
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 2024
- 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 No. 1-15461
-

MATRIX SERVICE COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

73-1352174
(I.R.S. Employer Identification No.)

15 East 5th Street, Suite 1100, Tulsa, Oklahoma 74103
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (918) 838-8822
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	MTRX	NASDAQ Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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 checked="" type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

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

As of November 6, 2024 there were 27,554,879 shares of the Company's common stock, \$0.01 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****Matrix Service Company**
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(unaudited)

	Three Months Ended	
	September 30, 2024	September 30, 2023
Revenue	\$ 165,579	\$ 197,659
Cost of revenue	157,766	185,800
Gross profit	7,813	11,859
Selling, general and administrative expenses	18,580	17,113
Operating loss	(10,767)	(5,254)
Other income (expense):		
Interest expense	(89)	(325)
Interest income	1,572	150
Other (Note 3)	61	2,262
Loss before income tax expense	(9,223)	(3,167)
Provision for federal, state and foreign income taxes	—	—
Net loss	\$ (9,223)	\$ (3,167)
Basic loss per common share	\$ (0.33)	\$ (0.12)
Diluted loss per common share	\$ (0.33)	\$ (0.12)
Weighted average common shares outstanding:		
Basic	27,559	27,113
Diluted	27,559	27,113

See accompanying notes.

Matrix Service Company
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(unaudited)

	<u>Three Months Ended</u>	
	<u>September 30,</u> <u>2024</u>	<u>September 30,</u> <u>2023</u>
Net loss	\$ (9,223)	\$ (3,167)
Other comprehensive income (loss), net of tax:		
Foreign currency translation gain (loss)	436	(538)
Comprehensive loss	<u>\$ (8,787)</u>	<u>\$ (3,705)</u>

See accompanying notes.

Matrix Service Company
Condensed Consolidated Balance Sheets
(In thousands)
(unaudited)

	<u>September 30,</u> <u>2024</u>	<u>June 30,</u> <u>2024</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 124,610	\$ 115,615
Accounts receivable, net of allowance for credit losses	132,541	138,987
Costs and estimated earnings in excess of billings on uncompleted contracts	31,818	33,893
Inventories	7,508	8,839
Income taxes receivable	180	180
Prepaid expenses and other current assets	12,236	4,077
Total current assets	<u>308,893</u>	<u>301,591</u>
Restricted cash	25,000	25,000
Property, plant and equipment, net	43,247	43,498
Operating lease right-of-use assets	19,155	19,150
Goodwill	29,077	29,023
Other intangible assets, net of accumulated amortization	1,377	1,651
Other assets, non-current (Note 2)	43,408	31,438
Total assets	<u>\$ 470,157</u>	<u>\$ 451,351</u>

See accompanying notes.

Matrix Service Company
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(unaudited)

	September 30, 2024	June 30, 2024
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 61,668	\$ 65,629
Billings on uncompleted contracts in excess of costs and estimated earnings	204,612	171,308
Accrued wages and benefits	13,910	15,878
Accrued insurance	4,932	4,605
Operating lease liabilities	3,782	3,739
Other accrued expenses	3,247	3,956
Total current liabilities	292,151	265,115
Deferred income taxes	25	25
Operating lease liabilities	19,149	19,156
Other liabilities, non-current	2,315	2,873
Total liabilities	313,640	287,169
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock — \$0.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued at September 30, 2024 and June 30, 2024, respectively; 27,550,202 and 27,308,795 shares outstanding as of September 30, 2024 and June 30, 2024, respectively;	279	279
Additional paid-in capital	143,765	145,580
Retained earnings	24,718	33,941
Accumulated other comprehensive loss	(9,099)	(9,535)
Treasury stock, at cost — 338,015 and 579,422 shares as of September 30, 2024 and June 30, 2024, respectively;	(3,146)	(6,083)
Total stockholders' equity	156,517	164,182
Total liabilities and stockholders' equity	\$ 470,157	\$ 451,351

See accompanying notes.

Matrix Service Company
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Three Months Ended	
	September 30, 2024	September 30, 2023
Operating activities:		
Net loss	\$ (9,223)	\$ (3,167)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	2,515	2,911
Stock-based compensation expense	2,311	1,755
Loss (gain) on disposal of property, plant and equipment (Note 3)	68	(2,366)
Other	38	72
Changes in operating assets and liabilities increasing (decreasing) cash:		
Accounts receivable, net of allowance for credit losses	(5,110)	(6,543)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,075	2,519
Inventories	1,331	(1,716)
Other assets and liabilities	(8,580)	(7,669)
Accounts payable	(3,903)	(2,173)
Billings on uncompleted contracts in excess of costs and estimated earnings	33,304	(12,303)
Accrued expenses	(2,908)	(195)
Net cash provided (used) by operating activities	11,918	(28,875)
Investing activities:		
Capital expenditures	(1,944)	(478)
Proceeds from sale of property, plant and equipment (Note 3)	—	2,618
Net cash provided (used) by investing activities	(1,944)	2,140
Financing activities:		
Proceeds from issuance of common stock under employee stock purchase plan	46	45
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(1,235)	(456)
Net cash used by financing activities	(1,189)	(411)
Effect of exchange rate changes on cash	210	(307)
Net increase (decrease) in cash and cash equivalents	8,995	(27,453)
Cash, cash equivalents and restricted cash, beginning of period	140,615	79,812
Cash, cash equivalents and restricted cash, end of period	\$ 149,610	\$ 52,359
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Income taxes	\$ —	\$ (27)
Interest	\$ 145	\$ 389
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	\$ 197	\$ 6

See accompanying notes.

Matrix Service Company
Condensed Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except share data)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances, June 30, 2024	27,888,217	\$ 279	\$ 145,580	\$ 33,941	\$ (9,535)	579,422	\$ (6,083)	\$ 164,182
Net loss	—	—	—	(9,223)	—	—	—	(9,223)
Other comprehensive income	—	—	—	—	436	—	—	436
Issuance of restricted stock	—	—	(4,109)	—	—	(360,460)	4,109	—
Treasury shares sold to Employee Stock Purchase Plan	—	—	(17)	—	—	(4,797)	63	46
Treasury shares purchased to satisfy tax withholding obligations	—	—	—	—	—	123,850	(1,235)	(1,235)
Stock-based compensation expense	—	—	2,311	—	—	—	—	2,311
Balances, September 30, 2024	27,888,217	\$ 279	\$ 143,765	\$ 24,718	\$ (9,099)	338,015	\$ (3,146)	\$ 156,517
Balances, June 30, 2023	27,888,217	\$ 279	\$ 140,810	\$ 58,917	\$ (8,769)	840,899	\$ (9,753)	\$ 181,484
Net loss	—	—	—	(3,167)	—	—	—	(3,167)
Other comprehensive loss	—	—	—	—	(538)	—	—	(538)
Issuance of restricted stock	—	—	(2,738)	—	—	(210,243)	2,738	—
Treasury shares sold to Employee Stock Purchase Plan	—	—	(54)	—	—	(7,601)	99	45
Treasury shares purchased to satisfy tax withholding obligations	—	—	—	—	—	55,324	(456)	(456)
Stock-based compensation expense	—	—	1,755	—	—	—	—	1,755
Balances, September 30, 2023	27,888,217	\$ 279	\$ 139,773	\$ 55,750	\$ (9,307)	678,379	\$ (7,372)	\$ 179,123

Matrix Service Company
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of Matrix Service Company and its subsidiaries (“Matrix”, “we”, “our”, “us”, “its” or the “Company”), unless otherwise indicated. Intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. The information furnished reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2024, included in our Annual Report on Form 10-K. The results of operations for the three month period ended September 30, 2024 may not necessarily be indicative of the results of operations for the full year ending June 30, 2025.

