



A S S U R A N C E D I M E N S I O N S

Reports Required by Government Auditing
Standards, the Florida Single Audit Act, and Schedule
of Expenditures of State Financial Assistance

Florida East Coast Railway, L.L.C.

December 31, 2021

Florida East Coast Railway, L.L.C.

Table of Contents

Independent Auditor’s Report..... 1-2

Schedule of Expenditures of State Financial Assistance 3

Notes to Schedule of Expenditures of State Financial Assistance 4

Regulatory Reports:

 Independent Auditors’ Report on Compliance for a State Project and Report on Internal Control Over
 Compliance Required by Chapter 10.650, Rules of the Auditor General of the State of Florida.....5-7

Schedule of Findings and Questioned Costs..... 8



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Florida East Coast Railway, L.L.C.

Report on the Audit of the Schedule of Expenditures of State Financial Assistance

Opinion

We have audited the schedule of expenditures of state financial awards of **Florida East Coast Railway, L.L.C.** for the year ended December 31, 2021, and the related notes (the schedule).

In our opinion, the accompanying schedule of expenditures of state financial awards presents fairly, in all material respects, the expenditures of state financial awards of **Florida East Coast Railway, L.L.C.** for the year ended December 31, 2021, in accordance with the cash basis of accounting.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Chapter 10.650, *Rules of the Florida Auditor General* (the "Rules"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedule section of our report. We are required to be independent of **Florida East Coast Railway, L.L.C.** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Schedule

Management is responsible for the preparation and fair presentation of the schedule in accordance with the cash basis of accounting and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is 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 generally accepted auditing standards, Government Auditing Standards, and the Rules 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 schedule.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedule, 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 schedule.

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- 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 **Florida East Coast Railway, L.L.C.**'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 schedule.

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.

Assurance Dimensions

Tampa, Florida
June 16, 2023

Florida East Coast Railway, L.L.C.
Schedule of Expenditures of State Financial Assistance
Year Ended December 31, 2021

State Awarding Agency/Project Title	State CSFA Number	Contract Number	Total State Expenditures
<i>Florida Department of Transportation:</i>			
Rail Programs: Passenger Development, Capacity Or Crossing	55.021	G1L59	\$ 895,306
Rail Programs: Passenger Development, Capacity Or Crossing	55.021	G1810	<u>63,955</u>
Total Expenditures of State Financial Assistance			<u><u>\$ 959,261</u></u>

Florida East Coast Railway, L.L.C.

Notes to Schedule of Expenditures of State Financial Assistance

December 31, 2021

Basis of Presentation

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state award activity of Florida East Coast Railway, L.L.C. (the Company) for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Section 215.97, *Florida Statutes* (the “Statutes”). Because the Schedule only presents a selected portion of the operations of the Company, it is not intended to and does not present the financial position, income, or cash flows of the Company.

Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (“U.S. GAAP”). Such expenditures are recognized following the cost principles contained in Section 215.97, *Florida Statutes*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The Company has elected not to use the 10-percent de minimis indirect cost rate allowed by the Statutes.

Contingency

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the Company. In the opinion of management, all grant expenditures are in material compliance with the terms of the grant agreements and applicable state laws and regulations.

Relationship to State Financial Reports

The regulations and guidelines governing the preparation of state financial reports vary by state agency and among programs administered by the same agency. Accordingly, the amounts reported in the state financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared as explained above.



Independent Auditors' Report on Compliance for a State Project and Report on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General of the State of Florida

To the Stockholders

Florida East Coast Railway, L.L.C.

Opinion on Compliance for Rail Programs: Passenger Development, Capacity or Crossing

We have audited Florida East Coast Railway, L.L.C.'s (the Company) compliance with the types of compliance requirements described in the Department of Financial Services State Projects Compliance Supplement of the State of Florida that could have a direct and material effect on its major state project for the year ended December 31, 2021. The Company's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Rail Programs: Passenger Development, Capacity or Crossing for the year ended December 31, 2021.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of and the audit requirements of Chapter 10.650, *Rules of the Florida Auditor General* (the "Rules"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state program. Our audit does not provide a legal determination of the Company's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Company's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Company's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Rules will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Company's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Rules, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Rules, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Rules. Accordingly, this report is not suitable for any other purpose.

Assurance Dimensions

Tampa, Florida
June 16, 2023

Florida East Coast Railway, L.L.C.

Schedule of Findings and Questioned Costs

December 31, 2021

Section 1 – Summary of Auditors’ Results

<u>Financial Statements</u>	<u>Results</u>
Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
	<u>State Awards</u>
Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified not considered to be a material weakness?	No
Type of auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Rule 10.654(1)(h)4?	No

Identification of Major State Projects:

<u>CFSA</u>	<u>Name of State Project</u>
55.021	Rail Programs: Passenger Development, Capacity or Crossing

	<u>State Financial Assistance</u>
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section 2 – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires a reporting in our audit.

Prior Year Audit Findings

No single audit was performed in the prior year as the Company did not meet the threshold.

Section 3 – State Awards Findings and Questioned Costs

This section identifies the audit findings required to be reported as well as any abuse findings involving state awards that is material to a major program. There were no instances of abuse found as a result of our audit procedure.

Section 4 – State of Florida Management Letter

No items related to state financial assistance were required to be reported in a management letter pursuant to Section 215.97, Florida Statutes, for the current year.



Florida East Coast Holdings Corp. and Affiliates

COMBINED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

FLORIDA EAST COAST HOLDINGS CORP. AND AFFILIATES

Combined Financial Statements

Contents:	<u>Page</u>
<u>Florida East Coast Holdings Corp. and Affiliates</u>	
Combined Financial Statements as of and for the Years Ended December 31, 2021 and 2020	
Independent Auditors' Report	2
Combined Balance Sheets as of December 31, 2021 and 2020	4
Combined Statements of Income and Comprehensive Income for the years ended December 31, 2021 and 2020	5
Combined Statements of Changes in Stockholder's Equity as of December 31, 2021 and 2020	6
Combined Statements of Cash Flows for the years ended December 31, 2021 and 2020	7
Notes to Combined Financial Statements	8



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INDEPENDENT AUDITOR'S REPORT

To the Stockholder of
Florida East Coast Holdings Corp. and Affiliates
Jacksonville, Florida

Opinion

We have audited the combined financial statements of Florida East Coast Holdings Corp. and subsidiaries, FEC ROW, LLC and FEC Real Estate Services, LLC, (the "companies"), all of which are under common ownership and common management, which comprise the combined balance sheets as of December 31, 2021 and 2020, and the related combined statements of income and comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the combined financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the companies as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 companies 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 companies' 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the companies' 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.

Deloitte & Touche LLP

July 1, 2022

FLORIDA EAST COAST HOLDINGS CORP. AND AFFILIATES
COMBINED BALANCE SHEETS
(in thousands, except for share and per share amounts)

ASSETS	As of December 31, 2021	As of December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,534	\$ 48,340
Accounts receivable, net of allowance for doubtful accounts \$4,499 as of December 31, 2021, and \$4,518 as of December 31, 2020	76,326	62,518
Materials and supplies	11,778	12,064
Prepaid and other current assets	7,059	5,024
Assets held for sale	—	1,392
Total current assets	<u>103,697</u>	<u>129,338</u>
Noncurrent assets:		
Property, plant, and equipment, less accumulated depreciation	1,214,414	1,213,698
Right-of-use lease assets	14,235	15,563
Intangible assets, less accumulated amortization	3,438	3,800
Goodwill	16,861	16,861
Restricted cash	721	720
Other assets	3,369	2,535
Total noncurrent assets	<u>1,253,038</u>	<u>1,253,177</u>
Total assets	<u>\$ 1,356,735</u>	<u>\$ 1,382,515</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,768	\$ 31,093
Taxes payable	505	3,284
Short-term debt	6,198	13,441
Short-term lease liabilities	3,941	3,169
Deferred revenue	12,624	12,632
Other current liabilities	2,200	6,059
Total current liabilities	<u>58,236</u>	<u>69,678</u>
Long-term liabilities:		
Deferred income taxes	85,299	60,935
Long-term debt	31,458	35,658
Long-term lease liabilities	10,771	12,777
Other long-term liabilities	55,670	51,350
Total long-term liabilities	<u>183,198</u>	<u>160,720</u>
Total liabilities	241,434	230,398
Stockholder's equity:		
Common stock, \$0.01 par value, 1,000,000 shares authorized; 250,000 and 250,000 shares issued and outstanding as of December 31, 2021 and 2020, respectively	3	3
Additional paid-in capital	885,208	1,016,468
Retained earnings	241,950	136,462
Accumulated other comprehensive loss	(772)	(816)
Noncontrolling interest	(11,088)	0
Total stockholder's equity	<u>1,115,301</u>	<u>1,152,117</u>
Total liabilities and stockholder's equity	<u>\$ 1,356,735</u>	<u>\$ 1,382,515</u>

The accompanying notes are an integral part of the Combined Financial Statements.

