purposes. Goodwill primarily represents the assembled work force and synergies expected to result from the acquisition. Upon finalizing the accounting for these transactions, management expects to ascribe value to other identifiable intangible assets, including customer relationships and customer backlog, which will reduce the provisional amount allocated to goodwill.

Total consideration for these four acquisitions was \$104.7 million, of which \$104.1 million has been paid with cash as of March 31, 2022. These acquisitions were funded with borrowings under the Company's Revolving Credit Facility. The total consideration has been provisionally allocated as follows: \$1.2 million of cash and cash equivalents, \$8.9 million of contracts receivable including retainage, net, \$0.1 million of costs and estimated earnings in excess of billings on uncompleted contracts, \$2.0 million of inventory, \$0.5 million of prepaid expenses and other current assets, \$2.8 million of accounts payable, \$0.4 million of billings in excess of costs and estimated earnings on uncompleted contracts, \$1.2 million of accrued expenses and other current liabilities, \$50.0 million of property, plant and equipment and \$46.4 million of goodwill.

Combined Acquisitions During the Three Months and Six Months Ended March 31, 2022

The Consolidated Statements of Comprehensive Income includes \$15.2 million of revenue and \$1.0 million of net loss

attributable to the operations of these acquisitions for the three months ended March 31, 2022 and \$9.8 million of revenue and \$1.3 million of net loss attributable to the operations of these acquisitions for the six months ended March 31, 2022 from their respective acquisition dates. The Company recorded certain costs to effect the acquisitions as they were incurred, which are reflected in general and administrative expenses on the Company's Consolidated Statements of Comprehensive Income in the amount of \$0.2 million for the three months ended March 31, 2022 and \$0.4 million for the six months ended March 31, 2022.

The following presents pro forma revenues and net income as though the acquisitions had occurred on October 1, 2020 (unaudited, in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Pro forma revenues	\$ 271,322	\$ 222,760
Pro forma net income	\$ (8,180)	\$ (3,335)

	For the Six Months Ended March 31,	
	2022	2021
Pro forma revenues	\$ 583,301	\$ 457,765
Pro forma net income	\$ (1,479)	\$ 6,352

Pro forma financial information is presented as if the acquired operations had been included in the consolidated results of the Company since October 1, 2020, and gives effect to transactions that are directly attributable to the acquisitions, including adjustments to:

- (a) Include the pro forma results of operations of the acquisitions for the three and six months ended March 31, 2022 and 2021.
- (b) Include additional depreciation and depletion expense related to the fair value of acquired property, plant and equipment and reserves at aggregates facilities, as applicable, as if such assets were acquired on October 1, 2020 and consistently applied to the Company's depreciation and depletion methodologies.
- (c) Include interest expense under the Term Loan as if the funds borrowed to finance the purchase prices were borrowed on October 1, 2020. Interest expense calculations further assume that no principal payments were made during the period from October 1, 2020 through March 31, 2022, and that the interest rate in effect on the date the Company made the acquisitions was in effect for the period from October 1, 2020 through March 31, 2022.
- (d) Exclude \$0.4 million of acquisition-related expenses from the three and six months ended March 31, 2022, as though such expenses were incurred prior to the pro forma acquisition date of October 1, 2020.

Pro forma information is presented for informational purposes and may not be indicative of revenue or net income that would have been achieved if these acquisitions had occurred on October 1, 2020.

Provisional Accounting

In July 2021, the Company acquired a HMA contracting company and related entities, all headquartered in Cullman, Alabama. In August 2021, the Company acquired a crushed stone and aggregates facility located near Goldston, North Carolina. As of March 31, 2022, there have been no material adjustments to the September 30, 2021 provisional accounting for either acquisition.

Note 5 - Contracts Receivable Including Retainage, net

Contracts receivable including retainage, net consisted of the following at March 31, 2022 and September 30, 2021 (in thousands):

	March 31, 2022	September 30, 2021
	(unaudited)	
Contracts receivable	\$ 143,583	\$ 132,456
Retainage	29,242	27,640
	172,825	160,096
Allowance for doubtful accounts	(2,086)	(1,926)
Contracts receivable including retainage, net	<u>\$ 170,739</u>	<u>\$ 158,170</u>

Retainage receivables have been billed, but are not due until contract completion and acceptance by the customer.

Note 6 - Contract Assets and Liabilities

Costs and estimated earnings compared to billings on uncompleted contracts at March 31, 2022 and September 30, 2021 consisted of the following (in thousands):

	March 31, 2022	September 30, 2021
	(unaudited)	
Costs on uncompleted contracts	\$ 1,239,920	\$ 1,058,434
Estimated earnings to date on uncompleted contracts	120,673	110,430
	1,360,593	1,168,864
Billings to date on uncompleted contracts	(1,382,625)	(1,179,560)
Net billings in excess of costs and estimated earnings on uncompleted contracts	<u>\$ (22,032)</u>	<u>\$ (10,696)</u>

Significant changes to balances of costs and estimated earnings in excess of billings (contract asset) and billings in excess of costs and estimated earnings (contract liability) on uncompleted contracts from September 30, 2021 to March 31, 2022 are presented below (in thousands):

	Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	Net Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts
September 30, 2021	\$ 23,023	\$ (33,719)	\$ (10,696)
Changes in revenue billed, contract price or cost estimates	1,386	(12,722)	(11,336)
March 31, 2022 (unaudited)	<u>\$ 24,409</u>	<u>\$ (46,441)</u>	<u>\$ (22,032)</u>

At March 31, 2022, the Company had unsatisfied or partially unsatisfied performance obligations under construction project contracts representing approximately \$85.9 million in aggregate transaction price. The Company expects to earn revenue as it satisfies its performance obligations under those contracts in the amount of approximately \$577.1 million during the remainder of the fiscal year ending September 30, 2022 and \$408.8 million thereafter.

Note 7 - Property, Plant and Equipment

Property, plant and equipment at March 31, 2022 and September 30, 2021 consisted of the following (in thousands):

	March 31, 2022 (unaudited)	September 30, 2021
Construction equipment	\$ 377,311	\$ 333,966
Plants	153,140	143,172
Mineral reserves	86,920	\$ 86,556
Land and improvements	61,547	53,415
Buildings	29,720	27,163
Furniture and fixtures	6,639	6,426
Leasehold improvements	1,230	1,230
Total property, plant and equipment, gross	716,507	651,928
Accumulated depreciation, depletion and amortization	(275,953)	(250,803)
Construction in progress	14,076	3,707
Total property, plant and equipment, net	\$ 454,630	\$ 404,832

Depreciation, depletion and amortization expense related to property, plant and equipment was \$17.0 million and \$12.2 million for the three months ended March 31, 2022 and 2021, respectively, and \$32.8 million and \$23.2 million for the six months ended March 31, 2022 and 2021, respectively.

Note 8 - Debt

Since 2017, the Company and each of its subsidiaries have been parties to a credit agreement with certain lenders party from time to time thereto (as amended and restated, the "Credit Agreement"). The Credit Agreement has been amended and restated on multiple occasions since its inception in order to provide for changes in the economic terms of the credit facility and developments at the Company. The Credit Agreement provides for a credit facility consisting of a term loan (the "Term Loan") and a revolving credit facility (the "Revolving Credit Facility"). The obligations of the Company and its subsidiaries under the Credit Agreement are secured by a first priority security interest in substantially all of the Company's assets.

In June 2021, the Credit Agreement was amended and restated to provide for a Term Loan in an initial aggregate principal amount of \$200 million and a Revolving Credit Facility in an initial aggregate principal amount of \$225 million. Among other things, the proceeds of the Term Loan were used to refinance indebtedness of the Company that was outstanding immediately prior to the restatement. The Term Loan, inclusive of any incremental borrowings made in the form of a term loan, will amortize in quarterly installments commencing on September 30, 2021 in an amount (subject, in each case, to adjustments for prior mandatory and voluntary prepayments of principal) equal to: (a) 1.25% of the original principal amount of the Term Loan on September 30, 2021 and on each of the following eleven quarter-end payment dates, and (b) 1.875% of the original principal amount of the Term Loan on each of the next seven quarter-end payment dates. The annual interest rates applicable to advances will be calculated, at the Company's option, by using either a base rate or LIBOR, in each case plus an applicable margin percentage that corresponds to the Company's consolidated net leverage ratio. Upon the occurrence of certain triggering events relating to the end of the LIBOR reference rate, a different benchmark rate will be selected to replace LIBOR as the reference rate for interest accruing on certain advances. All outstanding advances under the Term Loan and Revolving Credit Facility are due and payable in full on June 24, 2026. Subject to various requirements, the Company generally may (and, under certain circumstances, must), prepay all or a portion of the outstanding balance of the advances, together with accrued interest thereon, prior to their contractual maturity.

