

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-39394

**Montrose Environmental Group, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**5120 Northshore Drive,**  
**North Little Rock, Arkansas**  
(Address of principal executive offices)

**46-4195044**  
(I.R.S. Employer  
Identification No.)

**72118**  
(Zip Code)

**Registrant's telephone number, including area code: (501) 900-6400**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.000004 per share	MEG	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

As of November 8, 2021, the registrant had 29,491,400 shares of common stock, \$0.000004 par value per share, outstanding.

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**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**MONTROSE ENVIRONMENTAL GROUP, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(In thousands, except share data)

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and restricted cash	\$ 16,006	\$ 34,881
Accounts receivable—net	66,471	54,102
Contract assets	46,270	38,576
Prepaid and other current assets	9,839	6,709
Total current assets	<u>138,586</u>	<u>134,268</u>
<b>NON-CURRENT ASSETS:</b>		
Property and equipment—net	31,078	34,399
Operating lease right-of-use asset—net	23,111	—
Finance lease right-of-use asset—net	7,493	—
Goodwill	304,237	274,667
Other intangible assets—net	160,239	154,854
Other assets	2,874	4,538
<b>TOTAL ASSETS</b>	<u>\$ 667,618</u>	<u>\$ 602,726</u>
<b>LIABILITIES, CONVERTIBLE AND REDEEMABLE SERIES A-2 PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and other accrued liabilities	\$ 42,373	\$ 34,877
Accrued payroll and benefits	22,485	21,181
Business acquisitions contingent consideration, current	31,152	49,902
Current portion of operating lease liabilities	6,715	—
Current portion of finance lease liabilities	3,174	—
Current portion of long-term debt	8,750	5,583
Total current liabilities	<u>114,649</u>	<u>111,543</u>
<b>NON-CURRENT LIABILITIES:</b>		
Business acquisitions contingent consideration, long-term	4,200	4,565
Other non-current liabilities	2,446	2,523
Deferred tax liabilities—net	3,059	2,815
Conversion option	22,537	20,886
Operating lease liability—net of current portion	16,584	—
Finance lease liability—net of current portion	4,641	—
Long-term debt—net of deferred financing fees	200,876	170,321
Total liabilities	<u>368,992</u>	<u>312,653</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>CONVERTIBLE AND REDEEMABLE SERIES A-2 PREFERRED STOCK \$0.0001 PAR VALUE—</b>		
Authorized, issued and outstanding shares: 17,500 at September 30, 2021 and December 31, 2020; aggregate liquidation preference of \$182.2 million at September 30, 2021 and December 31, 2020	152,928	152,928
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.000004 par value; authorized shares: 190,000,000 at September 30, 2021 and December 31, 2020; issued and outstanding shares: 26,525,844 and 24,932,527 at September 30, 2021 and December 31, 2020, respectively		—
Additional paid-in-capital	291,850	259,427
Accumulated deficit	(146,206)	(122,353)
Accumulated other comprehensive income	54	71
Total stockholders' equity	<u>145,698</u>	<u>137,145</u>
<b>TOTAL LIABILITIES, CONVERTIBLE AND REDEEMABLE SERIES A-2 PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>	<u>\$ 667,618</u>	<u>\$ 602,726</u>

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

**MONTROSE ENVIRONMENTAL GROUP, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE INCOME (LOSS)**  
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
REVENUES	\$ 132,578	\$ 84,705	\$ 402,619	\$ 219,502
COST OF REVENUES (exclusive of depreciation and amortization shown below)	85,242	51,828	272,662	142,115
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	30,499	24,442	82,865	64,810
FAIR VALUE CHANGES IN BUSINESS ACQUISITIONS				
CONTINGENT CONSIDERATION	—	13,404	24,035	17,387
DEPRECIATION AND AMORTIZATION	11,471	9,740	33,145	27,084
INCOME (LOSS) FROM OPERATIONS	5,366	(14,709)	(10,088)	(31,894)
OTHER EXPENSE				
Other expense	(516)	(9,637)	(1,909)	(17,534)
Interest expense—net	(1,722)	(3,043)	(11,208)	(10,896)
Total other expenses—net	(2,238)	(12,680)	(13,117)	(28,430)
INCOME (LOSS) BEFORE EXPENSE (BENEFIT) FROM INCOME TAXES	3,128	(27,389)	(23,205)	(60,324)
INCOME TAX EXPENSE (BENEFIT)	902	3,348	648	(1,563)
<b>NET INCOME (LOSS)</b>	<b>\$ 2,226</b>	<b>\$ (30,737)</b>	<b>\$ (23,853)</b>	<b>\$ (58,761)</b>
EQUITY ADJUSTMENT FROM FOREIGN CURRENCY TRANSLATION	(74)	80	(17)	27
COMPREHENSIVE INCOME (LOSS)	2,152	(30,657)	(23,870)	(58,734)
ACCRETION OF REDEEMABLE SERIES A-1 PREFERRED STOCK	—	(6,542)	—	(17,601)
REDEEMABLE SERIES A-1 PREFERRED STOCK DEEMED DIVIDEND	—	(24,341)	—	(24,341)
CONVERTIBLE AND REDEEMABLE SERIES A-2 PREFERRED STOCK DIVIDEND	(4,100)	(2,870)	(12,300)	(2,870)
<b>NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>(1,874)</b>	<b>(64,490)</b>	<b>(36,153)</b>	<b>(103,573)</b>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING— BASIC AND DILUTED	26,220	21,554	25,798	13,669
<b>NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS— BASIC AND DILUTED</b>	<b>\$ (0.07)</b>	<b>\$ (2.99)</b>	<b>\$ (1.40)</b>	<b>\$ (7.58)</b>

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

**MONTROSE ENVIRONMENTAL GROUP, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE SERIES A-1 PREFERRED STOCK, CONVERTIBLE AND**  
**REDEEMABLE SERIES A-2 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)**  
(In thousands, except share data)

	Redeemable Series A-1 Preferred Stock		Convertible and Redeemable Series A-2 Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE—December 31, 2020	—	\$ —	17,500	\$ 152,928	24,932,527	\$ —	\$ 259,427	\$ (122,353)	\$ 71	\$ 137,145
Net loss	—	—	—	—	—	—	—	(11,596)	—	(11,596)
Stock-based compensation	—	—	—	—	—	—	1,805	—	—	1,805
Dividend payment to the Series A-2 preferred shareholders	—	—	—	—	—	—	(4,100)	—	—	(4,100)
Common stock issued	—	—	—	—	506,330	—	4,456	—	—	4,456
Accumulated other comprehensive income	—	—	—	—	—	—	—	—	29	29
<b>BALANCE—March 31, 2021</b>	<b>—</b>	<b>\$ —</b>	<b>17,500</b>	<b>\$ 152,928</b>	<b>25,438,857</b>	<b>\$ —</b>	<b>\$ 261,588</b>	<b>\$ (133,949)</b>	<b>\$ 100</b>	<b>\$ 127,739</b>
Net loss	—	—	—	—	—	—	—	(14,483)	—	(14,483)
Stock-based compensation	—	—	—	—	—	—	2,417	—	—	2,417
Dividend payment to the Series A-2 preferred shareholders	—	—	—	—	—	—	(4,100)	—	—	(4,100)
Common stock issued	—	—	—	—	669,331	—	27,460	—	—	27,460
Accumulated other comprehensive income	—	—	—	—	—	—	—	—	28	28
<b>BALANCE—June 30, 2021</b>	<b>—</b>	<b>\$ —</b>	<b>17,500</b>	<b>\$ 152,928</b>	<b>26,108,188</b>	<b>\$ —</b>	<b>\$ 287,365</b>	<b>\$ (148,432)</b>	<b>\$ 128</b>	<b>\$ 139,061</b>
Net income	—	—	—	—	—	—	—	2,226	—	2,226
Stock-based compensation	—	—	—	—	—	—	2,365	—	—	2,365
Dividend payment to the Series A-2 preferred shareholders	—	—	—	—	—	—	(4,100)	—	—	(4,100)
Common stock issued	—	—	—	—	417,656	—	6,220	—	—	6,220
Accumulated other comprehensive income	—	—	—	—	—	—	—	—	(74)	(74)
<b>BALANCE—September 30, 2021</b>	<b>—</b>	<b>\$ —</b>	<b>17,500</b>	<b>\$ 152,928</b>	<b>26,525,844</b>	<b>\$ —</b>	<b>\$ 291,850</b>	<b>(146,206)</b>	<b>54</b>	<b>145,698</b>

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

**MONTROSE ENVIRONMENTAL GROUP, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE SERIES A-1 PREFERRED STOCK, CONVERTIBLE AND**  
**REDEEMABLE SERIES A-2 PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY**  
(In thousands, except share data) (Continued)

	Redeemable Series A-1 Preferred Stock		Convertible and Redeemable Series A-2 Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE—December 31, 2019	12,000	\$ 128,822	—	\$ —	8,370,107	\$ —	\$ 38,153	\$ (64,404)	\$ (40)	\$ (26,291)
Net loss	—	—	—	—	—	—	—	(41,248)	—	(41,248)
Accretion of the redeemable series A-1 preferred stock to redeemable value	—	5,415	—	—	—	—	(5,415)	—	—	(5,415)
Stock-based compensation	—	—	—	—	—	—	1,150	—	—	1,150
Accumulated other comprehensive income	—	—	—	—	—	—	—	—	37	37
<b>BALANCE—March 31, 2020</b>	<b>12,000</b>	<b>\$ 134,237</b>	<b>—</b>	<b>\$ —</b>	<b>8,370,107</b>	<b>\$ —</b>	<b>\$ 33,888</b>	<b>\$ (105,652)</b>	<b>\$ (3)</b>	<b>\$ (71,767)</b>
Net income	—	—	—	—	—	—	—	13,224	—	13,224
Accretion of the redeemable series A-1 preferred stock to redeemable value	—	5,644	—	—	—	—	(5,644)	—	—	(5,644)
Issuance of the convertible and redeemable series A-2 preferred stock	—	—	17,500	152,928	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	1,140	—	—	1,140
Common stock issued	—	—	—	—	794,639	—	25,021	—	—	25,021
Accumulated other comprehensive loss	—	—	—	—	—	—	—	—	(90)	(90)
<b>BALANCE—June 30, 2020</b>	<b>12,000</b>	<b>\$ 139,881</b>	<b>17,500</b>	<b>\$ 152,928</b>	<b>9,164,746</b>	<b>\$ —</b>	<b>\$ 54,405</b>	<b>\$ (92,428)</b>	<b>\$ (93)</b>	<b>\$ (38,116)</b>
Net loss	—	—	—	—	—	—	—	(30,737)	—	(30,737)
Accretion of the redeemable series A-1 preferred stock to redeemable value	—	6,542	—	—	—	—	(6,542)	—	—	(6,542)
Series A-1 preferred stock deemed dividend	—	24,341	—	—	—	—	(24,341)	—	—	(24,341)
Redemption of the series A-1	(12,000)	(170,764)	—	—	1,786,739	—	26,801	—	—	26,801
Dividend payment to the Series A-2 preferred shareholders	—	—	—	—	—	—	(2,870)	—	—	(2,870)
Exercise of the series A-1 preferred stock warrant	—	—	—	—	534,240	—	11,871	—	—	11,871
Exercise of the series A-2 preferred stock warrant	—	—	—	—	1,999,999	—	44,441	—	—	44,441
Stock-based compensation	—	—	—	—	—	—	1,149	—	—	1,149
Common stock issued	—	—	—	—	26,850	—	150	—	—	150
Issuance of common stock in connection with the initial public offering, net of issuance costs of \$15.6 million	—	—	—	—	11,500,000	—	156,881	—	—	156,881
Cancellation of shares	—	—	—	—	(119,452)	—	—	—	—	—
Accumulated other comprehensive income	—	—	—	—	—	—	—	—	80	80
<b>BALANCE—September 30, 2020</b>	<b>—</b>	<b>\$ —</b>	<b>17,500</b>	<b>\$ 152,928</b>	<b>24,893,122</b>	<b>\$ —</b>	<b>\$ 261,945</b>	<b>\$ (123,165)</b>	<b>\$ (13)</b>	<b>\$ 138,767</b>

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

**MONTROSE ENVIRONMENTAL GROUP, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Nine Months Ended September 30,	
	2021	2020
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (23,853)	\$ (58,761)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for bad debt	803	6,445
Depreciation and amortization	33,145	27,084
Amortization of right-of-use asset	5,947	—
Stock-based compensation expense	6,587	3,439
Fair value changes in embedded derivatives	1,651	17,492
Fair value changes in business acquisitions contingent consideration	24,035	17,387
Deferred income taxes	232	(1,563)
Other	68	(1,180)
Debt extinguishment costs	4,052	—
Changes in operating assets and liabilities—net of acquisitions:		
Accounts receivable and contract assets	(12,503)	(7,736)
Prepaid expenses and other current assets	(1,781)	(1,349)
Accounts payable and other accrued liabilities	(3,422)	(4,829)
Accrued payroll and benefits	61	6,084
Payment of contingent consideration and other assumed purchase price obligations	(15,549)	(6,390)
Change in operating leases	(5,765)	—
Net cash provided by (used in) operating activities	<u>13,708</u>	<u>(3,877)</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(5,405)	(5,366)
Proprietary software development and other software costs	(241)	(370)
Purchase price true ups	(8,562)	—
Proceeds from net working capital adjustment related to acquisitions	—	2,819
Cash paid for acquisitions—net of cash acquired	(36,480)	(173,923)
Net cash used in investing activities	<u>(50,688)</u>	<u>(176,840)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	109,000	104,390
Payments on line of credit	(72,000)	(201,980)
Proceeds from term loans	175,000	175,000
Repayment of term loan	(173,905)	(49,297)
Payment of contingent consideration and other purchase price obligations	(9,605)	(6,004)
Repayment of finance leases	(1,884)	(2,257)
Proceeds from issuance of common stock in connection with initial public offering, net of issuance costs	—	161,288
Payments of deferred offering costs	—	(2,925)
Prepayment premium on credit facility	—	(351)
Debt issuance costs	(2,590)	(4,866)
Proceeds from issuance of common stock for exercised stock options	6,032	171
Issuance of convertible and redeemable Series A-2 preferred stock and warrant	—	173,664
Redemption of the Series A-1 preferred stock	—	(131,821)
Dividend payment to the Series A-2 shareholders	(12,300)	(2,870)
Exercise of warrant options	—	25
Net cash provided by financing activities	<u>17,748</u>	<u>212,167</u>
<b>CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<u>(19,232)</u>	<u>31,450</u>
Foreign exchange impact on cash balance	357	43
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH:</b>		
Beginning of year	34,881	6,884
End of period	<u>\$ 16,006</u>	<u>\$ 38,377</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>		
Cash paid for interest	\$ 4,649	\$ 9,368
Cash paid for income tax	\$ 958	\$ 171
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Series A-1 preferred stock deemed dividends—net of return from holders	\$ —	\$ 24,341
Series A-1 preferred stock dividend paid in common shares	\$ —	\$ 26,801
Accrued purchases of property and equipment	\$ 1,171	\$ 486
Property and equipment purchased under finance leases	\$ 1,766	\$ 1,753
Accretion of the redeemable series A-1 preferred stock to redeemable value	\$ —	\$ 17,601
Common stock issued to acquire new businesses	\$ 6,020	\$ 25,000
Acquisitions unpaid contingent consideration	\$ 35,352	\$ 58,912
Offering costs included in accounts payable and other accrued liabilities	\$ 389	\$ 1,237
Acquisitions contingent consideration and purchase price true ups paid in shares	\$ 26,084	\$ —

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

**MONTROSE ENVIRONMENTAL GROUP, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except where otherwise indicated)**

**1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION**

**Description of the Business**—Montrose Environmental Group, Inc. (“Montrose” or the “Company”) is a corporation formed on November 2013, under the laws of the State of Delaware. The Company has approximately 80 offices across the United States, Canada and Australia and over 2,300 employees as of September 30, 2021.

Montrose is an environmental services company serving the recurring environmental needs of a diverse client base, including Fortune 500 companies and federal, state and local governments through the following three segments:

**Assessment, Permitting and Response**—Through its Assessment, Permitting and Response segment, Montrose provides scientific advisory and consulting services to support environmental assessments, environmental emergency response, and environmental audits and permits for current operations, facility upgrades, new projects, decommissioning projects and development projects. The Company’s technical advisory and consulting offerings include regulatory compliance support and planning, environmental, ecosystem and toxicological assessments and support during responses to environmental disruption. Montrose helps clients navigate regulations at the local, state, provincial and federal levels.

**Measurement and Analysis**—Through its Measurement and Analysis segment, Montrose’s teams test and analyze air, water and soil to determine concentrations of contaminants, including emerging contaminants such as PFAS, as well as determine the toxicological impact of contaminants on flora, fauna and human health. Montrose’s offerings include source and ambient air testing and monitoring, leak detection and repair (“LDAR”) and advanced analytical laboratory services such as air, storm water, wastewater and drinking water analysis.

**Remediation and Reuse**—Through its Remediation and Reuse segment, Montrose provides clients with engineering, design, implementation and operations and maintenance services, primarily to treat contaminated water, remove contaminants from soil or create biogas from waste. The Company does not own the properties or facilities at which it implements these projects or the underlying liabilities, nor does it own material amounts of the equipment used in projects; instead, the Company assists clients in designing solutions, managing projects and mitigating their environmental risks and liabilities at their locations.

**Initial Public Offering**—On July 27, 2020, the Company completed its initial public offering (“IPO”) of common stock, in which it sold 11,500,000 shares, including 1,500,000 shares issued pursuant to the underwriters full exercise on July 24, 2020 of the underwriters’ option to purchase additional shares, at a price to the public of \$15.00 per share, resulting in net proceeds to the Company of approximately \$161.3 million after deducting underwriting discounts of \$11.2 million. Additionally, the Company offset \$4.4 million of deferred IPO costs against IPO proceeds recorded to additional paid in capital. These deferred IPO costs were directly attributable to the IPO offering in accordance with Staff Accounting Bulletin Topic 5: Miscellaneous Accounting. The Company’s common stock began trading on the New York Stock Exchange on July 23, 2020.

**Basis of Presentation**—The unaudited condensed consolidated financial statements include the operations of the Company and its wholly-owned subsidiaries. These unaudited condensed consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) that permit reduced disclosure for interim periods. The unaudited condensed consolidated financial statements include all accounts of the Company and, in the opinion of management, include all recurring adjustments and normal accruals necessary for a fair statement of the Company’s financial position, results of operations and cash flows for the dates and periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements as of and for the year ended December 31, 2020. Results for interim periods are not necessarily indicative of the results to be expected during the remainder of the current year or for any future period. All intercompany transactions, accounts and profits, have been eliminated in the unaudited condensed consolidated financial statements.

**2. SUMMARY OF NEW ACCOUNTING PRONOUNCEMENTS**

**Recently Adopted Accounting Pronouncements**—The Company qualifies as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”) and therefore intends to take advantage of certain exemptions from various public company reporting requirements, including delaying adoption of new or revised accounting standards until those standards apply to private companies. The Company has elected to use this extended transition period under the JOBS Act. The effective dates shown below reflect the election to use the extended transition period. However, as June 30, 2021, the end of the Company’s second fiscal quarter, the market value of the Company’s common stock held by non-affiliates exceeded \$700.0 million and, as a result, the Company will no longer qualify as an emerging growth company at the end of the fiscal year ended December 31, 2021. The adoption dates discussed below are based on the Company no longer qualifying as an emerging growth company.

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. ASU 2019-12 removes certain exceptions to the general principles in Accounting Standard Codification (“ASC”) 740 and clarifies and amends certain guidance to promote consistent application. The standard was adopted as of January 1, 2021 and did not have a material impact on the Company’s unaudited condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting. Under the revised guidance, the accounting for awards issued to non-employees will be similar to the accounting for employee awards. The new guidance is effective for fiscal years beginning after December 15, 2019. The standard was adopted as of January 1, 2020 and did not have a material impact on the Company’s unaudited condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. The revised guidance eliminates Step 2 of the current goodwill impairment analysis test, which requires hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment loss will instead be measured at the amount by which a reporting unit’s carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The revised guidance was adopted as of January 1, 2020 and did not have a material impact on the Company’s unaudited condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to improve financial reporting regarding leasing transactions. In June 2021, with an effective adoption date of January 1, 2021, the Company adopted ASU No. 2016-02, using the modified retrospective transition approach with a cumulative effect adjustment to the income statement as of the date of adoption (Note 6). As a result of electing the modified retrospective approach, the Company is not required to restate comparative periods for the effects of ASC 842. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability, regardless of lease classification. The Company elected the package of practical expedients, which allows it not to have to reassess previous conclusions about lease identification, lease classification and initial direct costs. In addition, the Company elected to not record operating lease right-of-use assets or operating lease liabilities for leases with an initial term of 12 months or less and elected the practical expedient to not separate lease and non-lease components for all of its leases. As of adoption date, the Company recognized operating lease right-of-use assets, current operating lease liabilities and operating lease liabilities, net of current portion of \$24.6 million, \$7.3 million and \$17.3 million, respectively. The Company recognized finance lease right-of-use assets, current finance lease liabilities and finance lease liabilities, net of current portion of \$7.2 million, \$2.9 million and \$4.6 million, respectively.