FLORIDA EAST COAST HOLDINGS CORP. AND AFFILIATES
COMBINED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating revenues:		
Freight	\$ 383,995	\$ 343,166
Right-of-way	27,542	25,428
Nonfreight	22,825	18,020
Total operating revenues	<u>434,362</u>	<u>386,614</u>
Operating expenses:		
Labor and benefits	89,419	86,372
Purchased services	91,903	80,971
Diesel fuel and truck fuel	38,144	27,715
Depreciation and amortization	43,895	48,213
Rent	26,878	19,936
Other expenses	22,156	17,500
Total operating expenses	<u>312,395</u>	<u>280,707</u>
Operating income	121,967	105,907
Interest expense, net	(2,994)	(1,328)
Other expense	<u>—</u>	<u>(350)</u>
Income before income taxes	118,973	104,229
Provision for income taxes	24,573	21,313
Combined net income	\$ 94,400	\$ 82,916
Less: Net loss attributable to noncontrolling interest	<u>(11,088)</u>	<u>—</u>
Net income attributable to owners of combined entity	105,488	82,916
Other comprehensive income:		
Actuarial gain (loss) associated with pension plan, net of tax	44	(158)
Comprehensive income	<u>\$ 105,532</u>	<u>\$ 82,758</u>

The accompanying notes are an integral part of the Combined Financial Statements.

FLORIDA EAST COAST HOLDINGS CORP. AND AFFILIATES
COMBINED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(in thousands, except for share amounts)

	Number of Common Shares Issued	Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance as of January 1, 2020	250,000	\$ 3	\$ 1,136,217	\$ 53,546	\$ (658)	\$ —	\$ 1,189,108
Net income	—	—	—	82,916	—	—	82,916
Other comprehensive income	—	—	—	—	(158)	—	(158)
Purchase of common shares	(158)	—	—	—	—	—	—
Issuance of common shares	158	—	—	—	—	—	—
Distribution of capital	—	—	(120,000)	—	—	—	(120,000)
Tax provision of consolidated variable interest entity	—	—	251	—	—	—	251
Balance as of December 31, 2020	250,000	3	1,016,468	136,462	(816)	—	1,152,117
Net income (loss)	—	—	—	105,488	—	(11,088)	94,400
Other comprehensive income	—	—	—	—	44	—	44
Distribution of capital	—	—	(131,500)	—	—	—	(131,500)
Tax provision of consolidated variable interest entities	—	—	240	—	—	—	240
Balance as of December 31, 2021	250,000	\$ 3	\$ 885,208	\$ 241,950	\$ (772)	\$ (11,088)	\$ 1,115,301

The accompanying notes are an integral part of the Combined Financial Statements.

FLORIDA EAST COAST HOLDINGS CORP. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

	<u>Year Ended December 31, 2021</u>	<u>Year Ended December 31, 2020</u>
Cash flows from operating activities:		
Net income	\$ 94,400	\$ 82,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	43,533	47,852
Amortization	362	361
Right-of-use lease assets	4,620	4,046
Deferred taxes	24,604	21,056
Net loss (gain) on sale of property, plant, and equipment	896	(2,851)
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,808)	14,675
Prepaid and other current assets	(2,035)	876
Materials and supplies	286	(2,854)
Other assets	558	(338)
Accounts payable and accrued expenses	1,276	(7,171)
Taxes payable	(3,025)	2,045
Deferred revenue	(8)	3,826
Other current liabilities	(3,859)	4,618
Lease liabilities	(4,526)	(3,663)
Other long-term liabilities	(2,167)	(1,835)
Net cash provided by operating activities	<u>141,107</u>	<u>163,559</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(36,886)	(34,052)
Proceeds from sale of property, plant, and equipment	2,268	9,053
Net cash used in investing activities	<u>(34,618)</u>	<u>(24,999)</u>
Cash flows from financing activities:		
Distribution to shareholders	(131,500)	(120,000)
Payment on long-term debt	(14,794)	(17,599)
Net cash used in financing activities	<u>(146,294)</u>	<u>(137,599)</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash	(39,805)	961
Cash, cash equivalents, and restricted cash at beginning of year	49,060	48,099
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 9,255</u>	<u>\$ 49,060</u>
Supplemental cash flow information:		
Interest paid	\$ 2,068	\$ 462
Income taxes paid	10	23
Noncash investing and financing activities:		
Right-of-use lease assets recognized upon adoption of assets' Accounting Standards Update (ASU) No. 2016-02, <i>Leases</i>	\$ —	\$ 16,779
Right-of-use lease asset additions/ modifications	3,292	2,830
Assets rehabilitated by All Aboard Florida	6,743	8,779
Long-term debt reduction due to proceeds from auctions	—	2,002
Property and equipment purchased on account	3,139	5,663

The accompanying notes are an integral part of the Combined Financial Statements.

FLORIDA EAST COAST HOLDINGS CORP. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Description of the Business and Basis of Presentation

The accompanying Combined Financial Statements of Florida East Coast Holdings Corp., its subsidiaries, and its combined entities (the Company) have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

The Company's rail transportation operations are conducted through its indirect wholly owned subsidiaries, Florida East Coast Railway Corp., Florida East Coast Railway, L.L.C., and FEC Highway Services, L.L.C. (collectively, FECR). FECR operates a premier Class II railroad along 351 miles of mainline track between Jacksonville and Miami, Florida, serving some of the most densely populated areas of Florida. Additionally, FECR owns and operates approximately 270 miles of branch, switching, and other secondary track and 120 miles of yard track, all within Florida. FECR has the only private coastal right-of-way between Jacksonville and Miami and is the exclusive rail-service provider to the Port of Palm Beach, Port Everglades (Fort Lauderdale), and Port Miami.

Raven Transport Holding, Inc. (Raven) is headquartered in Jacksonville, Florida, and is a high-quality service provider to large consumer products customers for truckload freight transported throughout the Southeastern United States. Raven provides FECR with a unique opportunity to expand market reach and increase market share of rail transportation in Florida through a high-quality, complimentary regional trucking operation.

These Combined Financial Statements include the non-rail revenue derived from fiber optics, pipe and wire crossings, land leases, advertising structures, and other uses on the approximately 100-foot-wide right-of-way rail corridor that runs from Miami to Jacksonville. This business is conducted through the commonly controlled entities, FEC ROW, LLC and FEC Real Estate Services, LLC (ROW).

GMexico Transportes, S.A. de C.V., the Transportation Division of Grupo Mexico (GMXT), through its subsidiary GMXT US Inc., owns all of the shares of Florida East Coast Holdings Corp. and subsidiaries, FEC Row, LLC and FEC Real Estate Services, LLC.

2. Summary of Significant Accounting Policies

Principles of Combined Financial Statements

The accompanying Combined Financial Statements of the Company include all wholly owned subsidiaries, certain combined entities, and those entities in which the Company has a variable interest and is the primary beneficiary. All intercompany balances and transactions have been eliminated in combination.