Significant Accounting Policies

Our significant accounting policies are detailed in “Note 1 - Basis of Presentation and Significant Accounting Policies” of our Annual Report on Form 10-K for the year ended June 30, 2024.

Accounting Standards Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which expands disclosures about a public entity’s reportable segments and requires enhanced information about a reportable segment’s expenses, interim segment profit or loss, and how a public entity’s chief operating decision maker uses reported segment profit or loss information in assessing segment performance and allocating resources. The update will be effective for annual periods beginning after December 15, 2023 (fiscal 2025). Adoption of this ASU will result in additional disclosure, but will not impact the Company’s consolidated financial position, results of operations or cash flows.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which expands disclosures in an entity’s income tax rate reconciliation table and regarding cash taxes paid both in the U.S. and foreign jurisdictions. The update will be effective for annual periods beginning after December 15, 2024 (fiscal 2026). Adoption of this ASU will result in additional disclosure, but will not impact the Company’s consolidated financial position, results of operations or cash flows.

In November 2024, the FASB issued ASU 2024-03, Income Statement Reporting Comprehensive Income Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses, requiring companies to provide more detailed and organized disclosures of their expenses. Disclosures will include disaggregation of expense captions presented on the face of the income statement into specific categories, such as purchases of inventory, employee compensation, and costs related to depreciation and amortization. The new requirements will take effect for annual reporting periods beginning after December 15, 2026 (fiscal 2028). Adoption of this ASU will result in additional disclosure, but will not impact the Company’s consolidated financial position, results of operations or cash flows.

Other accounting pronouncements issued but not effective until after September 30, 2024 are not expected to have a material impact on the Company’s consolidated financial position, results of operations, or cash flows.

Note 2 – Revenue

Remaining Performance Obligations

We had \$1.1 billion of remaining performance obligations yet to be satisfied as of September 30, 2024. We expect to recognize \$591.2 million of our remaining performance obligations as revenue within the next twelve months.

Contract Balances

Contract terms with customers include the timing of billing and payments, which usually differs from the timing of revenue recognition. As a result, we carry contract assets and liabilities in our balance sheet. These contract assets and liabilities are calculated on a contract-by-contract basis and are classified as current. We present our contract assets in the balance sheet as Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts ("CIE"). CIE consists of revenue recognized in excess of billings. We present our contract liabilities in the balance sheet as Billings on Uncompleted Contracts in Excess of Costs and Estimated Earnings ("BIE"). BIE consists of billings in excess of revenue recognized. The following table provides information about CIE and BIE:

	September 30, 2024	June 30, 2024	Change
	(In thousands)		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 31,818	\$ 33,893	\$ (2,075)
Billings on uncompleted contracts in excess of costs and estimated earnings	(204,612)	(171,308)	(33,304)
Net contract liabilities	<u>\$ (172,794)</u>	<u>\$ (137,415)</u>	<u>\$ (35,379)</u>

The difference between the beginning and ending balances of our CIE and BIE primarily results from the timing of revenue recognized relative to the billings on the associated contract. The amount of revenue recognized during the three months ended September 30, 2024 that was included in the June 30, 2024 BIE balance was \$81.0 million.

Progress billings in accounts receivable at September 30, 2024 and June 30, 2024 included retentions to be collected within one year of \$11.9 million and \$11.6 million, respectively. Contract retentions collectible beyond one year are included in Other assets, non-current in the Condensed Consolidated Balance Sheets and totaled \$40.3 million as of September 30, 2024 and \$28.6 million as of June 30, 2024, respectively.

Unpriced Change Orders and Claims

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unpriced change orders and claims of \$9.3 million at September 30, 2024 and \$9.9 million at June 30, 2024. The amounts ultimately realized may be different than the recorded amounts resulting in adjustments to future earnings. Generally, we expect collection of amounts related to unpriced change orders and claims within twelve months. However, customers may not pay these amounts until final resolution of related claims, and therefore collection of these amounts may extend beyond one year.

Disaggregated Revenue

Revenue disaggregated by reportable segment is presented in Note 8 - Segment Information. The following series of tables presents revenue disaggregated by geographic area where the work was performed and by contract type:

Geographic Disaggregation:

	Three Months Ended	
	September 30, 2024	September 30, 2023
	(In thousands)	
United States	\$ 153,222	\$ 177,550
Canada	10,768	16,873
Other international	1,589	3,236
Total Revenue	<u>\$ 165,579</u>	<u>\$ 197,659</u>

Contract Type Disaggregation:

	Three Months Ended	
	September 30, 2024	September 30, 2023
	(In thousands)	
Fixed-price contracts	\$ 123,769	\$ 116,757
Time and materials and other cost reimbursable contracts	41,810	80,902
Total Revenue	\$ 165,579	\$ 197,659

Note 3 – Property, Plant and Equipment

During the first quarter of fiscal 2024, we sold a previously utilized facility in Burlington, Ontario for \$2.7 million in net proceeds, which resulted in a gain of \$2.5 million. We closed this previously utilized facility because it was no longer strategic to the future of the business. There were no significant sales of property, plant and equipment in the first quarter of fiscal 2025.

Note 4 – Debt

On September 9, 2021, the Company and our primary U.S. and Canada operating subsidiaries entered into an asset-based credit agreement, which was most recently amended on May 3, 2024 (as amended, the "ABL Facility"), with Bank of Montreal, as Administrative Agent, Swing Line Lender and a Letter of Credit Issuer. The maximum amount of loans under the ABL Facility is limited to \$90.0 million. The ABL Facility is intended to be used for working capital, capital expenditures, issuances of letters of credit and other lawful purposes. Our obligations under the ABL Facility are guaranteed by substantially all of our U.S. and Canadian subsidiaries and are secured by a first lien on all our assets under the ABL Facility. The ABL Facility matures, and any outstanding amounts become due and payable, on September 9, 2026.