The Company maintains credit facilities to finance acquisitions, to fund the purchase of real estate, construction equipment, plants and other fixed assets, and for general working capital purposes. Debt at March 31, 2022 and September 30, 2021 consisted of the following (in thousands):

	March 31, 2022	September 30, 2021
	(unaudited)	
Long-term debt:		
Term Loan	\$ 192,500	\$ 197,500
Revolving Credit Facility	136,000	20,000
Total long-term debt	328,500	217,500
Deferred debt issuance costs	(1,197)	(1,325)
Current maturities of long-term debt	(10,000)	(10,000)
Long-term debt, net of current maturities	\$ 317,303	\$ 206,175

Note 9 - Equity

Shares of Class A common stock and Class B common stock are identical, except with respect to voting rights, conversion rights and transfer restrictions applicable to shares of Class B common stock. The holders of Class A common stock are entitled to one vote per share, and the holders of Class B common stock are entitled to ten votes per share. The holders of Class A common stock and Class B common stock vote together as a single class on all matters submitted to a vote of stockholders, including the election of directors, unless otherwise required by applicable law or the Company's certificate of incorporation or bylaws. Shares of Class B common stock are convertible into shares of Class A common stock at any time at the option of the holder or upon any transfer, subject to certain limited exceptions. In addition, upon the election of the holders of a majority of the then-outstanding shares of Class B common stock, all outstanding shares of Class B common stock will be converted into shares of Class A common stock. Once converted into shares of Class A common stock, shares of Class B common stock will not be reissued. Class A common stock is not convertible into any other class of the Company's capital stock.

Conversion of Class B Common Stock to Class A Common Stock

During the six months ended March 31, 2022, certain stockholders of the Company converted a total of 4,338,924 shares of Class B common stock into shares of Class A common stock on a one-for-one basis. As of March 31, 2022, there were 41,192,039 shares of Class A common stock and 11,352,915 shares of Class B common stock outstanding.

Treasury Stock

During the six months ended March 31, 2022, the Company received a total of 1,183 shares of Class A common stock from employees for reimbursement of income taxes paid by the Company on behalf of these employees related to the vesting of restricted stock awards.

Restricted Stock Awards

During the six months ended March 31, 2022, the Company awarded a total of 253,659 restricted shares of Class A common stock to certain directors, officers and employees of the Company under the Construction Partners, Inc. 2018 Equity Incentive Plan (the "Equity Incentive Plan").

Additional information about these transactions is set forth in Note 13 - Equity-Based Compensation.

Note 10 - Earnings Per Share

As discussed in Note 9 - Equity, the Company has Class A common stock and Class B common stock. Because the only differences between the two classes of common stock are related to voting rights, conversion rights and transfer restrictions applicable to shares of Class B common stock, the Company has not presented earnings per share under the two-class method, as the earnings per share are the same for both Class A common stock and Class B common stock. The following table summarizes the weighted-average number of basic common shares outstanding and the calculation of basic earnings per share for the periods presented (unaudited in thousands, except share and per share amounts):

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2022	2021	2022	2021
Numerator				
Net income (loss) attributable to common stockholders	\$ (9,418)	\$ (4,935)	\$ (3,907)	\$ 2,936
Denominator				
Weighted average number of common shares outstanding, basic	51,793,443	51,686,652	51,744,052	51,586,846
Net income (loss) per common share attributable to common stockholders, basic	\$ (0.18)	\$ (0.10)	\$ (0.08)	\$ 0.06

The following table summarizes the calculation of the weighted-average number of diluted common shares outstanding and the calculation of diluted earnings per share for the periods presented (unaudited in thousands, except share and per share amounts):

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2022	2021	2022	2021
Numerator				
Net income (loss) attributable to common stockholders	\$ (9,418)	\$ (4,935)	\$ (3,907)	\$ 2,936
Denominator				
Weighted average number of basic common shares outstanding, basic	51,793,443	51,686,652	51,744,052	51,586,846
Effect of dilutive securities:				
Restricted stock grants under 2018 Equity Incentive Plan	—	—	—	86,736
Weighted average number of diluted common shares outstanding	51,793,443	51,686,652	51,744,052	51,673,582
Net income (loss) per diluted common share attributable to common stockholders	\$ (0.18)	\$ (0.10)	\$ (0.08)	\$ 0.06

Note 11 - Provision for Income Taxes

The Company files a consolidated United States federal income tax return and income tax returns in various states. Management evaluated the Company's tax positions based on appropriate provisions of applicable tax laws and regulations and believes that they are supportable based on their specific technical merits and the facts and circumstances of the respective transactions.

The Company's effective income tax rate for the three months ended March 31, 2022 and 2021 was 23.5% and 23.5%, respectively. The Company's effective tax rate for the six months ended March 31, 2022 and 2021 was 21.8% and 28.4%, respectively. The changes in the Company's effective rates are due to differences in state tax rates at its operating subsidiaries.

Note 12 - Related Parties

On December 31, 2017, the Company sold an indirect wholly owned subsidiary to an immediate family member of an executive officer of the Company (“Purchaser of Subsidiary”) in consideration for a note receivable in the amount of \$1.0 million, which approximated the net book value of the disposed entity. At March 31, 2022, \$0.1 million and \$0.4 million was reflected on the Company’s Consolidated Balance Sheets within other current assets and other assets, respectively, representing the remaining balances on this note receivable. In connection with this transaction, the Company also received a note receivable from the disposed entity (“Disposed Entity”) on December 31, 2017 in the amount of \$1.0 million representing certain accounts payable of the Disposed Entity that were paid by the Company. At March 31, 2022, \$0.1 million and \$0.2 million was reflected on the Company’s Consolidated Balance Sheets within other current assets and other assets, respectively, representing the remaining balances on this note receivable. The notes do not bear interest, and are scheduled to be made in periodic installments during fiscal year 2022 through fiscal year 2026.

Prior to its acquisition by the Company, a current subsidiary of the Company advanced funds to an entity owned by an immediate family member of an officer of the Company in connection with a land development project. The obligations of the borrower entity to repay the advances were guaranteed by a separate entity owned by the same family member of the officer. Amounts outstanding under the advances did not bear interest and matured in full in March 2021. In March 2021, the subsidiary of the Company amended and restated the terms of the repayment obligation, as a result of which the officer personally assumed the remaining balance of the obligation. No new amounts were advanced to the officer by the Company or any subsidiary or affiliate thereof in connection with the transaction. Under the amended and restated terms, the officer executed a promissory note in favor of the Company’s subsidiary in the principal amount of \$0.8 million. The note bears simple interest at a rate of 4.0% and requires annual minimum payments of \$0.1 million inclusive of principal and accrued interest, with any remaining principal and accrued interest due and payable in full on December 31, 2027. As security for his payment obligations, the officer pledged as collateral 30,000 shares of the 140,389 shares of Class B common stock that had previously been pledged as collateral and 7,500 shares of Class A common stock owned by the officer personally. Amounts outstanding under the note are reflected on the Company’s Consolidated Balance Sheets within other current assets and other assets (“Land Development Project”).

From time to time, the Company conducts or has conducted business with the following related parties:

- Entities owned by immediate family members of an executive officer of the Company perform subcontract work for a subsidiary of the Company, including trucking and grading services (“Subcontracting Services”).
- From time to time, a subsidiary of the Company provides construction services to various companies owned by family members of an executive officer of the Company (“Construction Services”).
- The Company purchases vehicles from an entity owned by a family member of an executive officer of the Company (“Vehicles - Purchases”).
- The Company rents vehicles from an entity owned by a family member of an executive officer of the Company (“Vehicles - Rent Expense”).
- Since June 1, 2014, the Company has been a party to an access agreement with Island Pond Corporate Services, LLC, which provides a location for the Company to conduct business development activities from time to time on a property owned by the Executive Chairman of the Company’s Board of Directors (“Island Pond”).
- The Company is party to a management services agreement with SunTx, under which the Company pays SunTx \$0.27 million per fiscal quarter and reimburses certain travel and other out-of-pocket expenses associated with services rendered under the management services agreement.

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The following table presents revenues earned and expenses incurred by the Company during the three and six months ended March 31, 2022 and 2021, and accounts receivable and payable balances at March 31, 2022 and September 30, 2021, related to transactions with the related parties described above (in thousands):

	Revenue Earned (Expense Incurred)				Accounts Receivable (Payable)	
	For the Three Months Ended March 31,		For the Six Months Ended March 31,		March 31,	September 30,
	2022	2021	2022	2021	2022	2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Purchaser of Subsidiary	\$ —	\$ —	\$ —	\$ —	\$ 518	\$ 518
Disposed Entity	—	—	—	—	330	330
Land Development Project	—	—	—	—	701	788
Subcontracting Services	(853) ⁽¹⁾	(425) ⁽¹⁾	(3,092) ⁽¹⁾	(2,603) ⁽¹⁾	(226)	(563)
Construction Services	— ⁽²⁾	119 ⁽²⁾	3 ⁽²⁾	119 ⁽²⁾	—	—
Island Pond	(80) ⁽²⁾	(80) ⁽²⁾	(160) ⁽²⁾	(160) ⁽²⁾	—	—
Vehicles - Purchases	— ⁽³⁾	(98) ⁽³⁾	— ⁽³⁾	(408) ⁽³⁾	—	—
Vehicles - Rent Expense	— ⁽²⁾	(49) ⁽²⁾	— ⁽²⁾	(127) ⁽²⁾	—	—
SunTx	(384) ⁽²⁾	(521) ⁽²⁾	(759) ⁽²⁾	(1,138) ⁽²⁾	—	—

⁽¹⁾ Cost is reflected as cost of revenues on the Company's Consolidated Statements of Comprehensive Income.