Use of Estimates

The preparation of the Combined Financial Statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the Combined Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents include cash on hand, bank demand accounts, money market accounts, and overnight repurchase agreements having original maturities of less than three months.

Restricted Cash

Restricted cash consists of cash that is held by the Company in interest reserve accounts as collateral for insurance policies.

Accounts Receivable

The Company records trade receivables when billed or when services are performed, as they represent claims against third parties that will be settled in cash. The Company records receivables for construction performed on behalf of third parties that will be settled in cash when billed. The Company records unbilled receivables for accrued revenue that will be settled in cash when billed. The carrying value of all receivables, net of the allowance for doubtful accounts, represents the estimated net realizable value. The Company does not charge interest on past due trade receivables.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded by management based on the Company's historical experience of bad debts to sales, analysis of accounts receivable aging, and specific identification of customers in financial distress, e.g., bankruptcy or poor payment record. Management reviews material past due balances on a monthly basis. Account balances are charged against the allowance when management determines it is probable that the receivable will not be recovered.

Materials and Supplies

Materials and supplies are stated principally at average cost, which is not in excess of replacement cost. Materials are stated at an amount that does not exceed net estimated realizable value.

Property, Plant, and Equipment

Railway Properties

Railway properties are stated at cost and are depreciated and amortized on a straight-line method over the useful life.

The following describes the depreciation methodologies applied for the significant asset groups of the Company:

a) Track and Related Assets

For track and related assets, the Company uses the group method of depreciation under which items with similar characteristics, use, and expected lives are grouped together in asset classes and are depreciated using composite depreciation rates applied to the respective gross investment. The Company periodically reevaluates the useful lives of its track and related assets and establishes new depreciable lives based on life studies for reasonableness based on the results of such life studies.

Under the group life method, the service lives and salvage values for each group of assets are determined by completing periodic life studies and applying management's assumptions regarding the service lives of its properties. A life study is the periodic review of asset lives for group assets conducted and analyzed by the Company's management. The results of the life study process determine the service lives for each asset group under the group method. There are several factors taken into account during the life study and they include statistical analysis of historical life, retirements, and salvage data for each group of property, evaluation of current operations, review of the previous assessment of the condition of the assets and the outlook for their continued use, consideration of technological advances and maintenance schedules, and comparison of asset groups to peer companies. The Company's policy is to perform life studies approximately every eight to ten years. Changes in asset lives due to the results of the valuation studies are applied on a prospective basis and may impact future periods' depreciation expense, and thus, the Company's results of operations. There were no such life studies or prospective adjustments in 2021 and 2020.

b) Rolling Stock

For rolling stock (such as locomotives and freight cars), assets are specifically identified, and the Company utilizes straight-line depreciation methods on a per asset category basis.

c) *Bridges and Culverts*

For bridges and culverts, the Company uses the straight-line method of depreciation. Assets are specifically identified on a per unit basis and useful lives are periodically reviewed for reasonableness based on life studies.

d) *Right-of-Way and Other Real Estate*

Property, plant, and equipment include construction in progress, land and land improvements, buildings and building improvements, equipment, and other assets stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated asset lives of 3 to 50 years. The Company capitalizes the costs of major additions and improvements and expenses the costs for maintenance and repairs that do not extend the life of the asset greater than one year. The Company evaluates the estimated useful life of the assets each reporting period and accounts for changes, if any, over the revised estimated useful life.

Capital Expenditures

Routine repairs and maintenance costs, for all asset categories, are expensed as incurred. The Company self-constructs portions of its track structure and rebuilds certain units of its rolling stock. In addition to direct labor and material, certain indirect overhead costs are capitalized. The Company defines capital projects as any purchase of an asset that has an expected useful life greater than one year. Additionally, any expenditure which significantly increases an asset's value or extends its useful life is capitalized.

The majority of the Company's capital expenditures are related to track and rolling stock. Annual program work for rail, turnouts, surfacing, undercutting, bridges, locomotive, and freight car overhauls are capitalized. Normal repairs, inspections, and maintenance costs are expensed as incurred, which include track inspections, locomotive running repairs, repair of broken rail, and rail grinding.

Disposals and Retirements

Railroad Properties

Under the group method of depreciation, upon normal sale, or retirement of track assets and rolling stock, costs less net salvage value is charged to accumulated depreciation and no gain or loss is recognized. As part of the life studies performed, an assessment will be made of the recorded amount of accumulated depreciation. Any deficiency (or excess), including any deferred gains or losses, will be amortized as a component of depreciation expense over the remaining useful life of the asset group until the next required life study.

The Company utilizes a first-in, first-out approach to track assets and related asset retirements. Generally, the Company estimates the historical cost of the replaced assets using historical accounting records and/or inflation indices published by the Bureau of Labor Statistics, which are applied to the replacement value based on the age of the retired asset. These indices closely correlate with the major cost of the materials comprising the applicable road assets. In the event that large groups of assets are removed from service as a result of unusual acts or sales, resulting gains and losses are recognized immediately. These acts are not considered to be in the normal course of business and are, therefore, recognized when incurred. Examples of such acts would be the major destruction of assets due to significant storm damage (e.g., major hurricanes) and the sale, disposal, or abandonment of a rail line segment.

Nonrail Assets

Upon retirement or disposal of any of the land, land improvements, building and building improvements, and other fixed assets, resulting gains and losses are recognized in earnings.

Impairment of Long-Lived Assets

The Company reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset grouping may not be recoverable from the undiscounted future net cash flows expected to be generated over its remaining useful life. If impairment is identified, a loss would be reported to the extent that the carrying value of the related assets exceeds the fair value of those assets as determined by valuation techniques applicable in the circumstances. Losses from impairment of assets are charged to net loss on sale and impairment of assets within operating expenses. There were no impairments recorded during the years ended December 31, 2021 and 2020.

Goodwill

Goodwill is the excess of the Company's purchase price over the fair value of the net identifiable assets of the acquired business. The Company does not amortize goodwill. In 2018, the Company elected to early adopt ASU No. 2017-04, *Intangibles – Goodwill and Other* (Topic 350). The ASU allows companies to simplify the subsequent measurement of the goodwill impairment test by eliminating Step 2. The Company still has the option to perform the qualitative assessment to determine if the quantitative impairment test is necessary. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that each reporting unit's fair value is less than its carrying amount. The qualitative assessment as of December 31, 2021 and 2020, did identify one circumstance that would indicate that it is more likely than not that the fair value of any reporting unit is less than its carrying amount. The Company went on to perform a quantitative assessment for that reporting unit, but determined no impairment exists as of December 31, 2021 and 2020. Goodwill is valued at \$16.9 million as of December 31, 2021 and 2020. There are no accumulated impairment losses reflected in goodwill and there were no changes in the balance of goodwill during 2021 and 2020.

Intangible Assets, Net

Intangible assets are stated at cost, less accumulated amortization and consist of customer relationship and trade names and are amortized over their estimated useful lives.

Accumulated Other Comprehensive Loss

Comprehensive loss is the changes in equity of an enterprise, except those resulting from shareholder transactions. As of December 31, 2021 and 2020, accumulated other comprehensive loss was \$0.8 million and \$0.8 million, respectively, related to the Company's pension plans.