**Recently Issued Accounting Pronouncements Not Yet Adopted**—In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)—Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. The ASU simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for the exception. The ASU also simplifies the diluted net income per share calculation in certain areas. The new guidance is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of the standard on the unaudited condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the expected transition away from reference rates that are expected to be discontinued, such as LIBOR. ASU 2020-04 was effective upon issuance. The Company may elect to apply the guidance prospectively through December 31, 2022. The Company is currently evaluating the impact of the adoption of the standard on the unaudited condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). The standard introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses and will apply to trade receivables. The new guidance will be effective for the Company’s annual and interim periods beginning after December 15, 2021. The Company does not anticipate that the adoption of this standard will have a material impact on the unaudited condensed consolidated financial statements.

### 3. REVENUES AND ACCOUNTS RECEIVABLE

The Company’s main revenue sources derive from the following revenue streams:

**Assessment, Permitting and Response Revenues**—Assessment, Permitting and Response revenues are generated from multidisciplinary environmental consulting services. The majority of the contracts are fixed-price or time and material based.

**Measurement and Analysis Revenues**—Measurement and Analysis revenues are generated from emissions sampling, testing and reporting services, leak detection services, ambient air monitoring services and laboratory testing services. The majority of the contracts are fixed-price or time-and-materials based.

**Remediation and Reuse Revenues**—Remediation and Reuse revenues are generated from operating and maintenance (“O&M”) services (on biogas and waste water treatment facilities), as well as remediation, monitoring and environmental compliance services. Services on the majority of O&M contracts are provided under long-term fixed-fee contracts. Remediation, monitoring and environmental compliance contracts are predominantly fixed-fee and time-and-materials based.

**Disaggregation of Revenue**—The Company disaggregates revenue by its operating segments. The Company believes disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, and uncertainty of revenue and cash flows are affected by economic factors. Disaggregated revenue disclosures are provided in Note 20.

**Contract Balances**—The Company presents contract balances for unbilled receivables (contract assets), as well as customer advances, deposits and deferred revenue (contract liabilities) within contract assets and accounts payable and accrued expenses, respectively, on the unaudited condensed consolidated statements of financial position. Amounts are generally billed at periodic intervals (e.g., weekly, bi-weekly or monthly) as work progresses in accordance with agreed-upon contractual terms. The Company utilizes the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component as the period between when the Company transfers services to a customer and when the customer pays for those services is one year or less. Amounts recorded as unbilled receivables are generally for services the Company is not entitled to bill based on the passage of time. Under certain contracts, billing occurs subsequent to revenue recognition, resulting in contract assets. The Company sometimes receives advances or deposits from customers before revenue is recognized, resulting in contract liabilities.

The following table presents the Company’s contract balances:

	September 30, 2021	December 31, 2020
Contract assets	\$ 46,270	\$ 38,576
Contract liabilities	8,037	6,114

Contract assets acquired through business acquisitions amounted to \$0.4 million and \$6.5 million as of September 30, 2021 and December 31, 2020, respectively. Contract liabilities acquired through business acquisitions amounted to \$0.5 million and zero as of September 30, 2021 and December 31, 2020, respectively. Revenue recognized during the three and nine months ended September 30, 2021, included in the contract liabilities balance at the beginning of the year was \$1.3 million and \$3.8 million, respectively. The revenue recognized from the contract liabilities consisted of the Company satisfying performance obligations during the normal course of business.

The amount of revenue recognized from changes in the transaction price associated with performance obligations satisfied in prior periods during the three and nine months ended September 30, 2021 was not material.

**Remaining Unsatisfied Performance Obligations**—Remaining unsatisfied performance obligations represent the total dollar value of work to be performed on contracts awarded and in progress. The amount of remaining unsatisfied performance obligations increases with new contracts or additions to existing contracts and decreases as revenue is recognized on existing contracts. Contracts are included in the amount of remaining unsatisfied performance obligations when an enforceable agreement has been reached. As of September 30, 2021 and December 31, 2020, the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied was approximately \$64.1 million and \$24.4 million, respectively. As of September 30, 2021, the Company expected to recognize approximately \$51.7 million of this amount as revenue within the next year and \$12.4 million the year after.

**Accounts Receivable, Net**—Accounts receivable, net consisted of the following:

	September 30, 2021	December 31, 2020
Accounts receivable, invoiced	\$ 68,974	\$ 57,228
Accounts receivable, other	1,876	1,139
Allowance for doubtful accounts	(4,379)	(4,265)
Accounts receivable—net	\$ 66,471	\$ 54,102

The Company extends non-interest-bearing trade credit to its customers in the ordinary course of business. Accounts receivable are shown on the face of the unaudited condensed consolidated statements of financial position, net of an allowance for doubtful accounts. In determining the allowance for doubtful accounts, the Company analyzes the aging of accounts receivable, historical bad debts, customer creditworthiness and current economic trends. During the first quarter of 2020, there was a global outbreak of a new strain of coronavirus, COVID-19. The COVID-19 pandemic added uncertainty to the collectability of certain receivables, particularly in industries hard hit by the pandemic. As a result, the Company recorded a \$6.3 million bad debt reserve during the first quarter of 2020. The bad debt adjustment included a \$5.5 million reserve for one customer in the Company's Remediation and Reuse segment in which management concluded to discontinue select service lines as of June 30, 2020 (Note 20).

The Company did not have any customers that exceeded 10.0% of gross accounts receivable as of September 30, 2021. As of December 31, 2020, the Company had one customer that accounted for 10.2% of gross accounts receivable. During the three months ended September 30, 2021, the Company did not have any customers that exceeded 10.0% of revenue. During the nine months ended September 30, 2021, the Company had three customers who accounted for 12.1%, 11.4% and 10.7% of revenue. The Company did not have any customers that exceeded 10.0% of revenue during the three or nine months ended September 30, 2020. The Company performs ongoing credit evaluations, and accordingly, believes that the balances from these customers do not represent a significant credit risk.

The allowance for doubtful accounts consisted of the following:

	Beginning Balance	Bad Debt Expense	Charged to Allowance	Other(1)	Ending Balance
Nine months ended September 30, 2021	\$ 4,265	\$ 803	\$ (1,229)	\$ 540	\$ 4,379
Year ended December 31, 2020	1,327	4,532	(2,633)	1,039	4,265

(1) This amount consists of additions to the allowance due to business acquisitions.

#### 4. PREPAID AND OTHER CURRENT ASSETS

Prepaid and other current assets consisted of the following:

	September 30, 2021	December 31, 2020
Deposits	\$ 795	\$ 708
Prepaid expenses	6,574	3,510
Supplies	2,470	2,491
Prepaid and other current assets	<u>\$ 9,839</u>	<u>\$ 6,709</u>

## 5. PROPERTY AND EQUIPMENT, NET

Property and equipment are stated at cost or estimated fair value for assets acquired through business combinations. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term, including options that are deemed to be reasonably assured, or the estimated useful life of the improvement.

Property and equipment, net, consisted of the following:

	Estimated Useful Life	September 30, 2021	December 31, 2020
Lab and test equipment	7 years	\$ 18,183	\$ 18,631
Vehicles	5 years	5,147	13,320
Equipment	3-7 years	35,099	32,177
Furniture and fixtures	7 years	2,696	2,938
Leasehold improvements	7 years	6,807	6,767
Aircraft	10 years	931	834
Building	39 years	2,975	2,975
		71,838	77,642
Land		725	725
Construction in progress		1,660	219
Less accumulated depreciation		(43,145)	(44,187)
Total property and equipment— net		\$ 31,078	\$ 34,399

Total depreciation expense included in the unaudited condensed consolidated statements of operations was \$2.5 million and \$7.2 million for the three and nine months ended September 30, 2021, respectively, and \$2.1 million and \$6.1 million for the three and nine months ended September 30, 2020, respectively.

Total property and equipment, net as of December 31, 2020 included \$7.2 million related to financed assets, which, following the adoption of ASC 842, are presented as part of finance lease liabilities and excluded from property and equipment, net on the face of the condensed consolidated balance sheet as of September 30, 2021.

## 6. LEASES

Leases are classified as either finance leases or operating leases based on criteria in ASC 842. The Company has finance leases for its vehicle and equipment leases and operating leases for its real estate space and office equipment leases. The Company's operating and finance leases generally have original lease terms between 1 year and 15 years, and in some instances include one or more options to renew. The Company includes options to extend the lease term if the options are reasonably certain of being exercised. The Company currently considers some of its renewal options to be reasonably certain to be exercised. Some leases also include early termination options, which can be exercised under specific conditions. The Company does not have material residual value guarantees or restrictive covenants associated with its leases.

In June 2021, with an effective adoption date of January 1, 2021, the Company adopted ASU 2016-02 using the modified retrospective approach, which permits application of this new guidance at the beginning of the period of adoption, with comparative periods continuing to be reported under ASC 840.

Finance and operating lease assets represent the right to use an underlying asset for the lease term, and finance and operating lease liabilities represent the obligation to make lease payments arising from the lease.

The Company calculates the present value of its finance and operating leases using an estimated incremental borrowing rate ("IBR"), which requires judgment. For real estate operating leases, the Company estimates the IBR based on prevailing market rates for collateralized debt in a similar economic environment with similar payment terms and maturity dates commensurate with the terms of the lease. For all other leases, the Company estimates the IBR based on the stated interest rate on the contract. Since many of the inputs used to calculate the rate implicit in the leases are not readily determinable from the lessee's perspective, the Company will not use the implicit interest rate.

Certain leases contain variable payments, these payments are expensed as incurred and not included in the Company's operating lease right-of-use assets and operating lease liabilities. These amounts primarily include payments for maintenance, utilities, taxes, and insurance and are excluded from the present value of the Company's lease obligations.

As of the adoption date, the Company recognized operating lease right-of-use assets, current operating lease liabilities and operating lease liabilities, net of current portion of \$24.6 million, \$7.3 million and \$17.3 million, respectively. As of the adoption date, the Company recognized finance lease right-of-use assets, current finance lease liabilities and finance lease liabilities, net of current portion of \$7.2 million, \$2.9 million and \$4.6 million, respectively.

As part of this adoption, the Company elected to not record operating lease right-of-use assets or operating lease liabilities for leases with an initial term of 12 months or less. The Company also elected to combine lease and non-lease components on all new or modified operating leases into a single lease component for all classes of assets.

Total rent expense under operating leases was \$2.2 million and \$6.4 million for the three and nine months ended September 30, 2020, respectively.

The components of lease expense were as follows:

Statement of Operations Location		Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
<b>Operating lease cost</b>			
Lease cost	Selling, general and administrative expense	\$ 2,203	\$ 6,398
Variable lease cost	Selling, general and administrative expense	120	329
<b>Total operating lease cost</b>		<b>2,323</b>	<b>6,727</b>
<b>Finance lease cost</b>			
Amortization of right of use assets	Depreciation and amortization	825	2,391
Interest on lease liabilities	Interest expense—net	97	300
<b>Total finance lease cost</b>		<b>922</b>	<b>2,691</b>
<b>Total lease cost</b>		<b>\$ 3,245</b>	<b>\$ 9,418</b>

Supplemental cash flows information related to leases was as follows:

	Nine Months Ended September 30, 2021
<b>Cash paid for amounts included in the measurement of lease liabilities</b>	
Operating cash flows used in operating leases	\$ 6,273
Operating cash flows used in finance leases	300
Financing cash flows used in finance leases	2,367
<b>Lease liabilities arising from new ROU assets</b>	
Operating leases	5,078
Finance leases	2,719

Weighted average remaining lease terms and weighted average discount rates were:

	September 30, 2021	
	Operating Leases	Finance Leases
Weighted average remaining lease term (years)	5.22	2.80
Weighted average discount rate	2.62%	4.95%

The following is a schedule by year of the maturities of lease liabilities with original terms in excess of one year:

	<b>September 30, 2021</b>	
	<b>Operating Leases</b>	<b>Finance Leases</b>
Remainder of 2021	\$ 2,103	\$ 923
2022	6,659	3,295
2023	4,557	2,316
2024	3,031	1,317
2025 and thereafter	8,637	484
Total undiscounted future minimum lease payments	24,987	8,335
Less imputed interest	(1,688)	(520)
Total discounted future minimum lease payments	<u>\$ 23,299</u>	<u>\$ 7,815</u>

A schedule of the future minimum rental commitments under the Company's capital lease agreements and non-cancelable operating lease agreements with an initial or remaining term in excess of one year as of December 31, 2020, in accordance with ASC 840, the predecessor to ASC 842, were as follows:

	<b>December 31, 2020</b>	
	<b>Operating Leases</b>	<b>Finance Leases</b>
2021	\$ 5,946	\$ 2,652
2022	4,865	2,172
2023	3,146	1,444
2024	1,812	496
2025 and thereafter	4,954	69
Total	<u>\$ 20,723</u>	<u>\$ 6,833</u>

## 7. BUSINESS ACQUISITIONS

In line with the Company's strategic growth initiatives, the Company acquired four businesses during the nine months ended September 30, 2021 and several businesses during the year ended December 31, 2020. The results of each of those acquired businesses are included in the unaudited condensed consolidated financial statements beginning on the acquisition date. Each transaction qualified as an acquisition of a business and was accounted for as a business combination. All acquisitions resulted in the recognition of goodwill. The Company paid these premiums resulting in such goodwill for a number of reasons, including expected synergies from combining operations of the acquiree and the Company while also growing the Company's customer base, acquiring assembled workforces, expanding its presence in certain markets and expanding and advancing its product and service offerings. The Company recorded the assets acquired and liabilities assumed at their acquisition date fair value, with the difference between the fair value of the net assets acquired and the acquisition consideration reflected as goodwill.

The identifiable intangible assets for acquisitions are valued using the excess earnings method discounted cash flow approach for customer relationships, the relief from royalty method for trade names, the patent and external proprietary software, the "with and without" method for covenants not to compete and the replacement cost method for the internal proprietary software by incorporating Level 3 inputs as described under the fair value hierarchy of ASC 820. These unobservable inputs reflect the Company's own assumptions about which assumptions market participants would use in pricing an asset on a non-recurring basis. These assets will be amortized over their respective estimated useful lives.

Other purchase price obligations (primarily deferred purchase price liabilities and target working capital liabilities or receivables) are included on the unaudited condensed consolidated statements of financial position in accounts payable and other accrued liabilities, other non-current liabilities or accounts receivable-net in the case of working capital deficits. Contingent consideration outstanding from acquisitions are included on the unaudited condensed consolidated statements of financial position in business acquisition contingent consideration, current or in business acquisitions contingent consideration, long-term. These obligations are scheduled to be settled if certain performance thresholds are met.

The Company considers several factors when determining whether or not contingent consideration liabilities are part of the purchase price, including the following: (i) the valuation of its acquisitions is not supported solely by the initial consideration paid, (ii) the former stockholders of acquired companies that remain as key employees receive compensation other than contingent consideration payments at a reasonable level compared with the compensation of the Company's other key employees and (iii) contingent consideration payments are not affected by employment termination. The Company reviews and assesses the estimated fair value of contingent consideration at each reporting period.

Transaction costs related to business combinations totaled \$0.9 million and \$1.7 million for the three and nine months ended September 30, 2021, respectively and zero and \$3.8 million for the three and nine months ended September 30, 2020, respectively. These costs are expensed within selling, general and administrative expense in the accompanying unaudited condensed consolidated statements of operations.

#### Acquisitions Completed During the Nine months Ended September 30, 2021

**MSE Group (“MSE”)**—In January 2021, the Company completed the acquisition of MSE Group by acquiring 100.0% of its membership interests. MSE is a provider of environmental assessment, compliance, engineering, and design services primarily to the U.S. federal government. MSE is based in Orlando, FL with additional offices in Tampa, Orlando, Jacksonville, San Antonio, TX, and Wilmington, NC, and satellite locations nationwide. **The upfront cash payment made to acquire MSE was funded through cash on hand and the common stock portion of the purchase price was funded through the issuance of 71,740 shares of common stock.**

**Vista Analytical Laboratory, Inc. (“Vista”)**—In June 2021, the Company completed the acquisition of Vista Analytical Laboratory, Inc. (“Vista”) by acquiring 100.0% of its common stock. Vista provides specialty analytical services related to Per- and polyfluoroalkyl substances (“PFAS”) and other semi-volatile organic compounds. Vista is based in Dorado Hills, CA. The upfront cash payment made to acquire Vista was funded through cash on hand and the common stock portion of the purchase price was funded through the issuance of 9,322 shares of common stock.

**Environmental Intelligence, LLC (“EI”)**—In July, 2021 the Company completed the acquisition of Environmental Intelligence (“EI”) by acquiring 100.0% of its membership interests. EI is an environmental consulting company recognized for its innovative work in wildlife mitigation, biological assessments, and other environmental services. EI is based in Laguna Beach, CA and enhances Montrose’s ecological planning and service capabilities in California and the US West Coast. The upfront cash payment made to acquire EI was funded through cash on hand and the common stock portion of the purchase price was funded through the issuance of 43,100 shares of common stock.

**SensibleIoT, LLC (“Sensible”)**—In August, 2021, the Company completed the business acquisition of SensibleIoT, LLC (“Sensible”) by acquiring 100.0% of its membership interests. Sensible is a technology platform that connects sensors and sources of environment data to a central, proprietary database that enables real-time client interaction. Sensible provides Montrose with an advanced ability to integrate environmental services and enhance environmental data analytics for clients. The upfront cash payment made to acquire Sensible was funded through cash on hand and the common stock portion of the purchase price was funded through the issuance of 19,638 shares of common stock.

The following table summarizes the elements of the purchase price of the acquisitions completed during the nine months ended September 30, 2021:

	Cash	Common Stock	Other Purchase Price Components Current	Contingent Consideration Current	Contingent Consideration Long Term	Total Purchase Price
MSE	\$ 9,082	\$ 2,271	\$ 10,280	\$ —	\$ 1,804	\$ 23,437
Vista	9,025	475	172	—	1,000	10,672
EI	15,397	2,274	5,324	—	—	22,995
Sensible	6,500	1,000	52	1,000	3,200	11,752
Total	\$ 40,004	\$ 6,020	\$ 15,828	\$ 1,000	\$ 6,004	\$ 68,856

The other purchase price components of the MSE purchase price consist of a target working capital amount, a 338 election tax liability, 2020 and 2021 purchase price true ups and contingent consideration. The 2020 and 2021 purchase price true up elements are based on MSE’s actual 2020 and 2021 results. The other purchase price components of the Vista purchase price consist of a target working capital amount and other contingent consideration. The other purchase price component for EI consists primarily of cash in escrow, as well as, a working capital target payment, which is not finalized at this time. The other purchase price components of Sensible consist of a working capital target payment and other contingent consideration, which are not finalized at this time.

The contingent consideration elements of the acquisitions are related to earn-outs which are based on the expected achievement of revenue or earnings thresholds as of the date of the acquisition and for which the maximum potential amount is limited.

The Company may be required to make up to \$12.7 million in aggregate true up and earn-out payments between the years 2022 and 2025 in connection with the acquisitions of MSE, Vista and Sensible. The Company paid the MSE target working capital amount and the 2020 purchase price true up in April 2021.

The preliminary purchase price attributable to the acquisitions was allocated as follows:

	MSE	EI	All other acquisitions	Total
Cash	\$ 2,810	\$ 250	\$ 464	\$ 3,524
Accounts receivable	2,987	4,564	1,078	8,629
Other current assets	31	84	267	382
Current assets	5,828	4,898	1,809	12,535
Property and equipment	513	32	978	1,523
Customer relationships	8,720	10,265	5,336	24,321
Trade names	521	996	1,323	2,840
Covenants not to compete	922	511	248	1,681
Acquired Technology	—	—	321	321
Goodwill	7,747	8,944	12,879	29,570
Total assets	24,251	25,646	22,894	72,791
Current liabilities	(814)	(2,651)	(470)	(3,935)
Total liabilities	(814)	(2,651)	(470)	(3,935)
Purchase price	<u>\$ 23,437</u>	<u>\$ 22,995</u>	<u>\$ 22,424</u>	<u>\$ 68,856</u>

For the acquisitions completed during the nine months ended September 30, 2021, the results of operations since the acquisition dates have been combined with those of the Company. The Company's unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2021 includes revenue of \$11.9 million and \$19.7 million, respectively, and pre-tax loss of \$(0.2) million and zero, respectively. MSE is included in the Company's Remediation and Reuse segment, Vista and Sensible are included in the Company's Measurement and Analysis segment and EI is included in the Company's Assessment, Permit and Response segment.