⁽²⁾ Cost is reflected as general and administrative expenses on the Company's Consolidated Statements of Comprehensive Income.

⁽³⁾ Purchases reflected in property, plant & equipment, net, on the Company's Consolidated Balance Sheets.

Note 13 - Equity-Based Compensation

Restricted Stock Awards

During the six months ended March 31, 2022, the Company awarded a total of 253,659 restricted shares of Class A common stock to certain directors, officers and employees of the Company under the Equity Incentive Plan.

Compensation expense in connection with the Equity Incentive Plan, is reflected as general and administrative expenses in the Company's Consolidated Statements of Comprehensive Income. Compensation expense was \$1.7 million and \$0.4 million for the three months ended March 31, 2022 and 2021, respectively, and \$3.2 million and \$0.9 million for the six months ended March 31, 2022 and 2021, respectively. At March 31, 2022, there was approximately \$6.5 million of unrecognized compensation expense related to these awards.

The underlying shares subject to awards granted under the Equity Incentive Plan will vest, as follows:

Fiscal Year	Number of Shares
2022	34,058
2023	36,558
2024	351,556
2025	311,378
2026	15,000
Total	748,550

Note 14 - Leases

The Company leases certain facilities, office space, vehicles and equipment. As of March 31, 2022, operating leases under ASC Topic 842 Leases (“Topic 842”) were included in (i) operating lease right-of use assets, (ii) current portion of operating lease liabilities and (iii) operating lease liabilities, net of current portion on the Company’s Consolidated Balance Sheets in the amounts of \$11.5 million, \$2.1 million and \$9.6 million, respectively. As of March 31, 2022, the Company did not have any lease contracts that had not yet commenced but had created significant rights and obligations.

The components of lease expense were as follows (unaudited, in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Operating lease cost	\$ 637	\$ 553
Short-term lease cost	4,114	2,635
Total lease expense	\$ 4,751	\$ 3,188

	For the Six Months Ended March 31,	
	2022	2021
Operating lease cost	\$ 1,234	\$ 1,353
Short-term lease cost	8,207	5,125
Total lease expense	\$ 9,441	\$ 6,478

Short-term leases (those with terms of 12 months or less) are not capitalized but are expensed on a straight-line basis over the lease term. The majority of our short-term leases relate to equipment used on construction projects. These leases are entered into at periodic rental rates for an unspecified duration and typically have a termination for convenience provision.

As of March 31, 2022, the weighted-average remaining term of the Company’s leases was 7.9 years, and the weighted-average discount rate was 3.29%. As of March 31, 2022, the lease liability was equal to the present value of the remaining lease payments, discounted using the incremental borrowing rate on the Company’s secured debt using a single maturity discount rate, as such rate is not materially different from the discount rate applied to each of the leases in the portfolio.

The following table summarizes the Company’s undiscounted lease liabilities outstanding as of March 31, 2022 (unaudited, in thousands):

Fiscal Year	Amount
Remainder of 2022	\$ 1,213
2023	2,290
2024	1,931
2025	1,602
2026	1,592
2027 and thereafter	4,893
Total future minimum lease payments	\$ 13,521
Less: imputed interest	1,812
Total	\$ 11,709

Note 15 - Investment in Derivative Instruments

Interest Rate Swap Contracts

The Company uses derivative instruments as part of our overall strategy to manage our exposure to market risks associated with fluctuations in interest rates. We regularly monitor the financial stability and credit standing of the counterparties to our derivative instruments. We do not enter into derivative financial instruments for speculative purposes.

The Company records all derivatives at fair value. On the date the derivative contract is entered into, the Company may designate the derivative as one of the following: (i) a hedge of a forecasted transaction or the variability of cash flows to be paid (“cash flow hedge”) or (ii) a hedge of the fair value of a recognized asset or liability (“fair value hedge”).

Changes in the fair value of a derivative that is qualified and designated as a cash flow hedge or net investment hedge are recorded in other comprehensive income (loss) in the Company’s Consolidated Statements of Comprehensive Income until they are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Changes in the fair value of a derivative that is qualified and designated as a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

If the Company designates a derivative as one of the above, changes in the fair value of the undesignated derivative instrument are reported in current period earnings. Cash flows from designated derivative financial instruments are classified within the same category as the item being hedged in the Consolidated Statements of Cash Flows, while cash flows from undesignated derivative financial instruments are included as an investing activity.

If the Company determines that it qualifies for and will designate a derivative as a hedging instrument, the Company formally documents all relationships between hedging activities, including the risk management objective and strategy for undertaking various hedge transactions. This process includes matching all derivatives that are designated as cash flow hedges to specific forecasted transactions and linking all derivatives designated as fair value hedges to specific assets and liabilities in the Consolidated Balance Sheets.

The Company performs an initial prospective assessment of hedge effectiveness on a quantitative basis between the inception date and the earlier of the first quarterly hedge effectiveness date or the issuance of the financial statements that include the hedged transaction. On a quarterly basis, the Company assesses the effectiveness of its designated hedges in offsetting the variability in the cash flows or fair values of the hedged assets or obligations using the Hypothetical Derivative Method. The Hypothetical Derivative Method compares the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of a hypothetical derivative that represents the hedged risk. The Company would discontinue hedge accounting prospectively when the derivative is no longer highly effective as a hedge, the underlying hedged transaction is no longer probable or the hedging instrument expires, is sold, terminated or exercised.

Commodity Swap Contracts

The Company’s operations expose it to a variety of market risks, including the effects of changes in commodity prices. As part of its risk management process, the Company began entering into commodity swap transactions through regulated commodity exchanges in February 2020. The Company does not enter into derivative financial instruments for speculative purposes. Changes in the fair value of commodity swaps are recognized in earnings.

The following table represents the approximate amount of realized and unrealized gains (losses) and changes in fair value recognized in earnings on commodity derivative contracts for the three and six months ended March 31, 2022 and 2021 and the fair value of these derivatives as of March 31, 2022 and September 30, 2021 (in thousands):

Income Statement Classification	For the Three Months Ended March 31,					
	2022			2021		
	Change in			Change in		
	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)
Cost of revenues	\$ 364	\$ 1,055	\$ 1,419	\$ 94	\$ 813	\$ 907
Interest expense, net	(431)	939	508	(168)	400	232
Total	\$(67)	\$ 1,994	\$ 1,927	\$(74)	\$ 1,213	\$ 1,139

Income Statement Classification	For the Six Months Ended March 31,					
	2022			2021		
	Change in			Change in		
	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)
Cost of revenues	\$ 857	\$ 778	\$ 1,635	\$ (45)	\$ 1,758	\$ 1,713
Interest expense, net	(909)	1,352	443	(348)	619	271
Total	\$ (52)	\$ 2,130	\$ 2,078	\$ (393)	\$ 2,377	\$ 1,984

Balance Sheet Classification	March 31, 2022	September 30, 2021
	(unaudited)	
Prepaid expenses and other current assets - commodity swaps	\$ 2,616	\$ 990
Other assets - commodity swaps	39	822
Other assets - interest rate swaps ⁽¹⁾	9,991	—
Accrued expense and other current liabilities - interest rate swaps	(16)	(97)
Other long-term liabilities - commodity swaps	(65)	—
Other long-term liabilities - interest rate swaps ⁽²⁾	—	(748)
Net unrealized gain position	\$ 12,565	\$ 967

⁽¹⁾ Includes designated cash flow hedge of \$9,437 and \$0 as of March 31, 2022 and September 30, 2021, respectively.

⁽²⁾ Includes designated cash flow hedge of \$0 and \$(31) as of March 31, 2022 and September 30, 2021, respectively.