The maximum amount that we may borrow under the ABL Facility is subject to a borrowing base, which is based on restricted cash plus a percentage of the value of certain accounts receivable, inventory and equipment, reduced for certain reserves. We are required to maintain a minimum of \$25.0 million of restricted cash at all times, but such amounts are also included in the borrowing base. The borrowing base is recalculated on a monthly basis and at September 30, 2024, our borrowing base was \$61.4 million. The Company had \$4.8 million in letters of credit outstanding as of September 30, 2024, which resulted in availability of \$56.6 million under the ABL Facility.

Borrowings under the ABL Facility bear interest through maturity at a variable rate based upon, at our option, an annual rate of either a base rate ("Base Rate"), an Adjusted Term Secured Overnight Financing Rate ("Adjusted Term SOFR"), or at the Canadian Prime Rate, plus an applicable margin. The Adjusted Term SOFR is defined as (i) the SOFR plus (ii) 11.448 basis points for a one-month tenor and 26.161 basis points for a three-month tenor; provided that the Adjusted Term SOFR cannot be below zero. The Base Rate is defined as a fluctuating interest rate equal to the greater of: (i) rate of interest announced by Bank of Montreal from time to time as its prime rate; (ii) the U.S. federal funds rate plus 0.50%; (iii) Adjusted Term SOFR for one month period plus 1.00%; or (iv) 1.00%. Depending on the amount of average availability, the applicable margin is between 1.00% to 1.50% for Base Rate and Canadian Prime Rate borrowings, which includes either U.S. or Canadian prime rate, and between 2.00% and 2.50% for Adjusted Term SOFR borrowings. Interest is payable either (i) monthly for Base Rate or Canadian Prime Rate borrowings or (ii) the last day of the interest period for Adjusted Term SOFR borrowings, as set forth in the ABL Facility. The fee for undrawn amounts is 0.25% per annum and is due quarterly.

The ABL Facility contains customary conditions to borrowings, events of default and covenants, including, but not limited to, covenants that limit our ability to sell assets, engage in mergers and acquisitions, incur, assume or permit to exist additional indebtedness and guarantees, create or permit to exist liens, pay cash dividends, issue equity instruments, make distribution or redeem or repurchase capital stock. In the event that our availability is less than the greater of (i) \$15.0 million and (ii) 15.00% of the commitments under the ABL Facility then in effect, a consolidated Fixed Charge Coverage Ratio of at least 1.00 to 1.00 must be maintained. We were in compliance with all covenants of the ABL Facility as of September 30, 2024.

Note 5 – Income Taxes

Effective Tax Rate

During the three months ended September 30, 2024 and 2023, our effective tax rates were zero. The effective tax rates during both periods were impacted by valuation allowances of \$1.3 million and \$0.2 million, respectively, placed on deferred tax assets generated during the quarters.

Valuation Allowance

We placed a valuation allowance on our deferred tax assets in fiscal 2022 due to the existence of a cumulative loss over a three-year period. We will continue to place valuation allowances on newly generated deferred tax assets and will realize the benefit associated with the deferred tax assets for which the valuation allowance has been provided to the extent we generate taxable income in the future.

Note 6 – Commitments and Contingencies

Insurance Reserves

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, self-insured retentions and coverage limits.

Typically our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide warranties for materials and workmanship. We may also be required to name the customer as an additional insured up to the limits of insurance available, or we may be required to purchase special insurance policies or surety bonds for specific customers or provide letters of credit in lieu of bonds to satisfy performance and financial guarantees on some projects. We maintain a performance and payment bonding line sufficient to support the business. We generally require our subcontractors to indemnify us and our customer and name us as an additional insured for activities arising out of the subcontractors' work. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of us, to secure the subcontractors' work or as required by the subcontract.

There can be no assurance that our insurance and the additional insurance coverage provided by our subcontractors will fully protect us against a valid claim or loss under the contracts with our customers.

Litigation

In January 2021, we achieved mechanical completion on a crude oil storage project. On April 1, 2022, we filed an arbitration demand against Keyera Energy, Inc. in an effort to collect outstanding balances of \$32.7 million related to the project. In response, on June 2, 2022, the customer filed counterclaims seeking \$20.0 million, which included liquidated damages and damages with respect to miscellaneous warranty items. On October 31, 2022, the customer amended its counterclaim claiming damages in a range of \$18.8 million to \$36.0 million, which included estimated amounts for "potential future costs." In July 2024, the customer filed a second amended counterclaim which significantly increased the amount of alleged damages to a range of \$69.6 million to \$97.9 million, including a new claim for unspecified "other damages" of \$46.9 million. A portion of the total alleged damages, if we are held liable, may be subject to certain insurance coverages. We are actively pursuing our claims and believe we have substantial legal and contractual defenses to the customer's counterclaims.

During fiscal 2023, we completed construction services on a time and materials basis for a customer at a mining and minerals facility. In late fiscal 2023, after numerous attempts to collect outstanding receivables, we filed a notice of default for lack of payment of outstanding balances, and in early fiscal 2024, we filed a lien on the facility. The customer, 5E Boron Americas, LLC, responded by commencing litigation against us on July 17, 2023 in the United States District Court for the Central District of California, Eastern Division (5E Boron Americas, LLC v. Matrix Service Inc., Case No. 5:23-cv-01396-AB(DTBx)), alleging breach of contract and breach of express warranty. We denied all claims and filed a countersuit against the customer for failure to pay amounts due of \$5.6 million.

We believe we have set appropriate reserves based on our evaluation of the possible outcomes for the matters described above. However, the results of litigation are inherently unpredictable, and the possibility exists that the ultimate resolution of one or more of these matters could result in a material effect on our financial position, results of operations or liquidity. We and our subsidiaries are participants in various other legal actions; however, assessing the eventual outcome of litigation involves forward-looking speculation as to judgement being made by arbitrators, judges, juries and appellate courts in the future. Based upon information presently available, and in light of legal and other factual defenses available to the Company, management does not believe that such other known legal actions will have a material adverse effect on our financial position, results of operations or liquidity.

Note 7 – Earnings per Common Share

Basic earnings per share (“EPS”) is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share includes the dilutive effect of employee and director nonvested restricted stock units. Nonvested restricted stock units are considered dilutive (antidilutive) to our EPS whenever the average market value of the shares during the period exceeds (is less than) the sum of the related average unamortized compensation expense during the period plus the related hypothetical estimated excess tax benefit that will be realized when the shares vest. Nonvested restricted stock units are considered antidilutive to our EPS in the event we report a net loss.