The weighted average useful lives for the acquired customer relationships and related backlog for MSE are 7 years and 2 years, respectively. The weighted average useful lives for the acquired tradenames and covenants not to compete for MSE are 2 years and 5 years, respectively.

The weighted average useful life for the acquired customer relationships for Vista is 10 years. The weighted average useful lives for the acquired tradenames and covenants not to compete for Vista are 3 years and 5 years, respectively.

The weighted average useful life for the acquired customer relationships for EI is 10 years. The weighted average useful life for the acquired tradenames and covenants not to compete for EI is 5 years.

The weighted average useful life for the acquired customer relationships for Sensible is 10 years. The weighted average useful life for the acquired technology for Sensible is 5 years.

Goodwill associated with these four acquisitions is deductible for income tax purposes.

#### Acquisitions Completed During the Year Ended December 31, 2020

**The Center for Toxicology and Environmental Health, L.L.C.**—In April 2020, the Company completed the acquisition of The Center for Toxicology and Environmental Health, L.L.C. ("CTEH") by acquiring 100.0% of its membership interests. CTEH is an environmental consulting company headquartered in Arkansas that specializes in environmental response and toxicology. The cash payment made to acquire CTEH was funded through the issuance of the Convertible and Redeemable Series A-2 Preferred Stock (Note 17) and the common stock portion of the purchase price was funded through the issuance of 791,139 shares of common stock.

**Leed Environmental Inc.**—In September 2020, the Company acquired certain testing assets, and operations from Leed Environmental Inc. ("LEED"). LEED provides environmental project management and coordination services. LEED expands the Company's remediation capabilities in the Northeast region of the United States. The cash payment made to acquire LEED was funded via cash on hand.

**American Environmental Testing Co.**— In September 2020, the Company acquired certain assets and operations of American Environmental Testing Co. (“AETC”), a stack testing company in Utah. AETC expands the Company’s air measurement and analysis capabilities in the West Coast region. The cash payment made to acquire AETC was funded via cash on hand.

The following table summarizes the elements of purchase price of the acquisitions completed during the year ended December 31, 2020:

	Cash	Common Stock	Other Purchase Price Components Current	Other Purchase Price Components Long Term	Contingent Consideration Current	Contingent Consideration Long Term	Total Purchase Price
CTEH	\$ 175,000	\$ 25,000	\$ (1,939)	\$ —	\$ 34,451	\$ 10,543	\$ 243,055
Other acquisitions	450	—	50	100	210	—	810
Total	<u>\$ 175,450</u>	<u>\$ 25,000</u>	<u>\$ (1,889)</u>	<u>\$ 100</u>	<u>\$ 34,661</u>	<u>\$ 10,543</u>	<u>\$ 243,865</u>

The contingent consideration elements of the purchase price of the acquisitions are related to earn-outs which are based on the expected achievement of revenue or earnings thresholds as of the date of the acquisition and for which the maximum potential amount is limited.

The CTEH first year earn-out was calculated at twelve times CTEH’s 2020 EBITDA (as defined in the purchase agreement) in excess of \$18.3 million, with a maximum first year earn-out payment of \$50.0 million, which was fully achieved. The second year earn-out is to be calculated at ten times CTEH’s 2021 EBITDA in excess of actual 2020 EBITDA (with actual 2020 EBITDA subject to a minimum of \$18.3 million and a maximum of \$22.5 million), with a maximum second year earn-out payment of \$30.0 million. The 2020 earn-out was initially payable 100.0% in common stock, but as a result of the completion of the Company’s IPO (Note 1), 50.0% was payable in cash. In April 2021, the 2020 earn-out payment was made with 50.0% paid in cash and the remaining 50.0% paid in common stock of the Company (Notes 14 and 18). The 2021 earn-out, if any, is payable 100.0% in cash.

The purchase price attributable to the acquisitions was allocated as follows:

	CTEH	Other 2020 Acquisitions	Total
Cash	\$ 1,527	\$ —	\$ 1,527
Accounts receivable	17,059	—	17,059
Other current assets	1,265	—	1,265
Current assets	19,851	—	19,851
Property and equipment	7,042	75	7,117
Customer relationships	56,000	—	56,000
Trade names	4,200	—	4,200
Covenants not to compete	4,000	109	4,109
Proprietary software	14,700	—	14,700
Goodwill	146,983	626	147,609
Total assets	<u>252,776</u>	<u>810</u>	<u>253,586</u>
Current liabilities	9,721	—	9,721
Total liabilities	<u>9,721</u>	<u>—</u>	<u>9,721</u>
Purchase price	<u>\$ 243,055</u>	<u>\$ 810</u>	<u>\$ 243,865</u>

CTEH, LEED and AETC are included in the Company’s Assessment, Permitting and Response, Remediation and Reuse and Measurement and Analysis segments, respectively.

The weighted average useful lives for the acquired customer relationships and internal proprietary software for the CTEH acquisition are 15 years and 3 years, respectively. The weighted average useful lives for the acquired tradenames, covenants not to compete and external proprietary software for the CTEH acquisition is 5 years. The weighted average useful lives for the acquired covenants not to compete for the other acquisitions is 4 years.

Goodwill associated with the CTEH, LEED and AETC acquisitions is deductible for income tax purposes.

**Supplemental Unaudited Pro-Forma**—The unaudited condensed consolidated financial information summarized in the following table gives effect to the 2021 and the 2020 acquisitions discussed above assuming they occurred on January 1, 2020. These unaudited consolidated pro forma operating results do not assume any impact from revenue, cost or other operating synergies that are expected or may have been realized as a result of the acquisitions. These unaudited consolidated pro forma operating results are presented for illustrative purposes only and are not indicative of the operating results that would have been achieved had the acquisitions occurred on January 1, 2020, nor does the information purport to reflect results for any future period.

	For the Three Months Ended September 30,					
	2021			2020		
	As reported	Acquisitions Pro-Forma (Unaudited)	Consolidated Pro-Forma (Unaudited)	As reported	Acquisitions Pro-Forma (Unaudited)	Consolidated Pro-Forma (Unaudited)
Revenues	\$ 132,578	\$ —	\$ 132,578	\$ 84,705	\$ 5,064	\$ 89,769
Net (loss) income	2,226	—	2,226	(30,737)	628	(30,109)

  

	For the Nine Months Ended September 30,					
	2021			2020		
	As reported	Acquisitions Pro-Forma (Unaudited)	Consolidated Pro-Forma (Unaudited)	As reported	Acquisitions Pro-Forma (Unaudited)	Consolidated Pro-Forma (Unaudited)
Revenues	\$ 402,619	\$ 12,454	\$ 415,073	\$ 219,502	\$ 61,583	\$ 281,085
Net (loss) income	(23,853)	2,205	(21,648)	(58,761)	15,847	(42,914)

During the first quarter of 2020, the Company determined to reduce the footprint of its environmental lab in Berkeley, California, and to exit its non-specialized municipal water engineering service line and its food waste biogas engineering service line, (together, “the Discontinued Service Lines”). Revenues from Discontinued Service Lines included in revenues in the above table was zero for the three and nine months ended September 30, 2021 and zero and \$3.8 million for the three and nine months ended September 30, 2020, respectively.

## 8. GOODWILL AND INTANGIBLE ASSETS

Amounts related to goodwill are as follows:

	Assessment, Permitting and Response	Measurement and Analysis	Remediation and Reuse	Total
Balance as of December 31, 2020	\$ 162,156	\$ 69,054	\$ 43,457	\$ 274,667
Goodwill acquired during the period	8,944	12,879	7,747	29,570
Balance as of September 30, 2021	\$ 171,100	\$ 81,933	\$ 51,204	\$ 304,237

Amounts related to finite-lived intangible assets are as follows:

September 30, 2021	Estimated Useful Life	Gross Balance	Accumulated Amortization	Total Intangible Assets—Net
Finite lived intangible assets				
Customer relationships	2-15 years	\$ 189,103	\$ 67,328	\$ 121,775
Covenants not to compete	4-5 years	31,623	24,832	6,791
Trade names	1-5 years	19,778	15,107	4,671
Proprietary software	3-5 years	21,595	9,853	11,742
Patent	16 years	17,479	2,219	15,260
Total other intangible assets—net		\$ 279,578	\$ 119,339	\$ 160,239

December 31, 2020	Estimated Useful Life	Gross Balance	Accumulated Amortization	Total Intangible Assets—Net
Finite lived intangible assets				
Customer relationships	7-15 years	\$ 164,782	\$ 53,446	\$ 111,336
Covenants not to compete	4-5 years	29,942	21,469	8,473
Trade names	1-5 years	16,938	12,849	4,089
Proprietary software	3-5 years	21,007	6,132	14,875
Patent	16 years	17,479	1,398	16,081
Total other intangible assets —net		<u>\$ 250,148</u>	<u>\$ 95,294</u>	<u>\$ 154,854</u>

Intangible assets with finite lives are stated at cost, less accumulated amortization and impairment losses, if any. These intangible assets are amortized using the straight-line method over the estimated useful lives of the assets. Amortization expense was \$8.9 million and \$25.9 million for the three and nine months ended September 30, 2021, respectively, and \$7.6 million and \$21.0 million for the three and nine months ended September 30, 2020, respectively.

Future amortization expense is estimated to be as follows for each of the five following years and thereafter:

December 31,	
2021 (remaining)	\$ 8,463
2022	30,298
2023	24,407
2024	20,623
2025	14,225
2026 and thereafter	62,223
Total	<u>\$ 160,239</u>

## 9. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities consisted of the following:

	September 30, 2021	December 31, 2020
Accounts payable	\$ 17,233	\$ 15,481
Accrued expenses	15,703	11,469
Other business acquisitions purchase price obligations	274	50
Contract liabilities	8,037	6,114
Other current liabilities	1,126	1,507
Income tax payable	—	256
Total accounts payable and other accrued liabilities	<u>\$ 42,373</u>	<u>\$ 34,877</u>

## 10. ACCRUED PAYROLL AND BENEFITS

Accrued payroll and benefits consisted of the following:

	September 30, 2021	December 31, 2020
Accrued bonuses	\$ 8,233	\$ 5,416
Accrued paid time off	1,990	2,067
Accrued payroll	7,472	9,133
Accrued other	4,790	4,565
Total accrued payroll and benefits	<u>\$ 22,485</u>	<u>\$ 21,181</u>

## 11. INCOME TAXES

The Company calculates its interim income tax provision in accordance with ASC Topic 270, Interim Reporting (“ASC 270”), and ASC 740. The Company’s effective tax rate (“ETR”) from continuing operations was 28.8% and (2.8)% for the three and nine months ended September 30, 2021, respectively, and (12.2)% and 2.6% for the three and nine months ended September 30, 2020, respectively. Income tax expense recorded by the Company during the three and nine months ended September 30, 2021 was \$0.9 million and \$0.6 million, respectively. The Company recorded an income tax expense of \$3.3 million and a benefit of \$1.6 million during the three and nine months ended September 30, 2020, respectively. The difference between the ETR and federal statutory rate of 21.0% is primarily attributable to items recorded for U.S. GAAP but permanently disallowed for U.S. federal income tax purposes, recognition of a U.S. federal and state valuation allowance, state and foreign income tax provisions and Global Intangible Low Taxed Income (“GILTI”).

A valuation allowance is recorded when it is more-likely-than-not some of the Company’s deferred tax assets may not be realized. Significant judgment is applied when assessing the need for a valuation allowance and the Company considers future taxable income, reversals of existing deferred tax assets and liabilities and ongoing prudent and feasible tax planning strategies, in making such assessment. As of September 30, 2021, the Company’s U.S. federal, state and various foreign net deferred tax assets are not more-likely-than-not to be realized and a full valuation allowance is maintained.

The Company records uncertain tax positions in accordance with ASC 740, on the basis of a two-step process in which (i) the Company determines whether it is more likely than not a tax position will be sustained on the basis of the technical merits of such position and (ii) for those tax positions meeting the more-likely-than-not recognition threshold, the Company would recognize the largest amount of tax benefit that is more than 50.0% likely to be realized upon ultimate settlement with the related tax authority. The Company has determined it has no uncertain tax positions as of September 30, 2021. The Company classifies interest and penalties recognized on uncertain tax positions as a component of income tax expense.

## 12. WARRANT OPTIONS

In October 2018, in connection with the issuance of the Redeemable Series A-1 Preferred Stock, the Company issued a detachable warrant to acquire 534,240 shares of common stock at a price of \$0.01 per share at any given time during a period of ten years beginning on the instrument’s issuance date.

For the three and nine months ended September 30, 2020, fair value gains/(losses) recorded in other expense on the unaudited condensed consolidated statements of operations related to the Redeemable Series A-1 warrant were \$5.0 million.

In April 2020, in connection with the issuance of the Convertible and Redeemable Series A-2 Preferred Stock, the Company issued a detachable warrant to acquire 1,351,960 shares of common stock at a price of \$0.01 per share at any time following the occurrence of a qualifying IPO, a sale of the Company, or a redemption in full of the Series A-2 preferred stock (each, an “Adjustment Event”), with an expiration date of ten years from the instrument’s issuance date. The number of shares underlying the warrant and issuable upon exercise was subject to adjustment based upon the price per share of common stock upon the occurrence of an Adjustment Event (Note 17) to reflect an aggregate value of \$30.0 million.

As a result of the \$15.00 per share public offering price in the IPO, the warrant issued in connection with the issuance of the Convertible and Redeemable Series A-2 Preferred Stock was adjusted pursuant to its terms and, upon closing of the IPO, represented a warrant to purchase 1,999,999 shares of common stock (an increase of 648,039 shares).

On July 30, 2020, the Redeemable Series A-1 Preferred Stock and the Convertible and Redeemable Series A-2 Preferred Stock warrants were exercised in full resulting in the issuance of an aggregate of 2,534,239 shares of common stock to the holder for an exercise price of \$0.01 per share. Fair value loss recorded in other expense on the unaudited condensed consolidated statements of operations was \$14.3 million for the three and nine months ended September 30, 2020.

### 13. DEBT

Debt consisted of the following:

	September 30, 2021	December 31, 2020
Term loan facility	\$ 175,000	\$ 173,906
Revolving Line of Credit	37,000	—
Capital leases	—	3,088
Equipment line of credit	—	3,018
Less deferred debt issuance costs	(2,374)	(4,108)
Total debt	209,626	175,904
Less current portion of long-term debt	(8,750)	(5,583)
Long-term debt, less current portion	\$ 200,876	\$ 170,321

**Deferred Financing Costs**—Costs relating to debt issuance have been deferred and are presented as discounted against the underlying debt instrument. These costs are amortized to interest expense over the terms of the underlying debt instruments.

**2021 Credit Facility**—On April 27, 2021, the Company entered into a new Senior Secured Credit Agreement providing for a new \$300.0 million credit facility comprised of a \$175.0 million term loan and a \$125.0 million revolving line of credit (the “2021 Credit Facility”), and used a portion of the proceeds from the 2021 Credit Facility to repay all amounts outstanding under the 2020 Credit Facility (as defined below). The 2021 revolving credit facility includes a \$20.0 million sublimit for the issuance of letters of credit. Subject to certain exceptions, all amounts under the 2021 Credit Facility will become due on April 27, 2026. The Company has the option to borrow incremental term loans or request an increase in the aggregate commitments under the revolving credit facility up to an aggregate amount of \$150.0 million subject to the satisfaction of certain conditions.

The 2021 Credit Facility term loan must be repaid in quarterly installments and shall amortize at the following annualized rates beginning with the quarter ended December 31, 2021 with the remaining balance due and payable in full on April 27, 2026:

	Amortization Table				
	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Term Loan</b>	5.0 %	5.0 %	7.5 %	7.5 %	10.0 %

The 2021 Credit Facility term loan and the revolver bear interest subject to the Company’s leverage ratio and LIBOR as follows:

Pricing Tier	Net Leverage Ratio	2021 Credit Facility		Commitment Fee	Letter of Credit Fee
		LIBOR	Base Rate		
1	≥ 3.75x to 1.0	2.50 %	1.50 %	0.25 %	2.50 %
2	<3.75x to 1.0 but ≥ 3.25 to 1.0	2.25	1.25	0.23	2.25
3	<3.25 to 1.0 but ≥ 2.50 to 1.0	2.00	1.00	0.20	2.00
4	<2.50 to 1.0 but ≥ 1.75 to 1.0	1.75	0.75	0.15	1.75
5	<1.75 to 1.0	1.50	0.50	0.15	1.50

Additionally, the Company may receive an interest rate adjustment of up to 0.05% under the 2021 Credit Facility based on the Company’s performance against certain defined sustainability and environmental, social and governance related objectives.

The 2021 Credit Facility includes a number of covenants imposing certain restrictions on the Company’s business, including, among other things, restrictions on the Company’s ability, subject to certain exceptions and baskets, to incur indebtedness, incur liens on its assets, agree to any additional negative pledges, pay dividends or repurchase stock, limit the ability of its subsidiaries to pay dividends or distribute assets, make investments, enter into any transaction of merger or consolidation, liquidate, wind-up or dissolve, or convey any part of its business, assets or property, or acquire the business, property or assets of another person, enter into sale and leaseback transactions, enter into certain transactions with affiliates, engage in any material line of business substantially different from those engaged on the closing date, modify the terms of indebtedness subordinated to the loans incurred under the 2021 Credit Facility and modify the terms of its organizational documents. The 2021 Credit Facility also includes financial covenants requiring the Company to remain below a maximum total net leverage ratio of 4.25 times, which steps down to 4.00 times beginning with the fiscal quarter ending December 31, 2022 through and including the fiscal quarter ending September 30, 2023 and then to 3.75 times beginning with the fiscal quarter ending December 31, 2023, and a minimum fixed charge coverage ratio of 1.25 times. As of September 30, 2021, the Company’s consolidated total leverage ratio (as defined in the 2021 Credit Facility) was 2.8 times.

The 2021 Credit Facility requires customary mandatory prepayments of the term loan and revolver and cash collateralization of letters of credit, subject to customary exceptions, including 100% of the proceeds of debt not permitted by the 2021 Credit Facility, 100% of the proceeds of certain dispositions, subject to customary reinvestment rights, where applicable, and 100% of insurance or condemnation proceeds, subject to customary reinvestment rights, where applicable. The 2021 Credit Facility also includes customary events of default and related acceleration and termination rights.

The weighted average interest rate on the 2021 Credit Facility as of September 30, 2021 was 2.1%.

The Company's obligations under the 2021 Credit Facility are guaranteed by certain of the Company's existing and future direct and indirect subsidiaries, and such obligations are secured by substantially all of the Company's assets, including the capital stock or other equity interests in those subsidiaries.

**2020 Credit Facility**—On April 13, 2020, the Company entered into a Unitranche Credit Agreement (the "2020 Credit Facility"), which was paid in full in April 2021 via proceeds from the issuance of the 2021 Credit Facility, which consisted of a \$225.0 million credit facility comprised of a \$175.0 million term loan and a \$50.0 million revolving credit facility. The 2020 Credit Facility maturity date was April 2025. Up until October 6, 2020, the term loan and the revolver bore interest at LIBOR plus 5.0% with a 1.0% LIBOR floor or the base rate plus 4.0% and LIBOR plus 3.5% or the base rate plus 2.5%, respectively. Effective October 6, 2020, the Company amended the 2020 Credit Facility to provide for a reduction on the applicable interest rate on the term loan from LIBOR plus 5.0% with a 1.0% LIBOR floor to LIBOR plus 4.5% with a 1.0% LIBOR floor. The revolver interest rate remained unchanged. The revolver was also subject to an unused commitment fee of 0.35%. The Term Loan had quarterly repayments that started on September 30, 2020 of \$0.5 million, increasing to \$1.1 million on September 30, 2021 and further increasing to \$1.6 million on September 30, 2022, with the remaining outstanding principal amount due on the maturity date.

The 2020 Credit Facility contained financial covenants requiring the Company to remain below a maximum consolidated total leverage ratio of 4.25 times, which would have stepped down to 4.00 times beginning December 31, 2021 and then to 3.75 times beginning December 31, 2022, and a minimum consolidated fixed charge coverage ratio of 1.25 times. As of December 31, 2020, the Company's consolidated total leverage ratio (as defined in the 2020 Credit Facility) was 2.7 times.

The resulting loss on extinguishment upon repayment of the 2020 Credit Facility amounted to \$4.1 million, of which \$1.0 million was related to fees paid and \$3.1 related to unamortized debt issuance costs. Total loss on extinguishment is recorded in interest expense-net within the condensed consolidated statement of operations for the three and nine months ended September 30, 2021.

**Prior Senior Secured Credit Facility**—The Company's Senior Secured Credit Facility prior to the 2020 Credit Facility (the "Prior Senior Credit Facility"), which was paid in full in April 2020 via proceeds from the issuance of the 2020 Credit Facility, consisted of a \$50.0 million term loan and a \$130.0 million revolving credit facility.