Share-Based Compensation

Certain key employees and executives of the Company are the recipients of employment agreements that have restricted share benefits. Furthermore, the Company granted restricted share benefits to nonemployee consultants to provide strategic consulting services to the Company. Share-based compensation is accounted for using the fair value-based method prescribed by Accounting Standards Codification (ASC) 718, *Compensation—Stock Compensation*. The fair value of restricted shares is based on a valuation approach, including the market-based approach using current market multiples as well as the income approach utilizing a discounted cash flow analysis, performed on a quarterly basis. For share-based awards issued to employees, a compensation charge is recorded against earnings based on the grant-date fair value of the award. The Company uses a straight-line method of accounting for compensation costs related to share-based payment awards that contain pro rata vesting provisions. For transactions with consultants in which services are performed in exchange for the Company's common stock or other equity instruments, the transactions are recorded on the basis of the fair value of the service received or the fair value of the equity instruments issued, whichever is more readily measurable at the date performance is complete or service is provided.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes, and as such, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the Combined

Financial Statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income taxes are classified as noncurrent in accordance with current accounting guidance. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax benefits, such as net operating loss carryforwards and alternative minimum tax credit carryforwards, are recognized to the extent that realization of these benefits is considered to be more likely than not. The Company establishes reserves for uncertain tax positions, when despite its belief that its tax return positions are fully supportable, the Company believes that certain tax positions may be challenged and potentially disallowed. When facts and circumstances change, the Company adjusts these reserves through its provision for income taxes. To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of tax expense in the Combined Statements of Income and Comprehensive Income. The ROW companies are pass-through entities for tax purposes and, therefore, have no tax implications.

Revenue Recognition

Freight Revenue

The Company recognizes freight revenue after the freight has been moved from origin to destination (completion of the move), which is not materially different from the recognition of revenue as shipments progress due to the relatively short length of the Company's railroad and trucking operations.

Nonfreight

Nonfreight revenue is recognized when earned and includes accessorial charges and car hire. Accessorial charges are additional fees charged to the shipper for services performed beyond the standard pickup and delivery operation designated at the time a shipment is tendered (storage, demurrage, and other charges). Car hire is a charge for the use of a railcar.

Customers

The Company provides rail and logistics solutions to meet the transportation needs of domestic and international intermodal and carload customers. The Company's partnerships with Port of Miami, Port Everglades (Fort Lauderdale), Port of Palm Beach, and motor carriers lets the Company move freight within Florida and beyond via trucks and rail. The Company's top customers include national and international transportation companies.

Performance Obligation

Freight revenue is primarily generated from one performance obligation: Transportation Services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is defined as the unit of account for revenue recognition under the Financial Accounting Standards Board (FASB) ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Company's promise to transfer Transportation Services is separately identifiable from other promises in its contracts with customers.

Transaction Price

The Company determines the transaction price based on our standard charges for services adjusted for accessorial charges, trucking fees, and discounts. The Company determines its estimate of these adjustments based on historical experience. In accordance with Topic 606, the Company when estimating the amount of nonfreight variable consideration, utilizes the most likely amount, which is the single most likely amount in a range of possible consideration amounts that is, the single most likely outcome of the contract. This estimate is done at contract inception and revenue is adjusted based on the actual payment received.

Allocation of Transaction Price to Performance Obligations

Under Topic 606, in order to allocate the transaction price on a relative stand-alone selling price basis, an entity must first determine the stand-alone selling price of the distinct good or service underlying each performance obligation.

The transaction price is the price at which an entity would sell a good or service on a stand-alone (or separate) basis at contract inception and the observable price of a good or service sold separately provides the best evidence of stand-alone selling price. The Company's contracts consist of one performance obligation: Transportation Services. Therefore, the allocation guidance is not applicable to the Company's contracts.

Revenue Recognition

Under Topic 606, the Company recognizes revenue when the customer obtains control of promised services (the performance obligation) in an amount that reflects the consideration the Company expects to receive in exchange for those services (the transaction price). The Company's performance obligations under Topic 606 are satisfied over time and measured using the output method (i.e., distance shipped for transportation and time elapsed for storage). This measure of progress is used to recognize revenue as it appropriately depicts the Company's performance in transferring control of services promised to a customer. This did not result in a material change from the Company's historical practice.

Costs to Fulfill a Contract

The Company has identified contract fulfillment costs applicable to some of its Raven trucking customers for which they incur a fee with US Bank in order to process their transactions. These costs relate directly to a specifically identifiable contract and are costs that enhance resources of the Company used in satisfying the performance obligation and are costs expected to be recovered since they are built into the rates charged to these specific customers. As a result, these costs should be capitalized in accordance with ASC 340-40, *Other Assets and Deferred Costs*. However, there are also costs associated with ROW contracts entered after 1/1/2020 that are not part of the lease revenue.

Right-of-Way and Land Use Revenue

The Company recognizes right-of-way and land use revenue from the grant of licenses and leases to use property and the right-of-way for (i) fiber optic conduits by telecommunication companies, (ii) lateral crossings of wires and pipes by municipalities and telecommunication companies, (iii) various land leases, and (iv) outdoor advertising. The Company uses the straight-line method to record right-of-way and land use or rental income revenue over the life of the contract. Right-of-way revenue is typically billed on a periodic basis (annually, semiannually, quarterly, etc.) and is recorded as deferred revenue when received and recorded as income under the guidance of ASC 842 – *Leases* (ASC 842) or Topic 606 depending on the classification of the contract. Along with the adoption of ASC 842, the Company has elected the practical expedient to grandfather previous accounting for land easements arrangement entered into prior to the adoption of ASC 842. Accordingly, all land easement contracts entered into prior to January 1, 2020 (the effective date of adoption of ASC 842), are accounted for as leases in accordance with ASC 842, which is consistent with the Company's accounting for the arrangements under the previous lease guidance (ASC 840). For any land easements entered into or modified after January 1, 2020, the Company assesses the contract to determine if the land easement meets the definition of a lease under ASC 842. The Company determined that new land easement arrangements entered into after January 1, 2020 did not contain leases because the counterparty could not control the land due to restrictive use clauses in the arrangements. Accordingly, these contracts are accounted for as revenue in accordance with ASC 606. Under ASC 606, the Company considers its performance obligation to be the single obligation of making the right-of-way and/or land available for use by the customer. The Company determines the transaction price from the stated contract rate, which defines any signing bonuses, or rate increases. The Company considers that the performance obligation is delivered over time as the customer simultaneously receives and consumes the economic benefit of the right-of-way or land use. The revenue is measured as time lapses over the contract term based on the output method. Therefore, the transaction price is straight-lined over the life of the contract and revenue is recognized on a straight-line basis. There are no identified costs to fulfill these contracts.

Financial Instruments

ASC 825, *Financial Instruments*, requires disclosure of the fair value of certain financial instruments. Various inputs are considered when determining the fair values of financial instruments. These inputs are summarized below:

- Level 1—observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets.

- Level 2—other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).
- Level 3—significant unobservable inputs (including the Company’s own assumptions in determining the fair value of financial instruments).

The following methods and assumptions were used to estimate the fair value of each class of financial instruments held by the Company:

- Cash and cash equivalents, as reflected in the Combined Balance Sheets, approximate fair value because of the short-term maturity of these instruments (Level 1 inputs).
- Restricted cash, as reflected in the Combined Balance Sheets, approximates fair value because the cash is held in bank accounts as collateral for insurance policies, which are renewed every 12 months (Level 1 inputs).
- Long-term debt: State Infrastructure Bank (SIB) Loan fair value is based on a quoted price for a similar loan (Level 2 inputs).

The Company has no financial instruments with Level 3 inputs.

Environmental Remediation and Compliance

Costs associated with environmental compliance and preventing further contamination that are estimable and probable are accrued and expensed or capitalized as appropriate. Expected remediation and monitoring costs relating to the remediation of an existing condition caused by past operations are accrued and expensed in the period that such costs become estimable. Liabilities are recognized for remedial activities when they are probable, and the remediation cost can be reasonably estimated, as discussed in Note 15.

