UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 27, 2021

SOUTHWEST GAS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	001-37976	81-3881866
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

8360 S. Durango Dr.
Post Office Box 98510
Las Vegas, Nevada
(Address of principal executive offices)

89193-8510
(Zip Code)

Registrant's telephone number, including area code: (702) 876-7237

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

(Title of class)	(Trading symbol)	(Exchange on which registered)
Southwest Gas Holdings, Inc. Common Stock, $1 par value	**SWX**	**New York Stock Exchange**
Preferred Stock Purchase Rights	**N/A**	**New York Stock Exchange**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

Explanatory Note

This Amendment No. 1 on Form 8-K/A amends the Current Report on Form 8-K of Southwest Gas Holdings, Inc., a Delaware corporation (the "Company"), filed with the Securities and Exchange Commission on August 30, 2021 (the "Initial Form 8-K"), which described, among other matters, the closing of the transactions contemplated by that certain Agreement and Plan of Merger, dated as of June 28, 2021 (the "Merger Agreement") by and among Centuri Group, Inc. ("Centuri"), a wholly owned subsidiary of the Company, Electric T&D Holding LLC, a wholly owned subsidiary of Centuri, and ETDH Merger Sub, Inc. with Drum Parent, Inc. ("Drum") and OCM Drum Investors, L.P., as representative of certain stockholders and option holders of Drum, pursuant to which Centuri acquired Riggs Distler & Company, Inc.

This Amendment No. 1 amends the Initial Form 8-K to include the financial statements and unaudited pro forma financial information referred to in Item 9.01(a) and (b) below relating to the Merger.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The unaudited condensed consolidated financial statements of Drum as of June 30, 2021 and for the six months ended June 30, 2021 and the notes thereto are filed herewith as Exhibit 99.1 and incorporated in this Item 9.01(a) by reference.

The audited consolidated financial statements of Drum as of and for the year ended December 31, 2020, the notes thereto and the Independent Auditor's Report are filed herewith as Exhibit 99.2 and incorporated in this Item 9.01(a) by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial statements of the Company as of and for the six months ended June 30, 2021 and for the year ended December 31, 2020 and the notes thereto, giving effect to the Merger, are filed herewith as Exhibit 99.3 and are incorporated in this Item 9.01(b) by reference.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of BDO USA, LLP
99.1	Unaudited condensed consolidated financial statements of Drum Parent, Inc. as of June 30, 2021 and for the six months ended June 30, 2021.
99.2	Audited consolidated financial statements of Drum Parent, Inc. as of and for the year ended December 31, 2020.
99.3	Unaudited pro forma condensed combined financial statements of Southwest Gas Holdings, Inc. as of and for the six months ended June 30 2021 and for the year ended December 31, 2020.
104	Cover Page formatted in Inline XBRL.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SOUTHWEST GAS HOLDINGS, INC.

/s/ Lori L. Colvin

Date: November 9, 2021

Lori L. Colvin
Vice President/Controller and Chief Accounting Officer

Exhibit 23.1

Consent of Independent Auditor

Southwest Gas Holdings, Inc.
Las Vegas, Nevada

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-231297, 333-251074) and Form S-8 (Nos. 333-215145-01, 333-155581-01, 333-200835-01, 333-168731-01, 333-215150-01, 333-185354-01, 333-222048) of Southwest Gas Holdings, Inc. of our report dated June 18, 2021, relating to the consolidated financial statements of Drum Parent, Inc., and its subsidiaries, which appear in Southwest Gas Holdings, Inc.'s Current Report on Form 8-K/A dated November 9, 2021.

/s/ BDO USA, LLP

Cherry Hill, New Jersey
November 9, 2021

Exhibit 99.1

Drum Parent, Inc.

Condensed Consolidated Financial Statements
As of June 30, 2021 and for the Six Months Ended June 30, 2021

Index to Condensed Consolidated Financial Statements

Drum Parent, Inc.
Unaudited Condensed Consolidated Balance Sheet
(in thousands of U.S. dollars, except share and per share data)

	June 30, 2021
Assets	
Current Assets	
Cash and Cash Equivalents	$ 464
Trade and Other Receivables (note 4.)	95,393
Contract Assets (note 3.)	41,556
Income Tax Receivable	307
Prepaid Expenses	5,503
	$143,223
Non-current Assets	
Property and Equipment, net (note 6.)	$117,528
Intangible Assets, net (note 7.)	41,416
Goodwill (note 7.)	76,015
Other Non-current Assets	68
	$235,027
Total Assets	**$378,250**
Liabilities	
Current Liabilities	
Revolving Line of Credit (note 8.)	$ 14,561
Trade and Other Payables (note 9.)	53,435
Contract Liabilities (note 3.)	18,418
Current Portion of Long-term Debt (note 8.)	16,313
	$102,727
Non-current Liabilities	
Long-term Debt (note 8.)	$ 84,033
Deferred Tax Liabilities	23,902
Total Liabilities	$210,662
Equity	
Common Stock, $0.01 par value, unlimited shares authorized, 23,188 issued and outstanding	$ 231
Additional Paid-in Capital	235,480
Accumulated Other Comprehensive Loss	(551)
Accumulated Deficit	(67,513)
Treasury stock, at cost, 4 shares	(59)
Total Equity	$167,588
Total Liabilities and Equity	**$378,250**

The accompanying notes are an integral part of these condensed consolidated financial statements.

Drum Parent, Inc.
Unaudited Condensed Consolidated Statement of Operations and Comprehensive Income
(in thousands of U.S. dollars, except share and per share data)

	Six months ended June 30, 2021
Revenues (note 3.)	$ 240,210
Cost of Contracts (including depreciation detailed in note 6 and exclusive of amortization)	203,070
Selling, General and Administrative Expenses (including depreciation detailed in note 6.)	20,114
Amortization of Intangible Assets	8,930
Transaction Costs	710
Operating Income	7,386
Finance Charges, net (note 11.)	1,817
Income from Continuing Operations before Income Taxes	5,569
Income Tax Provision	2,547
Income from Continuing Operations	$ 3,022
Discontinued Operations (note 5.)	
Loss from Discontinued Operations	$ (528)
Net Income	$ 2,494
Other Comprehensive Income	
Foreign Currency Translation Adjustments	(158)
Comprehensive Income	$ 2,336

The accompanying notes are an integral part of these condensed consolidated financial statements.

Drum Parent, Inc.
Unaudited Condensed Consolidated Statement of Changes in Equity
(in thousands of U.S. dollars, except share and per share data)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Number of Shares	Treasury Stock	Total Equity
Balance – January 1, 2021	23,107	$ 231	$ 229,569	$ (393)	$ (70,007)	—	$ —	$ 159,400
Net Income	—	—	—	—	2,494	—	—	2,494
Foreign Currency Translation Loss	—	—	—	(158)	—	—	—	(158)
Spin-off of Canadian Subsidiary	—	—	3,334	—	—	—	—	3,334
Purchase of Treasury Stock	—	—	-	—	—	4	(59)	(59)
Issuance of Common Stock	18	—	362	—	—	—	—	362
Exercise of Stock Options	63	—	634	—	—	—	—	634
Stock-Based Compensation	—	—	1,581	—	—	—	—	1,581
Balance – June 30, 2021	23,188	$ 231	$ 235,480	$ (551)	$ (67,513)	4	$ (59)	$ 167,588

The accompanying notes are an integral part of these condensed consolidated financial statements.

Drum Parent, Inc.
Unaudited Condensed Consolidated Statement of Cash Flows
(in thousands of U.S. dollars, except share and per share data)

		Six months ended June 30, 2021
Cash Flows from Operating Activities		
Net Income	$	2,494
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation Expense		13,472
Amortization Expense		8,930
Gain on disposal of Property, Plant and Equipment		(229)
Income tax provision		1,999
Non-cash Stock-Based Compensation Expense		1,581
Amortization of debt issuance costs		99
Change in fair value of interest rate swap		(584)
Provision for doubtful accounts		(395)
Changes in operating assets and liabilities		
Trade and other receivables		(19,351)
Contract assets		(6,065)
Prepaid expenses and other current assets		(2,994)
Other Non-current assets		51
Trade and other payables		(8,979)
Contract liabilities		4,530
Net cash used in operating activities	$	(5,441)
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	$	792
Purchases of property, equipment and software		(6,393)
Net cash used in investing activities	**$**	**(5,601)**
Cash Flows from Financing Activities		
Borrowings on revolving line of credit	$	36,522
Repayments on revolving line of credit		(30,961)
Treasury stock purchase		(59)
Repayments of Long-term Debt		(9,025)
Proceeds from Issuance of Common Stock		634
Net cash used in financing activities	$	(2,889)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(158)
Change in Cash and Cash Equivalents		(14,089)
Cash and Cash Equivalents at the Beginning of the Year		14,553
Cash and Cash Equivalents at the End of the Year	$	464
Supplemental disclosure of cash flow information		
Cash paid for interest	$	2,270
Cash paid for income taxes	$	547
Supplemental schedule of non-cash investing and financing activities		
Purchases of property and equipment under capital lease obligations	$	6,974
Purchases of property and equipment included in accounts payable	$	878
Common stock issued for services	$	362

The accompanying notes are an integral part of these condensed consolidated financial statements

1. Basis of Preparation and Description of Business

The condensed consolidated financial statements include the accounts of Drum Parent, Inc. and its subsidiaries (“the Corporation”). Intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. The information furnished reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2020. The results of operations for the six month period ended June 30, 2021 may not necessarily be indicative of the results of operations for the full year ending December 31, 2021.

The Corporation is a provider of construction and maintenance services to the public utility and heavy industrial markets in the United States. The Corporation builds and maintains utility electrical and natural gas transmission and distribution systems and related energy infrastructure. The Corporation also installs gas-powered and electric-powered heavy equipment for utilities, gas-fired industrial power plants and petrochemical facilities. The Corporation also offers environmental construction and road matting services.

2. New Accounting Pronouncements

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued an update (ASU 2016-02) that requires companies to recognize on the balance sheet the contractual right-of-use assets and liabilities corresponding to the rights and obligations created by lease contracts. The new standard will be effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021 for private entities. The Corporation continues to evaluate the effect of the standard on its condensed consolidated financial statements. The Corporation will adopt this guidance by January 1, 2022.

In June 2016, the FASB issued an update (ASU 2016-13) that will change the way companies measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The update will require companies to use an “expected loss” model for instruments measured at amortized cost and to record allowances for available-for-sale debt securities rather than reduce the carrying amounts. The update will also require disclosure of information regarding how a Corporation developed its allowance, including changes in the factors that influenced management’s estimate of expected credit losses and the reasons for those changes. Companies will apply this standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The new standard will be effective for annual reporting periods beginning after December 15, 2022 for private entities. The Corporation is currently evaluating the potential impact of this authoritative guidance on its condensed consolidated financial statements and will adopt this guidance by January 1, 2023.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment testing. An entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 will be effective for annual reporting periods beginning after December 15, 2022 for private entities. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Corporation is currently evaluating the potential impact of this authoritative guidance on its condensed consolidated financial statements and will adopt this guidance by January 1, 2023.

No new accounting pronouncements, issued or effective during 2021, have had or are expected to have a significant impact on the condensed consolidated financial statements.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

3. Revenues

Remaining Performance Obligations

The Corporation had $65,886 of remaining performance obligations yet to be satisfied as of June 30, 2021. The Corporation expects to recognize approximately $65,886 of its remaining performance obligations as revenue within the next twelve months.

Contract Balances

Contract terms with customers include the timing of billing and payment, which usually differs from the timing of revenue recognition. As a result, the Corporation carries contract assets and liabilities on the balance sheet. These contract assets and liabilities are calculated on a contract-by-contract basis and reported on a net basis at the end of each period and are classified as current. The following table provides information about contract assets and liabilities:

	June 30, 2021
Contract assets	$ 41,556
Contract liabilities	(18,418)
	$ 23,138

The amount of revenue recognized during the six months ended June 30, 2021 that was included in the prior period contract liabilities balance was $13,887. This revenue consists primarily of work performed during the period on contracts with customers that had advance billings.

Progress billings in accounts receivable at June 30, 2021 included retentions of $7,807.

Disaggregated Revenue

The following series of tables presents revenue disaggregated by geographic area where the work was performed, by segment, and by contract type:

		Six months ended June 30, 2021
Geographic Disaggregation:		
United States	$	240,210
Canada (Discontinued Operations Note 5.)		—
	$	240,210
Segment Disaggregation:		
Utility	$	169,126
Heavy Industrial		71,084
	$	240,210
Contract Type Disaggregation:		
Fixed-price contracts	$	97,036
Unit Price contracts		82,043
Time and Materials, and other cost reimbursable contracts		61,131
	$	240,210

Typically, the Corporation assumes more risk with fixed-price contracts since increases in cost to perform the work may not be recoverable. However, these types of contracts typically offer higher profits than time and materials and other cost reimbursable contracts when completed at or below the costs originally estimated. The profitability of time and materials and other cost reimbursable contracts is typically lower than fixed-price contracts and is usually less volatile than fixed-price contracts since the profit component is factored into the rates charged for labor, equipment and materials, or is expressed in the contract as a percentage of the reimbursable costs incurred.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

4. Trade and Other Receivables

	June 30, 2021
Trade	$87,455
Allowance for Doubtful Accounts	—
	87,455
Retainage on Contracts	7,807
Other	131
	$95,393

5. Discontinued Operations

Spin-out of Canadian Subsidiary

On June 27, 2021, the Board of Directors of the Corporation's wholly owned Canadian subsidiary approved and completed the distribution of all the outstanding capital stock to the individual shareholders of the Corporation. Following the distribution, the Corporation retained no ownership interest in the Canadian subsidiary and no assets or liabilities are consolidated into the Corporation at June 30, 2021. There was no gain or loss recognized on the spin-out. The results of the Canadian operations for the six month period ended June 30, 2021 is recorded in discontinued operations in the condensed consolidated statement of operations and comprehensive income.