Note 16 - Fair Value Measurements

The following table presents the Company's liabilities measured at fair value on a recurring basis as of March 31, 2022 and September 30, 2021 under ASC 820 *Fair Value Measurements* (in thousands):

	March 31, 2022	September 30, 2021
	(unaudited)	
	Level 2	Level 2
Assets		
Commodity swap contracts	\$ 2,655	\$ 1,812
Interest rate swaps	9,991	—
Liabilities:		
Commodity swap contracts	\$ 65	\$ —
Interest rate swap contracts	16	845

The fair value of interest rate swap contracts is based on a model-driven valuation using the observable components (e.g., interest rates), which are observable at commonly quoted intervals for the full term of the contracts. The fair value of commodity swap contracts is based on an analysis of the expected cash flow of the contract in combination with observable forward price inputs obtained from a third-party pricing source. The calculations are adjusted for credit risk. Therefore, derivative assets and liabilities are classified within Level 2 of the fair value hierarchy. Derivative assets are included within "Prepaid expenses and other current assets" and "Other assets" on the Company's Consolidated Balance Sheets. Derivative liabilities are included within "Accrued expense and other current liabilities" and "Other long-term liabilities" on the Company's Consolidated Balance Sheets.

Note 17 - Commitments**Letters of Credit**

Under the Revolving Credit Facility, the Company has a total capacity of \$25.0 million that may be used for a combination of cash borrowings and letter of credit issuances. At March 31, 2022, the Company had aggregate letters of credit outstanding in the amount of \$11.3 million, primarily related to certain insurance policies.

Purchase Commitments

As of March 31, 2022, the Company had unconditional purchase commitments for diesel fuel and natural gas in the normal course of business in the aggregate amount of \$5.6 million and \$2.1 million, respectively. Management does not expect any significant changes in the market value of these goods during the commitment period that would have a material adverse effect on the financial condition, results of operations and cash flows of the Company. As of March 31, 2022, our purchase commitments annually thereafter are as follows (in thousands):

	Fiscal Year	Amount
Remainder of 2022		\$ 3,164
2023		3,781
2024		780
Total		\$ 7,725

Minimum Royalties

The Company has lease agreements associated with aggregates facilities under which the Company makes royalty payments. These agreements are outside the scope of Topic 842. The payments are generally based on tons sold in a particular period; however, certain agreements have minimum annual payments. The Company has commitments in the form of minimum royalties as of March 31, 2022 in the amount of \$2.6 million, due as follows (in thousands):

	Fiscal Year	Amount
Remainder of 2022		\$ 89
2023		230
2024		220
2025		184
2026		157
Thereafter		1,760
Total		\$ 2,640

Royalty expense recorded in cost of revenue was \$0.5 million and \$0.3 million for the three months ended March 31, 2022 and 2021, respectively, and \$0.8 million and \$0.5 million for the six months ended March 31, 2022 and 2021, respectively.

Note 18 - Other Comprehensive Income

Comprehensive income comprises two subsets: net income and other comprehensive income (OCI). The components of other comprehensive income are presented in the accompanying Consolidated Statements of Comprehensive Income and Consolidated Statements of Stockholders' Equity, net of applicable taxes. The Company's interest rate swap contract hedge included in other comprehensive income was entered into on August 13, 2021 with an original notional value of \$160.0 million. The maturity date of this swap is June 24, 2026.

In March 2022, the Captive purchased debt securities, which have been classified as available-for-sale as of March 31, 2022. These securities are carried at their fair value based on quoted market prices. Unrealized gains and losses are reported as components of accumulated other comprehensive income (loss), net.

Amounts in accumulated other comprehensive income (AOCI), net of tax, at March 31, 2022 and September 30, 2021, were as follows (in thousands):

AOCI	March 31, 2022 (unaudited)	September 30, 2021
Interest rate swap contract	\$ 9,437	\$ (31)
Unrealized loss on available-for-sale securities	(154)	—
Less tax effect of other comprehensive income (loss) items	(2,403)	8
Total	6,880	(23)

Changes in AOCI, net of tax, are as follows (in thousands):

AOCI	Interest Rate Hedge
Balance at September 30, 2020	\$ —
Net OCI changes	—
Balance at March 31, 2021	\$ —

AOCI	Interest Rate Hedge
Balance at September 30, 2021	\$ (23)
Net OCI changes	6,903
Balance at March 31, 2022	\$ 6,880

Amounts reclassified from AOCI to earnings are as follows (in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Interest expense	\$ 304	\$ —
Benefit from income taxes	(78)	—
Total reclassifications from AOCI to earnings	\$ 226	\$ —

	For the Six Months Ended March 31,	
	2022	2021
Interest expense	\$ 636	\$ —
Benefit from income taxes	(164)	—
Total reclassifications from AOCI to earnings	\$ 472	\$ —

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

This discussion and analysis of our financial condition and results of operations is intended to assist in understanding and assessing the trends and significant changes in our results of operations and financial condition during the period covered by this report. Historical results may not be indicative of future performance. This discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Such statements involve risks and uncertainties. Our actual results may differ materially from those contemplated by these forward-looking statements as a result of various factors, including those set forth under the headings “Risk Factors” and “Cautionary Statement Regarding Forward-Looking Statements.” This discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and notes thereto included in the 2021 Form 10-K. In this discussion, we use certain non-GAAP financial measures. Explanations of these non-GAAP financial measures and reconciliations to the most directly comparable GAAP financial measures are included in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Investors should not consider non-GAAP financial measures in isolation or as substitutes for financial information presented in compliance with GAAP.

Overview

We are a civil infrastructure company that specializes in the building and maintenance of transportation networks. Our operations leverage a highly skilled workforce, strategically located HMA plants, substantial construction assets and select material deposits. We provide construction products and services to both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential sites in the southeastern United States.

Our public projects are funded by federal, state and local governments and include projects for roads, highways, bridges, airports and other forms of infrastructure. Public transportation infrastructure projects historically have been a relatively stable portion of state and federal budgets and represent a significant share of the United States construction market. Federal funds are allocated on a state-by-state basis, and each state is required to match a portion of the federal funds that it receives. Federal highway spending uses funds predominantly from the Highway Trust Fund, which derives its revenues from fuel taxes and other user fees.

In addition to public infrastructure projects, we provide a wide range of large sitework construction and HMA paving services to private construction customers, including commercial and residential developers and local businesses.

Recent Developments

Inflationary Trends

During the three months and six months ended March 31, 2022, we continued to experience an upward trend in several inflation-sensitive inputs necessary for us to provide our products and services, including upward pressure on wages and increases in the cost of raw materials used to produce HMA and other items that are critical to our business, including fuel, concrete and steel. In addition, we experienced some disruptions from various participants in our supply chain, including subcontractors, materials suppliers and equipment manufacturers, who provide the raw materials, equipment, vehicles, construction supplies and other services we require in order to manufacture HMA and perform our construction projects. To date, we have been able to mitigate some of the effects of inflation, supply chain disruptions and labor constraints on our business by increasing prices for our products and including the anticipated cost increases in the construction projects we bid. However, we are limited in our ability to pass through increased costs for projects already in our backlog and, under those circumstances, may be unable to recoup losses or diminished profit margins by passing these costs through to our customers.

North Carolina Acquisition

On March 7, 2022, the Company acquired substantially all of the assets of Southern Asphalt, Inc., an asphalt paving company headquartered in Burgaw, North Carolina. The transaction provides access to the Wilmington, North Carolina metro area. For further discussion regarding this transaction, see Note 4 - Business Acquisitions to the unaudited consolidated financial statements included elsewhere in this report.

Florida Acquisition

On March 18, 2022, the Company acquired substantially all of the assets of GAC Contractors, Inc., an asphalt paving, grading and site work company headquartered in Panama City, Florida. The transaction enhances the Company’s operational resources and capabilities in growing Panama City, Florida market area. For further discussion regarding this transaction, see Note 4 - Business Acquisitions to the unaudited consolidated financial statements included elsewhere in this report.

How We Assess Performance of Our Business

Revenues

We derive our revenues predominantly by providing construction products and services for both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential sites. Our projects represent a mix of federal, state, municipal and private customers. We also derive revenues from the sale of HMA, aggregates, and liquid asphalt cement to customers. We recognize revenues derived from projects as we satisfy our performance obligations over time (formerly known as the percentage-of-completion method), measured by the relationship of total cost incurred compared to total estimated contract costs (cost-to-cost input method). Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. Revenues derived from the sale of HMA, aggregates, and liquid asphalt cement are recognized when the risks associated with ownership have passed to the customer.

Gross Profit

Gross profit represents revenues less cost of revenues. Cost of revenues consists of all direct and indirect costs associated with construction contracts, including raw materials, labor, equipment costs, depreciation, lease expenses, subcontract costs and other expenses at our HMA plants, aggregates mining facilities, and liquid asphalt cement terminal. Our cost of revenues is directly affected by fluctuations in commodity prices, primarily liquid asphalt and diesel fuel. From time to time, when appropriate, we limit our exposure to changes in commodity prices by entering into forward purchase commitments. In addition, our public infrastructure contracts often provide for price adjustments based on fluctuations in certain commodity-related product costs. These price adjustment provisions are in place for most of our public infrastructure contracts, and we seek to include similar provisions in our private contracts.