Contingencies

The Company’s policy is to reserve for certain contingencies consisting primarily of various claims and lawsuits resulting from its operations in accordance with ASC 450, *Contingencies*. In the opinion of management, appropriate reserves have been made for the estimated liability that is probable of resulting from disposition of such matters. Management’s opinion, and ultimately, the reserve recorded in the Combined Financial Statements, is based on known facts and circumstances. In certain circumstances, management uses the services of outside counsel and experts to help evaluate the facts and circumstances and considers their professional judgment in establishing the appropriate reserve. The ultimate resolution of these contingencies may be for an amount greater or less than the amount estimated by management.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which among other things, provides employer payroll tax credits for wages paid to employees who are unable to work during the COVID-19 pandemic (COVID-19) and options to defer payroll tax payments for a limited period. Based on evaluation of the CARES Act, the Company qualifies for certain employer payroll tax credits as well as the deferral of payroll tax payments in the future. As of December 31, 2020, the Company has deferred \$2.6 million of payroll taxes that was paid in 2021. There were no deferred taxes during 2021. This amount is included in taxes payable in the Combined Balance Sheets.

The COVID-19 pandemic has had wide-spread and significant impacts to global supply chains, unemployment levels, and the US economy. The Company took several actions in response to the decline in volume, including managing certain expenses, employee furloughs, temporary payroll reductions for salaried employees, and delaying certain capital expenditures. Although the Company began to experience meaningful recoveries in the third quarter and continued to successfully navigate the revenue and cash flow impacts of COVID-19, it cannot predict with certainty how COVID-19 or future pandemics might impact the Company’s profitability and liquidity.

3. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses* (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard provides guidance for estimating credit losses on certain types of financial instruments, including trade receivables, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information, and reasonable and supportable forecasts. ASU No. 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued several amendments to the standard. In November 2019, the FASB amended the standard with the issuance of ASU 2019-10, *Financial Instruments – Credit Losses* (Topic 326), Derivatives and Hedging (Topic 815), and *Leases* (Topic 842), Effective Dates. The amendment revised the effective date of ASU No. 2016-13 to fiscal years beginning after December 15, 2022. Management is currently evaluating the impact of this ASU on its Combined Financial Statements.

4. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Company's financial instruments were as follows as of December 31, 2021 and 2020 (in thousands):

	<u>December 31, 2021</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 8,534	\$ 8,534
Restricted cash	721	721
SIB Loan	21,746	24,047
	<u>December 31, 2020</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 48,340	\$ 48,340
Restricted cash	720	720
SIB Loan	23,050	26,551

5. Intangible Assets, Net

The Company's intangible assets consist of the following as of December 31, 2021 and 2020:

<u>As of December 31, 2021</u> (in thousands)	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Customer relationships	\$ 4,800	\$ 1,789	\$ 3,011
Trade name	1,200	773	427
Total	<u>\$ 6,000</u>	<u>\$ 2,562</u>	<u>\$ 3,438</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<u>As of December 31, 2020</u> (in thousands)			
Customer relationships	\$ 4,800	\$ 1,537	\$ 3,263
Trade name	1,200	663	537
Total	<u>\$ 6,000</u>	<u>\$ 2,200</u>	<u>\$ 3,800</u>

Future amortization expense recorded on intangible assets for the years ended December 31 is estimated as follows (in thousands):

2022	\$ 362
2023	362
2024	362
2025	352
2026	253
Thereafter	1,747
	<u>\$ 3,438</u>

6. Variable Interest Entity

U.S. GAAP provides a framework for identifying a variable interest entity (VIE) and determining when a company should include the assets, liabilities, noncontrolling interests, and results of activities of a VIE in its financial statements.

In general, a VIE is a corporation, partnership, limited liability company, trust, or any other legal structure used to conduct activities or hold assets that (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to direct the activities of the entity that most significantly impact its economic performance or (3) has a group of equity owners that do not have the obligation to absorb losses of the entity or the right to receive returns of the entity. A VIE should be consolidated if a party with an ownership, contractual or other financial interest in the VIE that is considered a variable interest (a variable interest holder) has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE.

Management analyzes the Company's variable interests to determine if the Company has any variable interests in VIEs. This analysis includes both qualitative and quantitative reviews. Qualitative analysis is based on an evaluation of the design of the entity, its organizational structure including decision making ability, financial agreements and the obligation to absorb losses or receive economic benefits. Qualitative analysis is based on the entity's forecasted cash flows. Qualitative and quantitative analyses are also used to determine if the Company is the primary beneficiary of the VIE.

The management agreement between Raven and Raven Transport Company, Inc. (RTC) represents a variable interest in a variable interest entity. Raven is the primary beneficiary of RTC as it has the power to direct the activities that most significantly impact RTC's economic performance and the obligation to absorb losses or the right to receive benefits from RTC. Therefore, the activity of RTC has been included in the Combined Financial Statements.

INTERMODAL MEXICO USA, LLC (IMEX) was incorporated as a Delaware corporation in July of 2020 and became operational in March of 2021. IMEX is owned 100% by Intermodal Mexico, S.A DE C.V., which is a wholly owned subsidiary of Intermodal Mexico S.A. DE C.V.

Management determined that FECR had a variable interest in IMEX based on amounts owed to FECR which FECR provided to assist in the start-up of IMEX and for ongoing coverage of expenses as necessary. FEC is the primary beneficiary of IMEX and has the power to absorb losses or rights to receive benefits from IMEX. This determination was made under ASC Topic 810, *Consolidation* (Topic 810). Due to the factors above, it was determined that because FECR has variable interest in IMEX, and is the primary beneficiary, the activity of IMEX has been included in the Combined Financial Statements.

The following table lists out the assets and liabilities related to IMEX. These balances are consolidated with the amounts on the Combined Balance Sheet as of December 31, 2021:

Cash and Cash Equivalents	\$1,071
Prepaid and Other Current Assets	274
Property, Plant and Equipment, net	1,946
Accounts Payable and Accrued Expenses	1,482
Short-Term Debt	132
Deferred Income Taxes	(744)
Long-Term Liabilities	1,833

7. Related-Party Transactions

Administrative fees

The Company recorded \$0.8 million and \$0.6 million of expense for administrative fees to Ferrocarril Mexicano, S.A. De C.V., a subsidiary of GMXT, for the years ended December 31, 2021 and 2020, respectively. The net payable due to Ferrocarril Mexicano is \$0.4 million and zero million as of December 31, 2021 and 2020.

Dispatch fees

Florida East Coast Railway, L.L.C. and Virgin Trains USA are equal parties in a joint venture known as Florida East Coast Dispatch LLC (Florida Dispatch Co).

The Company recorded \$2.0 million of operating expense for dispatch services to Florida Dispatch Co for the year ended December 31, 2021. The net payable due to Florida Dispatch Co was \$0.2 million as of December 31, 2021. The Company billed \$0.8 million of shared administrative services, building rent, and expense reimbursements to Florida Dispatch Co for the year ended December 31, 2021. The net receivable due from Florida Dispatch Co was zero as of December 31, 2021.

The Company recorded \$1.9 million of operating expense for dispatch services to Florida Dispatch Co for the year ended December 31, 2020. The net payable due to Florida Dispatch Co was \$0.3 million as of December 31, 2020. The Company billed \$0.9 million of shared administrative services, building rent, and expense reimbursements to Florida Dispatch Co for the year ended December 31, 2020. The net receivable due from Florida Dispatch Co was zero as of December 31, 2020.

Payments to RTC

Effective January 1, 2015, the Company entered into an amended agreement with RTC, the consolidated variable interest entity, whereby Raven will remit to RTC 1.4% of the transportation revenues billed by Raven or one million dollars (the guaranteed minimum amount). Such amounts are due to the equity owner of RTC. The management agreement remained in effect until December 31, 2022, and includes a one-time additional five-year term should either party agree to an extension. For the years ended December 31, 2021 and 2020, this amount was \$1 million, recorded in operating expenses as purchased services. The net payable due to RTC was \$2.0 million and \$1.0 million as of December 31, 2021, and 2020, respectively.