Results of Discontinued Operations for the six months ended June 30, 2021 are as follows:

	Six months ended June 30, 2021
Revenue	$ —
Cost of Contracts	—
Gross Profit	—
Selling, General and Administrative Expenses	409
Loss on Disposal	—
Operating Loss from Discontinued Operations	(409)
Finance Charges	5
Foreign Exchange Loss	114
Loss from Discontinued Operations before Income Tax	(528)
Income Taxes	—
Net Loss from Discontinued Operations	$ (528)

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

6. Property and Equipment

	June 30, 2021
Land, Buildings and Leasehold Improvements	$ 31,328
Tools, Machinery and Equipment	89,679
Automotive Equipment	86,453
Other	3,135
	210,595
Accumulated depreciation and amortization	(93,067)
	$117,528

As of June 30, 2021, property and equipment included assets leased under capital leases, that was machinery of a net carrying amount of $6,476 and automotive equipment of a net carrying amount of $28,051.

	Six months ended June 30, 2021
Depreciation included in Cost of Contracts	$ 12,578
Depreciation included in Selling, General and Administrative Expenses	894
	$ 13,472

7. Intangible Assets and Goodwill

Intangible Assets

		June 30, 2021		
	Weighted Average Amortization (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Software	5	$ 6,830	$ (3,790)	$ 3,040
Backlog	5	56,852	(48,159)	8,693
Customer Relationships	10	65,116	(35,433)	29,683
Total		$128,798	$ (87,382)	$ 41,416

Amortization expense related to intangible assets was $8,930 for the six months ended June 30, 2021.

The estimated future aggregate amortization expense of intangible assets subject to amortization as of June 30, 2021 is set forth below:

2021	$ 8,930
2022	12,763
2023	7,738
2024	4,827
2025	3,510
Thereafter	3,648
	$41,416

Goodwill

Balance at December 31, 2020	$76,015
Goodwill Impairment	—
Acquisition	—
Balance at June 30, 2021	$76,015

Goodwill is not amortized and is required to be tested at least annually for impairment. The Corporation tests its goodwill for impairment annually as of December 31st. The Corporation concluded no impairment indicators existed at June 30, 2021.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

8. Debt

The Corporation's bank financing includes a revolving credit facility of an authorized amount of $40,000 and a swingline facility of an authorized amount of $10,000, on which funds may also be drawn in Canadian dollars. These credit facilities bear interest at a rate based on a financial ratio. As at June 30, 2021, this rate corresponds to the lender's prime rate plus 0.50% or to bankers' acceptances / LIBOR rate plus 2.0%. According to these criteria, the actual interest rate was 1.65%. In addition, a 0.40% standby fee, also based on a financial ratio, is paid on the unused portion of this credit facility. The balance at June 30, 2021 was $14,561. As of June 30, 2021 there was $25,463 available to borrow under the revolving credit facility and $4,439 available under the swingline facility.

	June 30, 2021
Term loan at Prime or LIBOR rate	$ 72,075
Capital lease obligations, at rates from 2.43% to 7.59%, maturing from July 2021 to March 2028	28,599
	100,674
Unamortized deferred financing costs	(328)
	$100,346
Current portion	$ 16,313
Non-current portion	84,033
	$100,346

The bank financing, maturing in February 2023, includes a term loan of an authorized amount of $87,375. This loan bears interest at a rate based on a financial ratio. As at June 30, 2021, this rate corresponds to the lender's prime rate plus 0.50% or to LIBOR rate plus 2.0%. According to these criteria, the actual interest rate was 1.65%. This loan is repayable in quarterly principal instalments that correspond to annual payments totaling $2,625 in 2018, $5,400 in 2019, $6,300 in 2020, $7,200 in 2021 and $8,100 in 2022. The remaining balance is payable on the maturity date. Interest expense under the revolving credit facility and long term debt for the six months ending June 30, 2021 was $719.

The bank financing is secured by all the Corporation's assets and is subject to compliance with certain financial ratios based on the Corporation's consolidated financial statements. The Corporation was in compliance with all financial covenants as of June 30, 2021.

Maturities of Long-term Debt, including capital leases, for each of the next five years and thereafter as of June 30, 2021, are as follows:

Remainder of 2021	$ 8,362
2022	15,887
2023	66,315
2024	4,918
2025	2,738
2026	1,510
Thereafter	616
	$100,346

The Corporation's future minimum capital lease commitments as of June 30, 2021 are as follows:

Remainder of 2021	$ 5,528
2022	9,010
2023	6,644
2024	5,304
2025	2,912
2026	1,584
Thereafter	629
Total minimum capital lease payments	$31,611
Less: interest	(3,012)
Present value of minimum lease payments, net	28,599
Less: current obligations under capital leases	(8,859)
Obligations under capital leases, long-term	$19,740

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

9. Trade and Other Payables

	June 30, 2021
Suppliers and Accrued Expenses	$43,798
Interest rate swap liability	1,585
Salaries, Vacation and Bonuses	6,905
Commodity Taxes	181
Retainage on Contracts	177
Insurance reserves	789
	$53,435

10. Stock Options

On May 8, 2018, the Corporation adopted a share option plan whereby key employees, officers and directors may acquire shares of the Corporation. By adopting the plan, the Board of Directors wishes to create, during its 10 year term, an equity-oriented compensation plan for and to reward the current and future individuals who will contribute to the growth of the Corporation and its subsidiaries. The exercise price of share options is determined by a committee of the Board in its sole discretion, but will not be less than the fair market value of a share on the date of grant. Share options are exercisable in whole or in part in accordance with the vesting provisions set forth in the stock option agreement and over a maximum period of 10 years following the granting or at the latest 90 days after the holder terminates his/her employment with the Corporation or in the year following the date of his/her death.

The following tables summarize information about stock options outstanding and exercisable.

	June 30, 2021	
	Number	Weighted Average Exercise Price
Outstanding at the beginning of the period	1,464	$ 11,497
Granted	397	20,551
Exercised	(63)	10,000
Forfeited	(72)	10,418
Expired	—	—
Outstanding at the end of the period	1,726	$ 13,548
Exercisable at the end of the period	938	$ 11,668

		Six months ended June 30, 2021
a)	Fair Value, US dollars per share option, established using Black-Scholes model	$ 8,787
	<u>Black-Scholes Pricing Model Assumptions:</u>	
	Risk-free interest rate (based on US treasury bond rates)	1.00%
	Expected volatility	43.00%
	Dividend yield	Nil
	Expected life of each option granted	6.25 years
	Share price at grant date (US dollars)	$ 20,551

b) The fair values of the options are expensed ratably over the four-year performance period which 25% of option holder’s shares will vest after twelve months of employment, with the remaining shares vesting monthly thereafter, subject to option holder’s continued service with the Corporation (as defined in the plan). There are no performance-based features or market conditions. During the six month period ended June 30, 2021 $1,581 was recorded of stock-based compensation expense which is included in Selling, General and Administrative expenses in the condensed consolidated statement of operations and comprehensive income.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

The following table summarizes information about stock options outstanding as of June 30, 2021

	Options Outstanding			Option Vested		
Exercise price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
$10,000	990	7.19	$ 10,000	735	7.18	$ 10,000
$20,000	184	7.16	20,000	137	7.16	20,000
$12,140	155	8.99	12,140	60	8.99	12,140
$20,551	397	9.70	20,551	6	9.70	20,551
	1,726	7.92	$ 13,685	938	7.35	$ 11,739

The following table summarizes information about the Corporation's non-vested options:

	Six months ended June 30, 2021	
	Number	Weighted Average Grant Date Fair Value
Non-vested at the beginning of the period	626	$ 4,971
Granted	397	20,551
Vested	(162)	4,889
Forfeited	(73)	4,898
Non-vested at the end of the period	788	$ 12,848

11. Finance Charges, net

	Six months ended June 30, 2021
Finance Charges on Long-term Debt	$ 1,947
Change in fair value of interest rate swap	(584)
Interest on Bank Loans and Bank Charges	456
Interest Income	(2)
	$ 1,817

12. Income Taxes

The provision for income taxes for the six months ended June 30, 2021 reflects an income tax provision of approximately $2.5 million, at an effective tax rate of 45.7%. The difference between the Corporation's effective tax rate and the federal statutory rate is primarily due to non-deductible expenses and state taxes.

At December 31, 2020, the Corporation recorded a liability for uncertain tax positions of $7,254 with respect to an open examination at the Corporation's Canadian subsidiary. However, in connection with the spin-out of the Canadian subsidiary (discussed in note 5) on June 27, 2021, the $7,254 liability is not recorded as a liability of the Corporation at June 30, 2021. The Corporation has not recorded a provision for any other uncertain tax positions for the six months ended June 30, 2021.

13. Fair Value Measurements

Fair value is the exchange price to sell an asset or transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements use market data or assumptions market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs may be readily observable, corroborated by market data, or generally unobservable. Valuation techniques maximize the use of observable inputs and minimize use of unobservable inputs.

The Corporation’s financial instruments primarily consist of cash and equivalents, trade and other receivables, contract assets and liabilities, bank loans, trade and other payables and long-term debt. The carrying amounts of these items approximate fair value due to their short maturity. The carrying amount of variable rate debt and capital lease obligations also approximates fair value.

The Corporation’s cash and equivalents are based on quoted market prices in active markets for identical assets (Level 1) as of June 30, 2021. For the six month period ended June 30, 2021, the Corporation had no material nonrecurring fair value measurements of assets or liabilities subsequent to their initial recognition. At June 30, 2021, there were no Level 3 fair value measurements. The Corporation did not have any transfers of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value measurement hierarchy during the six months ended June 30, 2021.

The Corporation’s financial assets and liabilities measured at fair value on a recurring basis currently include derivative financial instruments such as an interest rate swap. This derivative financial instrument is valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation considering the instrument’s term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation model for the interest rate swap are observable in active markets and are classified as Level 2 in the hierarchy. The fair value of the Corporation’s interest rate swap liability, which is included in Trade and Other Payables on the accompanying consolidated balance sheet, was approximately $1,585 as of June 30, 2021. The Corporation recognizes all derivative instruments as assets or liabilities at their fair value in the condensed consolidated balance sheet. The changes in the fair value of the Corporation’s derivatives, which do not qualify for hedge accounting, are recognized in earnings. For the six month period ended June 30, 2021, the Corporation recognized approximately $584 reduction of expense related to fair value adjustments on the interest rate swap that is recorded in financing charges, net on the accompanying condensed consolidated statement of operations and comprehensive income.

14. Commitments and Contingencies

Leases

The Corporation’s aggregate commitments under operating leases for offices, equipment and automotive equipment amount to $2,694. Annual installments to be paid over the next five years are, $695 in 2021, $583 in 2022, $410 in 2023, $244 in 2024, $762 in 2025 and beyond. Total rent expense was $1,059 for the six month period ended June 30, 2021.

Letters of Credit

From time to time the Corporation is required to post letters of credit to guarantee the obligations of its wholly owned subsidiaries, which reduces the borrowing availability under its revolving credit facility. As at June 30, 2021, the Corporation had $5,537 in outstanding letters of credit.

15. Risks and Uncertainties

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak”) and the risk to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Corporation is dependent on its union labor workforce to deliver its services. Developments in response to COVID-19, such as social distancing and shelter-in-place directives, may impact the Corporation’s ability to efficiently deploy its workforce. These same developments may affect the operations and timing of deliverables from the Corporation’s subcontractors and suppliers, as their own workforces and operations may also be disrupted by the efforts to curtail the spread of the virus. Further, the Corporation’s customers may either delay or suspend existing or future projects based on these same developments. Unforeseen conditions may also require contract modifications and changes in the Corporation’s forecasts to complete its existing contracts. While expected to be temporary, these disruptions may negatively impact the Corporation’s revenues, its results of operations, financial condition, and liquidity in 2021, as they did in 2020. As of the date of these financial statements, the impact of the COVID-19 outbreak has not been significant to the Corporation’s business.

Although the Corporation cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a negative effect on the Corporation’s results of future operations, financial position and liquidity in fiscal year 2021.

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (CARES) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

As of the date of this report, the Corporation had utilized the deferment of employer social security payments in mid to late 2020; the Corporation then stopped the payment deferrals in Q4 2020, and paid off the deferrals by December 31, 2020. The Corporation also assessed its eligibility for the refundable payroll tax credits. The Corporation determined it was eligible for the credit, and made the appropriate documentation and tax return filings. The total refundable payroll tax credits reported by the Corporation totaled $236 in 2020.

16. Merger Agreement

On June 28, 2021, the Corporation entered into a definitive agreement to be acquired by Centuri Group, Inc. (“Centuri”) a wholly-owned subsidiary of Southwest Gas Holdings, Inc. (NYSE: SWX). Centuri is a utility infrastructure services enterprise primarily serving North America’s gas and electric providers. Upon closing, the agreement provides for consideration of $855 million subject to certain holdbacks and working capital adjustments, and also includes certain termination rights, including mutual rights if the transaction is not completed before October 31, 2021. The transaction closed in the third quarter of 2021.