Depreciation, Depletion, Accretion and Amortization

Property, plant and equipment are initially recorded at cost or, if acquired as a business combination, at fair value. Depreciation on property, plant and equipment is computed on a straight-line basis over the estimated useful life of the asset. Amortization expense is the periodic expense related to leasehold improvements and intangible assets. Leasehold improvements are amortized over the lesser of the life of the underlying asset or the remaining lease term. Our intangible assets were recognized as a result of certain acquisitions and are generally amortized on a straight-line basis over the estimated useful lives of the assets. Mineral reserves are depleted in accordance with the units-of-production method as aggregates are extracted, using the initial allocation of cost based on proven and probable reserves.

General and Administrative Expenses

General and administrative expenses include costs related to our operational offices that are not allocated to direct contract costs and expenses related to our corporate offices. These expenses consist primarily of salaries and personnel costs for our administration, finance and accounting, legal, information systems, human resources and certain managerial employees. General and administrative expenses also include acquisition expenses, audit, consulting and professional fees, stock-based compensation expense, travel, insurance, office space rental costs, property taxes and other corporate and overhead expenses.

Gain on Sale of Equipment, Net

In the normal course of business, we sell construction equipment for various reasons, including when the cost of maintaining the asset exceeds the cost of replacing it. The gain or loss on the sale of equipment reflects the difference between the carrying value at the date of disposal and the net consideration received from the sale of equipment during the period.

Interest Expense, Net

Interest expense, net primarily represents interest incurred on our long-term debt, such as the Term Loan and the Revolving Credit Facility, as well as the changes in fair values of interest swap agreements and amortization of deferred debt issuance costs. These amounts are partially offset by interest income earned on short-term investments of cash balances in excess of our current operating needs.

Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted Net Income

Adjusted EBITDA represents net income before, as applicable from time to time, (i) interest expense, net, (ii) provision (benefit) for income taxes, (iii) depreciation, depletion, accretion and amortization, (iv) equity-based compensation expense, (v) loss on the extinguishment of debt, (vi) certain management fees and expenses and (vii) nonrecurring legal settlement costs and associated legal expenses unrelated to the Company's core operations. Adjusted EBITDA Margin represents Adjusted EBITDA as a percentage of revenues for each period. Adjusted net income represents net income before nonrecurring legal settlement costs and associated legal expenses unrelated to the Company's core operations. These metrics are supplemental measures of our operating performance that are neither required by, nor presented in accordance with, GAAP. These measures have limitations as analytical tools and should not be considered in isolation or as an alternative to net income or any other performance measure derived in accordance with GAAP as an indicator of our operating performance. We present Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted net income because management uses these measures as key performance indicators, and we believe that securities analysts, investors and others use these measures to evaluate companies in our industry. Our calculation of Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted net income may not be comparable to similarly named measures reported by other companies. Potential differences may include differences in capital structures, tax positions and the age and book depreciation of intangible and tangible assets.

The following table presents a reconciliation of net income, the most directly comparable measure calculated in accordance with GAAP, to Adjusted EBITDA and the calculation of Adjusted EBITDA Margin for the periods presented (unaudited in thousands, except percentages):

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2022	2021	2022	2021
Net income (loss)	\$ (9,418)	\$ (4,935)	\$ (3,907)	\$ 2,936
Interest expense, net	859	298	2,123	766
Provision for income taxes	(2,887)	(1,513)	(1,087)	1,167
Depreciation, depletion, accretion and amortization	17,144	12,291	33,047	23,385
Equity-based compensation expense	1,742	460	3,246	855
Management fees and expenses ⁽¹⁾	384	521	759	1,138
Settlement of legal claim and associated legal expenses ⁽²⁾	—	3,876	—	4,232
Adjusted EBITDA	\$ 7,824	\$ 10,998	\$ 34,181	\$ 34,479
Revenues	\$ 243,385	\$ 179,112	\$ 528,349	\$ 370,041
Adjusted EBITDA Margin	3.2 %	6.1 %	6.5 %	9.3 %

⁽¹⁾ Reflects fees and reimbursement of certain out-of-pocket expenses under a management services agreement with an affiliate of SunTx Capital Partners, the Company's controlling stockholder (see Note 12 - Related Parties to the unaudited consolidated financial statements included elsewhere in this report).

⁽²⁾ Reflects legal expenses associated with a settlement agreement entered into in April 2021 unrelated to the Company's core operations.

The following table presents a reconciliation of net income, the most directly comparable measure calculated in accordance with GAAP, to adjusted net income for the periods presented (unaudited in thousands):

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2022	2021	2022	2021
Net income (loss)	\$ (9,418)	\$ (4,935)	\$ (3,907)	\$ 2,936
Settlement of legal claim ⁽¹⁾	—	3,200	—	3,200
Legal expenses associated with settlement of legal claim	—	676	—	1,032
Tax impact due to above reconciling items	—	(977)	—	(1,066)
Adjusted net income (loss)	\$ (9,418)	\$ (2,036)	\$ (3,907)	\$ 6,102

⁽¹⁾ Reflects legal expenses associated with a settlement agreement entered into in April 2021 unrelated to the Company's core operations.

Results of Operations
Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

The following table sets forth selected financial data for the three months ended March 31, 2022 and 2021 (unaudited in thousands, except percentages):

	For the Three Months Ended March 31,				Change From the Three Months Ended	
	2022		2021		March 31, 2021	
	Dollars	% of Revenues	Dollars	% of Revenues	\$ Change	% Change
Revenues	\$ 243,385	100.0 %	\$ 179,112	100.0 %	\$ 64,273	35.9 %
Cost of revenues	230,888	94.9 %	161,040	89.9 %	69,848	43.4 %
Gross profit	12,497	5.1 %	18,072	10.1 %	(5,575)	(30.8)%
General and administrative expenses	(25,000)	(10.3) %	(24,475)	(13.7) %	(525)	2.1 %
Gain on sale of equipment, net	1,014	0.4 %	9	— %	1,005	11,166.7 %
Operating income (loss)	(11,489)	(4.7) %	(6,394)	(3.6) %	(5,095)	79.7 %
Interest expense, net	(859)	(0.4) %	(298)	(0.2) %	(561)	188.3 %
Other income (expense)	43	— %	244	0.2 %	(201)	(82.4)%
Income (loss) before provision for income taxes and earnings from investment in joint venture	(12,305)	(5.1) %	(6,448)	(3.6) %	(5,857)	90.8 %
Provision for income taxes	(2,887)	(1.2) %	(1,513)	(0.8) %	(1,374)	90.8 %
Earnings from investment in joint venture	—	— %	—	— %	—	— %
Net income (loss)	\$ (9,418)	(3.9) %	\$ (4,935)	(2.8) %	\$ (4,483)	90.8 %
Adjusted EBITDA	\$ 7,824	3.2 %	\$ 10,998	6.1 %	\$ (3,174)	(28.9)%
Adjusted net income (loss)	\$ (9,418)	(3.9) %	\$ (2,036)	(1.1) %	\$ (7,382)	362.6 %

Revenues. Revenues for the three months ended March 31, 2022 increased \$64.3 million, or 35.9%, to \$243.4 million from \$179.1 million for the three months ended March 31, 2021. The increase included \$29.9 million of revenues attributable to acquisitions completed subsequent to March 31, 2021 and an increase of approximately \$34.4 million of revenues in our existing markets from contract work and sales of HMA and aggregates to third parties. The 19.2% increase in revenues in our existing markets was due to a strong demand in both public and private work.

Gross Profit. Gross profit for the three months ended March 31, 2022 decreased \$5.6 million, or 30.8%, to \$12.5 million from \$18.1 million for the three months ended March 31, 2021. The lower gross profit was primarily due to (i) lower profit margins on the projects we assumed in connection with recent acquisitions and (ii) continued lower margins due to increases in the costs of raw materials, fuel, labor, trucking and supply chain issues.

General and Administrative Expenses. General and administrative expenses for the three months ended March 31, 2022 increased \$0.5 million, or 2.1%, to \$25.0 million from \$24.5 million for the three months ended March 31, 2021. The increase was primarily the result of (i) a \$1.3 million increase in equity-based compensation expense, (ii) a \$2.7 million increase attributable to general and administrative expenses associated with the operations of businesses acquired subsequent to March 31, 2021, and (iii) a \$1.2 million increase in various professional fees, primarily driven by business acquisitions, information technology expenses and increased accounting and consulting fees. These increases were partially offset by a \$3.9 million decrease in legal expenses primarily attributable to a legal settlement and associated legal fees in April 2021 unrelated to the Company's core operations.

Interest Expense, Net. Interest expense, net for the three months ended March 31, 2022 increased \$0.6 million, to \$0.9 million compared to \$0.3 million for the three months ended March 31, 2021. The increase in interest expense, net was due to an increase in the average principal debt balance outstanding during the three months ended March 31, 2022 compared to the corresponding period in 2021.

Provision for Income Taxes. Our effective tax rate for the three months ended March 31, 2022 and 2021 was 23.5%.