Borrowings under the Prior Senior Credit Facility bore interest at either (i) LIBOR plus the applicable margin or (ii) a base rate (equal to the highest of (a) the federal funds rate plus 0.5%, (b) Lender A's prime rate and (c) Eurodollar Rate, which is based on LIBOR, (using a one-month period plus 1.0%), plus the applicable margin, as the Company elects. The applicable margin means a percentage per annum determined in accordance with the following table:

Pricing Tier	Consolidated Leverage Ratio	Commitment Fee	Eurodollar Rate Loans and LIBOR Letter of Credit Fee	Daily Floating Rate Loans	Rate Loans
1	> 3.75 to 1.0	0.50%	4.00%	4.00%	3.00%
2	≤ 3.75 to 1.0 but > 3.00 to 1.0	0.50	3.50	3.50	2.50
3	≤ 3.00 to 1.0 but > 2.25 to 1.0	0.40	3.00	3.00	2.00
4	< 2.25 to 1.0	0.30	2.50	2.50	1.50

**Equipment Line of Credit**—On March 12, 2019, the Company increased its equipment line of credit facility for the purchase of equipment and related freight, installation costs and taxes paid for an additional amount not to exceed \$2.0 million. On May 16, 2019, the Company entered into a Canadian equipment line of credit facility for an amount not to exceed \$1.0 million Canadian dollars. Interest on the line of credit is determined based on a three-year swap rate at the time of funding.

The following is a schedule of the aggregate annual maturities of long-term debt presented on the unaudited condensed consolidated statement of financial position, based on the terms of the 2021 Credit Facility and equipment line of credit:

<b>September 30,</b>	
2022	\$ 8,750
2023	10,938
2024	13,125
2025	15,313
2026	163,874
Total	<u>\$ 212,000</u>

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following financial liabilities are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Business acquisitions contingent consideration, current	\$ 31,152	\$ 49,902
Business acquisitions contingent consideration, long-term	4,200	4,565
Conversion option	22,537	20,886
Total	<u>\$ 57,889</u>	<u>\$ 75,353</u>

The estimated fair value amounts shown above are not necessarily indicative of the amounts that the Company would realize upon disposition, nor do they indicate the Company's intent or ability to dispose of the financial instrument.

The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis:

	<b>Compound Embedded Option</b>	<b>Business Acquisitions Contingent Consideration, Current</b>	<b>Business Acquisitions Contingent Consideration, Long-term</b>	<b>Conversion Option</b>	<b>Contingent Put Option</b>	<b>Warrant Options</b>	<b>Total Liabilities</b>
Balance—at January 1, 2020	\$ —	\$ 8,614	\$ 379	\$ —	\$ 7,100	\$ 16,878	\$ 32,971
Series A-2 compound embedded option	(9,361)	—	—	—	—	—	\$ (9,361)
Issuance of warrant option	—	—	—	—	—	30,097	\$ 30,097
Acquisitions	—	34,661	10,543	—	—	—	\$ 45,204
Changes in fair value included in earnings	27,420	18,387	(1,000)	—	(19,240)	9,312	\$ 34,879
Payment of contingent consideration payable	—	(12,464)	—	—	—	—	\$ (12,464)
Foreign currency translation of contingent consideration payment	—	(208)	—	—	—	—	\$ (208)
Reclass of long term to short term contingent liabilities	—	180	(180)	—	—	—	\$ —
Write off of the contingent put option	—	—	—	—	12,140	—	\$ 12,140
Exercise of warrant options	—	—	—	—	—	(56,287)	\$ (56,287)
Balance—at September 30, 2020	<u>\$ 18,059</u>	<u>\$ 49,170</u>	<u>\$ 9,742</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 76,971</u>
Balance—at January 1, 2021	\$ —	\$ 49,902	\$ 4,565	\$ 20,886	\$ —	\$ —	\$ 75,353
Acquisitions	—	1,000	6,004	—	—	—	7,004
Changes in fair value included in earnings	—	13,774	10,261	1,651	—	—	25,686
Payment of contingent consideration payable	—	(50,154)	—	—	—	—	(50,154)
Reclass of long term to short term contingent liabilities	—	16,630	(16,630)	—	—	—	—
Balance—at September 30, 2021	<u>\$ —</u>	<u>\$ 31,152</u>	<u>\$ 4,200</u>	<u>\$ 22,537</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 57,889</u>

**Quantitative Information about Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3):**

**Compound Embedded Option**—Prior to the Company’s IPO, the fair value of the compound embedded option associated with the issuance of the Convertible and Redeemable Series A-2 Preferred Stock (Note 17) was estimated using a “with-and-without” method. The “with-and-without” methodology involves valuing the whole instrument on an as-is basis and then valuing the instrument without the embedded derivative feature. The difference between the entire instrument with the embedded derivative feature compared to the instrument without the embedded derivative feature is the fair value of the derivative. The unobservable inputs were based on a 100.0% probability of an IPO event and IPO date. The considerable quantifiable inputs in the compound embedded option were: (i) the future value of the compound embedded option, (ii) the fair value of the Convertible and Redeemable Series A-2 Preferred Stock, (iii) the present value of the total instrument, as well as the present value of the compound embedded feature plus the fair value of the instrument, and (iv) the risk free, discount rates, conversion date and maximum conversion amounts.

**Business Acquisitions Contingent Consideration**—The fair value of the contingent consideration payable associated with the acquisition of CTEH, MSE and Sensible was determined using a Monte Carlo simulation of earnings in a risk-neutral Geometric Brownian Motion framework. The fair values of the contingent consideration payables for the other acquisitions were calculated based on expected target achievement amounts, which are measured quarterly and then subsequently adjusted to actuals at the target measurement date. The method used to price these liabilities is considered level 3 due to the subjective nature of the unobservable inputs used to determine the fair value. The input is the expected achievement of earn-out thresholds.

**Conversion Option**—Upon the Company’s IPO, the fair value of the conversion option associated with the issuance of the Convertible and Redeemable Series A-2 Preferred Stock (Note 17) was estimated using a “with-and-without” method. The “with-and-without” methodology considers the value of the security on an as-is basis and then without the embedded conversion premium. The difference between the two scenarios is the implied fair value of the embedded derivative. The unobservable input is the required rate of return on the Series A-2. The considerable quantifiable inputs in the valuation relate to the timing of conversions or redemptions.

**Contingent Put Option**—The fair value of the contingent put option associated with the issuance of the Redeemable Series A-1 Preferred Stock was estimated using a “with-and-without” method. The “with-and-without” methodology considers the value of the security on an as-is basis and then without the embedded contingent put option. The difference between the two scenarios is the implied fair value of the embedded derivative, recorded as the contingent put option liability. In this case the Series A-1 was redeemed on the date of value so the value of the “with” scenario is known. The unobservable input is the required rate of return on the Series A-1 through to maturity in the “without” scenario. The contingent put option was redeemed in July 2020 (Note 16).

**Warrant Options**—The warrant options were exercised on July 30, 2020 (Note 12). The fair value of the warrant option associated with the issuance of the Redeemable Series A-1 Preferred Stock was calculated based on the Black-Scholes pricing model using the following assumptions:

	<b>July 30, 2020</b>
Common stock value (per share)	\$ 22.22
Expected volatility	44.35%
Risk-free interest rate	0.55%
Expected life (years)	10

As of July 30, 2020, the date the warrant options were exercised in full, the fair value of the warrant option associated with the issuance of the Convertible and Redeemable Series A-2 Preferred Stock (Note 17) was calculated based on the Black-Scholes pricing model with assumptions for (i) stock price, (ii) volatility based on the median historical volatility of publicly listed comparable companies’ stock price returns, (iii) risk-free rates based on U.S. treasury yields and (iv) dividend yield.

The method used to price these liabilities is considered Level 3 due to the subjective nature of the unobservable inputs (common stock value and expected volatility) used to determine the fair value.

## 15. COMMITMENTS AND CONTINGENCIES

**Leases**—The Company leases office facilities over various terms expiring through 2030. Certain of these operating leases contain rent escalation clauses. The Company also has office equipment leases that expire through 2026 (**Note 6**).

**Other Commitments**—The Company has commitments under the 2021 Credit Facility, its equipment line of credit and its lease obligations (**Note 13 and 6**).

**Contingencies**—The Company is subject to purchase price contingencies related to earn-outs associated with certain acquisitions (**Note 7**).

**Legal**—In the normal course of business, the Company is at times subject to pending and threatened legal actions. In management's opinion, any potential loss resulting from the resolution of these matters is not expected to have a material effect on the unaudited condensed consolidated results of operations, financial position or cash flows of the Company.

## 16. REDEEMABLE SERIES A-1 PREFERRED STOCK

On October 19, 2018, the Company issued 12,000 shares of Redeemable Series A-1 Preferred Stock with a par value of \$0.0001 per share and a detachable warrant to purchase 534,240 shares of the Company's common stock. Each preferred share was issued as part of a unit, which consisted of one share of the Redeemable Series A-1 Preferred Stock at \$0.01 million per share.

On April 13, 2020, the Company amended and restated the certificate of designation of the Company's Redeemable Series A-1 Preferred Stock. The most significant changes in the amendment included (i) the Redeemable Series A-1 Preferred Stock became pari passu with the Convertible and Redeemable Series A-2 Preferred Stock (**Note 17**), (ii) the maturity was extended to October 2024; (iii) the Company could use up to \$50.0 million of indebtedness or cash on hand to redeem the Redeemable Series A-1 Preferred Stock, and (iv) upon an IPO, up to 50.0% of accumulated dividends could be paid in shares of common stock and (v) the Company could elect to reduce the three year make whole penalty to a two year make whole penalty if the warrant issued in connection with the issuance of the Redeemable Series A-1 Preferred Stock was redeemed in full at a share price of no less than \$31.60. Following a partial redemption of outstanding Redeemable Series A-1 Preferred Stock, the dividend rate of the remaining Redeemable Series A-1 Preferred Stock would be reduced proportionally (between 15.0% and 9.0%) in relation to the proportion of Redeemable Series A-1 Preferred Stock redeemed, with the rate increasing by an additional 1.0% for dividends that are accrued versus paid in cash. Based on a qualitative assessment performed by the Company, the Redeemable Series A-1 Preferred Stock amendments did not represent a significant long-term change to the original terms of the instrument and, therefore, there was no change in the accounting of the instrument.

On July 27, 2020, the Company redeemed in full the Redeemable Series A-1 Preferred Stock, including the guaranteed minimum two-year dividend.

The Redeemable Series A-1 Preferred Stock contained restrictive covenants. Prior to its redemption, the Company was subject to a consolidated total leverage ratio (including the outstanding principal and accrued dividend on the Redeemable Series A-1 Preferred Stock) limit of less than 10.0 times as of the end of any fiscal quarter ending until maturity.

Before redemption, the Redeemable Series A-1 Preferred Stock accrued dividends quarterly at an annual rate of 15.0% with respect to dividends that were paid in cash and at an annual rate of 14.2% with respect to dividends that were accrued.

At issuance the Company determined that the detachable warrant (**Note 12**) and the contingent put option were required to be accounted for separately. The contingent put option change in value of \$26.3 million and \$19.2 million for the three and nine months ended September 30, 2020 was recorded to other expense.

## 17. CONVERTIBLE AND REDEEMABLE SERIES A-2 PREFERRED STOCK

On April 13, 2020, the Company entered into an agreement to issue 17,500 shares of the Convertible and Redeemable Series A-2 Preferred Stock with a par value of \$0.0001 per share and a detachable warrant to purchase shares of the Company's common stock with a 10-year life, in exchange for gross proceeds of \$175.0 million, net of \$1.3 million debt issuance costs. Before the Company's IPO, each share of Convertible and Redeemable Series A-2 Preferred Stock accrued dividends at the rate of 15.0% per annum, with respect to dividends that were paid in cash, and 14.2% per annum, with respect to dividends that were accrued. The Company paid dividends on shares of the Convertible and Redeemable Series A-2 Preferred Stock of \$4.1 million and \$12.3 million during the three and nine months ended September 30, 2021, respectively. During the three and nine months ended September 30, 2020, the Company paid dividends on shares of the Convertible and Redeemable Series A-2 Preferred Stock of \$2.9 million.

At issuance, the Company determined that Convertible and Redeemable Series A-2 Preferred Stock and the detachable warrant (Note 12), were required to be accounted for separately.

Upon the Company's IPO, following which the Redeemable Series A-1 Preferred Stock was fully redeemed, the Convertible and Redeemable Series A-2 Preferred Stock terms automatically updated to the following: (i) no mandatory redemption, (ii) no stated value cash repayment obligation other than in the event of certain defined liquidation events, (iii) only redeemable at the Company's option, (iv) the instrument became convertible into common stock beginning on the four year anniversary of issuance at a 15.0% discount to the common stock market price (with a limit of \$60.0 million in stated value of Convertible and Redeemable Series A-2 Preferred Stock eligible to be converted in any 60-day period prior to the seventh anniversary of issuance and the amount of stated value of the Convertible and Redeemable Series A-2 Preferred Stock eligible for conversion limited to \$60.0 million during year 5 and \$120.0 million (which includes the aggregate amount of the stated value of the Convertible and Redeemable Series A-2 Preferred Stock and any accrued but unpaid dividends added to such stated value of any shares of Convertible and Redeemable Series A-2 Preferred Stock converted in year 5) during year 6), (v) the dividend rate stepped down to 9.0% per year with required quarterly cash payments, (vi) in an event of noncompliance, the dividend rate shall increase to 12.0% per annum for the first 90-day period from and including the date the noncompliance event occurred, and thereafter shall increase to 14.0% per annum, (vii) the debt incurrence test ratio increased to 4.5 times, (viii) the total leverage cap covenant was removed, and (ix) minimum repayment amount dropped down from \$50.0 million to \$25.0 million.

The Company may, at its option on any one or more dates, redeem all or a minimum portion (the lesser of (i) \$25.0 million in aggregate stated value of the Convertible and Redeemable Series A-2 Preferred Stock and (ii) all of the Convertible and Redeemable Series A-2 Preferred Stock then outstanding) of the outstanding Convertible and Redeemable Series A-2 Preferred Stock in cash.

With respect to any redemption of any share of the Convertible and Redeemable Series A-2 Preferred Stock prior to the third-year anniversary, the Company is subject to a make whole penalty in which the holders of the Convertible and Redeemable Series A-2 Preferred Stock are guaranteed a minimum repayment equal to outstanding redeemed stated value plus three years of dividends accrued or accruable thereon.

The Convertible and Redeemable Series A-2 Preferred Stock does not meet the definition of a liability pursuant to "ASC 480- Distinguishing Liabilities from Equity." However, as (i) the instrument is redeemable upon a change of control as defined in the certificate of designations governing the terms of the Convertible and Redeemable Series A-2 Preferred Stock, and (ii) the Company cannot assert it would have sufficient authorized and unissued shares of common stock to settle all future conversion requests due to the variable conversion terms, the instrument is redeemable upon the occurrence of events that are not solely within the control of the Company, and therefore the Company classifies the Convertible and Redeemable Series A-2 Preferred Stock as mezzanine equity. Subsequent adjustment of the carrying value of the instrument is required if the instrument is probable of becoming redeemable. As of September 30, 2021, the Company has determined that a change of control is not probable. Additionally, as of September 30, 2021, the Company has determined that it is not probable that there will be a future conversion request that the Company is unable to settle with authorized and issued shares based on the Company's current stock price and available shares as well as the Company's monitoring efforts to ensure there are a sufficient number of shares available to settle any conversion request. Therefore, as of September 30, 2021, the Company has determined that the instrument is not probable of becoming redeemable, and does not believe subsequent adjustment of the carrying value of the instrument will be necessary. The Convertible and Redeemable Series A-2 Preferred Stock had an aggregate liquidation preference of \$182.2 million as of September 30, 2021.

The Convertible and Redeemable Series A-2 Preferred Stock contains embedded features that are required to be bifurcated and are subject to separate accounting treatment from the instrument itself. At issuance, these embedded features consisted of (i) a contingent dividend feature associated with the decrease in the dividend rate upon an IPO and (ii) a conversion option of the preferred shares to shares of common stock beginning on the fourth-year anniversary of the issuance date. Upon the Company's IPO, the embedded derivative only consisted of the conversion option. As of September 30, 2021, this conversion embedded feature had a net fair value of \$22.5 million. The change in value of \$0.5 million and \$1.7 million for the three and nine months ended September 30, 2021 was recorded to other expense. The Convertible and Redeemable Series A-2 Preferred Stock was not convertible into common stock until completion of the IPO in July 2020.

## 18. STOCKHOLDERS' EQUITY (DEFICIT)

**Authorized Capital Stock**—The Company was authorized to issue 190,000,000 shares of common stock, with a par value of \$0.000004 per share as of September 30, 2021 and December 31, 2020.

**Warrants**—In May 2015, the Company issued warrants to acquire 116,350 shares of Common Stock at a price of approximately \$17.19 per share to the placement agent as consideration for backstopping the financing completed in May 2015. These warrants were exercised in full as a cashless transaction during the first quarter of 2021. As a result of this cashless transaction, the resulting number of shares issued was 67,713 shares.

**Common Stock Issuances**—The Company issued the following shares of common stock:

	Three Months Ended September 30,					
	2021			2020		
	Shares	Average Price per Share	Total Consideration (in thousands)	Shares	Average Price per Share	Total Consideration (in thousands)
Common stock issued in connection initial public offering	—	\$ —	\$ —	11,500,000	\$ 15.00	\$ 172,500
Acquisitions	62,738	\$ 52.18	3,274	—	—	—
Redemption of series A-1 preferred stock	—	—	—	1,786,739	15.00	26,801
Exercise of warrant options	—	—	—	2,534,239	0.01	25
Exercise of options	354,918	8.30	2,946	16,850	8.92	150
Restricted shares, net	—	—	—	8,333	24.00	—
Cancellation of shares	—	—	—	(117,785)	17.15	—
<b>Total</b>	<b>417,656</b>	<b>\$ 14.89</b>	<b>\$ 6,220</b>	<b>15,728,376</b>	<b>\$ 12.82</b>	<b>\$ 199,476</b>

  

	Nine Months Ended September 30,					
	2021			2020		
	Shares	Average Price per Share	Total Consideration (in thousands)	Shares	Average Price per Share	Total Consideration (in thousands)
Common stock issued in connection initial public offering	—	\$ —	\$ —	11,500,000	\$ 15.00	\$ 172,500
Acquisitions	143,800	41.86	6,020	791,139	31.60	25,000
Redemption of series A-1 preferred stock	—	—	—	1,786,739	15.00	26,801
Exercise of warrant options	67,713	17.19	—	2,534,239	0.01	25
Exercise of options	779,068	7.74	6,032	20,350	9.27	189
Restricted shares, net	38,929	31.31	—	8,333	24.00	—
Payment of earn-out liability	539,607	46.33	25,000	—	—	—
Payment of purchase price true up	24,200	44.81	1,084	—	—	—
Cancellation of shares	—	—	—	(117,785)	17.15	—
<b>Total</b>	<b>1,593,317</b>	<b>\$ 25.43</b>	<b>\$ 38,136</b>	<b>16,523,015</b>	<b>\$ 13.72</b>	<b>\$ 224,515</b>

**Employee Equity Incentive Plans**—The Company has two plans under which stock-based awards have been issued: (i) the Montrose Amended & Restated 2017 Stock Incentive Plan (“2017 Plan”) and (ii) the Montrose Amended & Restated 2013 Stock Option Plan (“2013 Plan”) (collectively the “Plans”).

As of September 30, 2021, and September 30, 2020, there was \$15.0 million and \$10.4 million, respectively, of total unrecognized stock compensation expense related to unvested options and restricted stock granted under the Plans. Such unrecognized expense is expected to be recognized over a weighted-average three year period. The following number of shares were authorized to be issued and available for grant:

	September 30, 2021		
	2017 Plan	2013 Plan	Total
Shares authorized to be issued	3,944,750	2,047,269	5,992,019
Shares available for grant	1,593,287	—	1,593,287

  

	September 30, 2020		
	2017 Plan	2013 Plan	Total
Shares authorized to be issued	2,945,443	2,047,269	4,992,712
Shares available for grant	1,233,266	—	1,233,266

Total stock compensation expense for the Plans was as follows:

	Three Months Ended September 30,							
	2021				2020			
	2017 plan		2013 plan		2017 plan		2013 plan	
	Options	Restricted Stock	Options	Total	Options	Restricted Stock	Options	Total
Cost of revenue	\$ 282	\$ —	\$ —	\$ 282	\$ 276	\$ —	\$ (5)	\$ 271
Selling, general and administrative expense	1,844	237	2	2,083	592	233	53	878
Total	\$ 2,126	\$ 237	\$ 2	\$ 2,365	\$ 868	\$ 233	\$ 48	\$ 1,149

	Nine Months Ended September 30,							
	2021				2020			
	2017 plan		2013 plan		2017 plan		2013 plan	
	Options	Restricted Stock	Options	Total	Options	Restricted Stock	Options	Total
Cost of revenue	\$ 1,178	\$ —	\$ 10	\$ 1,188	\$ 973	\$ —	\$ 126	\$ 1,099
Selling, general and administrative expense	4,638	749	11	5,399	1,178	973	189	2,340
Total	\$ 5,816	\$ 749	\$ 21	\$ 6,587	\$ 2,151	\$ 973	\$ 315	\$ 3,439

#### Montrose Amended & Restated 2017 Stock Incentive Plan

**Restricted Stock**—The Company issues restricted stock to certain 2017 Plan participants as Director’s compensation. These shares of restricted stock granted in the nine months ended September 30, 2021 and September 30, 2020 vest one year from the date of grant, or, in each case, in full upon a change in control, subject to the participant’s continued service as a Director throughout such date, or upon retirement. Members of the Board of Directors that receive stock-based compensation are treated as employees for accounting purposes. Restricted stock activity was as follows:

	Nine Months Ended September 30,					
	2021			2020		
	Shares	Average Price per Share	Total (in thousands)	Shares	Average Price per Share	Total (in thousands)
Shares granted	19,066	\$ 36.99	\$ 705	33,229	\$ 31.60	\$ 1,050

There were no forfeitures of restricted shares during the three and nine months ended September 30, 2021. There were zero and 1,667 forfeitures of restricted shares during the three and nine months ended September 30, 2020.