The computation of basic and diluted earnings per share is as follows:

	Three Months Ended	
	September 30, 2024	September 30, 2023
	(In thousands, except per share data)	
Basic EPS:		
Net loss	\$ (9,223)	\$ (3,167)
Weighted average shares outstanding	27,559	27,113
Basic loss per share	\$ (0.33)	\$ (0.12)
Diluted EPS:		
Net loss	\$ (9,223)	\$ (3,167)
Diluted weighted average shares outstanding	27,559	27,113
Diluted loss per share	\$ (0.33)	\$ (0.12)

The following securities are considered antidilutive and have been excluded from the calculation of Diluted EPS:

	Three Months Ended	
	September 30, 2024	September 30, 2023
	(In thousands)	
Nonvested restricted stock units	631	231

Note 8 – Segment Information

We operate our business through three reportable segments:

- **Storage and Terminal Solutions:** primarily consists of engineering, procurement, fabrication, and construction services related to cryogenic and other specialty tanks and terminals for LNG, NGLs, hydrogen, ammonia, propane, butane, liquid nitrogen/liquid oxygen, and liquid petroleum. We also perform work related to traditional aboveground crude oil and refined product storage tanks and terminals. This segment also includes terminal balance of plant work, truck and rail loading/offloading facilities, and marine structures as well as storage tank and terminal maintenance and repair. Finally, we manufacture and sell precision engineered specialty tank products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems and floating roof seals.
- **Utility and Power Infrastructure:** primarily consists of engineering, procurement, fabrication, and construction services to support growing demand for LNG utility peak shaving facilities. We also perform traditional electrical work for public and private utilities, including construction of new substations, upgrades of existing substations, transmission and distribution line installations, and upgrades and maintenance including live wire work. Work may also include emergency and storm restoration services. We also provide construction services to a variety of power generation facilities, including natural gas fired facilities in simple or combined cycle configurations.
- **Process and Industrial Facilities:** primarily consists of plant maintenance, repair, and turnarounds in the downstream and midstream markets for energy clients including refining and processing of crude oil, fractionating, and marketing of natural gas and natural gas liquids. We also perform engineering, procurement, fabrication, and construction for refinery upgrades and retrofits for renewable fuels, including hydrogen processing, production, loading and distribution facilities. We also construct thermal vacuum test chambers for aerospace and defense industries and other infrastructure for industries including petrochemical, sulfur, mining and minerals primarily in the extraction of non-ferrous metals, cement, agriculture, wastewater treatment facilities and other industrial customers.

We evaluate performance and allocate resources based on operating income. We eliminate intersegment sales; therefore, no intercompany profit or loss is recognized. Corporate selling, general and administrative expenses, including corporate salaries and facilities costs, are excluded from our three reportable segments in order to align controllable costs with the responsibility of segment management, and to be consistent with how our chief operating decision-maker assesses segment performance and allocates resources. Segment assets consist primarily of accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, property, plant and equipment, right-of-use lease assets, goodwill and other intangible assets.

Operating Segment Information - The following tables set forth certain selected financial information for our operating segments for the periods indicated:

(In thousands)

	Storage and Terminal Solutions	Utility and Power Infrastructure	Process and Industrial Facilities	Corporate	Total
Three Months Ended September 30, 2024					
Total revenue ⁽¹⁾	\$ 78,239	\$ 55,912	\$ 31,428	\$ —	\$ 165,579
Cost of revenue	(73,542)	(54,605)	(29,431)	(188)	(157,766)
Gross profit (loss)	4,697	1,307	1,997	(188)	7,813
Selling, general and administrative expenses	5,569	3,976	1,766	7,269	18,580
Operating income (loss)	\$ (872)	\$ (2,669)	\$ 231	\$ (7,457)	\$ (10,767)

(1) Total revenues are net of inter-segment revenues which are primarily Process and Industrial Facilities and Storage and Terminal Solutions and were \$0.9 million for the three months ended September 30, 2024.

	Storage and Terminal Solutions	Utility and Power Infrastructure	Process and Industrial Facilities	Corporate	Total
Three Months Ended September 30, 2023					
Total revenue ⁽¹⁾	\$ 90,144	\$ 32,395	\$ 75,120	\$ —	\$ 197,659
Cost of revenue	(85,191)	(28,698)	(70,042)	(1,869)	(185,800)
Gross profit (loss)	4,953	3,697	5,078	(1,869)	11,859
Selling, general and administrative expenses	4,629	1,548	3,087	7,849	17,113
Operating income (loss)	\$ 324	\$ 2,149	\$ 1,991	\$ (9,718)	\$ (5,254)

(1) Total revenues are net of inter-segment revenues which are primarily Storage and Terminal Solutions and were \$0.8 million for the three months ended September 30, 2023.

Total assets by segment

	September 30, 2024	June 30, 2024
Storage and Terminal Solutions	\$ 159,049	\$ 138,529
Utility and Power Infrastructure	103,792	84,108
Process and Industrial Facilities	37,063	81,524
Corporate	170,253	147,190
Total Segment Assets	<u>\$ 470,157</u>	<u>\$ 451,351</u>

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-Q which address activities, events or developments which we expect, believe or anticipate will or may occur in the future are forward-looking statements. The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts" and similar expressions are also intended to identify forward-looking statements. Although we believe that our expectations regarding future events are based on reasonable assumptions, we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2024.

These forward-looking statements include, among others, such things as:

- amounts and nature of future project awards, revenue and margins from each of our segments;
- our ability to generate sufficient cash from operations, access our credit facility, or raise cash in order to meet our short and long-term capital requirements;
- our ability to comply with the covenants in our credit agreement;
- the impact to our business from economic, market or business conditions in general and in the natural gas, oil, petrochemical, industrial and power industries in particular;
- the impact of interest rates and inflation on our operating expenses and our business operations;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- the impact to our business from disruptions to supply chains, inflation and availability of materials and labor;
- our expectations with respect to the likelihood of a future impairment;
- our expectations regarding pending litigation; and
- expansion and other trends of the industries we serve.

These statements are based on certain assumptions and analyses we made in light of our experience and our historical trends, current conditions and expected future developments as well as other factors we believe are appropriate. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including:

- any risk factors discussed in this Form 10-Q, Form 10-K for the fiscal year ended June 30, 2024, and in our other filings with the Securities and Exchange Commission;
- economic, market or business conditions in general and in the natural gas, power, oil, petrochemical, industrial and power industries in particular;
- the transition to renewable energy sources and its impact on our current customer base;
- the under- or over-utilization of our work force;
- delays in the commencement or progression of major projects, whether due to permitting issues or other factors;
- reduced creditworthiness of our customer base and the higher risk of non-payment of receivables;
- the inherently uncertain outcome of current and future litigation;
- the adequacy of our reserves for claims and contingencies; and
- changes in laws or regulations, including the imposition, cancellation or delay of tariffs on imported goods.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business operations. We assume no obligation to update, except as required by law, any such forward-looking statements, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

Overview

We operate our business through three reportable segments:

- **Storage and Terminal Solutions:** primarily consists of engineering, procurement, fabrication, and construction services related to cryogenic and other specialty tanks and terminals for LNG, NGLs, hydrogen, ammonia, propane, butane, liquid nitrogen/liquid oxygen, and liquid petroleum. We also perform work related to traditional aboveground crude oil and refined product storage tanks and terminals. This segment also includes terminal balance of plant work, truck and rail loading/offloading facilities, and marine structures as well as storage tank and terminal maintenance and repair. Finally, we manufacture and sell precision engineered specialty tank products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems and floating roof seals.
- **Utility and Power Infrastructure:** primarily consists of engineering, procurement, fabrication, and construction services to support growing demand for LNG utility peak shaving facilities. We also perform traditional electrical work for public and private utilities, including construction of new substations, upgrades of existing substations, transmission and distribution line installations, and upgrades and maintenance including live wire work. Work may also include emergency and storm restoration services. We also provide construction services to a variety of power generation facilities, including natural gas fired facilities in simple or combined cycle configurations.
- **Process and Industrial Facilities:** primarily consists of plant maintenance, repair, and turnarounds in the downstream and midstream markets for energy clients including refining and processing of crude oil, fractionating, and marketing of natural gas and natural gas liquids. We also perform engineering, procurement, fabrication, and construction for refinery upgrades and retrofits for renewable fuels, including hydrogen processing, production, loading and distribution facilities. We also construct thermal vacuum test chambers for aerospace and defense industries and other infrastructure for industries including petrochemical, sulfur, mining and minerals primarily in the extraction of non-ferrous metals, cement, agriculture, wastewater treatment facilities and other industrial customers.

Operational Update

Our backlog has remained steady at a near-record level of \$1.4 billion, and a trailing twelve-month book-to-bill ratio of 1.1x, reflecting a robust pipeline of projects and sustained demand for our services. We have demonstrated strong project execution across our portfolio. Our liquidity has grown to \$181 million, and our debt position remains at zero. Although we experienced a decline in revenue year over year, the decline was primarily due to the completion of a large renewable diesel project. As we progress through the year, our business remains poised for significant growth, particularly in the Storage and Terminal Solutions segment, driven by the increasing demand for specialty storage solutions for LNG and NGLs. We expect this growth will result in improved fixed cost absorption, operating leverage, and margin improvement in the coming periods.

Backlog

We define backlog as the total dollar amount of revenue that we expect to recognize as a result of performing work that has been awarded to us through a signed contract, limited notice to proceed ("LNTP") or other type of assurance that we consider firm. The following arrangements are considered firm:

- fixed-price awards;
- minimum customer commitments on cost plus arrangements; and
- certain time and material arrangements in which the estimated value is firm or can be estimated with a reasonable amount of certainty in both timing and amounts.

For long-term maintenance contracts with no minimum commitments and other established customer agreements, we include only the amounts that we expect to recognize as revenue over the next 12 months. For arrangements in which we have received a LNTP, we include the entire scope of work in our backlog if we conclude that the likelihood of the full project proceeding is probable. For all other arrangements, we calculate backlog as the estimated contract amount less revenue recognized as of the reporting date.

The following table provides a summary of changes in our backlog for the three months ended September 30, 2024:

	Storage and Terminal Solutions	Utility and Power Infrastructure	Process and Industrial Facilities	Total
	(In thousands)			
Backlog as of June 30, 2024	\$ 798,255	\$ 379,697	\$ 251,521	\$ 1,429,473
Project awards	81,651	34,365	31,961	147,977
Revenue recognized	(78,239)	(55,912)	(31,428)	(165,579)
Backlog as of September 30, 2024	\$ 801,667	\$ 358,150	\$ 252,054	\$ 1,411,871
Book-to-bill ratio ⁽¹⁾	1.0 x	0.6 x	1.0 x	0.9 x

(1) Calculated by dividing project awards by revenue recognized.

In the Storage and Terminal Solutions segment, we booked \$81.7 million of project awards during the first quarter of fiscal 2025. This segment includes significant opportunities for storage infrastructure projects related to natural gas, LNG, ammonia, NGLs and other forms of renewable energy. We believe LNG and ammonia projects in particular will be key growth drivers for this segment. Bidding activity on LNG and ammonia projects has been strong and we expect that to continue.

In the Utility and Power Infrastructure segment, we booked \$34.4 million of project awards during the first quarter of fiscal 2025. Our opportunity pipeline for LNG peak shaving projects continues to be promising; however those awards, while significant, can be less frequent. Power delivery opportunities are expected to be driven over the long-term by increasing electrical demand and the related electrical grid requirements. Project opportunities and bidding activity are strong for both the power delivery portion of the business and LNG peak shaving.

In the Process and Industrial Facilities segment, we booked \$32.0 million of project awards during the first quarter of fiscal 2025. During the quarter, we were notified of a five-year renewal of a refinery maintenance contract. We continue to see demand for thermal vacuum chambers in the coming quarters, as well as increasing opportunities in mining and minerals, chemicals, and renewables.

Project awards in all segments are cyclical and are typically the result of a sales process that can take several months or years to complete. It is common for awards to shift from one period to another as the timing of awards is dependent upon a number of factors including changes in market conditions, permitting, off take agreements, project financing and other factors. Backlog volatility may increase for some segments from time to time when individual project awards are less frequent, but more significant. There is an inherent lag between the time a project is awarded and when it begins to have a material impact on revenue. This lag normally extends up to six months or longer in unique circumstances, depending on finalization of scopes, contracts, permits, and facility process requirements. Additionally, awards for larger construction projects may be recognized as revenue over a multi-year period as the projects may take a few years to complete.

Three months ended September 30, 2024 Compared to the Three months ended September 30, 2023

The information below is an analysis of our consolidated results for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. See Results of Operations by Business Segment below for additional information describing the performance of each of our reportable segments.

Consolidated Results of Operations

	Three Months Ended			
	September 30,		2024 v 2023	
	2024	2023	\$	%
Revenue	\$ 165,579	\$ 197,659	\$ (32,080)	(16)%
Cost of revenue	157,766	185,800	(28,034)	(15)%
Gross profit	7,813	11,859	(4,046)	(34)%
Selling, general and administrative expenses	18,580	17,113	1,467	9 %
Operating loss	(10,767)	(5,254)	(5,513)	105 %
Other income (expense):				
Interest expense	(89)	(325)	236	(73)%
Interest income	1,572	150	1,422	948 %
Other	61	2,262	(2,201)	(97)%
Net loss	\$ (9,223)	\$ (3,167)	\$ (6,056)	191 %

Revenue - The decrease in overall revenue of \$32.1 million, or 16%, was primarily attributable to reduced revenue volumes in our Storage and Terminal Solutions and Process and Industrial Facilities segments, partially offset by an increase in Utility and Power Infrastructure.

Gross profit - Gross profit in the first quarter of fiscal 2025 decreased \$4.0 million, or 34%, compared to the first quarter of fiscal 2024. Gross margin decreased to 4.7% for the first quarter of fiscal 2025 compared to 6.0% for the first quarter of fiscal 2024. While project execution remained strong, gross margins were negatively impacted by the under-recovery of construction overhead costs on the lower revenues.

Selling, general and administrative expenses - The increase in SG&A expenses of \$1.5 million, or 9%, is primarily due to an increase in operations headcount required to support the strong market demand and growth in our business.

Interest income - The increase in interest income of \$1.4 million is primarily due to an increase in our cash balance. In fiscal 2024 we invested excess cash balances in interest-bearing cash accounts.