Net Income (Loss). Net income (loss) decreased \$4.5 million to a net loss of \$9.4 million for the three months ended March 31, 2022, compared to net loss of \$4.9 million for the three months ended March 31, 2021. The decrease in net income (loss) was primarily a result of lower gross profit, higher general and administrative expenses and higher interest expense, net, all as described above.

Adjusted EBITDA and Adjusted EBITDA Margin. Adjusted EBITDA and Adjusted EBITDA Margin were \$7.8 million and 3.2%, respectively, for the three months ended March 31, 2022, compared to \$11.0 million and 6.1%, respectively, for the three months ended March 31, 2021. The decrease in Adjusted EBITDA was the result of lower gross profit and increases in general and administrative expenses and interest expense, net, partially offset by an increase in depreciation, depletion, accretion and amortization of long-lived assets and a reduction in expenses related to a legal settlement. The lower Adjusted EBITDA Margin was primarily a result of a decrease in Adjusted EBITDA and an increase in revenues, all as described above. See the description of Adjusted EBITDA and Adjusted EBITDA Margin, as well as a reconciliation of Adjusted EBITDA to net income, under the heading “How We Assess Performance of Our Business”.

Adjusted Net Income (Loss). Adjusted net income (loss) decreased \$7.4 million to an adjusted net loss of \$9.4 million for the three months ended March 31, 2022, compared to adjusted net loss of \$2.0 million for the three months ended March 31, 2021. The decrease in adjusted net income (loss) was primarily a result of lower gross profit and higher general and administrative expenses and interest expense, net, all as described above.

Six Months Ended March 31, 2022 Compared to Six Months Ended March 31, 2021

The following table sets forth selected financial data for the six months ended March 31, 2022 and 2021 (unaudited in thousands, except percentages):

	For the Six Months Ended March 31,				Change From the Six Months Ended March 31, 2021 to the Six Months Ended March 31, 2022	
	2022		2021		\$ Change	% Change
	Dollars	% of Revenues	Dollars	% of Revenues		
Revenues	\$ 528,349	100.0 %	\$ 370,041	100.0 %	\$ 158,308	42.8 %
Cost of revenues	482,888	91.4 %	321,375	86.8 %	161,513	50.3 %
Gross profit	45,461	8.6 %	48,666	13.2 %	(3,205)	(6.6)%
General and administrative expenses	(49,946)	(9.5) %	(44,559)	(12.1) %	(5,387)	12.1 %
Gain on sale of equipment, net	1,455	0.3 %	342	0.1 %	1,113	325.4 %
Operating income	(3,030)	(0.6) %	4,449	1.2 %	(7,479)	(168.1)%
Interest expense, net	(2,123)	(0.4) %	(766)	(0.2) %	(1,357)	177.2 %
Other income (expense)	159	0.1 %	409	0.1 %	(250)	(61.1)%
Income before provision for income taxes and earnings from investment in joint venture	(4,994)	(0.9) %	4,092	1.1 %	(9,086)	(222.0)%
Provision for income taxes	(1,087)	(0.2) %	1,167	0.3 %	(2,254)	(193.1)%
Earnings from investment in joint venture	—	— %	11	— %	(11)	(100.0)%
Net income	\$ (3,907)	(0.7) %	\$ 2,936	0.8 %	\$ (6,843)	(233.1)%
Adjusted EBITDA	\$ 34,181	6.5 %	\$ 34,479	9.3 %	\$ (298)	(0.9)%
Adjusted net income	\$ (3,907)	(0.7) %	\$ 6,102	1.6 %	\$ (10,009)	(164.0)%

Revenues. Revenues for the six months ended March 31, 2022 increased \$158.3 million, or 42.8%, to \$528.3 million from \$370.0 million for the six months ended March 31, 2021. The increase included \$67.6 million of revenues attributable to acquisitions completed subsequent to March 31, 2021 and an increase of approximately \$90.7 million of revenues in our existing markets from contract work and sales of HMA and aggregates to third parties. The 24.5% increase in revenues in our existing markets was due to a strong demand in both public and private work.

Gross Profit. Gross profit for the six months ended March 31, 2022 decreased \$3.2 million, or 6.6%, to \$45.5 million from \$48.7 million for the six months ended March 31, 2021. The lower gross profit was primarily due to (i) lower profit margins on the projects we assumed in connection with recent acquisitions and (ii) continued lower margins due to increases in the costs of raw materials, fuel, labor, trucking and supply chain issues.

General and Administrative Expenses. General and administrative expenses for the six months ended March 31, 2022 increased \$5.4 million, or 12.1%, to \$49.9 million from \$44.6 million for the six months ended March 31, 2021. The increase was primarily the result of (i) a \$2.4 million increase in equity-based compensation expense, (ii) a \$5.0 million increase attributable to general and administrative expenses associated with the operations of businesses acquired subsequent to March 31, 2021, and (iii) a \$2.4 million increase in various professional fees, primarily driven by business acquisitions, information technology expenses and increased accounting and consulting fees. These increases were partially offset by a \$4.2 million decrease in legal expenses associated with a legal settlement and associated legal fees in April 2021 unrelated to the Company's core operations.

Interest Expense, Net. Interest expense, net for the six months ended March 31, 2022 increased \$1.3 million, to \$2.1 million compared to \$0.8 million for the six months ended March 31, 2021. The increase in interest expense was due to an increase in the average principal debt balance outstanding during the six months ended March 31, 2022 compared to the corresponding period in 2021.

Provision for Income Taxes. Our effective tax rate decreased to 21.8% for the six months ended March 31, 2022, from 28.4% for the six months ended March 31, 2021. Our lower effective tax rate for the six months ended March 31, 2022 was due to differences in state tax rates at our operating subsidiaries.

Net Income (Loss). Net income decreased \$6.8 million to a net loss of \$3.9 million for the six months ended March 31, 2022, compared to net income of \$2.9 million for the six months ended March 31, 2021. The decrease in net income (loss) was primarily a result of lower gross profit, higher general and administrative expenses and higher interest expense, net, all as described above.

Adjusted EBITDA and Adjusted EBITDA Margin. Adjusted EBITDA and Adjusted EBITDA Margin were \$34.2 million and 6.5%, respectively, for the six months ended March 31, 2022, compared to \$34.5 million and 9.3%, respectively, for the six months ended March 31, 2021. The decrease in Adjusted EBITDA was the result of lower gross profit and increases in general and administrative expenses and interest expense, net, partially offset by an increase in depreciation, depletion, accretion and amortization of long-lived assets and a reduction in expenses related to a legal settlement. The lower Adjusted EBITDA Margin was primarily a result of a decrease in Adjusted EBITDA and an increase in revenues, all as described above. See the description of Adjusted EBITDA and Adjusted EBITDA Margin, as well as a reconciliation of Adjusted EBITDA to net income, under the heading “How We Assess Performance of Our Business”.

Adjusted Net Income (Loss). Adjusted net income decreased \$10.0 million to adjusted net loss of \$3.9 million for the six months ended March 31, 2022, compared to adjusted net income of \$6.1 million for the six months ended March 31, 2021. The decrease in adjusted net income (loss) was primarily a result of lower gross profit, higher general and administrative expenses, and higher interest expense, net, all as described above.

Inflation and Price Changes

As described above under the heading “Inflationary Trends,” during the three and six months ended March 31, 2022, we continued to experience an upward trend in several inflation-sensitive inputs necessary for us to provide our products and services, including upward pressure on wages and increases in the cost of raw materials used to produce HMA and other items that are critical to our business. Inflation had an immaterial impact on our results of operations for the three and six months ended March 31, 2021 due to relatively low inflation in the United States during that period and our ability to recover increasing costs by obtaining higher prices for our products, including sale price escalator clauses in most of our public infrastructure sector contracts.

Liquidity and Capital Resources**Cash Flows Analysis**

The following table sets forth our cash flows for the periods indicated (unaudited in thousands):

	For the Six Months Ended March 31,	
	2022	2021
Net cash provided by operating activities, net of acquisition	\$ 3,294	\$ 2,398
Net cash used in investing activities	(140,177)	(110,465)
Net cash provided by (used in) financing activities	110,961	(6,500)
Net change in cash and cash equivalents	\$ (25,922)	\$ (114,567)

Operating Activities

During the six months ended March 31, 2022, cash provided by operating activities, net of acquisitions, was \$3.3 million, primarily as a result of:

- net loss of \$3.9 million, including \$33.0 million of depreciation, depletion, accretion and amortization of long-lived assets, unrealized gains on derivative instruments of \$2.1 million and equity-based compensation expense of \$3.2 million;
- an increase in contracts receivable including retainage, net, of \$3.8 million as a result of higher overall revenues due to acquisitions and growth in existing markets;
- an increase in prepaid expenses and other current assets of \$8.2 million primarily due to overpayment of federal and state income taxes and the timing of payments under our insurance policies;
- an increase in inventories of \$13.7 million due to increased inventories from acquisitions, higher inventory costs and normal fluctuations in our inventory cycle;
- a decrease in accounts payable and accrued expenses and other current liabilities of \$14.4 million due to the timing of processing transactions in our accounts payable cycle; and
- a net increase of \$11.0 million in the difference between costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts due to the timing of performing and closing projects.