IMEX

On February 1, 2021, IMEX and FECR entered into a five-year service contract beginning on March 1, 2021. IMEX will provide for operation of intermodal facilities to include gates, lifts, crane maintenance, and assessorial services. FECR recorded \$8.9 million of expense for these services for the year ended December 31, 2021. Also recorded during

the year 2021 was a \$3.8 million receivable for an agreement with IMEX for leased assets.

8. Property, Plant, and Equipment

Property, plant, and equipment for the Company consist of the following:

As of December 31, 2021 (in thousands)	Cost	Accumulated Depreciation	Net Book Value	Estimated Useful Life (c)
Land and rights-of-way	\$ 551,697	\$ 112	\$ 551,585	
Road				
Rail and other track material	220,214	83,765	136,449	10-45 years
Signals and interlockers	101,664	72,986	28,678	6-38 years
Ties	126,249	27,919	98,330	20-60 years
Bridges and culverts	113,871	28,663	85,208	12-61 years
Ballast	84,798	12,784	72,014	20-43 years
Other (a)	11,173	8,938	2,235	7-50 years
Total road	657,969	235,055	422,914	
Locomotives, transportation, and other equipment				
Freight cars	58,902	22,389	36,513	3-55 years
Locomotives	108,132	37,011	71,121	5-60 years
Work equipment and other (b)	52,456	27,864	24,592	3-45 years
Trailers	47,955	30,735	17,220	3-20 years
Tractors	43,400	33,710	9,690	5 years
Total locomotives, transportation, and other equipment	310,845	151,709	159,136	
Buildings and improvements	88,831	32,211	56,620	8-50 years
Dark fiber	1,250	427	823	20 years
Construction in progress	23,336	N/A	23,336	N/A
	\$ 1,633,928	\$ 419,514	\$ 1,214,414	

As of December 31, 2021	Cost	Accumulated Depreciation	Net Book Value	Estimated Useful Life (c)
(a) Includes grade crossings, fences, and signs.				
(b) Includes roadway machines, shop machinery, work equipment, computer equipment, cranes, packers and ramps, furniture and fixtures, and automobiles.				
(c) The estimated useful lives of the property, plant, and equipment are derived from the most recent life studies performed.				

<u>As of December 31, 2020</u> (in thousands)	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Estimated Useful Life (c)</u>
Land and rights-of-way	\$ 551,697	\$ 84	\$ 551,613	
Road				
Rail and other track material	203,925	76,889	127,036	10-45 years
Signals and interlockers	101,664	67,395	34,269	6-38 years
Ties	120,663	24,728	95,935	20-60 years
Bridges and culverts	109,269	25,989	83,280	12-61 years
Ballast	77,688	11,170	66,518	20-43 years
Other (a)	10,670	8,592	2,078	7-50 years
Total road	<u>623,879</u>	<u>214,763</u>	<u>409,116</u>	
Locomotives, transportation, and other equipment				
Freight cars	57,769	19,673	38,096	3-55 years
Locomotives	106,681	32,365	74,316	5-60 years
Work equipment and other (b)	48,937	24,737	24,200	3-45 years
Trailers	49,255	29,974	19,281	3-20 years
Tractors	44,580	31,012	13,568	5 years
Total locomotives, transportation, and other equipment	<u>307,222</u>	<u>137,761</u>	<u>169,461</u>	
Buildings and improvements	88,575	29,582	58,993	8-50 years
Construction in progress	23,630	N/A	23,630	N/A
Dark fiber	1,250	365	885	20 years
	<u>\$ 1,596,253</u>	<u>\$ 382,555</u>	<u>\$ 1,213,698</u>	

(a) Includes grade crossings, fences, and signs.

(b) Includes roadway machines, shop machinery, work equipment, computer equipment, cranes, packers and ramps, furniture and fixtures, and automobiles.

(c) The estimated useful lives of the property, plant, and equipment are derived from the most recent life studies performed.

In 2016, the Company and AAF Holdings, LLC (AAF) (formerly a related party) entered into an agreement, whereby AAF would rehabilitate certain FECR assets in conjunction with their passenger rail operations. From 2016 through 2018 and in 2020 through 2021, assets primarily consisting of rail, bridges, and materials used to upgrade from freight rail to passenger rail were recorded, net of accumulated depreciation, for a total of \$51.2 million in rehabilitated assets to date. The Company recorded \$6.7 million and \$8.8 million in additional rehabilitated assets in the years 2021 and 2020, respectively. The Company recorded the corresponding right-to-use liability totaling \$51.2 million and \$45.6 million for the rehabilitated assets in other long-term liabilities as of December 31, 2021 and 2020, respectively.

In March 2021, the Company sold assets, including land, an office building, and warehouse located in Jacksonville, Florida, and received cash consideration, net of selling costs, in the amount of \$1.9 million resulting in a gain of \$0.5 million. This is included in the Other Expenses line on the Income Statement.

9. Income Taxes

Income tax expenses differed from the amounts computed by applying the statutory federal income tax rate to pretax income as a result of the following for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(in thousands)	(in thousands)
Amount computed at statutory federal rates	\$ 19,752	\$ 17,657
State taxes (net of federal benefit)	2,762	2,710
Rate change on deferred income taxes	2,186	510
Other (net)	(127)	436
Provision for income taxes	<u>\$ 24,573</u>	<u>\$ 21,313</u>

The income tax expense per jurisdiction was as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(in thousands)	(in thousands)
Current:		
Federal	\$ 174	\$ 200
State	38	57
Foreign	—	—
Total current	<u>212</u>	<u>257</u>
Deferred and other:		
Federal	19,317	17,528
State	5,044	3,528
Foreign	—	—
Total deferred and other	<u>24,361</u>	<u>21,056</u>
Total tax expense	<u>\$ 24,573</u>	<u>\$ 21,313</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities were as follows as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
	(in thousands)	(in thousands)
Deferred tax assets:		
Net operating loss carryforward	\$ 27,749	\$ 44,520
Allowance for doubtful accounts	1,037	833
Deferred revenue	229	215
Accrued pension obligations	630	673
Tax benefit for deferred compensation	22	440
Accrued casualty and other liabilities	997	957
Tax credits carryforward	2,370	2,370
Lease liabilities	4,678	6,596
Other	353	463
Total deferred tax assets	<u>38,065</u>	<u>57,067</u>

	December 31, 2021	December 31, 2020
	(in thousands)	(in thousands)
Deferred tax liabilities:		
Property, plant, and equipment	\$ (118,359)	\$ (113,159)
Lease assets	(4,127)	(3,893)
Other	(878)	(950)
Total deferred tax liabilities	<u>(123,364)</u>	<u>(118,002)</u>
Net deferred tax liabilities	<u>\$ (85,299)</u>	<u>\$ (60,935)</u>

A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In prior years, the Company established a valuation allowance because it was more likely than not that the deferred tax assets would not be realized. Beginning in 2017, the Company determined a valuation allowance was no longer necessary due to the changes in the Company's debt structure. Prior to 2017, net operating losses were primarily generated due to significant interest expenses; however, after the acquisition by GMXT, the majority of debt was paid off and the remaining debt has relatively low interest expense requirements, increasing the profitability of the Company. Therefore, the Company believes it is more likely than not that it will be able to fully utilize the net operating loss carryforwards because of expected taxable income.

The Company has net operating loss carryforwards as of December 31, 2021, as follows:

- United States—\$118.7 million (expiration periods: 2031—2037)
- Florida—\$31.9 million (expiration periods: 2033—2037)

The Company had an immaterial amount accrued for uncertain tax positions in taxes payable as of December 31, 2021 and 2020. As of December 31, 2021, the U.S. taxing jurisdiction remains open to examination for the years 2020, 2019, and 2018.

10. Long-Term Debt

SIB Loan

On September 26, 2012, the Company entered into a SIB Loan with the Florida Department of Transportation. The SIB Loan provides for a loan of \$30 million to fund, in part, the costs associated with the construction of a new Florida East Coast Intermodal Container Transfer Facility near Port Everglades, which serves the Company's domestic and international business.