Other income - The decrease in other income of \$2.2 million is primarily due to the sale of our Burlington, Ontario facility in the first quarter of fiscal 2024. We received \$2.5 million in net proceeds from the sale of the facility.

Provision for income taxes - Our effective tax rates for the three months ended September 30, 2024 and September 30, 2023 were zero. The effective tax rates during both periods were impacted by valuation allowances of \$1.3 million and \$0.2 million, respectively, placed on deferred tax assets generated during the quarters. We placed a valuation allowance on our deferred tax assets due to the existence of a cumulative loss over a three-year period. We will continue to place valuation allowances on newly generated deferred tax assets and will realize the benefit associated with the deferred tax assets for which the valuation allowance has been provided to the extent we generate taxable income in the future.

Results of Operations by Business Segment

<i><u>Dollars in thousands</u></i>	Three Months Ended			
	September 30,		2024 v 2023	
	2024	2023	\$	%
Revenue:				
Storage and Terminal Solutions	\$ 78,239	\$ 90,144	\$ (11,905)	(13)%
Utility and Power Infrastructure	55,912	32,395	23,517	73 %
Process and Industrial Facilities	31,428	75,120	(43,692)	(58)%
Total revenue ⁽¹⁾	<u>\$ 165,579</u>	<u>\$ 197,659</u>	<u>\$ (32,080)</u>	<u>(16)%</u>
Gross profit (loss)				
Storage and Terminal Solutions	\$ 4,697	\$ 4,953	\$ (256)	(5)%
Utility and Power Infrastructure	1,307	3,697	(2,390)	(65)%
Process and Industrial Facilities	1,997	5,078	(3,081)	(61)%
Corporate	(188)	(1,869)	1,681	(90)%
Total gross profit	<u>\$ 7,813</u>	<u>\$ 11,859</u>	<u>\$ (4,046)</u>	<u>(34)%</u>
Operating Income (loss)				
Storage and Terminal Solutions	\$ (872)	\$ 324	\$ (1,196)	(369)%
Utility and Power Infrastructure	(2,669)	2,149	(4,818)	(224)%
Process and Industrial Facilities	231	1,991	(1,760)	(88)%
Corporate	(7,457)	(9,718)	2,261	(23)%
Total Operating Loss	<u>\$ (10,767)</u>	<u>\$ (5,254)</u>	<u>\$ (5,513)</u>	<u>105 %</u>

Storage and Terminal Solutions

Storage and Terminal Solutions revenues decreased by \$11.9 million, or 13%, in the three months ended September 30, 2024 compared to the same period last year, driven by reduced volume of work for flat bottom tank new build, repair and maintenance work, partially offset by increases in LNG storage and specialty vessel projects.

Storage and Terminal Solutions gross profit decreased by \$0.3 million, or 5%, in the three months ended September 30, 2024 compared to the same period last year. The segment gross margin was 6.0% for the three months ended September 30, 2024 compared to segment gross margin of 5.5% in the same period last year. Project execution was strong for the segment in the current quarter; however, both periods were impacted by the under-recovery of construction overhead costs.

Utility and Power Infrastructure

Utility and Power Infrastructure revenues increased by \$23.5 million, or 73%, in the three months ended September 30, 2024 compared to the same period last year. The increase is primarily attributable to higher volumes of work for LNG peak shaving projects, partially offset by decreases in power delivery work.

Utility and Power Infrastructure gross profit decreased by \$2.4 million, or 65%, in the three months ended September 30, 2024 compared to the same period last year. The segment gross margin was 2.3% for the three months ended September 30, 2024 compared to 11.4% in the same period last year. The segment gross margin in the current period was impacted by the under-recovery of construction overhead costs, primarily in our power delivery service line. Additionally, segment gross margin in the first quarter of fiscal 2024 benefited from favorable project closeouts.

Process and Industrial Facilities

Process and Industrial Facilities revenues decreased by \$43.7 million, or 58%, in the three months ended September 30, 2024 compared to the same period last year. The decrease is primarily attributable to lower revenue volumes for a now completed large renewable diesel project. We believe this reduction in revenue is temporary given our strong backlog, including a significant gas processing construction project that is expected to commence in late fiscal 2025.

Process and Industrial Facilities gross profit decreased by \$3.1 million, or 61%, in the three months ended September 30, 2024 compared to the same period last year. The segment gross margin was 6.4% for the three months ended September 30, 2024 compared to 6.8% in the same period last year. Gross margins in both periods were negatively impacted by under-recovery of construction overhead costs.

Corporate

Unallocated corporate expenses net to \$7.5 million during the three months ended September 30, 2024 compared to \$9.7 million in the same period last year. The decrease of \$2.3 million was primarily due to reduced legal expenses in the first quarter of fiscal 2025. Legal expenses incurred during the first quarter of fiscal 2024 included costs related to a jury trial that resulted in a verdict in our favor.

LIQUIDITY AND CAPITAL RESOURCES**Overview**

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity at September 30, 2024 were unrestricted cash and cash equivalents on hand, capacity under our ABL Facility, and cash generated from operations. Unrestricted cash and cash equivalents at September 30, 2024 totaled \$124.6 million and availability under the ABL Facility totaled \$56.6 million, resulting in total liquidity of \$181.2 million. During the first quarter of fiscal 2025, liquidity increased \$11.6 million primarily as a result of cash provided by operating activities.

The following table provides a reconciliation of restricted cash and unrestricted cash in the Consolidated Balance Sheets to the total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows, as well as availability and total liquidity (in thousands):

	September 30, 2024	June 30, 2024
Total cash, cash equivalents and restricted cash	\$ 149,610	\$ 140,615
Less: Restricted cash	25,000	25,000
Unrestricted cash	124,610	115,615
Availability	56,642	53,988
Total Liquidity	<u>\$ 181,252</u>	<u>\$ 169,603</u>

The following table provides a summary of changes in our liquidity for the three months ended September 30, 2024 (in thousands):

Liquidity at June 30, 2024	\$ 169,603
Cash provided by operating activities	11,918
Capital expenditures	(1,944)
Increase in availability under ABL Facility	2,654
Cash used by financing activities	(1,189)
Effect of exchange rate changes on cash	210
Liquidity at September 30, 2024	<u>\$ 181,252</u>

Factors that routinely impact our short-term liquidity and may impact our long-term liquidity include, but are not limited to:

- changes in costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs due to contract terms that determine the timing of billings to customers and the collection of those billings:

- some fixed-price customer contracts allow for significant upfront billings at the beginning of a project, which temporarily increases liquidity near term;
 - some cost-plus and fixed-price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collections from our customers;
 - time and material contracts are normally billed in arrears. Therefore, we are routinely required to carry these costs until they can be billed and collected; and
 - some of our large construction projects may require security in the form of significant retentions. Retentions are normally held until certain contractual milestones are achieved; therefore, collection may extend beyond one year;
- the mix of work can impact liquidity. In periods where fixed-price contracts comprise a larger portion of revenue, liquidity may increase. In periods where time and material contracts comprise a larger portion of revenue, liquidity may decrease;
 - other changes in working capital, including the timing of tax payments and refunds; and
 - capital expenditures.