17. Subsequent Events

The Corporation has evaluated the impact of subsequent events through November 9, 2021, representing the date at which the condensed consolidated financial statements were available to be issued and has determined that no events of consequence have occurred within the Corporation.

Drum Parent, Inc.

Consolidated Financial Statements
As of and for the year ended December 31, 2020

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Independent Auditor's Report

Board of Directors
Drum Parent, Inc.
Cherry Hill, NJ 08003

Opinion

We have audited the consolidated financial statements of Drum Parent, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statement of operations and comprehensive loss, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ BDO USA, LLP

Cherry Hill, New Jersey
June 18, 2021

Drum Parent, Inc.

Consolidated Balance Sheet
(in thousands of U.S. dollars, except share and per share data)

	December 31, 2020
Assets	
Current Assets	
Cash and cash equivalents	$ 14,553
Trade and Other Receivables, net (note 6.)	75,563
Contract Assets (note 13.)	35,396
Income Tax Receivable	222
Prepaid Expenses	2,509
Current Assets - Discontinued Operations (note 7.)	4,776
	$ 133,019
Non-current Assets	
Property and Equipment, net (note 8.)	$ 117,011
Intangible Assets, net (note 9.)	50,306
Goodwill (note 9.)	76,015
Other Non-current Assets	119
	$ 243,451
Total Assets	$ 376,470
Liabilities	
Current Liabilities	
Revolving Line of Credit (note 10.)	$ 9,000
Trade and Other Payables (note 11.)	70,027
Contract Liabilities (note 13.)	13,887
Current Portion of Long-term Debt (note 10.)	16,240
Current Liabilities - Discontinued Operations (note 7.)	40
	$ 109,194
Non-current Liabilities	
Long-term Debt (note 10.)	$ 86,058
Deferred Tax Liabilities (note 15.)	21,818
Total Liabilities	$ 217,070
Equity	
Common Stock, $0.01 par value, unlimited shares authorized, 23,107 issued and outstanding	$ 231
Additional Paid-in Capital	229,569
Accumulated Other Comprehensive Loss	(393)
Accumulated Deficit	(70,007)
Total Equity	$ 159,400
Total Liabilities and Equity	$ 376,470

The accompanying notes are an integral part of these consolidated financial statements.

Drum Parent, Inc.

Consolidated Statement of Operations and Comprehensive Loss
(in thousands of U.S. dollars, except share and per share data)

	Year Ended December 31, 2020
Revenues (note 13.)	$ 440,170
Cost of Contracts (including depreciation detailed in note 8 and exclusive of amortization)	374,176
Selling, General and Administrative Expenses (including depreciation detailed in note 8.)	42,448
Amortization of Intangible Assets	22,906
Business Acquisition Costs	579
Operating Income	61
Finance Charges, net (note 14.)	8,387
Loss from Continuing Operations before Income Taxes	(8,326)
Income Tax Provision (note 15.)	5,312
Loss from Continuing Operations	$ (13,638)
Discontinued Operations (note 7.)	
Loss from Discontinued Operations	$ (432)
Net Loss	$ (14,070)
Other Comprehensive Loss	
Foreign Currency Translation Adjustments	306
Comprehensive Loss	$ (13,764)

The accompanying notes are an integral part of these consolidated financial statements.

Drum Parent, Inc.

Consolidated Statement of Changes in Equity
(in thousands of U.S. dollars, except share and per share data)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
Balance – December 31, 2019	23,107	$ 231	$227,557	$ (699)	$ (55,937)	$ 171,152
Net Loss	—	—	—	—	(14,070)	(14,070)
Foreign Currency Translation - Gain	—	—	—	306	—	306
Equity Co-investment Loan Payback	—	—	277	—	—	277
Stock-Based Compensation	—	—	1,735	—	—	1,735
Balance – December 31, 2020	23,107	$ 231	$229,569	$ (393)	$ (70,007)	$ 159,400

The accompanying notes are an integral part of these consolidated financial statements.

Drum Parent, Inc.

Consolidated Statement of Cash Flows
(in thousands of U.S. dollars, except share and per share data)

	Year Ended December 31, 2020
Cash Flows from Operating Activities	
Net Loss	$ (14,070)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation Expense	26,427
Amortization Expense	22,906
Gain on disposal of Property, Plant and Equipment	(120)
Income Tax Expense	5,256
Non-cash Stock-Based Compensation Expense	1,735
Amortization of debt issuance costs	197
Change in fair value of interest rate swap	1,835
Provision for doubtful accounts	34
Changes in operating assets and liabilities	
Trade and other receivables	3,291
Contract assets	(1,689)
Prepaid expenses	197
Other Non-current assets	102
Trade and other payables	12,827
Contract liabilities	6,697
Net cash provided by operating activities	$ 65,625
Cash Flows from Investing Activities	
Acquisition of business, net of cash acquired	$ (8,786)
Proceeds from sale of property and equipment	590
Purchases of property, equipment and software	(14,749)
Net cash used in investing activities	$ (22,945)
Cash Flows from Financing Activities	
Borrowings on revolving line of credit	$ 35,000
Repayments on revolving line of credit	(46,500)
Repayments of Long-term Debt	(24,459)
Proceeds from Issuance of Stock	277
Net cash used in financing activities	$ (35,682)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	306
Change in Cash and Cash Equivalents	7,304
Cash and Cash Equivalents at the Beginning of the Year	7,249
Cash and Cash Equivalents at the End of the Year	$ 14,553
Supplemental disclosure of cash flow information	
Cash paid for interest	$ 5,437
Cash paid for income taxes	$ 60
Supplemental schedule of non-cash investing and financing activities	
Purchases of property and equipment under capital lease obligations	$ 12,427
Purchases of property and equipment included in accounts payable	$ 1,151

The accompanying notes are an integral part of these consolidated financial statements.

1. General Information

Drum Parent, Inc. was incorporated on December 1, 2017 and was duly organized and existing by virtue of the General Corporation Law of the State of Delaware. At the inception date 100 shares were issued for $1 U.S. dollars fully paid.

Drum Parent, Inc. and its subsidiaries ("the Corporation") operate in the energy sector. The Corporation is a provider of construction and maintenance services to the public utility and heavy industrial markets in the United States. The Corporation builds and maintains utility electrical and natural gas transmission and distribution systems and related energy infrastructure. The Corporation also installs gas-powered and electric-powered heavy equipment for utilities, gas-fired industrial power plants and petrochemical facilities. The Corporation also offers environmental construction and road matting services.

2. Basis of Preparation and Accounting Standards

The Corporation prepares its financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). The accounting policies and the methods of applying them have been consistently applied to the year presented in these consolidated financial statements.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Consolidation

These financial statements consolidate the financial statements of Drum Parent, Inc. and its subsidiaries. All intercompany transactions, balances, revenues and expenses as well as gains and losses from intercompany transactions are eliminated in consolidation.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses recognized during the year presented. The Corporation reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustments prior to their publication. Judgments and estimates are based on the Corporation's beliefs and assumptions derived from information available at the time such judgments and estimates are made. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. Estimates are primarily used in the Corporation's assessment of the allowance for doubtful accounts, useful lives of assets, fair value assumptions in analyzing goodwill, intangibles and long-lived asset impairments, purchase price allocations, revenue recognition for construction contracts inclusive of contractual change orders and claims, stock-based compensation, as well as the provision for income taxes. Actual results could differ from these estimates.

Revenue Recognition

Contracts

The Corporation designs, installs, upgrades, repairs, and maintains infrastructure for customers in the electric power, energy, and refining industries. These services may be provided pursuant to master service agreements (MSAs), repair and maintenance contracts and fixed price or non-fixed price installation contracts. These contracts are classified into three categories based on how transaction prices are determined and revenue is recognized: unit-based contracts, cost-plus contracts, and fixed price contracts. Transaction prices for unit-based contracts are determined on a per unit basis, transaction prices for cost-plus contracts are determined by applying a profit margin to costs incurred on the contracts and transaction prices for fixed price contracts are determined on a lump-sum basis, using an estimated cost to perform the contract. All of the Corporation’s revenues are recognized from contracts with its customers. In addition to the considerations described below, revenue is not recognized unless collectability under the contract is considered probable, the contract has commercial substance and the contract has been approved. Additionally, the contract must contain payment terms, as well as the rights and commitments of both parties.

Performance Obligations

A performance obligation is a promise in a contract with a customer to transfer a distinct good or service. Most of the Corporation’s contracts are considered to have a single performance obligation. For contracts with multiple performance obligations, the Corporation allocates the transaction price to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract. The standalone selling price is estimated using the expected costs plus a margin approach for each performance obligation and using the specifications of the three categories of contracts.

Recognition of Revenue Upon Satisfaction of Performance Obligations

A transaction price is determined for each contract, and that amount is allocated to each performance obligation within the contract and recognized as revenue when, or as, the performance obligation is satisfied. The Corporation generally recognizes revenue over time as it performs its obligations because there is a continuous transfer of control of the deliverable to the customer. Under unit-based contracts with an insignificant amount of partially completed units, the Corporation recognizes revenue as units are completed based on contractual pricing amounts. Under unit-based contracts with more than an insignificant amount of partially completed units and fixed price contracts, the Corporation recognizes revenues as performance obligations are satisfied over time, with the percentage completion generally measured as the percentage of costs incurred to total estimated costs for such performance obligation. Under cost-plus contracts, the Corporation recognizes revenue on an input basis, as labor hours are incurred, materials are utilized and services are performed. For the years ended December 31, 2020, all revenue was recognized for services transferred to customers over time.

Contract costs include all direct materials, labor and subcontract costs and indirect costs related to contract performance.

Additionally, the Corporation may incur incremental costs to obtain certain contracts, such as selling and marketing costs, bid and proposal costs, sales commissions, and legal fees or initial set-up or mobilization costs, certain of which can be capitalized under ASC 606 revenue recognition guidance.

Contract Estimates

Actual revenues and project costs can vary, sometimes substantially, from previous estimates due to changes in a variety of factors, including unforeseen or changed circumstances not included in the Corporation's estimates or covered by its contracts. The estimating process is based on the professional knowledge and experience of the Corporation's project managers and financial professionals. Some of the factors that may lead to changes in estimates of contract costs that include concealed or unknown environmental conditions; changes in the cost of equipment, commodities, materials or labor; unanticipated costs or claims due to delays caused by customers or third parties; project modifications or contract termination; weather conditions; changes in estimates related to the length of time to complete a performance obligation; and performance and quality issues requiring rework or replacement. These factors, along with other risks inherent in performing services under fixed price contracts, are routinely evaluated by management. Any changes in estimates could result in changes in profitability or losses associated with the related performance obligations. For example, estimated costs for a performance obligation may increase from the original estimate and contractual provisions may not allow for adequate compensation or reimbursement for such additional costs. Changes in estimated revenues, costs and profit are recorded in the year they are determined to be probable and can be reasonably estimated. Contract losses are recognized in full when losses are determined to be probable and can be reasonably estimated.

Changes in cost estimates on certain contracts may result in the issuance of change orders and/or claims, which may be approved or unapproved by the customer. The Corporation determines the probability that such costs will be recovered based on, among other things, contractual entitlement, past practices with the customer, specific discussions or preliminary negotiations with the customer or an appropriate form of communication for approval by the customer that might be in writing or verbal. The Corporation recognizes amounts associated with change orders and claims as revenue if it is probable that the contract price will be adjusted and the amount of any such adjustment can be reliably estimated. Most of the Corporation's change orders are for services that are not distinct from an existing contract and are accounted for as part of an existing contract on a cumulative catch-up basis. The Corporation accounts for a change order as a separate contract if the additional goods or services are distinct from and increase the scope of the contract, and the price of the contract increases by an amount commensurate to the Corporation's standalone selling price for the additional goods or services.

Variable consideration amounts, including unpriced change orders, performance incentives, early pay discounts and penalties, may also cause changes in contract estimates. The amount of variable consideration is estimated based on the most likely amount that is deemed probable of realization. Contract consideration is adjusted for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is resolved.

Changes in contract estimates are recognized on a cumulative catch-up basis in the year in which the revisions to the estimates are made. Such changes in estimates can result in the recognition of revenue in a current year for performance obligations that were satisfied or partially satisfied in prior years. Such changes in estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate. The impact of a change in estimate is measured as the difference between the revenue or gross profit recognized in the prior year as compared to the revenue or gross profit which would have been recognized had the revised estimate been used as the basis of recognition in the prior year.

Contract Assets and Liabilities

With respect to the Corporation's contracts, interim payments are typically received as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. As a result, the timing of revenue recognition and contract billings results in contract assets and contract liabilities. Contract assets represent revenues recognized in excess of amounts billed and are current assets that are transferred to accounts receivable when billed or the billing rights become unconditional. Contract assets are not considered a significant financing component as the intent is to protect the customer in the event the Corporation does not perform on its obligations under the contract.

Conversely, contract liabilities represent billings in excess of revenues recognized. These arise under certain contracts that allow for upfront payments from the customer or contain contractual billing milestones, which result in billings that exceed the amount of revenues recognized for certain years. Contract liabilities are current liabilities and are not considered a significant financing component, as they are used to meet working capital requirements that are generally higher in the early stages of a contract and protect the Corporation from the other party failing to meet its obligations under the contract. Contract assets and liabilities are recorded on a performance obligation basis at the end of each reporting period.