There were zero and 38,929 shares of restricted stock that became fully vested and were released as unrestricted shares of common stock during the three and nine months ended September 30, 2021, respectively. There were zero and 10,000 shares of restricted stock that became fully vested and were released as unrestricted shares of common stock during the three and nine months ended September 30, 2020, respectively. There was an aggregate of 286,239 and 267,173 restricted shares outstanding as of September 30, 2021 and September 30, 2020, respectively.

**Options**—Options issued to all optionees under the 2017 Plan vest over four years from the date of issuance (or earlier vesting start date, as determined by the Board of Directors) as follows: one half on the second anniversary of date of grant and the remaining half on the fourth anniversary of the date of grant, with the exception of certain annual grants to certain executive officers, which vest annually over a 3-year and 1-year period. The following summarizes the options activity of the 2017 Plan:

	Options to Purchase Common Stock	Weighted-Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Contract Life (in Years)	Aggregate Intrinsic Value of In-The-Money Options (in Thousands)
Outstanding at January 1, 2020	617,852	\$ 24	\$ 12	7.82	\$ 4,693
Granted	851,877	32	12	—	—
Forfeited/ cancelled	(14,375)	22	—	—	—
Exercised	(925)	14	—	—	7,918
Outstanding at September 30, 2020	1,454,429	21	12	7.59	7,649
Outstanding at January 1, 2021	1,840,229	23	12	9.09	15,598
Granted	264,470	40	22	—	—
Forfeited/ cancelled	(29,025)	28	—	—	—
Expired	(1,250)	18	—	—	—
Exercised	(66,875)	22	—	—	2,078
Outstanding at September 30, 2021	2,007,549	25	14	8.53	73,724
Exercisable at September 30, 2021	320,861	28	—	7.68	10,755
Options vested and expected to vest	2,007,549	25	—	8.53	73,724

The following weighted-average assumptions were used in the Black-Sholes option-pricing model calculation:

	September 30, 2021	September 30, 2020
Common stock value (per share)	\$ 39.83	\$ 16.36
Expected volatility	58.34	46.14
Risk-free interest rate	0.77	0.41
Expected life (years)	5.5-7.0	7.0
Forfeiture rate	None	None
Dividend rate	None	None

**Montrose Amended & Restated 2013 Stock Option Plan**—The following summarizes the activity of the 2013 Plan:

	Options to Purchase Common Stock	Weighted-Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Contract Life (in Years)	Aggregate Intrinsic Value of In-The-Money Options (in Thousands)
Outstanding at January 1, 2020	1,855,469	\$ 6	\$ 1	6.40	46,617
Forfeited/ cancelled	(7,500)	10	—	—	—
Expired	(11,300)	6	—	—	—
Exercised	(19,175)	8	—	—	354
Outstanding at September 30, 2020	1,817,494	6	1	5.63	33,772
Outstanding at January 1, 2021	1,787,869	6	1	5.40	43,867
Expired	(625)	6	—	—	—
Exercised	(710,568)	6	—	—	33,480
Outstanding at September 30, 2021	1,076,676	6	2	4.65	59,532
Exercisable at September 30, 2021	1,076,676	6	—	4.65	59,532
Options vested and expected to vest	1,076,676	6	—	4.65	59,532

Total shares outstanding from exercised options were 1,028,268 shares and 221,950 shares as of September 30, 2021 and September 30, 2020, respectively.

**Common Stock Reserved for Future Issuances**—The Company has reserved certain stock of its authorized but unissued common stock for possible future issuance in connection with the following:

	September 30,	
	2021	2020
Warrants	—	116,350
Montrose 2013 Stock Incentive Plan	2,047,269	2,047,269
Montrose 2017 Stock Incentive Plan	3,944,750	2,945,443
Common stock reserved for future issuance	<u>5,992,019</u>	<u>5,109,062</u>

## 19. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during each period. The Redeemable Series A-1 Preferred Stock, which was outstanding prior to its redemption on July 27, 2020, and the Convertible and Redeemable Series A-2 Preferred Stock are considered a participating security during the applicable period. Net losses are not allocated to the Redeemable Series A-1 Preferred stockholders nor the Convertible and Redeemable Series A-2 stockholders, as they were not contractually obligated to share in the Company's losses.

Diluted net income (loss) per share is computed by dividing net (income) loss attributable to common stockholders by the weighted average number of common and dilutive common equivalent shares outstanding for the period using the treasury-stock method or the as-converted method. During the three and nine months ended September 30, 2020, shares issuable in connection with the warrant options (Note 12) were considered outstanding common shares for purposes of calculating net (loss) income per share since they did not contain any conditions that must be satisfied for the holder to exercise the warrant. Potentially dilutive shares are comprised of restricted stock and shares of common stock underlying stock options outstanding under the Plans and warrants (other than warrant options) to purchase common stock. During the nine months ended September 30, 2021 and the three and nine months ended September 30, 2020, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss and potentially dilutive shares being anti-dilutive.

The following table summarizes the computation of basic and diluted net (loss) income per share attributable to common stockholders of the Company:

(In thousands, except for net loss per share)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 2,226	\$ (30,737)	\$ (23,853)	\$ (58,761)
Accretion of redeemable series A-1 preferred stock	—	(6,542)	—	(17,601)
Redeemable series A-1 preferred stock deemed dividend		(24,341)		(24,341)
Convertible and redeemable series A-2 preferred stock dividend	(4,100)	(2,870)	(12,300)	(2,870)
Net loss attributable to common stockholders –basic and diluted	(1,874)	(64,490)	(36,153)	(103,573)
Weighted-average common shares outstanding – basic and diluted	26,220	21,554	25,798	13,669
Net loss per share attributable to common stockholders –basic and diluted	<u>\$ (0.07)</u>	<u>\$ (2.99)</u>	<u>\$ (1.40)</u>	<u>\$ (7.58)</u>

The following equity shares were excluded from the calculation of diluted net income (loss) per share attributable to common stockholders because their effect would have been anti-dilutive:

	September 30,	
	2021	2020
Stock options	1,686,688	2,423,900
Restricted stock	28,623	176,384
Warrants	—	116,350

## 20. SEGMENT INFORMATION

The Company has three operating and reportable segments: Assessment, Permitting and Response, Measurement and Analysis and Remediation and Reuse. These segments are monitored separately by management for performance against budget and prior year and are consistent with internal financial reporting. The Company's operating segments are organized based upon primary services provided, the nature of the production process, their type of customers, methods used to distribute the products and the nature of the regulatory environment.

Segment Adjusted EBITDA is the primary measure of operating performance for all three operating segments. Segment Adjusted EBITDA is the calculated Company's Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA"), adjusted to exclude certain transactions such as stock-based compensation, acquisition costs and fair value changes in financial instruments, amongst others. The Chief Operating Decision Maker ("CODM") does not review segment assets as a measure of segment performance.

Corporate and Other includes costs associated with general corporate overhead (including executive, legal, finance, safety, human resources, marketing and IT related costs) that are not directly related to supporting operations. Overhead costs that are directly related to supporting operations (such as insurance, software, licenses, shared services and payroll processing costs) are allocated to the operating segments on a basis that reasonably approximates an estimate of the use of these services.

Segment revenues and Adjusted EBITDA consisted of the following:

	Three Months Ended September 30,			
	2021		2020	
	Segment Revenues	Segment Adjusted EBITDA	Segment Revenues	Segment Adjusted EBITDA
Assessment, Permitting and Response	\$ 63,412	\$ 15,719	\$ 26,593	\$ 8,230
Measurement and Analysis	38,752	8,283	39,770	11,226
Remediation and Reuse	30,414	5,472	18,342	2,012
Total Operating Segments	132,578	29,474	84,705	21,468
Corporate and Other	—	(7,987)	—	(4,762)
Total	\$ 132,578	\$ 21,487	\$ 84,705	\$ 16,706

	Nine Months Ended September 30,			
	2021		2020	
	Segment Revenues	Segment Adjusted EBITDA	Segment Revenues	Segment Adjusted EBITDA
Assessment, Permitting and Response	\$ 209,379	\$ 46,379	\$ 49,768	\$ 14,665
Measurement and Analysis	111,309	22,634	113,130	30,422
Remediation and Reuse	81,931	12,262	56,604	6,495
Total Operating Segments	402,619	81,275	219,502	51,582
Corporate and Other	—	(22,026)	—	(15,425)
Total	\$ 402,619	\$ 59,249	\$ 219,502	\$ 36,157

Presented below is a reconciliation of the Company's segment measure to income (loss) before (expense) benefit from income taxes:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Total	\$ 21,487	\$ 16,706	\$ 59,249	\$ 36,157
Interest expense, net	(1,722)	(3,043)	(11,208)	(10,896)
Income tax (expense) benefit	(902)	(3,348)	(648)	1,563
Depreciation and amortization	(11,471)	(9,740)	(33,145)	(27,084)
Stock-based compensation	(2,365)	(1,149)	(6,587)	(3,439)
Start-up losses and investment in new services	(1,186)	(602)	(3,276)	(1,283)
Acquisition costs	(913)	(6)	(1,656)	(3,767)
Fair value changes in financial instruments	(531)	(9,710)	(1,651)	(17,492)
Fair value changes in business acquisitions contingent consideration	—	(13,404)	(24,035)	(17,387)
Short term purchase accounting fair value adjustment to deferred revenue	—	—	—	(243)
Initial public offering expense and related bonuses	—	(6,378)	—	(6,908)
Discontinued services (i)	—	(30)	—	(7,526)
Expenses related to financing transactions	—	—	(50)	(277)
Other losses or expenses	(171)	(33)	(846)	(179)
Net income (loss)	<u>\$ 2,226</u>	<u>\$ (30,737)</u>	<u>\$ (23,853)</u>	<u>\$ (58,761)</u>

(i) During the first quarter of 2020, the Company determined to reduce the footprint of its environmental lab in Berkeley, California, and to exit its non-specialized municipal water engineering service line and its food waste biogas engineering service line. As a part of discontinuing service lines, the Company made the decision to book an additional bad debt reserve related to the uncertainty around the ability to collect on receivables related to these service lines (Note 3). It was determined that the discontinuation of these service lines did not represent a strategic shift that had (or will have) a major effect on the Company's operations and financial results therefore did not meet the requirements to be classified as discontinued operations.

## 21. RELATED-PARTY TRANSACTIONS

The Company engaged a related party to provide Quality of Earnings reports on acquisition targets. The Company paid this related party zero during the three and nine months ended September 30, 2021 and zero and \$0.1 million during the three and nine months ended September 30, 2020, respectively for its services. This expense is included within selling, general and administrative expense on the unaudited condensed consolidated statements of operations. As of September 30, 2021, and December 31, 2020, the Company had no significant unpaid invoices to this related party, which would be/are included in accounts payable and other accrued liabilities on the unaudited condensed consolidated statements of financial position. The related party used by the Company is partially owned through investment vehicles controlled by certain members of the Company's Board of Directors. The Company ceased using the services of this related party during 2020.

During the year ended December 31, 2020, the holder of the Redeemable Series A-1 Preferred Stock and Convertible and Redeemable A-2 Preferred Stock became a stockholder in the Company. On the redemption date of the Redeemable Series A-1 Preferred Stock (Note 16), the Company issued 1,786,739 shares of common stock as dividend payment. Additionally, this related party exercised its warrant options (Note 12), becoming the holder of 2,534,239 additional common shares. To the Company's knowledge, the related party has sold all of such shares of its Company common stock.

## 22. DEFINED CONTRIBUTION PLAN

On January 1, 2014, the Company established the Montrose Environmental Group 401(k) Savings Plan (the "401(k) Savings Plan"). As of September 30, 2021, and December 31, 2020, plan participants may defer up to 85.0% of their eligible wages for the year, up to the Internal Revenue Service dollar limit and catch-up contribution allowed by law. Prior to May 22, 2020, the Company provided employer matching contributions equal to 100.0% of the first 3.0% of the participant's compensation and 50.0% of the participant's elective deferrals that exceed 3.0% but do not exceed 4.0% of the participant's compensation. Beginning on May 22, 2020, the Company temporarily ceased making employer contributions. Employer contributions were reinstated beginning on April 23, 2021. Employer contributions under the 401(k) Savings Plan were \$0.8 million and \$1.6 million for the three and nine months ended September 30, 2021, respectively, and zero and \$1.2 million for the three and nine months ended September 30, 2020, respectively, and are included within selling, general, and administrative expense on the unaudited condensed consolidated statements of operations.

### 23. SUBSEQUENT EVENTS

**Follow-on Offering**—In October 2021, the Company completed a follow-on offering of common stock, in which it sold 2,500,000 shares at a public offering price of \$62.00 per share less underwriting discounts. In addition, the Company granted the underwriters a 30-day option to purchase up to an additional 375,000 shares of common stock on the same terms and conditions (the “Option”). On October 5, 2021, the underwriters exercised the Option in full. Net proceeds to the Company from the follow-on offering, including the Option, were approximately \$169.8 million.

**Business Acquisitions**—On October 1, 2021, the Company completed the business acquisition of Environmental Chemistry, Inc. (“ECI”) by acquiring 100.0% of its common stock. ECI provides a full suite of environmental laboratory analytical services to industrial, governmental, and engineering/consulting clients. Combined with the Company’s existing Houston, TX laboratory, ECI (located also in Houston, TX) will enable Montrose to provide air, water and soil analytical services in the gulf coast region.

On November 1, 2021, the Company completed the business acquisition of Horizon Water and Environment, LLC (“Horizon”) by acquiring 100.0% of its membership interests. Horizon is an environmental consulting firm specializing in planning, watershed science, and environmental compliance for water and natural resource projects in California. Horizon will join Montrose’s Planning & Ecosystem Consulting segment.

These transactions qualified as an acquisition of a business and will be accounted for as a business combination. The following table summarizes the elements of the purchase price of these acquisitions:

	Cash (1)	Common Stock (2)	Other Purchase Price Component (3)	Total Purchase Price
ECI	\$ 4,000	—	—	\$ 4,000
Horizon	10,580	2,300	—	12,880

- (1) The cash portion of these acquisitions’ purchase price was funded through cash on hand.
- (2) The common stock component of Horizon was paid through the issuance of 34,921 shares of common stock.
- (3) The other purchase price components for ECI consist of a potential working capital target payment and a potential earnout amount, which are not finalized at this time. The other purchase price component of Horizon consists of a potential working capital target payment, which is not finalized at this time.

The Company has not yet completed the initial purchase price allocation for these acquisitions, including obtaining all of the information required for the valuation of the acquired intangible assets, goodwill, assets and liabilities assumed, due to the timing of the close of the transaction.

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity, capital resources and other financial and operating information. We use words such as “anticipate,” “assume,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “future,” “intend,” “may,” “plan,” “position,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “will” and similar terms and phrases to identify forward-looking statements in this filing. All of our forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we are expecting, including:

- our limited operating history;
- our history of losses and ability to achieve profitability;
- general global economic, business and other conditions, the cyclical nature of our industry and the significant fluctuations in events that impact our business;
- the impact of the COVID-19 pandemic on our business operations and on local, national and global economies;
- the parts of our business that depend on difficult to predict natural or manmade events and the fluctuations in our revenue and customer concentration as a result thereof;
- the highly competitive nature of our business;
- our ability to execute on our acquisition strategy and successfully integrate and realize benefits of our acquisitions;
- our ability to promote and develop our brands;
- our ability to maintain and expand our client base;
- our ability to maintain necessary accreditations and other authorizations in varying jurisdictions;
- significant environmental governmental regulation;
- our ability to attract and retain qualified managerial and skilled technical personnel;
- safety-related issues;
- allegations regarding compliance with professional standards, duties and statutory obligations and our ability to provide accurate results;
- the lack of formal long-term agreements with many of our clients;
- our ability to successfully implement our new enterprise resource planning system;
- our ability to adapt to changing technology, industry standards or regulatory requirements;
- government clients and contracts;
- our ability to maintain our prices and manage costs;
- our ability to protect our intellectual property or claims that we infringe on the intellectual property rights of others;
- laws and regulations regarding handling of confidential information;
- any failure in or breach of our networks and systems;
- our international operations;
- product related risks;
- environmental regulations and liabilities; and
- additional factors discussed in our filings with the Securities and Exchange Commission, or the SEC.

The forward-looking statements in this Quarterly Report on Form 10-Q are based on historical performance and management's current plans, estimates and expectations in light of information currently available to us and are subject to uncertainty and changes in circumstances. There can be no assurance that future developments affecting us will be those that we have anticipated. Actual results may differ materially from these expectations due to changes in global, regional or local political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control, as well as the other factors described in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 24, 2021, or the 2020 Form 10-K. Further, many of these factors are, and may continue to be, amplified by the COVID-19 pandemic.

Additional factors or events that could cause our actual results to differ may also emerge from time to time, and it is not possible for us to predict all of them. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove to be incorrect, our actual results may vary in material respects from what we may have expressed or implied by any forward-looking statement and, therefore, you should not regard any forward-looking statement as a representation or warranty by us or any other person that we will successfully achieve the expectation, plan or objective expressed in such forward-looking statement in any specified time frame, or at all. We caution that you should not place undue reliance on any of our forward-looking statements. Any forward-looking statement made by us speaks only as of the date on which we make it. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our historical audited and unaudited consolidated financial statements and related notes and other information included elsewhere in this filing and our other filings with the SEC, including our unaudited condensed consolidated financial statements and the accompanying notes as of and for the three and nine months ended September 30, 2021 and 2020 included in Part I, Item 1. “Financial Statements” in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from such forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those identified below and those discussed in the section entitled “Forward-Looking Statements”, and elsewhere in this filing and our other filings with the SEC.*

### **Overview**

Since our inception in 2012, our mission has been to help clients and communities meet their environmental goals and needs. Today, we have emerged as one of the fastest growing companies in a highly fragmented and growing \$1.25 trillion global environmental industry.

### ***Our Segments***

We provide environmental services to our clients through three business segments—Assessment, Permitting and Response, Measurement and Analysis and Remediation and Reuse.

#### ***Assessment, Permitting and Response***

Through our Assessment, Permitting and Response segment, we provide scientific advisory and consulting services to support environmental assessments, environmental emergency response, and environmental audits and permits for current operations, facility upgrades, new projects, decommissioning projects and development projects. Our technical advisory and consulting offerings include regulatory compliance support and planning, environmental, ecosystem and toxicological assessments and support during responses to environmental disruption. We help clients navigate regulations at the local, state, provincial and federal levels. In addition to environmental toxicology, and given our expertise in helping businesses plan for and respond to disruptions, our scientists and response teams have helped clients navigate their preparation for and response to the COVID-19 pandemic.

#### ***Measurement and Analysis***

Through our Measurement and Analysis segment, our highly credentialed teams test and analyze air, water and soil to determine concentrations of contaminants, including emerging contaminants such as PFAS, as well as determine the toxicological impact of contaminants on flora, fauna and human health. Our offerings include source and ambient air testing and monitoring, leak detection and advanced analytical laboratory services such as air, storm water, wastewater and drinking water analysis.

#### ***Remediation and Reuse***

Through our Remediation and Reuse segment, we provide clients with engineering, design, implementation and operations and maintenance services, primarily to treat contaminated water, remove contaminants from soil or create biogas from waste. We do not own the properties or facilities at which we implement these projects or the underlying liabilities, nor do we own material amounts of the equipment used in projects; instead, we assist our clients in designing solutions, managing projects and mitigating their environmental risks and liabilities.

These operating segments have been structured and organized to align with how we view and manage the business with the full lifecycle of our clients’ targeted environmental concerns and needs in mind. Within each segment, we cover similar service offerings, regulatory frameworks, internal operating structures and client types. Corporate activities not directly related to segment performance, including general corporate expenses, interest and taxes, are reported separately. For more information on each of our operating segments, see Item 1. “Business” in the 2020 Form 10-K.