During the six months ended March 31, 2021, cash provided by operating activities, net of acquisitions, was \$2.4 million, primarily as a result of:

- net income of \$2.9 million, including \$23.4 million of depreciation, depletion, accretion and amortization of long-lived assets and unrealized gains on derivative instruments of \$2.4 million;
- a decrease in contracts receivable including retainage, net, of \$6.3 million due to normal fluctuations resulting from the timing of processing transactions in our accounts receivable cycle;
- an increase in prepaid expenses and other current assets of \$4.3 million primarily due to overpayment of federal and state income taxes and the timing of payments under our insurance policies;
- an increase in inventories of \$3.5 million due to increased inventories from acquisitions and normal fluctuations in our inventory cycle;
- a decrease in accounts payable and accrued expenses and other current liabilities of \$2.5 million due to the timing of processing transactions in our accounts payable cycle; and
- a net decrease of \$17.1 million in the difference between costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts due to the timing of performing and closing projects.

Investing Activities

During the six months ended March 31, 2022, cash used in investing activities was \$140.2 million, of which \$102.9 million related to acquisitions completed in the period, \$34.7 million was invested in property, plant and equipment and \$6.4 million was invested in restricted investments by the Captive, partially offset by \$3.8 million of proceeds from the sale of equipment.

During the six months ended March 31, 2021, cash used in investing activities was \$110.5 million, of which \$84.5 million related to acquisitions completed in the period and \$26.9 million was invested in property, plant and equipment, partially offset by \$0.9 million of proceeds from the sale of equipment.

Financing Activities

During the six months ended March 31, 2022, cash provided by financing activities was \$111.0 million. We received \$116.0 million of proceeds from our Revolving Credit Facility, primarily used for acquisitions completed in the period. This increase in cash was offset by \$5.0 million of principal payments on long-term debt.

During the six months ended March 31, 2021, cash used in financing activities was \$6.5 million, representing the repayment of principal on long-term debt during such period.

Credit Agreement

We and each of our subsidiaries are parties to the Credit Agreement, which provides for the Term Loan and the Revolving Credit Facility. At March 31, 2022 and September 30, 2021, we had \$192.5 million and \$197.5 million, respectively, of principal outstanding under the Term Loan, \$136.0 million and \$20.0 million, respectively, of principal outstanding under the Revolving Credit Facility, and availability of \$77.7 million and \$193.7 million, respectively, under the Revolving Credit Facility, including reduction for outstanding letters of credit. Our obligations under the Term Loan and the Revolving Credit Facility are secured by a first priority security interest in substantially all of our assets.

The Credit Agreement requires the Company to satisfy certain financial covenants, including a minimum fixed charge coverage ratio of 1.20-to-1.00 and a maximum consolidated leverage ratio of 3.00-to-1.00, subject to certain adjustments. At March 31, 2022 and September 30, 2021, our fixed charge coverage ratio was 3.24-to-1.00 and 3.29-to-1.00, respectively, and our consolidated leverage ratio was 2.74-to-1.00 and 1.99-to-1.00, respectively.

From time to time, the Company has entered into interest rate swap agreements to hedge against the risk of changes in interest rates. At March 31, 2022 and September 30, 2021, the aggregate notional value of these interest rate swap agreements was \$194.2 million and \$198.3 million, respectively, and the fair value was \$10.0 million and \$(0.8) million, respectively, which is included within other assets, other current liabilities or other long-term liabilities on the Company's Consolidated Balance Sheets.

For more information about the Credit Agreement, see Note 8 - Debt to the unaudited consolidated financial statements included elsewhere in this report.

Capital Requirements and Sources of Liquidity

During the six months ended March 31, 2022 and 2021, our capital expenditures were approximately \$34.7 million and \$26.9 million, respectively. Our capital expenditures are typically made during the same fiscal year in which they are approved. At March 31, 2022, our commitments for capital expenditures were not material to our financial condition or results of operations on a consolidated basis. For fiscal 2022, we expect total capital expenditures to be \$60.0 million to \$65.0 million. Our capital expenditure budget is an estimate and is subject to change.

Historically, we have required significant amounts of cash in order to make capital expenditures, purchase materials and fund our organic expansion into new markets. Our working capital needs are driven by the seasonality and growth of our business, with our cash requirements increasing in periods of growth. Additional cash requirements resulting from our growth include the costs of additional personnel, production and distribution facilities, enhancements to our information systems, integration costs related to any acquisitions and our compliance with laws and rules applicable to public companies.

We have historically relied on cash available through credit facilities, in addition to cash from operations, to finance our working capital requirements and to support our growth. We regularly monitor potential capital sources, including equity and debt markets, in an effort to meet our planned capital expenditures and liquidity requirements. Our future success will depend on our ability to access outside sources of capital.

We believe that our operating cash flow and available borrowings under the Credit Agreement will be sufficient to fund our operations and planned capital expenditures for at least the next 12 months. However, future cash flows are subject to a number of variables,

including the potential impacts of inflation and supply chain constraints, and significant additional capital expenditures will be required to conduct our operations. There can be no assurance that operations and other capital resources will provide sufficient cash to maintain planned or future levels of capital expenditures. In the event that we make one or more acquisitions and the amount of capital required is greater than the amount of cash on hand we have available for acquisitions at that time, we could be required to reduce the expected level of capital expenditures and/or seek additional capital. If we seek additional capital, we may do so through borrowings under the Credit Agreement, joint ventures, asset sales, offerings of debt or equity securities or other means. However, our ability to engage in any such transactions may be constrained by economic conditions and other factors outside of our control. We cannot guarantee that additional capital will be available on acceptable terms or at all. If we are unable to obtain the funds we need, we may not be able to complete acquisitions that may be favorable to us or finance the capital expenditures necessary to conduct our operations.

Contractual Obligations

The following table summarizes our significant obligations outstanding as of March 31, 2022:

	Payments Due by Fiscal Year						
	Total	2022	2023	2024	2025	2026	2027 and Thereafter
Debt obligations	\$ 328,500	\$ 5,000	\$ 10,000	\$ 11,250	\$ 15,000	\$ 287,250	\$ —
Operating leases	13,521	1,213	2,290	1,931	1,602	1,592	4,893
Purchase commitments	7,725	3,164	3,781	780	—	—	—
Royalty payments	2,640	89	230	220	184	157	1,760
Asset retirement obligations	2,823	—	—	—	—	—	2,823
Total	\$ 355,209	\$ 9,466	\$ 16,301	\$ 14,181	\$ 16,786	\$ 288,999	\$ 9,476

Off-Balance Sheet Arrangements

As of March 31, 2022, the Company had aggregate letters of credit outstanding in the amount of \$11.3 million, future purchase commitments of \$7.7 million for diesel fuel and natural gas and \$2.6 million of minimum royalty payments related to aggregates facilities. Other than the letters of credit, future purchase commitments and minimum royalty payments, we do not currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources. See Note 17 - Commitments to our unaudited consolidated financial statements included elsewhere in this report for additional information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Commodity Price Risk

We are subject to commodity price risk with respect to price changes in liquid asphalt and energy, including fossil fuels and electricity for aggregates and asphalt paving mix production, natural gas for HMA production and diesel fuel for distribution vehicles and production-related mobile equipment. In order to manage or reduce commodity price risk, we monitor the costs of these commodities at the time of bid and price them into our contracts accordingly. Furthermore, liquid asphalt escalator provisions in most of our public contracts, and in some of our private and commercial contracts, limit our exposure to price fluctuations in this commodity. In addition, we enter into various firm purchase commitments, with terms generally less than 18 months, for certain raw materials.

Our risk management activities also include the use of financial derivative instruments. We have entered into fuel swap and natural gas swap contracts to mitigate the financial impact of fluctuations in commodity prices. We do not enter into commodity swap contracts for speculative or trading purposes. These fuel and natural gas swap contracts provide a fixed price for less than 50% of our estimated fuel and natural gas usage for the remainder of fiscal year 2022 and fiscal years 2023 and 2024.

The table below provides information about the Company's swap contracts that are sensitive to changes in commodity prices, specifically diesel fuel and natural gas, as of March 31, 2022.

	Carrying Amount	Fair Value
Fuel swap contracts ⁽¹⁾		
Contract volumes (1,000 gallons)	2,856	
Weighted average price (per gallon)	2.08	
Contract amount (in thousands)	\$ 2,432	\$ 2,432
Natural gas swap contracts ⁽¹⁾		
Contract volumes (1,000 MMBTU)	80	
Weighted average price (per MMBTU)	3.70	
Contract amount (in thousands)	\$ 158	\$ 158

⁽¹⁾ See also Note 15 - Investment in Derivative Instruments and Note 16 - Fair Value Measurements to the unaudited consolidated financial statements included in this report.