Accounts Receivable and Allowance for Doubtful Accounts

The Corporation provides an allowance for doubtful accounts when collection of an account receivable is considered doubtful, and receivables are written off against the allowance when deemed uncollectible. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates regarding, among other factors, the customer's access to capital, the customer's willingness, or ability to pay, general economic and market conditions, the ongoing relationship with the customer and uncertainties related to the resolution of disputed matters. The Corporation includes delinquent accounts in its analysis of the allowance for doubtful accounts if the accounts receivable has been outstanding for at least 90 days. The Corporation also includes accounts receivable balances that relate to customers in bankruptcy or with other known difficulties in its analysis of the allowance for doubtful accounts. Material changes to a customer's business, cash flows or financial condition, which may be impacted by negative economic and market conditions, could affect the Corporation's ability to collect amounts due.

Some contracts allow customers to withhold a small percentage of billings pursuant to retainage provisions, and such amounts are generally due upon completion of the contracts and acceptance by the customer. Based on the Corporation's experience with similar contracts in recent years, the majority of the retainage balances at the balance sheet date are expected to be collected within the next twelve months.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and, if applicable, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Functional Currency and Translation of Financial Statements

The U.S. dollar is the functional currency for the majority of the Corporation's operations, which are primarily located within the United States. The functional currency for the Corporation's foreign operations (now reported as Discontinued Operations), which are located in Canada, is the Canadian dollar. The treatment of foreign currency translation gains or losses is dependent upon management's determination of the functional currency, and when preparing its consolidated financial statements, the Corporation translates the financial statements of its foreign operating units from their functional currency into U.S. dollars. Statement of operations, comprehensive loss and cash flows are translated at average rate of the year, while the balance sheet is translated at year-end exchange rates. The translation of the balance sheet results in translation gains or losses, which are included as a separate component of equity under "Accumulated other comprehensive income (loss)." Gains and losses arising from transactions not denominated in functional currencies are included within "Foreign exchange gain (loss)" in the accompanying consolidated statement of operations and comprehensive loss.

Property and Equipment

Property and equipment items are stated at cost and depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are depreciated on a straight-line basis over the remaining lease term. Repairs and maintenance costs are charged to the consolidated statement of operations during the year in which they are incurred.

The major categories of property and equipment are depreciated on a straight-line basis over their useful lives as follows:

Buildings	20 to 50 years
Leasehold Improvements	Lease term
Tools, Machinery and Equipment	2 to 12 years
Automotive Equipment *	5 to 12 years
Other	4 to 12 years

* For most automotive equipment items, depreciation is calculated considering a residual value of 5%.

When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in the consolidated statement of operations and comprehensive loss.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be realizable. When an evaluation is required, the estimated future undiscounted cash flows associated with the asset group are compared to the asset group's carrying amount to determine if an impairment is necessary. The effect of any impairment involves expensing the difference between the fair value of the asset group and its carrying amount in the year incurred. No indicators of impairment were identified for the year ended December 31, 2020.

Goodwill and Intangible Assets

The Corporation accounts for goodwill in accordance with ASC Topic 350, Intangibles - Goodwill and Other. Goodwill is assessed annually for impairment, or more frequently if events occur that would indicate a potential reduction in the fair value of a reporting unit below its carrying value. The Corporation performs its annual impairment review of goodwill at the reporting unit level. If the Corporation determines the fair value of the reporting unit's goodwill is less than the carrying value as a result of an annual test, an impairment loss is recognized and reflected in the consolidated statement of operations and comprehensive loss during the year incurred.

The Corporation has completed its annual goodwill impairment assessment at the end of its fiscal year. No goodwill impairment charges were recorded during the year ended December 31, 2020.

In accordance with ASC Topic 360, Impairment or Disposal of Long-Lived Assets, the Corporation reviews finite-lived intangible assets for impairment whenever an event occurs or circumstances change that indicate that the carrying amount of such assets may not be fully recoverable. Recoverability is determined based on an estimate of undiscounted future cash flows resulting from the use of an asset and its eventual disposition. Should an asset not be recoverable, an impairment loss is measured by comparing the fair value of the asset to its carrying value. If the Corporation determines the fair value of an asset is less than the carrying value, an impairment loss is recognized in the consolidated statement of operations and comprehensive loss during the year incurred. No impairment losses were recognized for the year ended December 31, 2020.

The Corporation uses judgment in assessing whether goodwill and intangible assets are impaired. Estimates of fair value are based on the Corporation's projection of revenues, operating costs, and cash flows taking into consideration historical and anticipated future results, general economic and market conditions, as well as the impact of planned business or operational strategies. The Corporation determines the fair value of its reporting unit using an income approach valuation methodology. The income approach uses the discounted cash flow method. Changes in the Corporation's judgments and projections could result in significantly different estimates of fair value. The inputs used for fair value measurements of the reporting units are the lowest level (Level 3) inputs.

The Corporation's intangible assets consisted of the following and are amortized in the consolidated statement of operations and comprehensive loss using the methods mentioned below and over the period of their expected useful lives as follows:

	Methods	Periods
Software	Straight-line	6 years
Backlog	Sum-of-the-years-digits	5 to 6 years
Customer Relationships	Sum-of-the-years-digits	7 to 10 years

Business Combinations

The Corporation accounts for business combinations under the acquisition method of accounting. The purchase price of each business acquired is allocated to the tangible and intangible assets acquired and the liabilities assumed based on information regarding their respective fair values on the date of acquisition. Any excess of the purchase price over the fair value of the separately identifiable assets acquired and the liabilities assumed is allocated to goodwill. Management utilizes estimated discounted future cash flows, as well as certain other information, to determine the fair values used in purchase price allocations. The valuation of assets acquired and liabilities assumed requires a number of judgments and is subject to revision as additional information about the fair value of assets and liabilities becomes available. Additional information, which existed as of the acquisition date but unknown to the Corporation at that time, may become known during the remainder of the measurement period. This measurement period may not exceed twelve months from the acquisition date. The Corporation will recognize any adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are determined. Additionally, in the same period in which adjustments are recognized, the Corporation will record the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of any change to the provisional amounts, calculated as if the accounting adjustment had been completed at the acquisition date. Acquisition costs are expensed as incurred. The results of operations of businesses acquired are included in the consolidated statement of operations from their dates of acquisition.

Accrued Insurance Claims

For claims within the Corporation’s insurance program, it retains the risk of loss, up to certain limits, for matters related to general liability and workers’ compensation. The Corporation has established reserves that it believes to be adequate based on current evaluations and its experience with these types of claims. A liability for unpaid claims and the associated claim expenses, including incurred but not reported losses, is reflected in the consolidated balance sheets as accrued insurance claims. The effect on the Corporation’s financial statements is generally limited to the amount needed to satisfy its insurance deductibles or retentions.

The Corporation estimates the liability for claims based on facts, circumstances, and historical experience. Even though they will not be paid until sometime in the future, recorded loss reserves are not discounted. Factors affecting the determination of the expected cost for existing and incurred but not reported claims include, but are not limited to, the magnitude and quantity of future claims, the payment pattern of claims which have been incurred, and other factors such as inflation, other legislative changes, unfavorable jury decisions and court interpretations.

Litigation Costs and Reserves

The Corporation records reserves when the likelihood of incurring a loss is probable and the amount of loss can be reasonably estimated. Costs incurred for litigation are expensed as incurred.

Stock-Based Compensation

The Corporation has a stock-based compensation plan under which it grants stock-based awards, including stock options, to attract, retain, and reward talented employees, officers, and directors, and to align stockholder and employee interests. The resulting compensation expense is recognized on a straight-line basis over the vesting period, net of actual forfeitures, and is included in selling, general and administrative expenses in the consolidated statements of operations and comprehensive loss. This expense fluctuates over time as a result of the vesting periods of the stock- based awards.

Compensation expense for stock-based awards is based on fair value at the measurement date. The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model. This valuation is affected by the Corporation's stock price as well as other inputs, including the expected common stock price volatility over the expected life of the options, the expected term of the stock options, risk-free interest rates, and expected dividends, if any. Stock options vest ratably over a four-year period, are exercisable over a period of up to 10 years and have an expected life of 1 to 5 years.

Leases

Leases are classified as capital leases if they transfer substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Capital Leases

Assets held under capital leases are initially recognized as Corporation's assets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The related liability to be paid to the lessor is recognized in the consolidated balance sheet as a debt resulting from capital lease.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized directly through the statement of operations unless they are directly attributable to a qualifying asset, in which case they are capitalized based on the general policy used by the Corporation in accounting for deferred financing costs. Contingent rents are charged as expensed in the years in which they are incurred.

Operating Leases

Lease payments under operating leases are recognized as expensed on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Contingent rents resulting from operating leases are charged as expensed in the years in which they are incurred.

Fair Value of Financial Instruments

For disclosure purposes, qualifying assets and liabilities are categorized into three broad levels based on the priority of the inputs used to determine their fair values. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Certain assumptions and other information as they relate to these qualifying assets and liabilities are described below.

The Corporation's financial instruments primarily consist of cash and equivalents, trade and other receivables, contract assets and liabilities, bank loans, trade and other payables and long-term debt. The carrying amounts of these items approximate fair value due to their short maturity. The carrying amount of variable rate debt and capital lease obligations also approximates fair value.

The Corporation's cash and equivalents are based on quoted market prices in active markets for identical assets (Level 1) as of December 31, 2020. During the fiscal 2020 year, the Corporation had no material nonrecurring fair value measurements of assets or liabilities subsequent to their initial recognition. At December 31, 2020, there were no Level 3 fair value measurements.

The Corporation's financial assets and liabilities measured at fair value on a recurring basis currently include derivative financial instruments such as an interest rate swap. This derivative financial instrument is valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation considering the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation model for the interest rate swap are observable in active markets and are classified as Level 2 in the hierarchy. The fair value of the Corporation's interest rate swap liability, which is included in Trade and other Payables on the accompanying consolidated balance sheet, was approximately $2.2 million as of December 31, 2020. The Corporation recognizes all derivative instruments as assets or liabilities at their fair value in the consolidated balance sheet. The changes in the fair value of the Corporation's derivatives, which do not qualify for hedge accounting, are recognized in earnings. For the year ended December 31, 2020, the Corporation recognized approximately $1.8 million of expense related to fair value adjustments on the interest rate swap that is recorded in financing charges, net on the accompanying consolidated statement of operations and comprehensive loss.

Income Taxes

The Corporation accounts for income taxes using the liability method of accounting pursuant to the provisions of ASC Topic 740, "Income Taxes". Under the liability method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement and income tax bases of the Corporation's assets and liabilities. An allowance is recorded when it is more likely than not that any or all of the Corporation's deferred tax assets will not be realized. The income tax provision or benefit includes taxes currently payable, if any, plus the net change during the year in deferred tax assets and liabilities recorded by the Corporation.

Accounting guidance codified as FASB ASC Topic 740-20, "Income Taxes — Intraperiod Tax Allocation", clarifies the accounting for uncertainties in income taxes recognized in accordance with FASB ASC Topic 740-20 by prescribing guidance for the recognition, de-recognition and measurement in financial statements of income tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns, including a decision whether to file or not to file in a particular jurisdiction. FASB ASC Topic 740-20 requires that any liability created for unrecognized tax benefits is disclosed. The application of FASB ASC Topic 740-20 may also affect the tax bases of assets and liabilities and therefore may change or create deferred tax liabilities or assets. The Corporation recognizes interest and penalties related to unrecognized tax benefits in the consolidated statement of operations and comprehensive loss. As of December 31, 2020, the Corporation recorded $7,254 as liabilities for uncertain tax positions which is included in trade and other payables on the consolidated balance sheet.

Deferred Financing Costs

Deferred financing costs related to the Corporation's debt instruments are reflected as a deduction from the carrying amount of the related debt instrument. Deferred financing costs are amortized over the terms of the related debt instruments using the effective interest method.

Comprehensive Income (Loss)

Components of comprehensive income (loss) include all changes in equity during a year, except those resulting from changes in the Corporation's capital related accounts. The Corporation records other comprehensive income (loss) for foreign currency translation adjustments related to its foreign operations and for other revenues, expenses, gains and losses that are included in comprehensive income (loss) but excluded from net income (loss).

4. New Accounting Pronouncements

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued an update (ASU 2016-02) that requires companies to recognize on the balance sheet the contractual right-of-use assets and liabilities corresponding to the rights and obligations created by lease contracts. The new standard will be effective for fiscal years beginning after December 15, 2020, and interim period within fiscal years beginning after December 15, 2021 for private entities. The Corporation continues to evaluate the effect of the standard on its consolidated financial statements. The Corporation will adopt this guidance by January 1, 2022.

In June 2016, the FASB issued an update (ASU 2016-13) that will change the way companies measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The update will require companies to use an "expected loss" model for instruments measured at amortized cost and to record allowances for available-for-sale debt securities rather than reduce the carrying amounts. The update will also require disclosure of information regarding how a Corporation developed its allowance, including changes in the factors that influenced management's estimate of expected credit losses and the reasons for those changes. Companies will apply this standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The new standard will be effective for annual reporting periods beginning after December 15, 2022 for private entities. The Corporation is currently evaluating the potential impact of this authoritative guidance on its consolidated financial statements and will adopt this guidance by January 1, 2023.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment testing. An entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 will be effective for annual reporting periods beginning after December 15, 2022 for private entities. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Corporation is currently evaluating the potential impact of this authoritative guidance on its consolidated financial statements and will adopt this guidance by January 1, 2023.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

5. Business Combination

New York Drilling Services, Inc.

On December 31, 2020, the Corporation completed the acquisition of the assets of New York Drilling Services, Inc. (NYD), a foundation drilling service provider to the utility and industrial sectors located in the United States. The purchase price amounted to $10,000, subject to certain adjustments. The transaction was financed by the Corporation’s revolving credit facility. The total purchase price was $9,653. Total cash paid for the acquisition at time of transaction close was $8,786; $867 was held back for post-close working capital and other purchase price adjustments.