Interest accrues on the advance principal amount of the SIB Loan at the rate of 3.50% per annum, compounded annually. Both principal and interest payments are payable in annual installments as follows: interest payments commenced on the SIB Loan on October 1, 2013, and principal repayments commenced on the SIB Loan on October 1, 2015. The SIB Loan will be amortized over 20 years.

The SIB Loan is fully and unconditionally guaranteed by Florida East Coast Railway, L.L.C. In addition, as a condition to making the SIB Loan, the Florida Department of Transportation required a first priority lien on certain fixtures (including rail trackage) and equipment. The SIB Loan specifically excludes land, rail equipment, and motor vehicles from its lien.

Debt for the Company consisted of the following as of December 31, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
SIB Loan	\$ 21,746	\$ 23,050
Less: Original issue discount and debt issuance costs classified as a reduction to long-term debt	<u>(123)</u>	<u>(133)</u>
Total debt	21,623	22,917
Less: Current maturities	<u>1,350</u>	<u>1,304</u>
Long-term debt, less current maturities	<u>\$ 20,273</u>	<u>\$ 21,613</u>

The following table represents the minimum future payments on our debt as of December 31, 2021 (in thousands):

	<u>2021</u>
2022	1,350
2023	1,397
2024	1,446
2025	1,496
2026	1,549
Thereafter	<u>14,508</u>
Total minimum payments	<u>\$ 21,746</u>

Debt Guarantees

As of December 31, 2021 and 2020, the Company guaranteed a 10-year unsecured bond issue for GMXT. The bonds will mature in September 2027. The aggregate amount of the outstanding debt was \$13.5B MXN and \$13.5B MXN, or approximately \$659 million and \$678 million, as of December 31, 2021 and 2020, respectively. A default by GMXT under this debt obligation may expose the Company to liability under this guarantee, up to the amount of the outstanding principal.

As of December 31, 2021 and 2020, the Company guaranteed a 10-year unsecured bond issue for GMXT. The bonds will mature in September 2029. The aggregate amount of the outstanding debt was \$6.1B MXN and \$6.1B MXN, or approximately \$296 million and \$304.5 million, as of December 31, 2021 and 2020, respectively. A default by GMXT under this debt obligation may expose the Company to liability under this guarantee, up to the amount of the outstanding principal.

As of December 31, 2021 and 2020, the Company guaranteed a five-year unsecured bond issue for GMXT. The bonds will mature in September 2023. The aggregate amount of the outstanding debt was \$1.7B MXN and \$1.7B MXN, or approximately \$84.1 million and \$86.5 million, as of December 31, 2021 and 2020, respectively. A default by GMXT under this debt obligation may expose the Company to liability under this guarantee, up to the amount of the outstanding principal.

As of December 31, 2021 and 2020, the Company guaranteed a five-year unsecured bond issue for GMXT. The bonds will mature in September 2022. The aggregate amount of the outstanding debt was \$1.5B MXN and \$1.5B MXN, or approximately \$71.8 million and \$73.9 million, as of December 31, 2021 and 2020, respectively. A default by GMXT under this debt obligation may expose the Company to liability under this guarantee, up to the amount of the outstanding principal.

11. Leases

Lessee Accounting

The Company leases tractors and trailers, real property, containers, vehicles, office equipment, maintenance of way machines, rolling stock, and cranes for use in operations. We determine if an arrangement is or contains a lease at inception of the contract. The Company has lease agreements with lease and non-lease components and has elected to not separate lease and non-lease components for all classes of underlying assets. Leases with an initial term of 12 months or less are not recorded on our Combined Balance Sheets; we recognize lease expense for these leases on a straight-line basis over the lease term. Leases with initial terms in excess of 12 months are recorded as operating or financing leases in our Combined Balance Sheets. Operating leases are included in ROU lease assets, short-term lease liabilities, and long-term lease liabilities. Finance leases are included in property, plant, and equipment, less accumulated depreciation, short-term debt due, and long-term debt.

Operating ROU lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. For leases that do not provide an implicit rate, the Company uses a collateralized incremental borrowing rate for operating leases based on the information available at commencement date, including lease term, in determining the present value of future payments. The operating ROU lease asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Operating lease expense is recognized on a straight-line basis over the lease term and reported in rent expense, and financing lease expense is recorded as depreciation and interest expense in our Combined Statements of Income and Comprehensive Income.

The following table represents the assets and liabilities of the finance and operating leases as of December 31, 2021 and 2020 (in thousands):

	Financial Statement Line	2021	2020
Assets			
Operating leases	ROU lease assets	\$ 14,235	\$ 15,563
Finance leases	Property, plant, and equipment, less accumulated depreciation	11,758	21,246
Total lease assets		<u>\$ 25,993</u>	<u>\$ 36,809</u>
Liabilities			
Current			
Operating	Short-term lease liabilities	\$ 3,941	\$ 3,169
Finance	Short-term debt	4,848	12,137
Noncurrent			
Operating	Long-term lease liabilities	10,771	12,777
Finance	Long-term debt	9,307	14,045
Total lease liabilities		<u>\$ 28,867</u>	<u>\$ 42,128</u>

Finance lease assets are recorded, net of accumulated depreciation of \$18.0 million and \$29.7 million as of December 31, 2021 and 2020, respectively.

The components of the Company's lease cost are as follows:

Financial Statement Line		Year Ended December 31, 2021	Year Ended December 31, 2020
Finance lease cost:			
Depreciation expenses for assets under capital leases	Depreciation and amortization	\$ 3,577	7,546
Interest on lease liabilities	Interest expense, net	489	511
Operating lease cost	Rent	4,620	4,599
Short-term lease cost	Rent	22,258	15,337
Total lease cost		<u>\$ 30,944</u>	<u>27,993</u>

Cash paid for amounts included in the present value of operating lease liabilities was \$4.0 million and \$4.3 million during the year ended December 31, 2021 and 2020, respectively, and is included in operating cash flows.

Aggregate payments of lease liabilities subsequent to December 31, 2021, for the years ending December 31 are as follows:

	Operating	Finance	Total
2022	\$ 4,359	\$ 5,073	\$ 9,432
2023	3,778	3,477	7,255
2024	2,148	2,066	4,214
2025	1,372	1,442	2,814
2026	1,344	1,150	2,494
Thereafter	3,092	2,048	5,140
Total lease payments	<u>16,093</u>	<u>15,256</u>	<u>31,349</u>
Less: Interest	1,381	1,101	2,482
Present value of lease liabilities	<u>\$ 14,712</u>	<u>\$ 14,155</u>	<u>\$ 28,867</u>

The following table presents the weighted-average remaining lease term and discount rate:

Weighted-average remaining lease term – finance lease (in years)	4.47
Weighted-average remaining lease term – operating lease (in years)	5.34
Weighted-average discount rate – finance leases	3.39%
Weighted-average discount rate – operating leases	3.32%

Lessor Accounting

The Company recognized revenue for operating leases related to various licenses, leases to use property, and leases of the owned right-of-way. Due to the long-term recurring nature of these leases, the start dates of these leases began when the railroad originated and have undeterminable maturity dates. Lease terms range from 1 month to 300 months with some leases having automatic renewals, unless canceled or 30-day termination notices. Some leases may contain escalating lease payments.

Under ASC 842, we assess on an individual lease basis whether it is probable that we will collect the future lease payments. We consider the tenant's payment history and current credit status when assessing collectability. When collectability is not deemed probable, we write off the tenant's receivables, including straight-lined rent receivables, and limit lease income to cash received.

The future minimum lease payments expected to be received from all noncancelable leases subsequent to December 31, 2021, for the years ending December 31 are as follows:

2022	\$	9,162
2023		9,162
2024		9,162
2025		9,162
2026		9,162
Thereafter		<u>159,971</u>
Total	\$	<u>205,781</u>

The table above does not include future minimum payments for right-of-way arrangements entered into after January 1, 2020, as the Company determined that these arrangements did not include a lease. Accordingly, \$1.3 million and \$3.1 million of revenue related to these arrangements were recognized as revenue for the years ended December 31, 2021 and 2020, respectively, in accordance with ASC 606.