Interest Rate Risk

We are exposed to interest rate risk on certain of our short- and long-term debt obligations used to finance our operations and acquisitions. We have LIBOR-based floating rate borrowings under the Credit Agreement, which expose us to variability in interest payments due to changes in the reference interest rates. From time to time, we use derivative instruments as hedges against the impact of interest rate changes on future earnings and cash flows. We do not enter into such derivative instruments for speculative or trading purposes. At March 31, 2022, we had a total of \$328.5 million of variable rate borrowings outstanding. Holding other factors constant and absent the interest rate swap agreements described above, a hypothetical 1% change in our borrowing rates would result in a \$3.3 million change in our annual interest expense based on our variable rate debt at March 31, 2022.

The following table presents the future principal payment obligations, interest payments, and fair values associated with the Company's debt instruments assuming the Company's actual level of variable rate debt as of March 31, 2022 (in thousands).

	For the Fiscal Year Ending September 30,						Thereafter	Total	Fair Value
	2022	2023	2024	2025	2026				
Debt obligations									
Term loan	\$ 5,000	\$ 10,000	\$ 11,250	\$ 15,000	\$ 151,250	\$ —	\$ 192,500	\$ 192,500	
Revolving credit facility	—	—	—	—	136,000	—	136,000	136,000	
Interest payments ⁽¹⁾	3,195	6,243	6,044	5,777	4,149	—			

⁽¹⁾ Represents projected interest payments using the Company's March 2022 LIBOR-based floating rate of 1.96%.

The notional amount of the Company's outstanding interest rate swap contracts at March 31, 2022 was \$194.2 million. The maturity dates of outstanding interest rate swap contracts range from June 2022 to June 2026. The fair value of outstanding interest rate swap contracts was \$10.0 million as of March 31, 2022. See also Note 15 - Investment in Derivative Instruments and Note 16 - Fair Value Measurements to the unaudited consolidated financial statements included in this report.

Inflation Risk

We are subject to the effects of inflation through wage pressures, increases in the cost of raw materials used to produce HMA, and increases in the costs of other items, such as fuel, concrete and steel. During the quarter ended March 31, 2022, we continued to experience an upward trend in several of these inflation-sensitive items. We seek to recover increasing costs by obtaining higher prices for our products or by including the anticipated price increases in our bids. Due to the relatively short-term duration of our construction contracts, we are generally able to reduce our exposure to price increases on new contracts, but we are limited in our ability to pass through increased costs for projects already in our backlog. Going forward, continued cost inflation in these areas may require further price adjustments to maintain profit margin, and any price increases may have a negative effect on demand.

Item 4. Controls and Procedures.

Evaluation of Disclosure Control and Procedures

Our management carried out, as of March 31, 2022, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings.

Due to the nature of our business, we are involved in routine litigation or subject to other disputes or claims related to our business activities, including, among other things, (i) workers' compensation claims, (ii) employment-related disputes and (iii) liability issues or breach of contract or tortious conduct claims in connection with the performance of services and provision of materials. We and our affiliates are also subject to government inquiries in the ordinary course of business seeking information concerning our compliance with government construction contracting requirements and various laws and regulations, the outcome of which cannot be predicted with certainty. In the opinion of our management, after consultation with legal counsel, none of the pending inquiries, litigation, disputes or claims against us, if decided adversely to us, would have a material adverse effect on our financial condition, cash flows or results of operations. There have been no material changes to the legal proceedings disclosed in the 2021 Form 10-K.

Item 1A. Risk Factors.

In addition to the other financial information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors," in the 2021 Form 10-K that could materially affect our business, financial condition or future operating results. There have been no material changes from the information set forth in Part I, Item 1A, "Risk Factors" in the 2021 Form 10-K. The risks described in the 2021 Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

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

Unregistered Sales of Equity Securities

The Company did not sell any of its equity securities during the period covered by this report that were not registered under the Securities Act.

Issuer Purchases of Equity Securities

During the period covered by this report, the Company did not purchase any of its equity securities that are registered under Section 12 of the Exchange Act.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 C.F.R. Part 229.104) is included in Exhibit 95.1 to this Quarterly Report on Form 10-Q.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Construction Partners, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 27, 2018)
3.2	Amended and Restated Bylaws of Construction Partners, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 27, 2018)
3.2A	Amendment to Amended and Restated Bylaws of Construction Partners, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-38479) filed on June 4, 2020)
4.1	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 23, 2018)
4.2	Registration Rights Agreement, dated June 8, 2007, by and among Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.) and certain security holders party thereto (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
31.1*	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2**	Certification of Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
95.1*	Mine Safety Disclosures
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith.

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, on this 6th day of May, 2022.

CONSTRUCTION PARTNERS, INC.

By: /s/ Fred J. Smith, III
Fred J. Smith, III
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities

<u>Name and Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Fred J. Smith, III</u> Fred J. Smith, III	President and Chief Executive Officer (Principal Executive Officer)	May 6, 2022
<u>/s/ R. Alan Palmer</u> R. Alan Palmer	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	May 6, 2022

and on the dates indicated.

CERTIFICATION

I, Fred J. Smith, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Construction Partners, Inc. for the quarterly period ended March 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2022

By: /s/ Fred J. Smith, III
Fred J. Smith, III
President and Chief Executive Officer

CERTIFICATION

I, R. Alan Palmer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Construction Partners, Inc. for the quarterly period ended March 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2022

By: /s/ R. Alan Palmer
R. Alan Palmer
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Construction Partners, Inc. (the “Company”) for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Fred J. Smith, III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 6, 2022

By: /s/ Fred J. Smith, III
Fred J. Smith, III
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Construction Partners, Inc. (the "Company") for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Alan Palmer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 6, 2022

By: /s/ R. Alan Palmer

R. Alan Palmer

Executive Vice President and Chief Financial Officer

Mine Safety Disclosures

The operation of our aggregates mines is subject to regulation by the federal Mine Safety and Health Administration (the “MSHA”) under the Federal Mine Safety and Health Act of 1977, 30 U.S.C. § 801 *et seq.* (the “Mine Act”). Set forth below is the required information regarding certain mining safety and health matters for the fiscal quarter ended March 31, 2022. Citations and orders may be contested and appealed, and in that process, may be reduced in severity and amount, and are sometimes dismissed. The table below includes references to specific sections of the Mine Act.

The information in the table below is presented by mine, consistent with the manner in which we maintain safety and compliance information about our mining operations.

Mine Name / ID	(A) Section 104 S&S	(B) Section 104(b)	(C) Section 104(d)	(D) Section 110(b)(2)	(E) Section 107(a)	(F) Proposed Assessments	(G) Fatalities	(H) Pending Legal Action
Ashville / 01-03234	2	—	—	—	—	\$ 338	—	—
Drummond / 01-03126	—	—	—	—	—	—	—	—
Blount Springs / 01-03047	—	—	—	—	—	—	—	—
Battleground / 01-03100	—	—	—	—	—	—	—	—
Daurity Springs / 31-02311	—	—	—	—	—	—	—	—
Camden / 31-02100	—	—	—	—	—	\$ 399	—	—
Riverbend Sand / 09-01023	—	—	—	—	—	—	—	—
Montgomery Sand / 09-00737	—	—	—	—	—	—	—	—
Baldree Sand / 09-01166	—	—	—	—	—	—	—	—
Coosa / 01-03327	—	—	—	—	—	—	—	—
Skyline / 01-03158	—	—	—	—	—	—	—	—
Lambert / 01-03363	—	—	—	—	—	—	—	—
Hickory Bend / 01-03403	—	—	—	—	—	—	—	—
Allstate / 01-03406	1	—	—	—	—	\$ 144	—	—
Total	3	—	—	—	—	\$ 881	—	—

- (A) The total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under Section 104 of the Mine Act for which the operator received a citation from the MSHA.
- (B) The total number of orders issued under Section 104(b) of the Mine Act.
- (C) The total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under Section 104(d) of the Mine Act.
- (D) The total number of flagrant violations under Section 110(b)(2) of the Mine Act.
- (E) The total number of imminent danger orders issued under Section 107(a) of the Mine Act.
- (F) The total dollar value of proposed assessments from the MSHA under the Mine Act. As of the date of this report, no proposed assessments related to the orders or citations listed above had yet been posted to the MSHA Mine Data Retrieval System or made available to the Company by MSHA.
- (G) The total number of mining-related fatalities.
- (H) Any pending legal action before the Federal Mine Safety and Health Review Commission involving the applicable mine(s).

During the fiscal quarter ended March 31, 2022, our aggregates mines did not receive any written notices of a pattern of violations, or the potential to have such a pattern of violations, under Section 104(e) of the Mine Act.