The fair value of net assets acquired was as follows:

	As of December 31, 2020
Assets Acquired	
Trade Receivables	$ 2,201
Contract Assets	2
Prepaid Expenses	276
Property and Equipment	7,786
Goodwill	14
	$ 10,279
Liabilities Assumed	
Trade and Other Payables	$ 576
Contract Liabilities	50
	$ 626
Net Assets Acquired	$ 9,653

The difference between the consideration paid and the fair value of net assets acquired was recognized as goodwill. The goodwill recognized on the transaction is mainly attributable to the expansion of the Corporation’s service offering and geographical coverage. The goodwill arising from this acquisition amounted to $14 and is deductible for income tax purposes.

The assets, liabilities and operations of NYD have been integrated with those of Riggs Distler & Company, Inc.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

6. Trade and Other Receivables

	December 31, 2020
Trade	$ 67,508
Allowance for Doubtful Accounts	(395)
	67,113
Retainage on Contracts	8,342
Other	108
	$ 75,563

7. Discontinued Operations

On June 17, 2019, the Corporation completed the sale of certain assets of its subsidiary Thirau Inc. to Valard Construction Inc. Thirau Inc. was in the business of providing services in the energy sector, particularly in the construction of electrical substations, transmission lines, overhead and underground distribution lines and other services. The sales price was $5,731 ($7,500 CDN); cash consideration at close was $2,047 ($2,679 CDN) with an additional $287 ($375 CDN) held in escrow and an estimated net working capital shortfall of $3,455 ($4,521 CDN). Certain assets were retained by the Corporation, consisting primarily of select receivables, work in process on non-transferred construction projects and a project claim on a large substation project. Monetization of the retained assets, excluding the claim, is expected to occur within one year of the sale transaction date, generating $5,250-5,625 ($7,000-7,500 CDN) in cash for the Corporation. The large substation project claim is in process, and the recovery amount is to be determined at a later date.

At the close of the sale transaction, the value of the disposed assets was as follows:

	June 17, 2019
Assets	
Trade and Other Receivables	$ 3,377
Contract Assets	2,304
Prepaid Expenses	79
Property and Equipment	4,802
Intangible Assets	7
	$10,569
Liabilities	
Trade and Other Payables	$ 2,172
Net Assets Sold	$ 8,397

Balance sheet account detail to support the Discontinued Operations included in the December 31, 2020 Balance Sheet are as follows:

	December 31, 2020
Current Assets	
Trade and Other Receivables	$ 1,793
Contract Assets	2,983
Prepaid Expenses	—
	$ 4,776
Current Liabilities	
Trade and Other Payables	$ 40
	$ 40

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

7. Discontinued Operations - con't.

Results of Discontinued Operations at December 31, 2020 are as follows:

	Year Ended December 31, 2020
Revenue	$ 12
Cost of Contracts	37
Gross Profit	(25)
Selling, General and Administrative Expenses	329
Loss on Disposal	—
Operating Loss from Discontinued Operations	(354)
Finance Charges	2
Foreign Exchange Loss	76
Loss from Discontinued Operations before Income Tax	(432)
Income Taxes	—
Net Loss from Discontinued Operations	$ (432)

The following presents selected financial information for the Discontinued Operations included in the consolidated Statement of Cash Flows for the year ending December 31, 2020:

Non-cash items included in net loss:	
Depreciation expense	$—
Loss on disposal of Discontinued Operations	—
Investing Activities:	
Purchases of property and equipment	$—

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

8. Property and Equipment

	December 31, 2020
Land, Buildings and Leasehold Improvements	$ 28,847
Tools, Machinery and Equipment	90,035
Automotive Equipment	81,875
Other	2,929
	203,686
Accumulated depreciation and amortization	(86,675)
	$ 117,011

As of December 31, 2020, property and equipment included assets leased under capital leases, that was machinery of a net carrying amount of $7,773 and automotive equipment of a net carrying amount of $24,017.

	Year Ended December 31, 2020
Depreciation included in Cost of Contracts	$ 25,088
Depreciation included in Selling, General and Administrative Expenses	1,339
	$ 26,427

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

9. Intangible Assets and Goodwill

Intangible Assets

	Weighted Average Amortization (Years)	December 31, 2020 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Software	5	$ 6,791	$ (3,191)	$ 3,600
Backlog	5	56,852	(44,143)	12,709
Customer Relationships	10	64,976	(30,979)	33,997
Total		$128,619	$ (78,313)	$ 50,306

Amortization expense related to intangible assets was $22,906 for the year ended December 31, 2020.

The estimated future aggregate amortization expense of intangible assets subject to amortization as of December 31, 2020 is set forth below:

2021	$17,876
2022	12,742
2023	7,699
2024	4,832
2025	3,510
Thereafter	3,647
	$50,306

Goodwill

Balance at December 31, 2019	$76,001
Acquisition	14
Balance at December 31, 2020	$76,015

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

10. Debt

The Corporation's bank financing includes a revolving credit facility of an authorized amount of $40,000 and a swingline facility of an authorized amount of $10,000, on which funds may also be drawn in Canadian dollars. These credit facilities bear interest at a rate based on a financial ratio. As of December 31, 2020, this rate corresponds to the lender's prime rate plus 0.50% or to bankers' acceptances / LIBOR rate plus 2.0%. According to these criteria, the actual interest rate was 1.65%. In addition, a 0.40% standby fee, also based on a financial ratio, is paid on the unused portion of this credit facility. The balance at December 31, 2020 was $9,000. As of December 31, 2020, there was $25,195 available to borrow under the revolving credit facility and $10 million available under the swingline facility.

	December 31, 2020
Term loan at LIBOR rate	$ 75,675
Capital lease obligations, at rates from 2.43% to 7.59%, maturing from February 2021 to December 2027	27,050
Other loans	—
	102,725
Unamortized deferred financing costs	(427)
	$ 102,298
Current portion	$ 16,240
Non-current portion	86,058
	$ 102,298

The bank financing, maturing in February 2023, includes a term loan of an authorized amount of $87,375. This loan bears interest at a rate based on a financial ratio. As of December 31, 2020, this rate corresponds to the lender's prime rate plus 0.50% or to LIBOR rate plus 2.0%. According to these criteria, the actual interest rate was 1.65%. This loan is repayable in quarterly principal instalments that correspond to annual payments totaling $2,625 in 2018, $5,400 in 2019, $6,300 in 2020, $7,200 in 2021 and $8,100 in 2022. The remaining balance is payable on the maturity date. Interest expense under the revolving credit facility and long term debt for the year ending December 31, 2020 was $ 5,398.

The Corporation entered into a Swap Agreement on July 5, 2019. The notional amount was $67,740, or 80% of the outstanding term loan debt. The transaction was a fixed/floating rate Swap; the Corporation's fixed rate is 1.72% (before margin). The Swap Agreement will be in effect up to the term loan maturity date.

The Corporation entered into a second Swap Agreement on February 28, 2020. The notional amount was $16,395, or 20% of the outstanding term loan debt. The transaction was a fixed/floating rate Swap; the Corporation's fixed rate is 1.19% (before margin). The Swap Agreement will be in effect up to the term loan maturity date.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

10. Debt - con't.

The bank financing is secured by all the Corporation's assets and is subject to compliance with certain financial ratios based on the Corporation's consolidated financial statements. The Corporation was in compliance with all financial covenants as of December 31, 2020.

Maturities of Long-term Debt, including capital leases, for years following December 31, 2020, are as follows:

2021	$ 16,240
2022	14,586
2023	64,937
2024	3,654
2025	1,842
Thereafter	1,039
	$102,298

The Corporation's future minimum capital lease commitments as of December 31, 2020 are as follows:

2021	$10,358
2022	7,444
2023	5,068
2024	3,907
2025	1,940
Thereafter	1,084
Total minimum capital lease payments	$29,801
Less: interest	(2,751)
Present value of minimum lease payments, net	27,050
Less: current obligations under capital leases	(9,237)
Obligations under capital leases, long-term	$17,813

11. Trade and Other Payables

	December 31, 2020
Suppliers and Accrued Expenses	$ 52,105
Salaries, Vacation and Bonuses	8,884
Commodity Taxes	470
Retainage on Contracts	246
Insurance Reserves	1,069
Uncertain Tax Position	7,253
	$ 70,027

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

12. Stock Options

On May 8, 2018, the Corporation adopted a share option plan whereby key employees, officers and directors may acquire shares of the Corporation. By adopting the plan, the Board of Directors wishes to create, during its 10 year term, an equity-oriented compensation plan for and to reward the current and future individuals who will contribute to the growth of the Corporation and its subsidiaries. The exercise price of share options is determined by a committee of the Board in its sole discretion, but will not be less than the fair market value of a share on the date of grant. Share options are exercisable in whole or in part in accordance with the vesting provisions set forth in the stock option agreement and over a maximum period of 10 years following the granting or at the latest 90 days after the holder terminates his/her employment with the Corporation or in the year following the date of his/her death.

The following tables summarize information about stock options outstanding and exercisable:

	Year ended December 31, 2020	
	Number	Weighted Average Exercise Price
Outstanding at the beginning of the year	1,321	$ 11,388
Granted	170	12,140
Forfeited	(26)	10,000
Outstanding at the end of the year	1,465	$ 11,497
Exercisable at the end of the year	848	$ 11,460

No stock options were exercised or expired during 2020.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

12. Stock Options - con't.

	Year Ended December 31, 2020
a) Fair Value, US dollars per share option, established using Black-Scholes model	$ 8,820
Black-Scholes Pricing Model Assumptions:	
Risk-free interest rate (based on US treasury bond 1 year)	0.10%
Expected volatility	43.00%
Dividend yield	Nil
Expected life of each option granted	1 year
Share price at grant date (US dollars)	$ 20,551

b) The fair values of the options are expensed ratably over the four-year performance period which 25% of option holder's shares will vest after twelve months of employment, with the remaining shares vesting monthly thereafter, subject to option holder's continued service with the Corporation (as defined in the plan). There are no performance-based features or market conditions. During the year ended December 31, 2020, $1,735 was recorded as stock-based compensation expense which is included in Selling, General and Administrative expenses in the accompanying consolidated statement of operations and comprehensive loss.

The following table summarizes information about stock options outstanding as of December 31, 2020:

	Options Outstanding			Option Vested		
Exercise price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
$10,000	1,112	7.68	$ 10,000	692	7.67	$ 10,000
$20,000	183	7.66	20,000	115	7.66	20,000
$12,140	170	9.50	12,140	41	9.50	12,140
	1,465	7.89	$ 11,497	848	7.76	$ 11,460

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

12. Stock Options - con't.

The following table summarizes information about the Corporation's non-vested options:

	Year Ended December 31, 2020	
	Number	Weighted Average Grant Date Fair Value
Non-vested at the beginning of the year	854	$ 3,753
Granted	170	8,820
Vested	(372)	3,993
Forfeited	(26)	4,127
Non-vested at the end of the year	626	$ 4,971

The total aggregate intrinsic value of options outstanding and exercisable as of December 31, 2020 were approximately $13.2 and $7.7, respectively.

13. Revenues

Remaining Performance Obligations

The Corporation had $127,787 of remaining performance obligations yet to be satisfied as of December 31, 2020. The Corporation expects to recognize approximately $127,787 of its remaining performance obligations as revenue within the next twelve months.

Contract Balances

Contract terms with customers include the timing of billing and payment, which usually differs from the timing of revenue recognition. As a result, the Corporation carries contract assets and liabilities on the balance sheet. These contract assets and liabilities are calculated on a contract-by-contract basis and reported on a net basis at the end of each period and are classified as current. The following table provides information about contract assets and liabilities:

	December 31, 2020
Contract assets	$ 35,396
Contract liabilities	(13,887)
	$ 21,509

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

13. Revenues - con't.

The amount of revenue recognized during the twelve months ended December 31, 2020 that was included in the prior period contract liabilities balance was $7,143. This revenue consists primarily of work performed during the period on contracts with customers that had advance billings.

Progress billings in accounts receivable at December 31, 2020 included retentions of $8,342.