12. Pension and Other Benefit Programs

The Company sponsors three 401(k) plans, which are available to the Company's employees. Contributions are at the employee's discretion, subject to maximum limits imposed by the Internal Revenue Service (IRS) (\$19,500 for 2021 and \$19,500 for 2020), and an additional contribution up to 10% of after-tax compensation, also subject to maximum limits imposed by the IRS. Total contributions, including the Company's match, if any, were limited by Internal Revenue Code Section 415(c) to \$58,000 for 2021 and \$57,000 for 2020.

The 401(k) Plan for Salaried Employees—In accordance with the terms of the plan, and in order to maintain Qualified Automatic Contribution Arrangement status, the Company makes a safe harbor matching contribution equal to 100% of the employee's elective deferrals that do not exceed 1% of the employee's compensation, plus 50% of the employee's elective deferrals between 1% and 6% of the employee's compensation. This safe harbor matching contribution is 100% vested. For purposes of calculating the safe harbor matching contribution, the employee's compensation and deferrals will be determined on a payroll-period basis. The amounts of matching contributions by the Company were \$0.5 million for the years ended December 31, 2021 and 2020.

401(k) Plan for Hourly Wage Employees and/or Employees Covered by Collective Bargaining Agreement—This is a limited contributory plan that was instituted in April 1995. As of 2019, all hourly wage employees covered by collective bargaining agreements are eligible for a Company matching contribution of \$0.50 for every \$1.00 of employee contributions up to \$300 annually. The amounts of matching contributions for the years ended December 31, 2021 and 2020, were immaterial.

The 401(k) Plan for Raven's Employees—Raven has a 401(k) plan to provide retirement and incidental benefits for its employees. Employees may contribute a portion of their compensation, limited to the maximum amount as determined by the IRS, plus an elective catch-up contribution of \$6,000 for participants over the age of 50. Raven may make a matching contribution on behalf of each participant, after one year of service. The Company currently matches 50% of employee contributions at up to 6% of annual wages. The amounts of matching contributions by the Company were \$0.1 million and \$0.2 million for the years ended December 31, 2021 and 2020.

Pension Plan—The Company adopted an unfunded defined benefit plan covering previous officers of the Company in 1998. The benefits are based on years of service and the employee’s compensation during the five years before retirement. The Company curtailed this plan in 1999, causing no additional benefits to accrue to covered officers. The following chart summarizes the benefit obligations and includes rate assumptions associated with the defined benefit plan for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Balance obligation at beginning of year	\$ 1,986	\$ 2,344
Interest cost	82	77
Actuarial gain	(53)	(210)
Benefits paid	(225)	(225)
Benefit obligation at end of year	<u>\$ 1,790</u>	<u>\$ 1,986</u>
Discount rate assumed	<u>2.00%</u>	<u>1.25%</u>

Of the total liability above, \$1.6 million and \$1.8 million was classified in other long-term liabilities in the Combined Balance Sheets as of December 31, 2021 and 2020, respectively. The remaining balance of \$0.2 million, for the years ended December 31, 2021 and 2020, was presented as other current liabilities in the Combined Balance Sheets. Assuming no change in participation, the Company expects to incur benefit payments of \$0.2 million per year over the next five years.

13. Share-Based Compensation

The Company issued 0 shares and 158 shares of common stock for the years ended December 31, 2021 and 2020, respectively, resulting from the vesting of restricted stock unit awards granted in previous fiscal years.

Share-based compensation expenses for the years ended December 31, 2021 and 2020, were zero.

All restricted stock and restricted stock units have been redeemed either in cash or as a payable to certain holders of these instruments and are no longer outstanding. As of December 31, 2021 and 2020, there were no outstanding restricted share benefits, and the Company had a liability of zero million as of December 31, 2021, and zero million as of December 31, 2020, in other current liabilities related to the repurchase of such awards.

14. Concentration of Labor

As of December 31, 2021, the railroad had approximately 678 employees, of which approximately 459 employees are represented by three labor unions. At the end of 2020, negotiations had concluded, and all collective bargaining agreements were ratified by the parties. All agreements remain closed to modification until the amendable date, the first occurring on December 31, 2022. Raven had approximately 175 employees, none of which were members of a union. IMEX had approximately 169 employees, none of which were members of a union.

15. Contingencies

The Company is the defendant and plaintiff in various lawsuits resulting from its operations. In the opinion of management, appropriate provisions have been made in the Combined Financial Statements for the estimated liability that is probable from disposition of such matters. The Company maintains comprehensive liability insurance for bodily injury and property claims, but is self-insured or maintains a self-insured retention for these exposures.

In September 2006, the Florida Department of Environmental Protection (FDEP) notified the Company and an adjacent property owner that they had been identified as potentially responsible parties (PRPs) as a result of an investigation into contaminated groundwater in Fort Pierce, Florida. As of December 31, 2021 and 2020, the Company had accrued \$0.2 million related to the alleged contamination. FDEP and the Company agreed in April 2012 that the

Company's scope of testing is complete, and the Company can initiate a pilot remediation of the property. The Company's contractor initiated the pilot in early 2013. The pilot remediation is providing effective results in reducing contaminants in the groundwater. Further assessment of the primary source is planned by the Company to refine the treatment strategy and establish an updated accrual estimate for remediating the site. The Company has been granted access to an adjacent property to determine if it is the source of the contamination. The completed analysis on both sites has identified the concentration of contamination is higher on the Company's side. FDEP has approved the Remediation Action Plan with air sparging as the main treatment method. The treatment system has been operational for the past several years with excellent results in reducing the contaminants of concern at the immediate source area and noticeable influence on the outer distal areas of the primary plume area. The Company has moved the site into Natural Attenuation Monitoring (NAM). FDEP has approved the NAM Plan with the Temporary Point of Compliance sample sites on August 22, 2018. Monitoring is the only activity at this site.

In addition to the above site, the Company monitors a small number of other sites leased to others or acquired by the Company or its subsidiaries. Based on management's ongoing review and monitoring of these sites, and the ability to seek contribution or indemnification from the PRPs, the Company does not expect to incur material additional costs and, therefore, has not accrued any amounts in the Combined Financial Statements as of December 31, 2021 and 2020, related to these sites.

It is difficult to quantify future environmental costs as many issues relate to actions by third parties or changes in environmental regulations. However, based on information presently available, management believes that the ultimate disposition of currently known matters will not have a material effect on the financial position, liquidity, or results of operations of the Company.

In addition, the Company had accrued, within accounts payable and accrued expenses and other long-term liabilities, in the Combined Balance Sheets, approximately \$0.2 million related to various other environmental incidents as of December 31, 2021 and 2020. These liabilities are accrued when estimable and probable in accordance with the *Contingencies Topic* in the ASC 450. Actual settlements and claims received could differ. The final outcome of these matters cannot be predicted with certainty. Considering the legal defenses currently available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items individually, when finally resolved, will have a material effect on the Company's financial condition, results of operations, or liquidity. Should a number of these items occur in the same period, they could have a material effect on the Company's financial condition, results of operations, or liquidity in that particular period.

16. Customers

The Company's aggregate business represents approximately 19% and 18% of total revenues for the years ended December 31, 2021 and 2020, respectively. The railway's aggregate revenues are influenced by the demand for aggregate material, primarily in Florida, and the ability of these customers to supply, efficiently and effectively, this natural raw material. One customer represented more than 10% of total revenues for the year ended December 31, 2021 and 2020.

17. Subsequent Events

The Company has evaluated all events or transactions that occurred after December 31, 2021, through July 1, 2022, the date of issuance of Combined Financial Statements and identified the following:

During 2022, before the issuance of the audit report, the Company paid \$40 million of dividends.