Other factors that may impact both short and long-term liquidity include:

- contract disputes;
- collection issues, including those caused by weak commodity prices, economic slowdowns or other factors which can lead to credit deterioration of our customers;
- borrowing constraints under our ABL Facility and maintaining compliance with all covenants contained in the ABL Facility;
- letters of credit. We have certain contracts with customers, and may have future contracts, that permit the customer to obtain, at the customer's expense, letters of credit as a form of security under the contract. Letters of credit reduce our borrowing availability under the Company's ABL Facility;
- acquisitions and disposals of businesses or assets; and
- purchases of shares under our stock buyback program.

ABL Credit Facility

On September 9, 2021, the Company and our primary U.S. and Canada operating subsidiaries entered into an asset-based credit agreement, which was most recently amended on May 3, 2024 (as amended, the "ABL Facility"), with Bank of Montreal, as Administrative Agent, Swing Line Lender and a Letter of Credit Issuer. The maximum amount of loans under the ABL Facility is limited to \$90.0 million. The ABL Facility is intended to be used for working capital, capital expenditures, issuances of letters of credit and other lawful purposes. Our obligations under the ABL Facility are guaranteed by substantially all of our U.S. and Canadian subsidiaries and are secured by a first lien on all our assets under the ABL Facility. The ABL Facility matures, and any outstanding amounts become due and payable, on September 9, 2026.

The maximum amount that we may borrow under the ABL Facility is subject to a borrowing base, which is based on restricted cash plus a percentage of the value of certain accounts receivable, inventory and equipment, reduced for certain reserves. We are required to maintain a minimum of \$25.0 million of restricted cash at all times, but such amounts are also included in the borrowing base. The borrowing base is recalculated on a monthly basis and at September 30, 2024, our borrowing base was \$61.4 million. During fiscal 2024, the Company repaid all outstanding borrowings under the ABL Facility. The Company had \$4.8 million in letters of credit outstanding as of September 30, 2024, which resulted in availability of \$56.6 million under the ABL Facility.

Borrowings under the ABL Facility bear interest through maturity at a variable rate based upon, at our option, an annual rate of either a base rate (“Base Rate”), an Adjusted Term Secured Overnight Financing Rate (“Adjusted Term SOFR”), or at the Canadian Prime Rate, plus an applicable margin. The Adjusted Term SOFR is defined as (i) the SOFR plus (ii) 11.448 basis points for a one-month tenor and 26.161 basis points for a three-month tenor; provided that the Adjusted Term SOFR cannot be below zero. The Base Rate is defined as a fluctuating interest rate equal to the greater of: (i) rate of interest announced by Bank of Montreal from time to time as its prime rate; (ii) the U.S. federal funds rate plus 0.50%; (iii) Adjusted Term SOFR for one month period plus 1.00%; or (iv) 1.00%. Depending on the amount of average availability, the applicable margin is between 1.00% to 1.50% for Base Rate and Canadian Prime Rate borrowings, which includes either U.S. or Canadian prime rate, and between 2.00% and 2.50% for Adjusted Term SOFR borrowings. Interest is payable either (i) monthly for Base Rate or Canadian Prime Rate borrowings or (ii) the last day of the interest period for Adjusted Term SOFR borrowings, as set forth in the ABL Facility. The fee for undrawn amounts is 0.25% per annum and is due quarterly.

The ABL Facility contains customary conditions to borrowings, events of default and covenants, including, but not limited to, covenants that limit our ability to sell assets, engage in mergers and acquisitions, incur, assume or permit to exist additional indebtedness and guarantees, create or permit to exist liens, pay cash dividends, issue equity instruments, make distribution or redeem or repurchase capital stock. In the event that our availability is less than the greater of (i) \$15.0 million and (ii) 15.00% of the commitments under the ABL Facility then in effect, a consolidated Fixed Charge Coverage Ratio of at least 1.00 to 1.00 must be maintained. We were in compliance with all covenants of the ABL Facility as of September 30, 2024.

Cash Flows Provided by Operating Activities

Cash provided by operating activities for the three months ended September 30, 2024 totaled \$11.9 million. Major components of cash flows provided by operating activities for the three months ended September 30, 2024 are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net loss	\$ (9,223)
Loss on sale of property, plant and equipment	68
Depreciation and amortization	2,515
Stock-based compensation	2,311
Other non-cash expenses	38
Cash effect of changes in operating assets and liabilities	16,209
Net cash provided by operating activities	<u>\$ 11,918</u>

Cash effect of changes in operating assets and liabilities at September 30, 2024 in comparison to June 30, 2024 include the following:

- Accounts receivable, excluding credit losses recognized during the period and including retention amounts classified as non-current, increased by \$5.1 million during the three months ended September 30, 2024, which decreased cash flows from operating activities. The variance is primarily attributable to the timing of billing and collections.
- Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") decreased \$2.1 million, which increased cash flows from operating activities. Billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") increased \$33.3 million, which increased cash flows from operating activities. CIE and BIE balances can experience significant fluctuations based on business volumes and the timing of when job costs are incurred and the timing of customer billings and payments.
- Accounts payable decreased by \$3.9 million during the three months ended September 30, 2024, which decreased cash flows from operating activities. These operating liabilities can fluctuate based on business volumes; the timing of vendor payments; accruals; lease commencement, lease payments, expiration, or termination of operating leases; and other timing differences.
- Inventories, income taxes receivable, prepaid expenses, other current assets, operating right-of-use lease assets and other assets, non-current, increased \$7.3 million during the three months ended September 30, 2024, which decreased cash flows from operating activities. These operating assets can fluctuate based on business volumes; the amount of long-term retention receivables; the timing of inventory builds and draw-downs, accrual and receipt of income taxes receivable; prepayments of certain expenses; lease commencement, passage of time, expiration, or termination of operating leases; and other timing differences.
- Accrued wages and benefits, accrued insurance, operating lease liabilities, other accrued expenses, and other liabilities, non-current decreased by \$2.9 million during the three months ended September 30, 2024, which decreased cash flows from operating activities. These operating liabilities can fluctuate based on the timing of payroll, distributions, business volumes; vendor payments; accruals; lease commencement, lease payments, expiration, or termination of operating leases; and other timing differences.

Cash Flows Used by Investing Activities

Investing activities used \$1.9 million of cash in the three months ended September 30, 2024 due to capital expenditures.

Cash Flows Used by Financing Activities

Financing activities used \$1.2 million of cash in the three months ended September 30, 2024 primarily due to the repurchase of common stock for payment of statutory taxes due on equity-based compensation.