Disaggregated Revenue

The following series of tables presents revenue disaggregated by geographic area where the work was performed, by segment, and by contract type:

	Year Ended December 31, 2020
Geographic Disaggregation:	
United States	$ 440,170
Canada (Discontinued Operations Note 7.)	12
	$ 440,182
Segment Disaggregation:	
Utility	$ 282,588
Heavy Industrial	157,594
	$ 440,182
Contract Type Disaggregation:	
Fixed-price contracts	$ 170,458
Unit Price contracts	94,547
Time and Materials, and other cost reimbursable contracts	175,177
	$ 440,182

Typically, the Corporation assumes more risk with fixed-price contracts since increases in cost to perform the work may not be recoverable. However, these types of contracts typically offer higher profits than time and materials and other cost reimbursable contracts when completed at or below the costs originally estimated. The profitability of time and materials and other cost reimbursable contracts is typically lower than fixed-price contracts and is usually less volatile than fixed-price contracts since the profit component is factored into the rates charged for labor, equipment and materials, or is expressed in the contract as a percentage of the reimbursable costs incurred.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

14. Finance Charges, net

	Year Ended December 31, 2020
Finance Charges on Long-term Debt	$ 6,578
Interest on Bank Loans and Bank Charges	1,809
Interest Income	—
	$ 8,387

15. Income Tax

The components of the income tax provision are as follows:

	Year Ended December 31, 2020
Current Tax	
U.S. Federal	$ —
U.S. State and Local	236
Foreign	7,254
	$ 7,490
Deferred Tax	
U.S. Federal	$ (2,616)
U.S. State and Local	438
Foreign	—
	(2,178)
Provision for Income Taxes	$ 5,312
U.S. and Foreign Components of Loss before Income Tax are as follows:	
U.S. Federal	$ (8,327)
Foreign	(432)
	$ (8,759)

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

15. Income Tax - con't.

Income tax expense (benefit) computed by applying the federal statutory rate to the Companies' pre-tax loss differed from reported income tax expense (benefit) for the year ended December 31, 2020 was as follows:

	Year Ended December 31, 2020
Statutory Federal Tax Benefit	$ (1,839)
State Income Taxes, net of Federal Benefit	625
Permanent Items	399
Change in Valuation Allowance	18
NOL's and other temporary differences	(1,144)
Uncertain tax position	7,253
Total	$ 5,312

Deferred tax assets and liabilities are comprised of the following at December 31, 2020:

	December 31, 2020
Deferred Tax Assets Net	
Operating Losses	$ 21,667
Capital Losses	—
Other	2,704
Total Deferred Tax Assets	24,371
Valuation Allowance	(10,167)
Deferred Tax Assets, net of Valuation Allowance	$ 14,204
Deferred Tax Liabilities	
Contract Retainage	$ 2,671
Property and Equipment	21,910
Intangible Assets	11,441
	$ 36,022
Deferred Tax Liability, net	$ (21,818)

Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized. The Corporation adjusts valuation allowances to measure deferred tax assets at the amounts considered realizable in future periods when the Corporation's facts and assumptions change. The valuation allowance disclosed in the table above relates primarily to U.S. federal, state and foreign net operating loss carryforwards.

As of December 31, 2020, the Corporation had federal, state and foreign net operating loss carryforwards of $64,396, $33,099 and $22,609, respectively. The federal and state net operating loss carryforwards will expire in various years from fiscal 2020 through 2039 if not utilized. The foreign net operating loss carryforwards will expire in various years from fiscal 2032 through 2039 if not utilized. Certain net operating loss carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code, but are expected to be realized, with the exception of those which have a valuation allowance.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when the taxes are paid or recovered.

15. Income Tax - con't.

The Corporation is subject to income tax in jurisdictions outside the United States. Its operations in certain jurisdictions remain subject to examination for tax years beginning 2017 through present except for tax jurisdictions where the statute of limitations has yet to begin. A foreign subsidiary of the Corporation is currently subject to an open examination for 2018. During 2020, the Corporation recorded a provision for uncertain tax positions and related liability of $7,254 with respect to such foreign subsidiary's open examination. The Corporation believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty.

16. Concentrations of Credit Risk

The Corporation is subject to concentrations of credit risk related primarily to its cash and cash equivalents and its net receivable position with customers, which includes amounts related to account receivable and contract assets net of contract liabilities with the same customer. Substantially all of the Corporation's cash and cash equivalents are managed by high credit quality financial institutions. The Corporation does not currently believe the principal amount of these cash and cash equivalents is subject to any material risk of loss or changes in economic conditions. In addition, the Corporation grants credit under normal payment terms to its customers, which include electric power and energy companies, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located in the United States and Canada. Consequently, the Corporation is subject to potential credit risk related to changes in business and economic factors throughout these locations, which may be heightened as a result of uncertain economic and financial market conditions. However, the Corporation generally has certain statutory lien rights with respect to services provided.

17. Commitments and Contingencies

Leases

The Corporation's aggregate commitments under operating leases for offices, equipment and automotive equipment amount to $2,792. Annual instalments to be paid over the next five years are, $1,174 in 2021, $316 in 2022, $315 in 2023, $225 in 2024, $762 in 2025 and beyond. Total rent expense was $2,128 for the year ended December 31, 2020.

Letters of Credit

From time to time the Corporation is required to post letters of credit to guarantee the obligations of its wholly owned subsidiaries, which reduces the borrowing availability under its revolving credit facility. As of December 31, 2020, the Corporation had $5,805 in outstanding letters of credit.

18. Retirement Plans

Defined Contribution Plan

The Corporation sponsors a 401(k) profit-sharing plan that covers all non-union employees. Under the terms of the plan, the Corporation matches 100% of the first 5% of qualified compensation contributed by participants. The Corporation can elect to make additional profit sharing contribution of an additional 5% of qualified compensation at its discretion. The contributions to the plan for the year ending December 31, 2020 were $2,262.

Multiemployer Plans

The Corporation contributes to various union sponsored multiemployer defined benefit pension plans in the U.S. according to various collective bargaining agreements ("CBA's"). Benefits under these plans are generally based on compensation levels and years of service.

For the Corporation, the financial risks of participating in multiemployer plans are different from single- employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer discontinues contributions to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If a participating employer chooses to stop participating in a plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

Under federal legislation regarding multiemployer defined benefit pension plans, in the event of a withdrawal from a plan or plan termination, companies are required to continue funding their proportionate share of such plan's unfunded vested benefits. We are a participant in multiple union sponsored multiemployer plans, and as a plan participant, our potential obligation could be significant. The amount of the potential obligation is not currently ascertainable because the information required to determine such amount is not identifiable or readily available.

Our participation in significant plans for the fiscal year ended December 31, 2020 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three digit plan number. The zone status is based on the latest information that the Corporation received from the plan and is certified by the plan's actuary. Plans in the red zone are generally less than 65% funded, plans in the yellow zone are generally less than 80% funded, and plans in the green zone are generally at least 80% percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The "Surcharge Imposed" column indicates plans in the red zone that require a payment surcharge in excess of the regular contribution amounts. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject. The top 15 Union plans that the Company has contributed to are included in the table as they represent approximately 87% of the total amount paid into defined benefit pension plans.

(in thousands of U.S. dollars, except share and per share data, unless otherwise stated)

18. Retirement Plans - con't.

The Corporation is contingently liable for unfunded vested benefits in the event that it withdraws from the multiemployer defined benefit pension plans. Information from the plans' trustees is not available to determine the Corporation's share, if any, of the unfunded vested benefits liability. At this time, the Corporation has not established any liability because withdrawal from the plans is not probable or reasonably possible.

Pension fund contributions to multiemployer plans were $18,006 for the year ending December 31, 2020.

During the year ended December 31, 2020, the Corporation had 2,911 employees. Of the total employees in 2020, 2,622 employees are represented by various union collective bargaining agreements that expire at various dates.

Pension Fund	EIN/Pension Plan: Number	Pension Protection Act Zone Status 2020	FIP/RP Status Pending or Implemented	Corporation Contributions Fiscal Year 2020	Surcharge Imposed	Contributions greater than 5% of Total Plan Contributions(3)	Expiration Date of Collective-Bargaining Agreement
IBEW Local 351 Pension							
Plan:	223417366/001	2020 - N/A (1)	N/A	$ 2,443	N/A	YES	12/4/2021
U.A. Local Union No. 322 Pension							
Plan:	216016638/001	2020 - N/A (1)	YES	2,217	YES	YES	4/13/2021
National Electric Benefit Fund							
Plan:	530181657/001	2020 - N/A (1)	N/A	2,214	N/A	NO	Several different CBA agreements (2)
Boilermaker- Blacksmith National Pension Trust							
Plan:	486168020/001	2020 - N/A (1)	YES	2,100	YES	NO	Several different CBA agreements (2)
West Chester Heavy Construction Laborers Local 60 Pension Fund							
Plan:	131962287/001	2020 - N/A (1)	N/A	1,160	N/A	YES	3/27/2021
U.A. Local 74 Plumbers & Pipefitters							
Plan:	516015925/001	2020 - N/A (1)	YES	981	NO	NO	6/14/2021
Steamfitters Local Union No. 420 Pension							
Plan:	232004424/001	2020 - N/A (1)	YES	932	YES	NO	4/20/2023
Northeast Carpenters Pension Fund							
Plan:	111991772/001	2020 - N/A (1)	NO	873	NO	NO	Several different CBA agreements (2)
IBEW Local Union 654- Defined Benefit Pension							
Plan:	236538183/001	2020 - N/A (1)	N/A	701	N/A	NO	6/2/2024
IBEW Local 456 Pension							
Plan:	226238995/001	2020 - N/A (1)	N/A	649	N/A	NO	6/1/2021
IBEW Local 1249 Pension							
Plan:	156035161/001	2020 - N/A (1)	N/A	395	N/A	NO	5/2/2021
Heavy and General Laborer's Local Union 472 and Local Union 172 of New Jersey Pension Fund							
Plan:	226032103/001	GREEN - thru 03/2020	N/A	282	N/A	NO	2/28/2021
International Union of Operating Engineers Pension Fund of Eastern Pennsylvania and Delaware							
Plan:	236405239/001	2020 - N/A (1)	N/A	254	N/A	NO	12/31/2021
Laborers District Council Benefit Fund							
Plan:	256135576/001	2020 - N/A (1)	YES	254	NO	NO	4/30/2021
Laborers Local 57 Industrial Pension Plan:							
Plan:	231627410/003	2020 - N/A (1)	N/A	241	N/A	NO	4/30/2021
Contributions to other multiemployer				2,310			
Total contributions made				$ 18,006			

Notes:

(1) The Pension Plan: Status Reports for the year ending December 31,2020 are not yet available from the Unions, the status reported to us in 2020 related to the YE 2019 data. Under Federal pension law, if a multiemployer pension Plan is determined to be in critical or endangered status, the Plan: must provide notice of this status to participants, beneficiaries, the bargaining parties the Pension Benefit Guaranty Corporation, and the Department of Labor. For reference the 5500 filings can be found at this website (https://www.efast.dol.gov/portal/app/disseminatePublic?execution=e1s1) just search for the "EIN" of the Plan:, select the most recently filed return and search status- this will show the most recent funded percentage to indicate the Plan's status. Also the critical or endangered status notices can be found at https://www.dol.gov/agencies/ebsa/about -ebsa/our-activities/public-disclosure/critical-status-notices.

(2) Our employees are members of several various local unions that make up this total.

(3) This information was obtained from the respective plan's Form 5500 ("Forms") for the most current available filing. These dates may not correspond with our fiscal year contributions. The above noted percentages of contributions are based upon disclosures contained in the plans' Forms. Those Forms, among other things, disclose the names of individual participating employers whose annual contributions account for more than 5% of the aggregate annual amount contributed by all participating employers for a plan year.

19. Risks and Uncertainties

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak”) and the risk to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Corporation is dependent on its union labor workforce to deliver its services. Developments in response to COVID-19, such as social distancing and shelter-in-place directives, may impact the Corporation’s ability to efficiently deploy its workforce. These same developments may affect the operations and timing of deliverables from the Corporation’s subcontractors and suppliers, as their own workforces and operations may also be disrupted by the efforts to curtail the spread of the virus. Further, the Corporation’s customers may either delay or suspend existing or future projects based on these same developments. Unforeseen conditions may also require contract modifications and changes in the Corporation’s forecasts to complete its existing contracts. While expected to be temporary, these disruptions may negatively impact the Corporation’s revenues, its results of operations, financial condition, and liquidity in 2021, as they did in 2020. As of the date of these financial statements, the impact of the COVID- 19 outbreak has not been significant to the Corporation’s business.

Although the Corporation cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a negative effect on the Corporation’s results of future operations, financial position, and liquidity in fiscal year 2021.

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (CARES) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

As of the date of this report, the Corporation had utilized the deferment of employer social security payments in mid to late 2020; the Corporation then stopped the payment deferrals in Q4 2020 and paid off the deferrals by December 31, 2020. The Corporation also assessed its eligibility for the refundable payroll tax credits. The Corporation determined it was eligible for the credit and made the appropriate documentation and tax return filings. The total refundable payroll tax credits reported by the Corporation totaled $236 in 2020.

20. Subsequent Events

The Corporation has evaluated the impact of subsequent events through June 18, 2021, representing the date at which the consolidated financial statements were available to be issued and has determined that no events of consequence have occurred within the Corporation.

SOUTHWEST GAS HOLDINGS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The accompanying Unaudited Pro Forma Balance Sheet as of June 30, 2021 combines the historical consolidated balance sheets of Southwest Gas Holdings, Inc. (the "Company") and Drum Parent, Inc. ("Drum"), giving effect to the merger of Drum with and into ETDH Merger Sub, Inc., an indirect wholly owned subsidiary of the Company, which was completed on August 27, 2021 (the "Acquisition"), as if it had been completed on June 30, 2021. The accompanying Unaudited Pro Forma Condensed Combined Statements of Income for the periods presented combine the historical consolidated statements of operations of the Company and Drum, as if the Acquisition had been completed on January 1, 2020, the beginning of the earliest period presented.

The accompanying Unaudited Pro Forma Financial Statements and related notes were prepared using the acquisition method of accounting with the Company considered the acquirer of Drum. Accordingly, the consideration paid in the Acquisition has been allocated to assets and liabilities of Drum based upon their estimated fair values as of the date of completion of the Acquisition. Any amount of the consideration that is in excess of the estimated fair values of identifiable assets acquired and liabilities assumed was recorded as goodwill in the Company's balance sheet upon the completion of the Acquisition. The accompanying unaudited pro forma purchase price allocation is preliminary and is subject to further adjustments and will be finalized within 12 months from the acquisition date.