## COVID-19

We are closely monitoring the impact of the COVID-19 pandemic on our business, including the impact on our customers, employees and suppliers. While COVID-19 has not had a material adverse effect on our reported results, we have experienced some changes to our business operations. The changes were primarily composed of client postponement of on-site environmental compliance testing, delays in project start dates particularly within our Remediation and Reuse segment, and postponement or reformatting of scientific presentations and sales visits. We have also had small numbers of employees either exposed to or contract COVID-19. Exposed employees have been asked to quarantine per Company protocols. To date, COVID-19 related quarantines have not had a material adverse effect on our reported results. In the second quarter of 2020 we instituted temporary cost mitigation measures such as reducing non-billable time for a subset of our impacted workforce. Some of these cost mitigation measures were reversed during the first quarter of 2021, with the remaining measures reversed in the second quarter of 2021. Our businesses exposed to commercial food waste and non-specialized municipal water engineering projects also saw more significant disruptions and, as a result, in the first quarter of 2020 we exited those service lines as described further below. On the other hand, we have seen benefits from COVID-19 given client demand for CTEH's toxicology and response services, which represented a meaningful revenue stream in the three and nine months ended September 30, 2021 and the three and nine months ended September 30, 2020, and that, once the pandemic subsides, we may not be able to replace in future periods. Although many parts of our business saw some impact from COVID-19, in the aggregate, our overall business benefitted from COVID-19 during the three and nine months ended September 30, 2021 and the three and nine months ended September 30, 2020, primarily as a result of COVID-19 response work performed by CTEH.

COVID-19 has had an impact on our historical seasonality trends given the various government stay at home or business closure orders starting in the second quarter of 2020. We have not experienced a significant slowdown in cash collections, and as a result cash flow from operations has not been materially adversely impacted. In addition, in the second quarter of 2021 we entered into a 2021 Credit Facility, replacing our 2020 Credit Facility, and as a result, increased borrowing capacity. We expect our sources of liquidity to be sufficient for our operating needs for the next twelve months. See "—Liquidity and Capital Resources."

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, was enacted. The CARES Act includes several significant provisions for corporations, including those pertaining to net operating losses, interest deductions and payroll tax benefits. We utilized certain of these provisions in 2020, including the deferral of the employer side social security payments for payroll for the eligible portion of the year. In total, we deferred approximately \$5.0 million of 2020 payments to 2021 and 2022.

It is difficult to predict the future impact COVID-19 may have on our business, results of operations, financial position, or cash flows. The extent to which we may be impacted will depend largely on future and rapidly evolving developments, including new information on the severity of new strains, the roll-out and long-term efficacy of vaccines, and actions by various government authorities to contain the pandemic and mitigate its impact. We intend to closely monitor the impact of COVID-19 on our business and will respond as we believe is appropriate.

### Key Factors that Affect Our Business and Our Results

Our operating results and financial performance are influenced by a variety of internal and external trends and other factors. Some of the more important factors are discussed briefly below.

#### Acquisitions

We have been, and expect to continue to be, an acquisitive company. Acquisitions have expanded our environmental service capabilities across all three segments, our access to technology, as well as our geographic reach in the United States, Canada and Australia. The table below sets forth the number of acquisitions completed, revenues generated by and the percentage of total revenues attributable to those acquisitions completed during the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Acquisitions completed	2	2	4	3
Revenues attributable to acquisitions in the period	5,803	4,836	19,720	37,215
Percentage of revenues	4.4%	5.7%	4.9%	17.0%

Revenues from acquired companies exclude intercompany revenues from revenue synergies realized between business lines within operating segments, as these are eliminated at the consolidated segment and Company level. We expect our revenue growth to continue to be driven in significant part by acquisitions.

As a result of our acquisitions, goodwill and other intangible assets represent a significant proportion of our total assets, and amortization of intangible assets has historically been a significant expense. Our historical financial statements also include other acquisition-related costs, including costs relating to external legal support, diligence and valuation services and other transaction and integration-related matters. In addition, in any year gains and losses from changes in the fair value of earn-out related contingent consideration related to acquisitions could be significant. The amount of each for the three and nine months ended September 30, was:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Amortization expense	\$ 8,936	\$ 7,626	\$ 25,938	\$ 20,952
Acquisition-related costs	913	6	1,656	3,767
Fair value changes in business acquisitions contingent consideration	-	13,404	24,035	17,387

We expect that amortization of identifiable intangible assets and other acquisition-related costs, assuming we continue to acquire, will continue to be significant.

Additionally, we made a \$50.0 million earn-out payment in April 2021 (50.0% of which was paid in the form of shares of our common stock) and may make a future payment of up to \$30.0 million in earn-out payments in 2022 in connection with our CTEH acquisition. In connection with our MSE, Vista and Sensible acquisitions, we may make up to \$12.7 million in aggregate purchase price true up and earn-out payments between the years 2022 and 2025. See Note 7 to our unaudited condensed consolidated financial statements included in Part I, Item 1. "Financial Statements."

### ***Organic Growth***

We have grown organically and expect to continue to do so. We define organic growth as the change in revenues excluding revenues from acquisitions for the first twelve months following the date of acquisition and excluding revenues from businesses disposed of or discontinued. As a result of the significance of the CTEH acquisition to Montrose, and the potential annual volatility in CTEH's revenues, we may also disclose organic growth without the annual organic revenue growth of CTEH. We expect to continue to disclose organic revenue growth with and without CTEH, typically on an annual basis. Management uses organic growth as one of the means by which it assesses our results of operations. Organic growth is not, however, a measure of revenue growth calculated in accordance with U.S. generally accepted accounting principles, or GAAP, and should be considered in conjunction with revenue growth calculated in accordance with GAAP. We have grown organically and expect to continue to do so.

### ***Discontinued Service Lines***

Periodically, or when circumstances warrant, we evaluate the performance of our business services to ensure that performance and outlook are consistent with expectations. During the first quarter of 2020, as part of this evaluation, we determined to scale back operations of our environmental lab in Berkeley, California, and to exit our non-specialized municipal water engineering service line and our food-waste biogas engineering service line, collectively, the Discontinued Service Lines. The factors underlying these decisions were accelerated and amplified by the COVID-19 pandemic, which for example, has made the collection of commercial food waste used in biodigesters less consistent and delayed the approval or initiation of certain projects dependent on municipal or state funding. As a part of discontinuing these service lines, a process which was completed in the second quarter of 2020, we eliminated select personnel and, in the first quarter of 2020, booked an additional bad debt reserve related to the increased uncertainty around the ability to collect on receivables related to these service lines. Revenues from our non-specialized municipal water engineering service line and our food-waste biogas engineering, which are included in the results of our Remediation and Reuse segment, were zero in the three and nine months ended September 30, 2021 and zero and \$1.4 million in the three and nine months ended September 30, 2020, respectively. Revenues from our Berkeley lab, which are included in the results of our Measurement and Analysis segment, were zero during the three and nine months ended September 30, 2021 and zero and \$2.4 million in the three and nine months ended September 30, 2020, respectively. We no longer generate any revenues from the Discontinued Service Lines.

### ***Revenue Mix***

Our segments generate different levels of profitability and, accordingly, shifts in the mix of revenues between segments can impact our consolidated reported net income, operating margin, Adjusted EBITDA and Adjusted EBITDA margin from quarter to quarter and year to year. Inter-company revenues between business lines within segments have been eliminated. See Note 20 to our unaudited condensed consolidated financial statements included in Part 1, Item 1 "Financial Statements."

### ***Financing Costs***

Financing costs, relating primarily to interest expense on our debt, continue to be a significant component of our results of operations. We incurred interest expense of \$1.7 million and \$11.2 million during the three and nine months ended September 30, 2021, respectively, and \$3.0 million and \$10.9 million during the three and nine months ended September 30, 2020, respectively.

On April 13, 2020, we entered into the 2020 Credit Facility providing for a \$225.0 million credit facility comprised of a \$175.0 million term loan and a \$50.0 million revolving credit facility, and used the proceeds therefrom to repay in full all amounts outstanding under our prior senior secured credit facility. We incurred debt extinguishment costs of \$1.4 million in connection with this refinancing transaction. Effective October 6, 2020, the Company amended its 2020 Credit Facility to provide for a reduction on the applicable interest rate on the term loan from LIBOR plus 5.0% with a 1.0% LIBOR floor to LIBOR plus 4.5% with a 1.0% LIBOR floor. The revolver interest rate remained unchanged.

On April 27, 2021, we entered into the 2021 Credit Facility and repaid all amounts outstanding under the 2020 Credit Facility. The 2021 Credit Facility consists of a \$175.0 million term loan and a \$125.0 million revolving credit facility. The interest rate on the 2021 Credit Facility varies depending on leverage, with a minimum of LIBOR plus 1.5% and a maximum of LIBOR plus 2.5%. We incurred debt extinguishment costs of \$4.1 million in connection with this refinancing transaction.

As a result of the lower interest rates under the 2021 Credit Facility, we expect interest expense to be lower for the remainder of 2021 as compared to 2020 periods. We expect interest expense to remain a significant cost as we continue to leverage our credit facility to support our operations and future acquisitions.

See Note 13 to our unaudited condensed consolidated financial statements included in Part 1, Item 1 “Financial Statements” and “Liquidity and Capital Resources.”

### ***Corporate and Operational Infrastructure Investments***

Our historical operating results reflect the impact of our ongoing investments in our corporate infrastructure to support our growth. We have made and expect to continue to make investments in our business platform that we believe have laid the foundation for continued growth. Investments in logistics, quality, risk management, sales and marketing, safety, human resources, research and development, finance and information technology and other areas enable us to support continued growth. These investments have allowed us to improve our operating margins.

### ***Seasonality***

Because demand for environmental services is not driven by specific or predictable patterns in one or more fiscal quarters, our business is better assessed based on yearly results. In addition, our operating results experience some quarterly variability. Excluding the impact of revenues and earnings from new acquisitions, and the temporary impact of COVID, we typically generate slightly lower revenues and lower earnings in the first and fourth quarters and higher overall revenues and earnings in the second and third quarters. Historically, quarterly variability has been driven by weather patterns, which generally impact our field-based teams’ ability to operate in the winter months. As we continue to grow and expand into new geographies and service lines, quarterly variability may deviate from historical trends.

### ***Earnings Volatility***

The acquisition of CTEH exposes us to potentially significant revenue and earnings fluctuations tied both to the timing of large environmental emergency response projects following an incident or natural disaster, and more recently, the benefit from COVID related work, which began in the third quarter of 2020 and has continued through September 30, 2021. Demand for COVID-19 related or environmental emergency response services provided by CTEH remain difficult to predict. As a result, we may have experienced revenues and earnings in the second half of 2020 and the nine months ended September 30, 2021 that are not indicative of future results, making those periods particularly difficult comparisons for future periods.

## Results of Operations

Three Months Ended September 30, 2021 Compared to the Three Months Ended September 30, 2020

(in thousands, except per share and percentage data)	For the Three Months Ended September 30,	
	2021	2020
<b>Statements of operations data:</b>		
Revenues	\$ 132,578	\$ 84,705
Cost of revenues (exclusive of depreciation and amortization)	85,242	51,828
Selling, general and administrative expense	30,499	24,442
Fair value changes in business acquisitions		
contingent consideration	—	13,404
Depreciation and amortization	11,471	9,740
<b>Income (Loss) from operations</b>	<b>\$ 5,366</b>	<b>\$ (14,709)</b>
Other expense	(516)	(9,637)
Interest expense, net	(1,722)	(3,043)
<b>Income (loss) before income taxes</b>	<b>3,128</b>	<b>(27,389)</b>
Income tax expense	902	3,348
<b>Net income (loss)</b>	<b>\$ 2,226</b>	<b>\$ (30,737)</b>
Accretion of Series A-1 redeemable preferred stock	—	(6,542)
Series A-1 deemed dividend	—	(24,341)
Series A-2 dividend payment	(4,100)	(2,870)
<b>Net loss attributable to common stockholders</b>	<b>\$ (1,874)</b>	<b>\$ (64,490)</b>
Weighted average number of shares — basic and diluted	26,220	21,554
<b>Loss per share — basic and diluted</b>	<b>\$ (0.07)</b>	<b>\$ (2.99)</b>
<b>Other financial data:</b>		
Operating margin <sup>(1)</sup>	4.0%	(17.4)%
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>\$ 21,487</b>	<b>\$ 16,706</b>
Adjusted EBITDA margin <sup>(2)</sup>	16.2%	19.7%

(1) Operating margin represents loss from operations as a percentage of revenues.

(2) Non-GAAP measure. See “—Non-GAAP Financial Information” for a discussion of non-GAAP measures and a reconciliation thereof to the most directly comparable GAAP measure.

### Revenues

For the three months ended September 30, 2021, we had revenues of \$132.6 million, an increase of \$47.9 million, or 56.6% over the three months ended September 30, 2020. The period over period increase in revenues was driven by organic growth in our Assessment, Permitting and Response and Remediation and Reuse segments, and acquisitions completed subsequent to the quarter ended September 30, 2020, which contributed revenues of \$11.9 million. As was the case in the prior year, all segments continue to be impacted by COVID-19 in 2021, however, in the current year, COVID-19 related project delays and other impacts were more than offset by COVID-19 response work in our Assessment, Permitting and Response segment from the acquisition of CTEH. Revenue from CTEH was \$53.6 million in the three months ended September 30, 2021 compared to \$22.6 million in the three months ended September 30, 2020. Revenue by segment and as a percentage of total revenues was as follows:

(revenue in thousands)	Three Months Ended September 30,			
	2021		2020	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
Assessment, Permitting and Response	\$ 63,412	47.8 %	\$ 26,593	31.4 %
Measurement and Analysis	38,752	29.2	39,770	47.0
Remediation and Reuse	30,414	22.9	18,342	21.7
	<u>\$ 132,578</u>		<u>\$ 84,705</u>	

See “—Segment Results of Operations” below.

### ***Cost of Revenues***

Cost of revenues consists of all direct costs required to provide services, including fixed and variable direct labor costs, equipment rental and other outside services, field and lab supplies, vehicle costs and travel-related expenses. Variable costs of revenues generally follow the same seasonality trends as revenue, while fixed costs tend to change primarily as a result of acquisitions.

For the three months ended September 30, 2021, cost of revenues was \$85.2 million or 64.3% of revenues, and was comprised of direct labor of \$37.0 million, outside services (including contracted labor, laboratory, shipping and freight and other outside services) of \$32.3 million, field supplies, testing supplies and equipment rental of \$9.7 million, project-related travel expenses of \$4.0 million and other direct costs of \$2.2 million.

For the three months ended September 30, 2020, cost of revenues was \$51.8 million or 61.2% of revenues, and was comprised of direct labor of \$31.0 million, outside services (including construction, laboratory, shipping and freight and other outside services) of \$9.1 million, field supplies, testing supplies and equipment rental of \$6.2 million, project-related travel expenses of \$3.7 million and other direct costs of \$1.8 million.

For the three months ended September 30, 2021, cost of revenues as a percentage of revenue increased 3.1% from the three months ended September 30, 2020, as a result of significantly higher outside service costs driven primarily by external lab expenses to support the increase in CTEH's COVID-19 revenues. The increase was partially offset by lower labor as a percentage of revenue primarily attributable to a shift in roles and responsibilities of certain employees from providing direct field support to providing more specialized, multi-location overhead support functions (such as accounting, HR and management) as result of acquisitions and growth in our business. These changes in employee roles resulted in a decrease in labor costs recorded as cost of revenues and a corresponding increase in labor costs recorded as selling, general and administrative expense in the current quarter.

### ***Selling, General and Administrative Expense***

Selling, general and administrative expense consists of general corporate overhead, including executive, legal, finance, safety, risk management, human resource, marketing and information technology related costs, as well as indirect operational costs of labor, rent, insurance and stock-based compensation.

For the three months ended September 30, 2021, selling, general and administrative expense was \$30.5 million, an increase of \$6.1 million or 24.8% versus the three months ended September 30, 2020, of which \$2.1 million was from selling, general and administrative expense pertaining to companies we acquired subsequent to the third quarter of 2020, public company related costs of \$0.6 million, as well as the impact of the shift of employee roles and responsibilities as described above, and an increase in investments in corporate infrastructure (primarily sales and marketing, finance, administrative, IT, legal and human resources).

For the three months ended September 30, 2021, selling, general and administrative expense was comprised of indirect labor of \$16.0 million, facilities costs of \$3.7 million, stock-based compensation of \$2.1 million, acquisition-related costs of \$0.9 million, bad debt expense of \$0.2 million, and other costs (including software, travel, insurance, legal, consulting and audit services) of \$7.6 million.

For the three months ended September 30, 2020, selling, general and administrative expense was \$24.4 million, and was comprised of indirect labor of \$8.8 million, IPO-related costs of \$6.4 million, facilities costs of \$3.0 million, stock-based compensation of \$0.9 million, and other costs (including software, travel, insurance, legal, consulting and audit services) of \$5.3 million.

### ***Fair Value Changes in Business Acquisitions Contingent Consideration***

For the three months ended September 30, 2021, fair value changes in business acquisitions contingent consideration were immaterial versus \$13.4 million for the three months ended September 30, 2020. This decrease was as a result of fair value adjustments for contingent considerations being immaterial for the three months ended September 30, 2021. See "Key Factors that Affect Our Business and Our Results—Acquisitions" and Note 7 to our unaudited condensed consolidated financial statements included in Part I, Item 1. "Financial Statements."

### ***Depreciation and Amortization***

Depreciation and amortization expense for the three months ended September 30, 2021, was \$11.5 million and was comprised of amortization of finite lived intangibles of \$8.9 million, arising as a result of our acquisition activity, and depreciation of property and equipment of \$2.5 million.

Depreciation and amortization expense for the three months ended September 30, 2020, was \$9.7 million and was comprised of amortization of finite lived intangibles of \$7.6 million and depreciation of property and equipment of \$2.1 million.

The increase in both depreciation and amortization for the three months ended September 30, 2021 versus the three months ended September 30, 2020, was primarily a result of acquisitions.

### *Other Expense*

Other expense for the three months ended September 30, 2021 of \$0.5 million was driven by fair value adjustments related to the Series A-2 preferred stock conversion option. Other expense of \$9.6 million for the three months ended September 30, 2020 was driven primarily by fair value adjustments related to the Series A-1 preferred stock contingent put option, the Series A-2 preferred stock embedded derivative and the Series A-1 and A-2 preferred stock warrant options. See Notes 12, 16 and 17 to our unaudited condensed consolidated financial statements included in Part 1, Item 1. “Financial Statements.”

### *Interest Expense, Net*

Interest expense, net incurred in the three months ended September 30, 2021, was \$1.7 million, compared to \$3.0 million for the three months ended September 30, 2020. The decrease in interest expense was driven by lower average interest rates under the 2021 Credit Facility compared to the 2020 Credit Facility. See “Key Factors that Affect Our Business and Our Results—Financing Costs” and Note 13 to our unaudited condensed consolidated financial statements included in Part I, Item 1. “Financial Statements.”

### *Income Tax Expense*

Income tax expense was \$0.9 million during the three months ended September 30, 2021, compared to income tax expense of \$3.3 million for the three months ended September 30, 2020.

### *Nine months Ended September 30, 2021 Compared to the Nine months Ended September 30, 2020*

(in thousands, except per share and percentage data)	For the Nine Months Ended September 30,	
	2021	2020
<b>Statements of operations data:</b>		
Revenues	\$ 402,619	\$ 219,502
Cost of revenues (exclusive of depreciation and amortization)	272,662	142,115
Selling, general and administrative expense	82,865	64,810
Fair value changes in business acquisitions contingent consideration	24,035	17,387
Depreciation and amortization	33,145	27,084
<b>Loss from operations</b>	<b>\$ (10,088)</b>	<b>\$ (31,894)</b>
Other expense	(1,909)	(17,534)
Interest expense, net	(11,208)	(10,896)
<b>Loss before income taxes</b>	<b>(23,205)</b>	<b>(60,324)</b>
Income tax expense (benefit)	648	(1,563)
<b>Net loss</b>	<b>\$ (23,853)</b>	<b>\$ (58,761)</b>
Accretion of Series A-1 redeemable preferred stock	—	(17,601)
Series A-1 deemed dividend	—	(24,341)
Series A-2 dividend payment	(12,300)	(2,870)
<b>Net loss attributable to common stockholders</b>	<b>\$ (36,153)</b>	<b>\$ (103,573)</b>
Weighted average number of shares— basic and diluted	25,798	13,669
<b>Loss per share— basic and diluted</b>	<b>\$ (1.40)</b>	<b>\$ (7.58)</b>
<b>Other financial data:</b>		
Operating margin <sup>(1)</sup>	(2.5)%	(14.5)%
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>\$ 59,249</b>	<b>\$ 36,157</b>
Adjusted EBITDA margin <sup>(2)</sup>	14.7%	16.5%

(1) Operating margin represents loss from operations as a percentage of revenues.