Dividend Policy

We have never paid cash dividends on our common stock and the terms of our ABL Facility limit dividends to stock dividends only. Any future dividend payments will depend on the terms of our ABL Facility, our financial condition, capital requirements and earnings as well as other relevant factors.

Stock Repurchase Program

We may repurchase common stock pursuant to the Stock Buyback Program, which was approved by the board of directors in November 2018. Under the program, the aggregate number of shares repurchased may not exceed 2,707,175 shares. We may repurchase our stock from time to time in the open market at prevailing market prices or in privately negotiated transactions and are not obligated to purchase any shares. The program will continue unless and until it is modified or revoked by the Board of Directors. We made no repurchases under the program in the three months ended September 30, 2024 and have no current plans to repurchase stock. As of September 30, 2024, there were 1,349,037 shares available for repurchase under the Stock Buyback Program. The terms of our ABL Facility limit share repurchases to \$2.5 million per fiscal year provided that we meet certain availability thresholds and do not violate our Fixed Charge Coverage Ratio financial covenant.

Treasury Shares

We had 338,015 treasury shares as of September 30, 2024 and intend to utilize these treasury shares in connection with equity awards under the our stock incentive plans and for sales to the Employee Stock Purchase Plan.

CRITICAL ACCOUNTING POLICIES

There have been no material changes in our critical accounting policies from those reported in our fiscal 2024 Annual Report on Form 10-K filed with the SEC. For more information on our critical accounting policies, see Part II, Item 7 of our fiscal 2024 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 2024, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2024 Annual Report on Form 10-K.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e).

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2024. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2024.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended September 30, 2024.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to a number of legal proceedings. See Part I., Item 1. Financial Statements, Note 6 - Commitments and Contingencies, Litigation, for a description of our material ongoing litigation.

Item 1A. Risk Factors

There were no material changes in our Risk Factors from those reported in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2024.

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

Issuer Purchases of Equity Securities

We may repurchase common stock pursuant to the Stock Buyback Program, which was approved by the board of directors in November 2018. Under the program, the aggregate number of shares repurchased may not exceed 2,707,175 shares. As of September 30, 2024, 1,349,037 shares were available for repurchase under the stock buyback program. We may repurchase our stock from time to time in the open market at prevailing market prices or in privately negotiated transactions and are not obligated to purchase any shares. The program will continue unless and until it is modified or revoked by the Board of Directors. The terms of our ABL Facility also limit share repurchases to \$2.5 million per fiscal year provided that we meet certain availability thresholds and we do not violate our Fixed Charge Coverage Ratio financial covenant. We made no repurchases under the stock buyback program in the first quarter of fiscal 2025 and have no current plans to repurchase stock.

Dividend Policy

We have never paid cash dividends on our common stock and the terms of our ABL Facility limit dividends to stock dividends only. Any future dividend payments will depend on the terms of our ABL Facility, our financial condition, capital requirements and earnings as well as other relevant factors.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the "Mine Act") by the Federal Mine Safety and Health Administration. We do not act as the owner of any mines, but as a result of our performing services or construction at mine sites as an independent contractor, we are considered an "operator" within the meaning of the Mine Act.

Information concerning mine safety violations or other regulatory matters required to be disclosed in this quarterly report under Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95.

Item 5. Other Information

During the three months ended September 30, 2024, none of our directors or officers adopted or terminated a Rule 10b5-1 trading arrangement or Non-Rule 10b5-1, as each term is defined under Item 408(a) of Regulation S-K.

A member of our Board of Directors, Jim Miller, purchased \$5,000 of shares of our common stock through the 2011 Employee Stock Purchase Plan during the quarter ended September 30, 2024. The 2011 Employee Stock Purchase Plan may be considered a "Non-Rule 10b5-1 trading arrangement" under Item 408 of Regulation S-K.

Item 6. Exhibits:

The following documents are included as exhibits to this Quarterly Report on Form 10-Q. Any exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical hereafter.

<u>Exhibit No.</u>	<u>Description</u>
Exhibit 31.1:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
Exhibit 31.2:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
Exhibit 32.1:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
Exhibit 32.2:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
Exhibit 95:	Mine Safety Disclosure.
Exhibit 101.INS:	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH:	XBRL Taxonomy Schema Document.
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase Document.
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase Document.
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURE

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.

Date: November 7, 2024

MATRIX SERVICE COMPANY

By: /s/ Kevin S. Cavanah

Kevin S. Cavanah

Vice President and Chief Financial Officer

CERTIFICATIONS

I, John R. Hewitt, certify that:

1. I have reviewed this quarterly Report on Form 10-Q of Matrix Service Company;
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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ John R. Hewitt

John R. Hewitt

President and Chief Executive Officer

CERTIFICATIONS

I, Kevin S. Cavanah, certify that:

1. I have reviewed this quarterly Report on Form 10-Q of Matrix Service Company;
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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ Kevin S. Cavanah

Kevin S. Cavanah

Vice President and Chief Financial Officer

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant
Section 906 of Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Hewitt, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; 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 7, 2024

/s/ John R. Hewitt

John R. Hewitt

President and Chief Executive Officer

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant
Section 906 of Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin S. Cavanah, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; 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 7, 2024

/s/ Kevin S. Cavanah

Kevin S. Cavanah

Vice President and Chief Financial Officer

Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the "Mine Act") by the federal Mine Safety and Health Administration ("MSHA"). We do not act as the owner of any mines, but as a result of our performing services or construction at mine sites as an independent contractor, we are considered an "operator" within the meaning of the Mine Act. The mine data retrieval system maintained by MSHA may show information that is different than what is provided herein. Any such difference may be attributed to the need to update that information on MSHA's system and/or other factors.

The following table provides information for the three months ended September 30, 2024:

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations ⁽¹⁾	Section 104(b) Orders ⁽²⁾	Section 104(d) Citations and Orders ⁽³⁾	Section 110(b) (2) Violations ⁽⁴⁾	Section 107(a) Orders ⁽⁵⁾	Total Dollar Value of MSHA Assessments Proposed (\$)	Total Number of Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e) ⁽⁶⁾ (yes/no)	Received Notice of Potential to Have Pattern of Violations Under Section 104(e) ⁽⁷⁾ (yes/no)	Total Number of Legal Actions Pending as of Last Day of Period	Total Number of Legal Actions Initiated During Period	Total Number of Legal Actions Resolved During Period
None	—	—	—	—	—	—	—	N/A	N/A	—	—	—

- (1) The total number of citations issued under section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to a serious injury if left unabated.
- (2) The total number of orders issued under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA.
- (3) The total number of citations and orders issued by MSHA under section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.
- (4) The total number of flagrant violations identified under section 110(b)(2) of the Mine Act.
- (5) The total number of orders issued under section 107(a) of the Mine Act for situations in which MSHA determined an imminent danger existed.
- (6) A written notice from the MSHA regarding a pattern of violations under section 104(e) of the Mine Act.
- (7) A written notice from the MSHA regarding a potential to have a pattern of violations under section 104(e) of the Mine Act.