The unaudited pro forma condensed combined financial statements presented are based on available information using assumptions the Company believes are reasonable. These pro forma financial statements and related notes are being provided for illustrative purposes only and do not purport to represent the Company's actual financial position or results of operations had the Acquisition occurred on the date indicated nor do they project the Company's results of operations or financial position for any future period or date. The pro forma financial statements do not consider any cost savings, operating synergies, or additional costs that may be incurred to achieve any such synergies after completing the acquisition. As such, the actual results reported by the combined company in periods following the Acquisition may differ materially from these unaudited pro forma condensed combined financial statements.

These unaudited pro forma condensed combined financial statements should be read in conjunction with the historical consolidated financial statements and accompanying notes included in the Company's unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2021 as included in the Form 10-Q filed on August 5, 2021, and with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2020, contained in the Form 10-K filed on February 25, 2021, as well as with both the historical audited consolidated financial statements of Drum as of and for the year ended December 31, 2020 and the unaudited interim condensed consolidated financial statements of Drum as of and for the six months ended June 30, 2021, which are attached as exhibits to the same Form 8-K/A to which these unaudited pro forma condensed combined financial statements are attached.

SOUTHWEST GAS HOLDINGS, INC.
Unaudited Pro Forma Condensed Combined Balance Sheets
As of June 30, 2021
(In thousands)

	Southwest Gas Holdings, Inc. Historical	Drum Parent, Inc. Historical	Transaction Accounting Adjustments	Pro Forma Combined
ASSETS				
Utility Plant:				
Gas plant	$ 8,664,624	$ —	$ —	$ 8,664,624
Less: accumulated depreciation	(2,481,016)	—	—	(2,481,016)
Construction work in process	151,358	—	—	151,358
Net utility plant	6,334,966	—	—	6,334,966
Other property and investments	860,701	158,944(1)	296,624(A)	1,315,317
			(2,424)(B)	
			1,472(E)	
Current assets:				
Cash and cash equivalents	47,565	464	104,279(H)	123,246
			(29,062)(K)	
Accounts receivable, net of allowances	512,385	136,949(2)	(27,715)(I)	621,619
Accrued utility revenue	38,500	—	—	38,500
Income taxes receivable, net	23,839	307	342(I)	24,488
Deferred purchased gas costs	235,104	—	—	235,104
Prepaid and other current assets	149,402	5,503	(256)(I)	154,649
Total current assets	1,006,795	143,223	47,588	1,197,606
Noncurrent assets:				
Goodwill	348,173	76,015	370,779(C)	794,967
Deferred income taxes	345	—	—	345
Deferred charges and other assets	488,042	68	5,197(F)	493,239
			(68)(I)	
Total noncurrent assets	836,560	76,083	375,908	1,288,551
Total assets	$ 9,039,022	$ 378,250	$ 719,168	$10,136,440
CAPITALIZATION AND LIABILITIES				
Capitalization:				
Common stock	$ 60,718	$ 172	$ (172)(D)	$ 60,718
Additional paid-in-capital	1,733,572	235,480	(235,480)(D)	1,733,572
Accumulated other comprehensive loss, net	(55,688)	(551)	551(D)	(55,688)
Retained earnings	1,108,279	(67,513)	66,840(D)	1,078,544
			(29,062)(K)	
Total equity	2,846,881	167,588	(197,323)	2,817,146
Redeemable noncontrolling interest	200,529	—	—	200,529
Long-term debt, less current maturities	2,478,823	84,033	888,327(F)	3,451,183
Total capitalization	5,526,233	251,621	691,004	6,468,858
Current liabilities:				
Current maturities of long-term debt	319,417	16,313	(35,520)(F)	300,210
Short-term debt	318,000	14,561(3)	—	332,561
Accounts payable	182,304	53,435	(5,754)(I)	228,465
			(1,520)(G)	
Customer deposits	44,088	—	—	44,088
Income taxes payable, net	19,259	—	—	19,259
Accrued general taxes	51,712	—	—	51,712
Accrued interest	19,653	—	—	19,653
Other current liabilities	317,970	18,418	(892)(I)	335,908
			412(E)	
Total current Liabilities	1,272,403	102,727	(43,274)	1,331,856
Deferred income taxes and other credits:				
Deferred income taxes and investment tax credits, net	694,719	23,902	70,903(J)	789,524
Accumulated removal costs	409,000	—	—	409,000
Other deferred credits and other long-term liabilities	1,136,667	—	1,060(E)	1,137,202
			(525)(I)	
Total deferred income taxes and other credits	2,240,386	23,902	71,438	2,335,726
Total capitalization and liabilities	$ 9,039,022	$ 378,250	$ 719,168	$10,136,440

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

SOUTHWEST GAS HOLDINGS, INC.
Unaudited Pro Forma Condensed Combined Statements of Income
For the Six Months Ended June 30, 2021
(In thousands, except per share amounts)

	Southwest Gas Holdings, Inc. Historical	Drum Parent, Inc. Historical	Transaction Accounting Adjustments	Pro Forma Combined
Operating revenues:				
Gas operating revenues	$ 814,728	$ —	$ —	$ 814,728
Utility infrastructure services revenues	892,600	240,210	—	1,132,810
Total operating revenues	1,707,328	240,210	—	1,947,538
Operating expenses:				
Net cost of gas sold	232,517	—	—	232,517
Operations and maintenance	211,523	—	—	211,523
Depreciation and amortization	176,290	8,930	—	199,336
		13,472(4)	—	
			220(AA)	
			424(BB)	
Taxes other than income taxes	40,025	—	—	40,025
Utility infrastructure services expenses	814,254	223,184(5)	—	1,022,385
		(13,472)(4)	—	
			(1,581)(CC)	
Total operating expenses	1,474,609	232,114	(937)	1,705,786
Operating income	232,719	8,096	937	241,752
Other income and (expenses):				
Net interest deductions	(49,903)	(1,817)	(19,955)(DD)	(71,675)
Other income (deductions)	(863)	(1,238)(6)	528(FF)	(1,573)
Total other income and (expenses)	(50,766)	(3,055)	(19,427)	(73,248)
Income before income taxes	181,953	5,041	(18,491)	168,503
Income tax expense	36,634	2,547	(4,547)(HH)	34,634
Net income	145,319	2,494	(13,944)	133,869
Net income attributable to noncontrolling interest	2,907	—	—	2,907
Net income attributable to Southwest Gas Holdings, Inc.	$ 142,412	$ 2,494	$ (13,944)	$ 130,962
Earnings per share:				
Basic	$ 2.45			$ 2.25
Diluted	$ 2.45			$ 2.25
Weighted average shares:				
Basic	58,106			58,106
Diluted	58,197			58,197

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

SOUTHWEST GAS HOLDINGS, INC.
Unaudited Pro Forma Condensed Combined Statements of Income
For the Year Ended December 31, 2020
(In thousands, except per share amounts)

	Southwest Gas Holdings, Inc. Historical	Drum Parent, Inc. Historical	Transaction Accounting Adjustments	Pro Forma Combined
Operating revenues:				
Gas operating revenues	$ 1,350,585	$ —	$ —	$1,350,585
Utility infrastructure services revenues	1,948,288	440,170	—	2,388,458
Total operating revenues	3,298,873	440,170	—	3,739,043
Operating expenses:				
Net cost of gas sold	342,837	—	—	342,837
Operations and maintenance	408,116	—	—	408,116
Depreciation and amortization	332,027	22,906	—	382,603
		26,427(4)	—	
			394(AA)	
			849(BB)	
Taxes other than income taxes	63,460	—	—	63,460
Utility infrastructure services expenses	1,729,429	416,624(5)	—	2,146,953
		(26,427)(4)	—	
			(1,735)(CC)	
			29,062(EE)	
Total operating expenses	2,875,869	439,530	28,570	3,343,969
Operating income	423,004	640	(28,570)	395,074
Other income and (expenses):				
Net interest deductions	(111,477)	(8,387)	(30,400)(DD)	(150,264)
Other income (deductions)	(6,789)	(1,011)(6)	432(FF)	(8,041)
			(673)(GG)	
Total other income and (expenses)	(118,266)	(9,398)	(30,641)	(158,305)
Income before income taxes	304,738	(8,758)	(59,211)	236,769
Income tax expense	65,753	5,312	(21,814)(HH)	49,251
Net income	238,985	(14,070)	(37,397)	187,518
Net income attributable to noncontrolling interest	6,661	—	—	6,661
Net income attributable to Southwest Gas Holdings, Inc.	$ 232,324	$ (14,070)	$ (37,397)	$ 180,857
Earnings per share:				
Basic	$ 4.15			$ 3.23
Diluted	$ 4.14			$ 3.23
Weighted average shares:				
Basic	55,998			55,998
Diluted	56,076			56,076

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

Note 1. Description of the Transaction

On August 27, 2021, Centuri Group, Inc. (“Centuri”), a wholly owned subsidiary of Southwest Gas Holdings, Inc. (the “Company”) completed its acquisition of Drum Parent, Inc. (“Drum”), a Delaware corporation (the “Acquisition”). As a result of the Acquisition, Drum became an indirect wholly owned subsidiary of the Company. The purchase price for the Acquisition was $830.4 million in cash consideration subject to customary adjustments, including working capital.

Note 2. Basis of Pro Forma Presentation

The accompanying unaudited pro forma condensed combined financial statements were prepared in accordance with Article 11 of Regulation S-X prescribed by the SEC. The historical condensed financial information of the Company has been adjusted to give effect to transaction accounting adjustments that are necessary to account for the Acquisition.

The unaudited pro forma condensed combined balance sheet as of June 30, 2021 combines the historical consolidated balance sheets of the Company and Drum and has been prepared as if the Acquisition had occurred on June 30, 2021. The unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2021 and year ended December 31, 2020 combines the historical consolidated statement of operations of the Company and Drum and has been prepared as if the Acquisition closed on January 1, 2020. The unaudited pro forma condensed combined financial statements have also been adjusted to give effect to transaction accounting adjustments.

Differences in the accounting practices or policies applied by the Company and Drum may exist that would materially impact the pro forma financial statements. The Company believes that there may be differences related to, among other things, the useful lives of depreciable assets. Because the Company has not yet completed an analysis of the information which would enable the estimate of any differences which may result from the application of different accounting practices or policies, the extent of the adjustments that may be necessary is not known at this time and no pro forma adjustments have been recorded to conform accounting practices or policies.

The Acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Under the acquisition method, the total estimated purchase price, or consideration transferred, is measured at the Acquisition closing date. The assets of Drum have been measured based on preliminary estimates using assumptions that the Company’s management believes are reasonable utilizing information currently available.

The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. The excess of the purchase price over the estimated amounts of identifiable assets and liabilities assumed related to Drum as of the effective date of the Acquisition was allocated to goodwill in accordance with the accounting guidance. The purchase accounting is subject to finalization of the Company’s analysis of the fair value of the assets and liabilities of Drum as of the Acquisition date. Accordingly, the purchase accounting in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation. Such adjustments could be material.

For purposes of measuring the estimated fair value of the assets acquired as reflected in the unaudited pro forma condensed combined financial statements, in accordance with the applicable accounting guidance, the Company established a framework for measuring fair values. The applicable accounting guidance defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (an exit price). Market participants are assumed to be buyers and sellers in the principal or most advantageous market for the asset or liability. Additionally, under the applicable accounting guidance, fair value measurements for an asset assume the highest and best use of that asset by market participants. As a result, the Company may be required to value assets of Drum at fair value measures that do not reflect the Company's intended use of those assets. Use of different estimates and judgments could yield different results.

The unaudited pro forma condensed combined financial statements presented are based on available information using assumptions the Company believes are reasonable. These pro forma financial statements and related notes are being provided for illustrative purposes only and do not purport to represent the Company's actual financial position or results of operations had the Acquisition occurred on the date indicated nor do they project the Company's results of operations or financial position for any future period or date. The pro forma financial statements do not consider any cost savings, operating synergies, or additional costs that may be incurred to achieve any such synergies after completing the acquisition. As such, the actual results reported by the combined company in periods following the Acquisition may differ materiality from these unaudited pro forma condensed combined financial statements.

Note 3. Estimated Preliminary Purchase Price Allocation and Consideration Transferred

The Company has performed a preliminary purchase price analysis of the fair value of Drum's assets and liabilities. Using the total consideration for the Acquisition, the Company has estimated the allocations to such assets and liabilities. The following table shows the consideration transferred and the preliminary allocation of the purchase price for Drum to the acquired identifiable assets and assumed liabilities at their preliminary fair values as of the transaction's closing date, August 27, 2021 (in thousands):

Assets acquired:	
Cash and cash equivalents	$ 1,893
Accounts receivable, net of allowances	69,120
Contract assets	40,114
Income taxes receivable, net	649
Right of use assets under operating leases	1,472
Prepaid expenses	5,247
Property and Equipment	118,144
Intangible assets	335,000
Goodwill	446,794
Total assets acquired	1,018,433
Liabilities assumed:	
Trade and other payables	46,161
Finance lease obligations	27,626
Contract liabilities	12,665
Operating lease obligations	1,472
Other liabilities	5,308
Deferred tax liabilities	94,806
Total liabilities assumed	188,038
Total estimated consideration	$ 830,395

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the pro forma balance sheet and income statement. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations, but in no event later than one year following the completion of the Acquisition. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments. The final allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in allocations to intangible assets such as trade names, backlog and customer relationships as well as goodwill, (3) income taxes and (4) other changes to assets and liabilities.

Note 4. Pro Forma Adjustments

Reclassification Adjustments

Certain reclassifications have been made to the historical presentation of Drum to conform to the presentation used in these unaudited pro forma condensed combined financial statements as follows:

Pro Forma Balance Sheet

(1) - Property and Equipment, net totaling $117.5 million and Intangible Assets, net totaling $41.4 million (including $3.0 million in internal-use software), as presented in Drum's historical financial statements, were combined into Other property and investments on the face of the financials to conform with the Company's presentation.