(2) Non-GAAP measure. See “—Non-GAAP Financial Information” for a discussion of non-GAAP measures and a reconciliation thereof to the most directly comparable GAAP measure.

## Revenues

For the nine months ended September 30, 2021, we had revenues of \$402.6 million, an increase of \$183.1 million, or 83.4% over the nine months ended September 30, 2020. Excluding revenues from Discontinued Service Lines of zero and \$3.8 million in the nine months ended September 30, 2021 and September 30, 2020, respectively, revenues increased \$186.9 million or 86.6%. The period over period increase in revenues was driven by a full nine-month period including the results of CTEH, which was acquired in the second quarter of 2020, and acquisitions completed after the quarter ended September 30, 2020, which contributed \$19.7 million in revenues during the nine months ended September 30, 2021, and organic growth, including significant organic growth from CTEH. As was the case in the prior year, all segments continue to be impacted by COVID-19 in 2021, however, in the current year, COVID-19 related project delays and other impacts were more than offset by COVID-19 response work in our Assessment, Permitting and Response segment from the acquisition of CTEH. Revenues from CTEH were \$190.1 million in the nine months ended September 30, 2021 as compared to \$37.2 million in the nine months ended September 30, 2020. Revenue by segment and as a percentage of total revenues was as follows:

(revenue in thousands)	Nine Months Ended September 30,			
	2021		2020	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
Assessment, Permitting and Response	\$ 209,379	52.0 %	\$ 49,768	22.7 %
Measurement and Analysis	111,309	27.6	113,130	51.5
Remediation and Reuse	81,931	20.3	56,604	25.8
	<u>\$ 402,619</u>		<u>\$ 219,502</u>	

See “—Segment Results of Operations” below.

## Cost of Revenues

For the nine months ended September 30, 2021, cost of revenues was \$272.7 million or 67.7% of revenues, and was comprised of direct labor of \$109.3 million, outside services (including contracted labor, laboratory, shipping and freight and other outside services) of \$115.2 million, field supplies, testing supplies and equipment rental of \$27.9 million, project-related travel expenses of \$12.8 million and other direct costs of \$7.4 million.

For the nine months ended September 30, 2020, cost of revenues was \$142.1 million or 64.7% of revenues, and was comprised of direct labor of \$88.1 million, outside services (including construction, laboratory, shipping and freight and other outside services) of \$24.8 million, field supplies, testing supplies and equipment rental of \$15.5 million, project-related travel expenses of \$7.5 million and other direct costs of \$6.2 million.

For the nine months ended September 30, 2021, cost of revenues as a percentage of revenue increased 3.0% from the nine months ended September 30, 2020, as a result of significantly higher outside service costs driven primarily by external lab expenses to support the increase in CTEH’s COVID-19 revenues. The increase was partially offset by lower labor as a percentage of revenue primarily attributable to a shift in roles and responsibilities of certain employees from providing direct field support to providing more specialized, multi-location overhead support functions (such as accounting, HR and management) as result of acquisitions and growth in our business. These changes in employee roles resulted in a decrease in labor costs recorded as cost of revenues and a corresponding increase in labor costs recorded as selling, general and administrative expense in the current year.

## Selling, General and Administrative Expense

For the nine months ended September 30, 2021, selling, general and administrative expense was \$82.9 million, an increase of \$18.1 million or 27.9% versus the nine months ended September 30, 2020, of which \$4.0 million was from selling, general and administrative expense pertaining to companies we acquired at the end of, and subsequent to the third quarter of 2020, an increase of public company related costs of \$2.3 million, and increase in stock-based compensation expense of \$3.1 million as well as the impact of the shift of employee roles and responsibilities as described above, and an increase in investments in corporate infrastructure (primarily sales and marketing, finance, administrative, IT, legal and human resources). These increases were partially offset by a decrease in bad debt of \$5.6 million, primarily related to the Discontinued Service Lines and a decrease in acquisition related costs of \$1.7 million.

For the nine months ended September 30, 2021, selling, general and administrative expense was comprised of indirect labor of \$43.2 million, facilities costs of \$10.7 million, stock-based compensation of \$5.4 million, acquisition-related costs of \$2.1 million, bad debt expense of \$0.8 million, and other costs (including software, travel, insurance, legal, consulting and audit services) of \$20.7 million.

For the nine months ended September 30, 2020, selling, general and administrative expense was \$64.8 million, and was comprised of indirect labor of \$30.0 million, facilities costs of \$8.8 million, IPO-related costs of \$6.9 million, stock-based compensation of \$2.3 million, acquisition-related costs of \$3.8 million, bad debt expense of \$6.4 million, and other costs (including software, travel, insurance, legal, consulting and audit services) of \$6.6 million.

#### ***Fair Value Changes in Business Acquisitions Contingent Consideration***

For the nine months ended September 30, 2021, fair value changes in business acquisitions contingent consideration were \$24.0 million versus \$17.4 million for the nine months ended September 30, 2020. The majority of the change in value in both periods was attributable to the achievement and expected achievement of the maximum 2020 and 2021 CTEH earn-outs, respectively. See “Key Factors that Affect Our Business and Our Results—Acquisitions” and Note 7 to our unaudited condensed consolidated financial statements included in Part I, Item 1. “Financial Statements.”

#### ***Depreciation and Amortization***

Depreciation and amortization expense for the nine months ended September 30, 2021, was \$33.1 million and was comprised of amortization of finite lived intangibles of \$25.9 million, arising as a result of our acquisition activity, and depreciation of property and equipment of \$7.2 million.

Depreciation and amortization expense for the nine months ended September 30, 2020, was \$27.1 million and was comprised of amortization of finite lived intangibles of \$21.0 million, arising as a result of our acquisition activity, and depreciation of property and equipment of \$6.1 million.

The increase in both depreciation and amortization for the nine months ended September 30, 2021 versus the nine months ended September 30, 2020, was primarily a result of acquisitions.

#### ***Other Expense***

Other expense for the nine months ended September 30, 2021 of \$1.9 million was driven by fair value adjustments related to the Series A-2 preferred stock conversion option. Other expense of \$17.5 million for the nine months ended September 30, 2020 was driven primarily by fair value adjustments related to the Series A-1 preferred stock contingent put option, the Series A-2 preferred stock embedded derivative and the Series A-1 and A-2 preferred stock warrant options. See Notes 12, 16 and 17 to our unaudited condensed consolidated financial statements included in Part I, Item 1. “Financial Statements.”

#### ***Interest Expense, Net***

Interest expense, net incurred in the nine months ended September 30, 2021, was \$11.2 million, compared to \$10.9 million for the nine months ended September 30, 2020. The increase in interest expense was driven by an increase in write-off of deferred debt issuance costs and higher outstanding debt balances, partially offset by lower average interest rates under the 2021 Credit Facility. Interest expense in the nine months ended September 30, 2021 includes \$3.1 million from the write off of deferred debt issuance costs related to the repayment of our 2020 Credit Facility in April, 2021, whereas interest expense in the nine months ended September 30, 2020 includes \$1.4 million expense from both payments made and the write off of deferred debt issuance costs related to the repayment of the Prior Credit Facility. See Note 13 to our unaudited condensed consolidated financial statements included in Part I, Item 1. “Financial Statements.”

#### ***Income Tax Expense (Benefit)***

Income tax expense was \$0.6 million during the nine months ended September 30, 2021, compared to an income tax benefit of (\$1.6) million for the nine months ended September 30, 2020.

## Segment Results of Operations

Three Months Ended September 30, 2021 Compared to the Three Months Ended September 30, 2020

(in thousands)	Three Months Ended September 30,					
	2021			2020		
	Segment Revenues	Segment Adjusted EBITDA(1)	Segment Adjusted EBITDA Margin(2)	Segment Revenues	Segment Adjusted EBITDA(1)	Segment Adjusted EBITDA Margin(2)
Assessment, Permitting and Response	\$ 63,412	\$ 15,719	24.8 %	\$ 26,593	\$ 8,230	30.9 %
Measurement and Analysis	38,752	8,283	21.4	39,770	11,226	28.2
Remediation and Reuse	30,414	5,472	18.0	18,342	2,012	11.0
<b>Total Operating Segments</b>	<b>\$ 132,578</b>	<b>\$ 29,474</b>	<b>22.2 %</b>	<b>\$ 84,705</b>	<b>\$ 21,468</b>	<b>25.3 %</b>
Corporate and Other		(7,987)	n/a		(4,762)	n/a

- (1) For purposes of evaluating segment profit, the Company's chief operating decision maker reviews Segment Adjusted EBITDA as a basis for making the decisions to allocate resources and assess performance. See Note 20 to our unaudited condensed consolidated financial statements included in Part I, Item 1. "Financial Statements."
- (2) Represents Segment Adjusted EBITDA as a percentage of revenues.

### Revenues

Assessment, Permitting and Response segment revenues for the three months ended September 30, 2021 were \$63.4 million, compared to \$26.6 million for the three months ended September 30, 2020. The increase was driven by the performance of CTEH in the third quarter of 2020, which benefited from greater COVID-19 related response work, as well as revenues of \$5.7 million from the acquisition of Environmental Intelligence on July 1, 2021. CTEH revenues were \$53.6 million in the three months ended September 30, 2021 compared to \$22.6 million in the three months ended September 30, 2020.

Measurement and Analysis segment revenues for the three months ended September 30, 2021 were \$38.8 million, a decrease of \$1.0 million or 2.5% compared to revenues for the three months ended September 30, 2020 of \$39.8 million. The decrease was driven primarily by postponements of certain projects to the fourth quarter, partially offset by revenues of \$1.9 million from the acquisition of Vista on June 3, 2021.

Remediation and Reuse segment revenues for the three months ended September 30, 2021 were \$30.4 million, an increase of \$12.1 million or 66.1% compared to revenues for the three months ended September 30, 2020 of \$18.3 million, primarily driven by growing demand for PFAS treatment, remediation and waste-to-energy services and includes \$4.2 million from the acquisition of MSE, which closed on January 4, 2021.

### Segment Adjusted EBITDA

Assessment, Permitting and Response Segment Adjusted EBITDA was \$15.7 million for the three months ended September 30, 2021, compared to \$8.2 million for the three months ended September 30, 2020. For the three months ended September 30, 2021 and September 30, 2020, Segment Adjusted EBITDA margin was 24.8% and 30.9%, respectively. The increase in Segment Adjusted EBITDA was a result of increased revenues. The decline in Segment Adjusted EBITDA margin was as a result of lower margin COVID response work performed by CTEH in the current year.

Measurement and Analysis Segment Adjusted EBITDA for the three months ended September 30, 2021 was \$8.3 million, a decrease of \$2.9 million compared to Segment Adjusted EBITDA for the three months ended September 30, 2020 of \$11.2 million. For the three months ended September 30, 2021 Segment Adjusted EBITDA margin was 21.4% compared to 28.2% for the three months ended September 30, 2020. The decline in Segment Adjusted EBITDA and Segment Adjusted EBITDA margin was primarily a result of business mix and the reversal of cost mitigation measures taken into the prior year in response to COVID-19.

Remediation and Reuse Segment Adjusted EBITDA for the three months ended September 30, 2021 was \$5.5 million, an increase of \$3.5 million compared to Segment Adjusted EBITDA for the three months ended September 30, 2020 of \$2.0 million. For the three months ended September 30, 2021 Segment Adjusted EBITDA margin was 18.0% compared to 11.0% in the three months ended September 30, 2020. The increase in both Segment Adjusted EBITDA and Segment Adjusted EBITDA margin was a result of higher revenues.

Corporate and other costs were \$8.0 million for the three months ended September 30, 2021 compared to \$4.8 million for the three months ended September 30, 2020. The cost increase was primarily driven by public company related costs, higher software costs and higher sales and marketing costs.

***Nine months Ended September 30, 2021 Compared to the Nine months Ended September 30, 2020***

(in thousands)	Nine Months Ended September 30,					
	2021			2020		
	Segment Revenues	Segment Adjusted EBITDA <sup>(1)</sup>	Segment Adjusted EBITDA Margin <sup>(2)</sup>	Segment Revenues	Segment Adjusted EBITDA <sup>(1)</sup>	Segment Adjusted EBITDA Margin <sup>(2)</sup>
Assessment, Permitting and Response	\$ 209,379	\$ 46,379	22.2 %	\$ 49,768	\$ 14,665	29.5 %
Measurement and Analysis	111,309	22,634	20.3	113,130	30,422	26.9
Remediation and Reuse	81,931	12,262	15.0	56,604	6,495	11.5
<b>Total Operating Segments</b>	<b>\$ 402,619</b>	<b>\$ 81,275</b>	<b>20.2 %</b>	<b>\$ 219,502</b>	<b>\$ 51,582</b>	<b>23.5 %</b>
Corporate and Other		(22,026)	n/a		(15,425)	n/a

- (1) For purposes of evaluating segment profit, the Company's chief operating decision maker reviews Segment Adjusted EBITDA as a basis for making the decisions to allocate resources and assess performance. See Note 20 to our unaudited condensed consolidated financial statements included in Part I, Item 1. "Financial Statements."
- (2) Represents Segment Adjusted EBITDA as a percentage of revenues.

***Revenues***

Assessment, Permitting and Response segment revenues for the nine months ended September 30, 2021 were \$209.4 million, compared to \$49.8 million for the nine months ended September 30, 2020. The increase was driven by the acquisition of CTEH in the second quarter of 2020, which expanded our product portfolio and our scientific and technical advisory services footprint and revenue of \$5.7 million from the acquisition of Environmental Intelligence. CTEH benefited from greater COVID-19 related response work performed in the full 2021 period as compared to only a portion of the prior year following the acquisition.

Measurement and Analysis segment revenues for the nine months ended September 30, 2021 were \$111.3 million, a decrease of \$1.8 million or 1.6% compared to revenues for the nine months ended September 30, 2020 of \$113.1 million. The decrease was driven by a decline in revenues from Discontinued Service Lines and the timing of projects, partially offset by revenues of \$2.3 million from the acquisition of Vista. Revenues from Discontinued Service Lines in the Measurement and Analysis segment were zero and \$2.4 million for the nine months ended September 30, 2021 and September 30, 2020, respectively.

Remediation and Reuse segment revenues for the nine months ended September 30, 2021 were \$81.9 million, an increase of \$25.3 million or 44.7% compared to revenues for the nine months ended September 30, 2020 of \$56.6 million. This increase was primarily driven by organic growth and \$11.6 million from the acquisition of MSE, partially offset by the loss of revenues from the Discontinued Service Lines. Revenues from Discontinued Service Lines were \$1.4 million for the nine months ended September 30, 2020.

***Segment Adjusted EBITDA***

Assessment, Permitting and Response Segment Adjusted EBITDA was \$46.4 million for the nine months ended September 30, 2021, compared to \$14.7 million for the nine months ended September 30, 2020. For the nine months ended September 30, 2021 and September 30, 2020, Segment Adjusted EBITDA margin was 22.2% and 29.5%, respectively. The increase in Segment Adjusted EBITDA was primarily a result of the acquisition of CTEH in April of 2020 and higher revenues in the second and third quarters of 2021. The decline in Segment Adjusted EBITDA margin is as a result of an increase in lower margin COVID response work performed by CTEH in the current year.

Measurement and Analysis Segment Adjusted EBITDA for the nine months ended September 30, 2021 was \$22.6 million, a decrease of \$7.8 million compared to Segment Adjusted EBITDA for the nine months ended September 30, 2020 of \$30.4 million. For the nine months ended September 30, 2021 Segment Adjusted EBITDA margin was 20.3% compared to 26.9% for the nine months ended September 30, 2020. The decline in Segment Adjusted EBITDA was primarily a result of business mix and the reversal of cost mitigation measures taken in the prior year in response to COVID-19.

Remediation and Reuse Segment Adjusted EBITDA for the nine months ended September 30, 2021 was \$12.3 million, an increase of \$5.8 million compared to Segment Adjusted EBITDA for the nine months ended September 30, 2020 of \$6.5 million. For the nine months ended September 30, 2021 Segment Adjusted EBITDA margin was 15.0% compared to 11.5% in the nine months ended September 30, 2020. The increase in both Segment Adjusted EBITDA and Segment Adjusted EBITDA margin was primarily a result of higher revenues.

Corporate and other costs were \$22.0 million for the nine months ended September 30, 2021 compared to \$15.4 million for the nine months ended September 30, 2020. The cost increase was primarily driven by public company related costs, higher software costs, higher sales and marketing costs and continued investment in corporate support functions to support higher revenues.

## Liquidity and Capital Resources

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, debt service, acquisitions, other commitments and contractual obligations. We consider liquidity in terms of cash flows from operations and other sources, including availability under our credit facility, and their sufficiency to fund our operating and investing activities.

Our principal sources of liquidity have been borrowings under our current and prior credit facilities, other borrowing arrangements, proceeds from the issuance of common and preferred stock and cash generated by operating activities. Historically, we have financed our operations and acquisitions from a combination of cash generated from operations, periodic borrowings under senior secured credit facilities, other prior secured and unsecured borrowings and proceeds from the issuance of common and preferred stock. Our primary cash needs are for day to day operations, to fund working capital requirements, to fund our acquisition strategy and any related cash earn-out obligations, to pay interest and principal on our indebtedness and dividends on our Series A-2 preferred stock, and to make capital expenditures. Additionally, the CTEH acquisition agreement includes an earn-out provision that provides for the payment of contingent consideration based on CTEH's 2021 results in an aggregate amount not to exceed \$30.0 million, with the earn-out payment equal to a specified multiple of CTEH's EBITDA for 2021 in excess of a specified target. Any payment in respect of 2021 will be payable in cash. We may also be required to make up to \$12.7 million in aggregate true up and earn-out payments between the years 2022 and 2025 in connection with the acquisitions of MSE, Vista and Sensible. See Note 7 to our unaudited condensed consolidated financial statements included in Part 1, Item 1. "Financial Statements."

We expect to continue to fund our liquidity requirements, including any cash earn-out payments that may be required in connection with acquisitions, through cash generated from operations and borrowings under our credit facility. We believe these sources will be sufficient to fund our cash needs for the next twelve months. See "—COVID-19" above for a discussion of the impact of the pandemic on our liquidity.

## Cash Flows

The following table summarizes our cash flows for the periods presented:

(in thousands)	Nine Months Ended September 30,	
	2021	2020
<b>Consolidated Statement of Cash Flows Data:</b>		
Net cash provided by (used in) operating activities	\$ 13,708	\$ (3,877)
Net cash used in investing activities	(50,688)	(176,840)
Net cash provided by financing activities	17,748	212,167
<b>Change in cash, cash equivalents and restricted cash</b>	<b>\$ (19,232)</b>	<b>\$ 31,450</b>

## Operating Activities

Cash flows from operating activities can fluctuate from period-to-period as earnings, working capital needs and the timing of payments for contingent consideration, taxes, bonus payments and other operating items impact reported cash flows.

For the nine months ended September 30, 2021, net cash provided by operating activities was \$13.7 million compared to net cash used in operating activities of \$3.9 million for the nine months ended September 30, 2020. Cash used in operations includes payment of contingent consideration of \$15.5 million and \$6.4 million in the nine months ended September 30, 2021 and September 30, 2020, respectively. Excluding payment of contingent consideration, cash provided by operating activities was \$29.2 million, compared to cash provided by operating activities of \$2.5 million in the prior year, an increase of \$26.7 million. The period-over-period increase was primarily due to higher year-to-date earnings before contingent consideration payments and non-cash items, including provision for bad debt, depreciation and amortization, stock-based compensation expense, fair value changes in embedded derivatives, fair value changes in business acquisitions contingent consideration, deferred income taxes and debt extinguishment costs of \$34.7 million, as well as cloud computing costs of \$2.4 million in the prior year. These increases were partially offset by a higher increase in working capital in the current year of \$17.6 million versus an increase in working capital in the prior year of \$7.8 million.

Working capital increased by \$17.6 million in the nine months ended September 30, 2021, primarily due to an increase in accounts receivable and contract assets of \$12.5 million (as a result of significantly higher revenues in the three months ended September 30, 2021 when compared to the three months ended December 31, 2020), an increase in prepaid expenses and other current assets of \$1.8 million, and lower accounts payable and other accrued liabilities of \$3.4 million. The increase in working capital of \$7.8 million in the nine months ended September 30, 2020, was driven by an increase in accounts receivable and contract assets of \$7.7 million, lower accounts payable and other accrued liabilities of \$4.8 million and higher prepaid expenses and other current assets of \$1.3 million, partially offset by higher, accrued payroll and benefits of \$6.1 million.

### ***Investing Activities***

For the nine months ended September 30, 2021, net cash used in investing activities was \$50.7 million, primarily driven by cash paid for the acquisitions of MSE, Vista, EI and Sensible, net of cash acquired, of \$36.5 million, as well as payment of assumed purchase price obligations of \$8.6 million, and purchases of property and equipment for cash consideration of \$5.4 million.

For the nine months ended September 30, 2020, net cash used in investing activities was \$176.8 million, primarily driven by cash paid for the acquisition of CTEH, net of cash acquired, of \$170.7 million, as well as purchases of property and equipment for cash consideration of \$5.4 million.

### ***Financing Activities***

For the nine months ended September 30, 2021, net cash provided by financing activities was \$17.7 million. Cash provided by financing activities was driven by borrowings under the 2021 Credit Facility, consisting of \$175.0 million under the term loan and \$37.0 million under the revolver, and proceeds received from the exercise of stock options of \$6.0 million, partially offset by the use of proceeds from the 2021 Credit Facility to repay the \$213.4 million outstanding under the 2020 Credit Facility, the payment of the quarterly dividend on the Series A-2 preferred stock of \$12.3 million, the payment of acquisition-related contingent consideration of \$9.6 million, and the repayment of finance leases of \$1.9 million.

For the nine months ended September 30, 2020, net cash provided by financing activities was \$212.2 million. Cash provided by financing activities was driven by IPO proceeds, net of underwriting fees, of \$161.3 million, borrowings under the 2020 Credit Facility, consisting of \$175.0 million under the term loan and \$25.0 million under the revolver, as well as net proceeds of \$173.7 million from the issuance of the Series A-2 preferred stock. Proceeds from the IPO were used primarily to repay the \$131.8 million Series A-1 preferred stock (along with the issuance of shares of common stock), as well as to pay IPO offering costs of \$2.9 million. Proceeds from the 2020 Credit Facility were used primarily to repay the \$177.5 million outstanding under the Prior Credit Facility, whereas proceeds from the issuance of the Series A-2 preferred stock were used to finance the acquisition of CTEH. Cash from financing activities was also used to repay the \$25.0 million outstanding revolver balance and to make payments of acquisition-related contingent consideration of \$6.0 million, term loan amortization payments of \$1.3 million and \$0.5 million related to our Prior Credit Facility and current 2020 Credit Facility, respectively, the payment of debt issuance and debt extinguishment costs of \$5.2 million and the payment of the third quarter dividend on the Series A-2 preferred stock of \$2.9 million.

### ***Credit Facilities***

#### ***2021 Credit Facility***

On April 27, 2021, we entered into a new Senior Secured Credit Agreement (the “2021 Credit Facility”) providing for a new \$300.0 million credit facility comprised of a \$175.0 million term loan and a \$125.0 million revolving credit facility, and used a portion of the proceeds to repay all amounts outstanding under the 2020 Credit Facility. The 2021 revolving credit facility includes a \$20.0 million sublimit for the issuance of letters of credit. Subject to certain exceptions, all amounts under the 2021 Credit Facility will become due on April 27, 2026. We have the option to borrow incremental term loans or request an increase in the aggregate commitments under the revolving credit facility up to an aggregate amount of \$150.0 million subject to the satisfaction of certain conditions.

The 2021 Credit Facility term loan must be repaid in quarterly installments and shall amortize at the following annualized rates beginning with the quarter ended December 31, 2021 with the remaining balance due and payable in full upon the five-year anniversary from the closing date:

	<b>Amortization Table</b>									
	<b>Year 1</b>		<b>Year 2</b>		<b>Year 3</b>		<b>Year 4</b>		<b>Year 5</b>	
<b>Term Loan</b>	5.0	%	5.0	%	7.5	%	7.5	%	10.0	%

The 2021 Credit Facility term loan and the revolver bear interest subject to the Company's leverage ratio and LIBOR as follows:

Pricing Tier	Consolidated Leverage Ratio	Senior Credit Facilities LIBOR	Senior Credit Facilities Base Rate	Commitment Fee	Letter of Credit Fee
1	≥ 3.75 to 1.0	2.50 %	1.50 %	0.25 %	2.50 %
2	< 3.75 to 1.0 but ≥ 3.25 to 1.0	2.25	1.25	0.23	2.25
3	< 3.25 to 1.0 but ≥ 2.50 to 1.0	2.00	1.00	0.20	2.00
4	< 2.50 to 1.0 but ≥ 1.75 to 1.0	1.75	0.75	0.15	1.75
5	< 1.75 to 1.0	1.50	0.50	0.15	1.50

Additionally, we may receive an interest rate adjustment of up to 0.05% under the 2021 Credit Facility based on our performance against certain defined sustainability and environmental, social and governance related objectives.

Our obligations under the 2021 Credit Facility are guaranteed by certain of our existing and future direct and indirect subsidiaries, and such obligations are secured by substantially all of our assets. The 2021 Credit Facility includes a number of covenants imposing certain restrictions on our business, including, among other things, restrictions on our ability to incur indebtedness, prepay or amend other indebtedness, create liens, make certain fundamental changes including mergers or dissolutions, pay dividends and repurchase or make other payments in respect of capital stock, make certain investments, sell assets, change our lines of business, enter into transactions with affiliates and other corporate actions. The 2021 Credit Facility also includes financial covenants requiring us to remain below a maximum total net leverage ratio of 4.25 times, which steps down to 4.00 times beginning with the quarter ending December 31, 2022 through and including the quarter ending September 30, 2023 and then to 3.75 times beginning with the quarter ending December 31, 2023 (provided that, subject to certain requirements, the maximum net leverage ratio may be increased by 0.50:1.00, not to exceed 4.25:1.00, for a period of four consecutive fiscal quarters in connection with certain permitted acquisitions), and a minimum fixed charge coverage ratio of 1.25 times. As of September 30, 2021, the Company's consolidated total leverage ratio (as defined in the 2021 Credit Facility) was 2.8 times. Pro forma for the follow-on equity offering in October 2021, the total leverage ratio was 0.8 times. The calculation of the Company's consolidated total leverage ratio under the 2021 Credit Facility is consistent with the calculation of the consolidated total leverage ratio under the 2020 Credit Facility. The weighted average interest rate on the 2021 Credit Facility as of September 30, 2021 was 2.1%. We were in compliance with all applicable covenants under the 2021 Credit Facility as of September 30, 2021.

The 2021 Credit Facility contains a mandatory prepayment feature upon a number of events, including with the proceeds of certain asset sales and proceeds from the issuance of any debt.

See Note 13 to our unaudited condensed consolidated financial statements included in Part I, Item 1. "Financial Statements."

### **2020 Credit Facility**

On April 13, 2020, we entered into a Unitranche Credit Agreement (the "2020 Credit Facility") providing for \$225.0 million credit facility comprised of a \$175.0 million term loan and a \$50.0 million revolving credit facility, and used a portion of the proceeds from the 2020 Credit Facility to repay all amounts outstanding under the Prior Senior Secured Credit Facility. The 2020 Credit Facility would have matured on the earliest of (a) April 13, 2025 and (b) so long as our Series A-2 preferred stock had not been redeemed in full or otherwise not converted into common stock of Montrose, the date that was 180 days before the Series A-2 preferred equity mandatory redemption date, unless prior to such date, the Series A-2 preferred equity mandatory redemption date had been extended to a date not earlier than one hundred eighty (180) days after April 13, 2025.

Initially, the term loan bore interest at a rate of LIBOR plus 5.0% (subject to a 1.0% LIBOR floor) or the base rate plus 4.0%. Effective October 6, 2020, we amended the 2020 Credit Facility to provide for a reduction on the applicable interest rate on the term loan from LIBOR plus 5.0% with a 1.0% LIBOR floor to LIBOR plus 4.5% with a 1.0% LIBOR floor. The revolver bore interest at a rate of LIBOR plus 3.5% or the base rate plus 2.5%. The revolver was also subject to an unused commitment fee of 0.35%.

The term loan began amortizing quarterly with fiscal quarter ending September 30, 2020, with a required repayment of (a) \$0.5 million for fiscal quarter ending September 30, 2020 and each other fiscal quarter through and including June 30, 2021, (b) \$1.1 million for fiscal quarter ending June 30, 2021 and each other fiscal quarter through and including September 30, 2022, and (c) \$1.6 million for each fiscal quarter ending thereafter.

The 2020 Credit Facility also contained financial covenants requiring us to remain below a maximum consolidated total leverage ratio of 4.25 times, which stepped down to 4.00 times beginning December 31, 2021 and then to 3.75 times beginning December 31, 2022, and a minimum consolidated fixed charge coverage ratio of 1.25 times. As of September 30, 2020, the Company's leverage ratio, which included the impact of contingent consideration payable in cash, was 2.89 times. The weighted average interest rate on the 2020 Credit Facility as of September 30, 2020 was 6.0%. We were in compliance with all applicable covenants under the 2020 Credit Facility as of September 30, 2020.

All amounts outstanding under the 2020 Credit Facility were repaid on April 27, 2021.

See Note 13 to our unaudited condensed consolidated financial statements included in Part I, Item 1. “Financial Statements.”

### **Prior Credit Facility**

Our Prior Senior Secured Credit Facility most recently amended and restated in July 2019 (the “Prior Credit Facility”) consisted of a \$50.0 million term loan and a \$130.0 million revolving credit facility.

Borrowings under the Prior Credit Facility bore interest at either (i) LIBOR plus the applicable margin or (ii) a base rate (equal to the highest of (a) the federal funds rate plus 0.5%, (b) Bank of America, N.A.’s prime rate and (c) the Eurocurrency Rate, which is based on LIBOR, (using a one-month period plus 1.0%), plus the applicable margin, as we elected). The applicable margin meant a percentage per annum determined in accordance with the following table:

<b>Pricing Tier</b>	<b>Consolidated Leverage Ratio</b>	<b>Commitment Fee</b>	<b>Eurodollar Rate Loans and LIBOR Letter of Credit Fee</b>	<b>Daily Floating Rate Loans</b>	<b>Rate Loans</b>
1	> 3.75 to 1.0	0.50%	4.00%	4.00%	3.00%
2	≤ 3.75 to 1.0 but > 3.00 to 1.0	0.50	3.50	3.50	2.50
3	≤ 3.00 to 1.0 but > 2.25 to 1.0	0.40	3.00	3.00	2.00
4	< 2.25 to 1.0	0.30	2.50	2.50	1.50

All amounts outstanding under the Prior Credit Facility were repaid on April 13, 2020 with proceeds from the 2020 Credit Facility.

See Note 13 to our unaudited condensed consolidated financial statements included in Part I, Item 1. “Financial Statements.”

### **Series A-1 Preferred Stock**

On October 19, 2018, we issued 12,000 shares of our Series A-1 preferred stock. The Series A-1 preferred stock accrued dividends quarterly at an annual rate of 15.0% with respect to any dividends paid in cash and at an annual rate of 14.2%, compounded quarterly with respect to dividends that are accrued. In the event of a redemption, a holder was guaranteed a minimum of either two or three years of dividends depending on the nature of the redemption. Prior to redemption, we were subject to a maximum consolidated total leverage ratio, including the outstanding principal and accrued dividend on the Series A-1 preferred stock, of 10.0 times as of the end of any fiscal quarter until maturity.

On July 27, 2020, we redeemed in full the Series A-1 preferred stock, including the guaranteed minimum two-year dividend. We used \$131.8 million of the IPO proceeds and 1,786,739 shares of common stock to redeem all outstanding shares of the redeemable Series A-1 preferred stock.

See Note 16 to our unaudited condensed consolidated financial statements included in Part I, Item 1. “Financial Statements.”

### **Series A-2 Preferred Stock**

On April 13, 2020, we issued 17,500 shares of the Series A-2 preferred stock with a par value of \$0.0001 per share and a warrant to purchase common stock, in exchange for \$175.0 million. Prior to the completion of the IPO, each share of Series A-2 preferred stock accrued dividends at the rate of 15.0% per annum with respect to dividends that were paid in cash, and 14.2% per annum, with respect to dividends that accrued and compounded, resulting in an annual dividend rate of 15.0%, and 9.0% per annum after the IPO. Following the completion of the IPO, the Series A-2 preferred stock does not mature or have a cash repayment obligation; however, it is redeemable at our option. The Series A-2 preferred stock becomes convertible into our common stock beginning on the four-year anniversary of the Series A-2 preferred stock issuance. Upon the four-year anniversary of the issuance, holders of Series A-2 preferred stock may convert up to \$60.0 million of such shares into our common stock at a conversion rate discounted to 85.0% of the volume weighted average trading value, with the permitted amount of Series A-2 preferred stock to be converted increasing at each subsequent anniversary of the issuance until the sixth anniversary, after which all of the Series A-2 preferred stock may be converted at the holder’s option. Following the completion of the IPO and redemption of the Series A-1 preferred stock on July 27, 2020 with a portion of the proceeds therefrom and newly issued shares of common stock, the Series A-2 preferred stock dividend rate changed to 9.0% per annum with required quarterly cash payments. If permitted under our existing debt facilities, we must pay the Series A-2 preferred stock dividend in cash each quarter.

With respect to any redemption of any share of the Series A-2 preferred stock prior to April 13, 2023, we are subject to a make whole penalty in which the holder is guaranteed at least three years of dividend payments on the redeemed amount.

See Note 17 to our unaudited condensed consolidated financial statements included in Part I, Item 1. "Financial Statements."

### **Subsequent Event**

In addition, in October 2021, the Company raised net proceeds of \$169.8 million in a follow-on offering of common stock (See Note 23 to our unaudited condensed consolidated financial statements included in Part I, Item 1. "Financial Statements.").

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

During the period presented, we did not have, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Critical Accounting Policies and Estimates**

Our 2020 Form 10-K includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no material changes to those critical accounting policies as disclosed therein, other than as described in Note 2.

### **JOBS Act Accounting Election**

We are an emerging growth company, as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (1) are no longer an emerging growth company or (2) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates. As June 30, 2021, the end of our second fiscal quarter, the market value of our common stock held by non-affiliates exceeded \$700.0 million and, as a result, we will no longer qualify as an emerging growth company at the end of the fiscal year ended December 31, 2021.

### **NON-GAAP Financial Information**

In addition to our results under GAAP, we also present in this Quarterly report on Form 10-Q other supplemental financial measures of financial performance that are not required by, or presented in accordance with, GAAP, including Adjusted EBITDA and Adjusted EBITDA margin. We calculate Adjusted EBITDA as net income (loss) before interest expense, income tax expense (benefit) and depreciation and amortization, adjusted for the impact of certain other items, including stock-based compensation expense and acquisition-related costs, as set forth in greater detail in the table below. Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of revenues for a given period.

Adjusted EBITDA and Adjusted EBITDA margin are two of the primary metrics used by management to evaluate our financial performance and compare it to that of our peers, evaluate the effectiveness of our business strategies, make budgeting and capital allocation decisions and in connection with our executive incentive compensation. These measures are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. Further, we believe they are helpful in highlighting trends in our operating results because they allow for more consistent comparisons of financial performance between periods by excluding gains and losses that are non-operational in nature or outside the control of management, as well as items that may differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which we operate and capital investments.

These non-GAAP measures do, however, have certain limitations and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP. Our presentation of Adjusted EBITDA and Adjusted EBITDA margin should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items for which we may make adjustments. In addition, Adjusted EBITDA and Adjusted EBITDA margin may not be comparable to similarly titled measures used by other companies in our industry or across different industries, and other companies may not present these or similar measures. Management compensates for these limitations by using these measures as supplemental financial metrics and in conjunction with our results prepared in accordance with GAAP. We encourage investors and others to review our financial information in its entirety, not to rely on any single measure and to view Adjusted EBITDA and Adjusted EBITDA margin in conjunction with the related GAAP measures.

The following is a reconciliation of our net income (loss) to Adjusted EBITDA:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 2,226	\$ (30,737)	\$ (23,853)	\$ (58,761)
Interest expense	1,722	3,043	11,208	10,896
Income tax expense (benefit)	902	3,348	648	(1,563)
Depreciation and amortization	11,471	9,740	33,145	27,084
<b>EBITDA</b>	<b>\$ 16,321</b>	<b>\$ (14,606)</b>	<b>\$ 21,148</b>	<b>\$ (22,344)</b>
Stock-based compensation (1)	2,365	1,149	6,587	3,439
Start-up losses and investment in new services (2)	1,186	602	3,276	1,283
Acquisition costs (3)	913	6	1,656	3,767
Fair value changes in financial instruments (4)	531	9,710	1,651	17,492
Expenses related to financing transactions (5)	—	—	50	277
Fair value changes in business acquisitions contingent consideration (6)	—	13,404	24,035	17,387
Short term purchase accounting fair value adjustment to deferred revenue (7)	—	—	—	243
IPO expense (8)	—	6,378	—	6,908
Discontinued service lines and closing of Berkley lab (9)	—	30	—	7,526
Other losses and expenses(10)	171	33	846	179
<b>Adjusted EBITDA</b>	<b>\$ 21,487</b>	<b>\$ 16,706</b>	<b>\$ 59,249</b>	<b>\$ 36,157</b>

- (1) Represents non-cash stock-based compensation expenses related to option awards issued to employees and restricted stock grants issued to directors.
- (2) Represent start-up losses related to losses incurred on (i) the expansion of lab testing methods and lab capacity, including into new geographies, (ii) expansion of our Remediation and Consulting services and (iii) expansion into Europe in advance of projects driven by new regulations.
- (3) Includes financial and tax diligence, consulting, legal, valuation, accounting and travel costs and acquisition-related incentives related to our acquisition activity.
- (4) Amounts relate to the change in fair value of the embedded derivatives and warrant option attached to the Series A-1 preferred stock and the Series A-2 preferred stock.
- (5) Amounts represent non-capitalizable expenses associated with refinancing and amending our debt facilities.
- (6) Reflects the difference between the expected settlement value of acquisition related earn-out payments at the time of the closing of acquisitions and the expected (or actual) value of earn-outs at the end of the relevant period.
- (7) Purchase accounting fair value adjustment to deferred revenue represents the impact of the fair value adjustment to the carrying value of deferred revenue as of the date of acquisition of ECT2.
- (8) Represents expenses incurred by us to prepare for our initial public offering, as well as costs from IPO-related bonuses.
- (9) Represents losses from the Discontinued Service Lines and the Berkeley lab.
- (10) Represents non-operational charges incurred as a result of lease abandonments and non-capitalizable costs related to the implementation of a new ERP and net of insurance gains.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### ***Interest Rate Risk***

We have market risk exposure arising from changes in interest rates on our credit facility, which bears interest at rates that are benchmarked against LIBOR. Based on our overall interest rate exposure to variable rate debt outstanding as of September 30, 2021, a 1.0% increase in interest rates would increase annual income (loss) before income taxes by approximately \$2.1 million.

#### ***Impact of Inflation***

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our historical results of operations and financial condition have been immaterial. We cannot assure you, however, that our results of operations and financial condition will not be materially impacted by inflation in the future.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of September 30, 2021, the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2021, the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level.

#### **Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Limitations on Effectiveness of Controls**

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our system of internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed or operated, can provide only reasonable, but not absolute, assurance that the objectives of the system of internal control are met. The design of our control system reflects the fact that there are resource constraints, and that the benefits of such control system must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control failures and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the intentional acts of individuals, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part on certain assumptions about the likelihood of future events, and there can be no assurance that the design of any particular control will always succeed in achieving its objective under all potential future conditions.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we are subject to various legal proceedings that arise in the normal course of our business activities, including those involving labor and employment, anti-discrimination, commercial disputes and other matters. We are not a party to any litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our results of operations or financial position. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors.

There have been no material changes to our risk factors from the risk factors disclosed in our 2020 Form 10-K. The risks described in our 2020 Form 10-K, in addition to the other information set forth in this Quarterly Report on Form 10-Q, are not the only risks facing we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

#### Unregistered Sales of Equity Securities

On July 1, 2021, we issued 43,100 shares of common stock as partial consideration for the acquisition of EI. The issuance of common stock was exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof as a transaction by an issuer not involving any public offering.

On August 2, 2021, we issued 19,638 shares of common stock as partial consideration for the acquisition of Sensible. The issuance of common stock was exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof as a transaction by an issuer not involving any public offering.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
31.1*	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File – The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 is formatted in Inline XBRL (included as Exhibit 101)

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\* Filed herewith.

\*\* Exhibit is furnished and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**SIGNATURES**

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

Montrose Environmental Group, Inc.

Date: November 10, 2021

By: \_\_\_\_\_  
/s/ Allan Dicks  
Allan Dicks  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vijay Manthripragada, certify that:

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



**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Allan Dicks, certify that:

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



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

In connection with the Quarterly Report of Montrose Environmental Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vijay Manthripragada, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 10, 2021

By: \_\_\_\_\_ */s/ Vijay Manthripragada*  
**Vijay Manthripragada**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

A signed original of this written statement required by Section 906 has been provided to Montrose Environmental Group, Inc. and will be retained by Montrose Environmental Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of Montrose Environmental Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allan Dicks, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 10, 2021

By: \_\_\_\_\_ /s/ **Allan Dicks**  
**Allan Dicks**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

A signed original of this written statement required by Section 906 has been provided to Montrose Environmental Group, Inc. and will be retained by Montrose Environmental Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.