(2) - Trade and Other Receivables, net of $95.4 million and Contract Assets of $41.5 million, as presented in Drum's historical financial statements, were combined into Accounts Receivable, net of allowances on the face of the financials to conform with the Company's presentation.

(3) - Revolving Line of Credit of $14.6 million was reclassified to Short-term debt on the face of the financials to conform with the Company's presentation.

Pro Forma Statement of Income

(4) - For the periods ended June 30, 2021 and December 31, 2020, depreciation was reclassified from Cost of Contracts and Selling, General and Administrative Expenses to Depreciation and Amortization to conform Drum's financial information to the Company's presentation. For the six months and twelve months ending June 30, 2021 and December 31, 2020, depreciation included in Cost of Contracts by Drum was $12.6 million and $25.1 million, respectively. For the six months ended June 30, 2021 and the year ended December 31, 2020, depreciation included in Selling, General, and Administrative expenses by Drum was $0.9 million and $1.3 million, respectively.

(5) - Cost of Contracts and Selling, General, and Administrative Expenses were combined into Utility infrastructure services expense to conform with the Company's financial statement presentation.

(6) – For the periods ended June 30, 2021 and December 31, 2020, Drum recorded a loss for discontinued operations of $0.5 million and $0.4 million, respectively. This figure was presented in Other income (deductions) on the face of the Condensed Combined Statement of Income to conform with the Company's presentation.

Unaudited Condensed Combined Pro Forma Balance Sheet Adjustments

(A) - To reflect the net adjustment of $296.6 million to increase the historical intangible asset values of Drum to the preliminary fair values of the identifiable intangible assets acquired in the Acquisition as of August 27, 2021 (the closing date of the Acquisition and date of the preliminary purchase price allocation). As part of the preliminary valuation analysis, the Company identified intangible assets, including backlog, trade names, and customer relationships. The fair value of identifiable intangible assets is determined primarily using the "income approach," which requires a forecast of all of the expected future cash flows. Since all information required to perform a detailed valuation analysis of Drum's intangible assets could not be obtained as of the date of this filing, for purposes of these unaudited pro forma condensed combined financial statements, the Company used certain assumptions based on available transaction data for the industry. The following table shows a preliminary estimate of the fair value of those intangible assets and their related average estimated useful lives (in thousands):

	Estimated Fair Value	Estimated Useful Life in Years	Net Book Value as of June 30, 2021	Transaction Accounting Adjustment
Backlog	$ 5,000	1	$ 8,693	$ (3,693)
Trade names	60,000	15	—	60,000
Customer relationships	270,000	19	29,683	240,317
	$ 335,000		$ 38,376	$ 296,624

(B) - To reflect the net adjustment of $(2.4) million to decrease the historical property and equipment (recorded within Other property and investments) acquired by the Company to their preliminary estimated fair values. The preliminary fair value of identifiable property and equipment is determined primarily using the "cost approach" or "market approach" which requires a comparison to similar assets available in an open market. Since all information required to perform a detailed valuation analysis of Drum's property and equipment could not be obtained as of the date of this filing, for purposes of these unaudited pro forma condensed combined financial statements, the Company used certain assumptions based on available transaction data for the industry. The Company is continuing to assess the estimated useful lives of acquired assets but does not believe a change in lives would have a material impact on depreciation expense for the periods presented. The following table shows a preliminary estimate of the fair value of property and equipment and their related average estimated useful lives (in thousands):

	Estimated Fair Value	Estimated Useful Life in Years	Net Book Value as of June 30, 2021	Transaction Accounting Adjustment
Land, buildings and improvements	$ 23,670	37	$ 28,198	$ (4,528)
Tools, machinery and equipment	49,571	6	48,720	851
Automotive equipment	39,827	3	40,380	(553)
Other	5,076	6	3,269	1,807
	$ 118,144		$ 120,568	$ (2,424)

(C) - To eliminate Drum's historical goodwill of $76.0 million and to reflect estimated goodwill of $446.8 million created as a result of the Acquisition. Goodwill represents the excess of the estimated fair value of the total consideration transferred over the preliminary fair value of the identifiable assets acquired and liabilities assumed as described in Note 3—Estimated Preliminary Purchase Price Allocation and Consideration Transferred.

(D) - To eliminate Drum’s historical equity balances, including common stock of $0.2 million, additional paid-in-capital of $235.5 million, accumulated other comprehensive loss of $0.6 million, and retained deficit of $67.5 million, in addition to the impacts of Centuri’s predecessor credit facility fees written off.

(E) - As a result of the different effective dates for public and private companies, the Company and Drum have different adoption dates for ASC 842, Leases. The Company adopted ASC 842 on January 1, 2019, while as of June 30, 2021, Drum had not yet adopted ASC 842. Under ASC 842, a lease liability and a right of use asset, representing the right to use the underlying assets for the lease term, are recorded on the balance sheet for all leases with terms in excess of one year. The unaudited pro forma condensed combined balance sheet is adjusted for the estimated impact of ASC 842. The adjustments include an increase to right of use operating lease assets of $1.5 million (recorded within Other property and investments), an increase to current portion of operating lease liability of $0.4 million (recorded within Other current liabilities), and an increase to long-term operating lease liability of $1.1 million (recorded within Other deferred credits and other long-term liabilities).

(F) - On August 27, 2021, Centuri entered into a $1,545 million term loan and revolving credit facility (“Loan Facility”), which refinanced the previous $590 million loan facility dated November 2018. A portion of Loan Facility was used to fund the Acquisition for approximately $830.4 million at close. The Loan Facility consists of a term loan of $1,145 million at closing and a revolving line of credit of $400 million. The term loan had an original issuance discount of $11.5 million which was recorded as a reduction of term loan proceeds. The term loan is set to expire on August 27, 2028, and the revolving line of credit expires on August 27, 2026. As of the August 27, 2021 Acquisition date, Centuri had borrowings outstanding of $114.6 million on the revolving line of credit. The $114.6 million of borrowings under the revolving line of credit were Canadian denominated borrowings that have been translated as of the balance sheet date. These borrowings, and related interest expense, are subject to fluctuations in foreign currency rates. The Company believes any such changes in foreign currency rates would not have a material impact Pro Forma Condensed Combined Statements of Income. The amount available under the line of credit would be further reduced by the amount of any outstanding letters of credit issued; however, none were outstanding. The Loan Facility is a multi-currency facility that allows the borrower to request loan advances in either Canadian Dollars or U.S. Dollars. There are no prepayment penalties associated with the Loan Facility.

The below table reflects the adjustments related to Centuri’s recent debt restructuring along with the impacts of removing Drum’s debt that was not assumed as part of the Acquisition (in thousands):

Interest rates for the Loan Facility are calculated at the London Interbank Offered Rate (“LIBOR”), the Canadian Dealer Offered Rate (“CDOR”), or an alternate base rate, plus in each case an applicable margin that is determined based on Centuri’s consolidated leverage ratio. The applicable margin ranges from 1.00% to 2.25% for loans bearing interest with reference to LIBOR or CDOR and from 0.00% to 1.25% for loans bearing interest with reference to the alternate base rate. The LIBOR rate for the term loan is subject to a floor of 50 basis points. Centuri is also required to pay a commitment fee on the unfunded portion of the commitments based on the consolidated leverage ratio. The commitment fee ranges from 0.15% to 0.35% per annum. The interest rate for the term loan was 3.00% and the rate on the revolving line of credit was 2.67% for purposes of these pro forma financial statements.

Debt issuance costs of $5.4 million, less $0.2 million of existing costs that were written off, associated with the line of credit are included in Deferred charges and other assets on the accompanying pro forma balance sheet and are amortized over the term of the related line of credit. Debt issuance costs of

	June 30, 2021
Long-Term Debt	
Proceeds from term loan	$ 1,145,000
Original issue discount	(11,450)
Proceeds from line of credit	114,615
Term loan debt issuance costs	(14,124)
Removal of existing Centuri long-term debt	(270,460)
Removal of Drum long-term debt not assumed	(64,293)
Removal of existing debt issuance costs	489
Current maturities of term loan	(11,450)
	$ 888,327
Short-Term Debt	
Removal of existing Centuri Short-term debt	$ (24,955)
Removal of Drum short-term debt not assumed	(22,015)
Current maturities of term loan	11,450
	$ (35,520)

$14.1 million associated with the term loan are included as a reduction of long-term debt on the accompanying pro forma balance sheet and are amortized over the term of the related debt.

In connection with the debt restructuring, Centuri extinguished certain of its existing debt of approximately $295.4 million and wrote off existing debt issuance costs of $0.7 million. The Company will not legally assume Drum's outstanding debt, other than outstanding finance lease obligations of $26.2 million as of the Acquisition date which are included within Current maturities of long-term debt and Long-term debt, less current maturities on the accompanying pro forma balance sheet. Total debt not assumed in the transaction totaled $86.3 million as of June 30, 2021.

(G) - To remove Drum's historical interest rate swap liability of $1.5 million which was terminated at closing and paid in full.

(H) - The transaction accounting adjustments to cash and cash equivalents reflect the net of (i) the cash proceeds from a credit facility borrowing, (ii) the cash consideration paid to acquire Drum, (iii) the increase in cash reflected as of the Acquisition date, and (iv) the cash payment of transaction costs (in thousands):

Net proceeds from borrowings under a credit agreement	$ 933,245
Initial cash consideration paid to acquire Drum	(830,395)
Increase in cash reflected as of the Acquisition date	1,429
Payment of transaction costs	(29,234)
	$ 75,045

(I) - Adjustments reflect the current values for the assumed assets and liabilities in the Acquisition as detailed in Note 3 - Estimated Preliminary Purchase Price Allocation and Consideration Transferred.

(J) - The Acquisition resulted in deferred tax liabilities of $94.8 million. The net deferred tax liability balance of $94.8 million was comprised of a deferred tax liability of $1.3 million for temporary book tax differences (excluding depreciation and amortization), a deferred tax liability of $102.6 million related to depreciation and amortization, a deferred tax asset of $8.9 million related to federal NOLs, and a deferred tax asset of $0.2 related to other attributes. No deferred tax liability was recorded for the difference between the tax basis in goodwill and the amount of goodwill recorded as part of the Acquisition. The purchase accounting window has not closed and recorded deferred tax balances may change once purchase accounting has been finalized and tax returns for pre-acquisition periods have been filed.

(K) - Represents the payment of $29.1 million of additional transaction costs incurred by Centuri and Drum subsequent to June 30, 2021.

Unaudited Condensed Combined Pro Forma Statements of Operations Adjustments for the Six Months Ended June 30, 2021 and Year Ended December 31, 2020

(AA) - Reflects the amortization adjustment for intangible assets acquired by the Company associated with the estimated fair values of the acquired customer relationships, backlog, and trade names. The adjustments to remove historical amortization and record the amortization related to newly acquired intangible assets were $0.2 million and $0.4 million for the six months ended June 30, 2021 and year ended December 31, 2020, respectively.

(BB) - Reflects the incremental depreciation expense related to buildings and improvements and equipment acquired by the Company associated with the estimated fair values of associated assets. The incremental depreciation was $0.4 million and $0.8 million for the six months and year ending June 30, 2021 and December 31, 2020, respectively.

(CC) - In connection with the Acquisition, outstanding stock options were converted to common stock and ultimately cancelled and retired. As such, stock option expense of $1.6 million and $1.7 million was reversed for the six months and year ending June 30, 2021 and December 31, 2020, respectively.

(DD) - The below table reflects the adjustments related to Centuri's recent debt restructuring along with the impacts of removing the interest related to Drum debt that was not assumed as part of the Acquisition (in thousands):

	Six-months ended June 30, 2021	Year ended December 31, 2020
Elimination of Centuri interest expense and amortization of debt issuance costs associated with debt that was restructured	$ (1,867)	$ (6,282)
Elimination of Drum interest expense	(719)	(5,398)
Interest expense on new debt	18,707	37,415
Amortization of new debt issuance costs	2,432	4,865
Interest expense related to original issue discount	818	1,636
Fair value adjustments associated with Drum interest rate swap	584	(1,835)
Transaction accounting adjustments for interest expense	$ 19,955	$ 30,400

A 1/8% variance in variable interest rates related to the term loan and line of credit would impact net income by an increase or decrease of $0.6 million for the six months ended June 30, 2021 and $1.2 million for the year ended December 31, 2020.

(EE) - Represents the accrual of $29.1 million of additional transaction costs incurred by Centuri and Drum subsequent to June 30, 2021. The remaining transaction costs of $0.9 million are included in the historical statement of income for the six months ended June 30, 2021. These costs will not affect the Company’s income statement beyond 12 months after the Acquisition date.

(FF) - To add back the net loss for discontinued operations associated with Drum’s sale of its foreign subsidiary, Thirau Inc., which was not acquired as part of the Acquisition.

(GG) – Reflects the write-off of $0.7 million of existing debt issuance costs related to the restructuring of Centuri’s Loan Facility.

(HH) – Income tax expense includes the tax effects of the transaction accounting adjustments to Drum’s Statement of Income for the six months ended June 30, 2021 and year ended December 31, 2020. The income tax expense was calculated based on Centuri’s statutory rate in effect during the six months ended June 30, 2021 and the year ended December 31, 2020. Additionally, the income tax expense for the period ended December 31, 2020 included an adjustment of $7.3 million related to a potential foreign tax liability that was retained by the seller.