
**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 December 31, 2019
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 **73-1352174**
(State of incorporation) (I.R.S. Employer Identification No.)

5100 East Skelly Drive, Suite 500, Tulsa, Oklahoma 74135
(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

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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 February 4, 2020 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,677,219 shares outstanding.

TABLE OF CONTENTS

	PAGE
<u>PART I</u>	
	FINANCIAL INFORMATION
Item 1.	
Financial Statements (Unaudited)	
Condensed Consolidated Statements of Income for the Three and Six Months Ended December 31, 2019 and 2018	1
Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended December 31, 2019 and 2018	2
Condensed Consolidated Balance Sheets as of December 31, 2019 and June 30, 2019	3
Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2019 and 2018	5
Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three and Six Months Ended December 31, 2019 and 2018	7
Notes to Condensed Consolidated Financial Statements	9
Item 2.	
Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	
Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	
Controls and Procedures	39
<u>PART II</u>	
	OTHER INFORMATION
Item 1.	
Legal Proceedings	40
Item 1A.	
Risk Factors	40
Item 2.	
Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3.	
Defaults Upon Senior Securities	41
Item 4.	
Mine Safety Disclosures	41
Item 5.	
Other Information	41
Item 6.	
Exhibits	41
Signature	42

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		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenue	\$ 318,677	\$ 340,568	\$ 656,774	\$ 659,079
Cost of revenue	288,676	312,682	594,308	607,772
Gross profit	30,001	27,886	62,466	51,307
Selling, general and administrative expenses	23,165	22,359	46,856	43,560
Goodwill and other intangible asset impairment	38,515	—	38,515	—
Operating income (loss)	(31,679)	5,527	(22,905)	7,747
Other income (expense):				
Interest expense	(444)	(361)	(833)	(653)
Interest income	417	274	891	556
Other	396	(22)	399	524
Income (loss) before income tax expense	(31,310)	5,418	(22,448)	8,174
Provision (benefit) for federal, state and foreign income taxes	(3,302)	1,486	(591)	1,937
Net income (loss)	\$ (28,008)	\$ 3,932	\$ (21,857)	\$ 6,237
Basic earnings (loss) per common share	\$ (1.04)	\$ 0.15	\$ (0.81)	\$ 0.23
Diluted earnings (loss) per common share	\$ (1.04)	\$ 0.14	\$ (0.81)	\$ 0.23
Weighted average common shares outstanding:				
Basic	26,925	27,043	26,930	26,982
Diluted	26,925	27,582	26,930	27,628

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net income (loss)	\$ (28,008)	\$ 3,932	\$ (21,857)	\$ 6,237
Other comprehensive gain (loss), net of tax:				
Foreign currency translation gain (loss) (net of tax expense (benefit) of \$59 and \$37 for the three and six months ended December 31, 2019, respectively, and (\$238) and (\$176) for the three and six months ended December 31, 2018, respectively)	523	(1,069)	129	(668)
Comprehensive income (loss)	\$ (27,485)	\$ 2,863	\$ (21,728)	\$ 5,569

See accompanying notes.

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

	December 31, 2019	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 110,495	\$ 89,715
Accounts receivable, less allowances (December 31, 2019—\$1,722 and June 30, 2019—\$923)	199,066	218,432
Costs and estimated earnings in excess of billings on uncompleted contracts	57,223	96,083
Inventories	7,185	8,017
Income taxes receivable	98	29
Other current assets	7,444	5,034
Total current assets	381,511	417,310
Property, plant and equipment at cost:		
Land and buildings	41,560	41,179
Construction equipment	95,354	91,793
Transportation equipment	55,377	52,526
Office equipment and software	44,207	43,632
Construction in progress	8,627	7,619
Total property, plant and equipment - at cost	245,125	236,749
Accumulated depreciation	(161,185)	(157,414)
Property, plant and equipment - net	83,940	79,335
Operating lease right-of-use assets	32,491	—
Goodwill	60,504	93,368
Other intangible assets, net of accumulated amortization	11,955	19,472
Deferred income taxes	5,542	2,683
Other assets	15,945	21,226
Total assets	\$ 591,888	\$ 633,394

See accompanying notes.

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

	December 31, 2019	June 30, 2019
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 74,461	\$ 114,647
Billings on uncompleted contracts in excess of costs and estimated earnings	110,562	105,626
Accrued wages and benefits	22,121	38,357
Accrued insurance	7,649	9,021
Operating lease liabilities	9,425	—
Income taxes payable	166	2,517
Other accrued expenses	5,440	5,331
Total current liabilities	229,824	275,499
Deferred income taxes	186	298
Operating lease liabilities	23,949	—
Borrowings under senior secured revolving credit facility	14,817	5,347
Other liabilities	317	293
Total liabilities	269,093	281,437
Commitments and contingencies		
Stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of December 31, 2019 and June 30, 2019; 26,672,114 and 26,807,203 shares outstanding as of December 31, 2019 and June 30, 2019	279	279
Additional paid-in capital	135,057	137,712
Retained earnings	217,619	239,476
Accumulated other comprehensive loss	(7,622)	(7,751)
	345,333	369,716
Less: Treasury stock, at cost — 1,216,103 shares as of December 31, 2019, and 1,081,014 shares as of June 30, 2019	(22,538)	(17,759)
Total stockholders' equity	322,795	351,957
Total liabilities and stockholders' equity	\$ 591,888	\$ 633,394

See accompanying notes.

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

	Six Months Ended	
	December 31, 2019	December 31, 2018
Operating activities:		
Net income (loss)	\$ (21,857)	\$ 6,237
Adjustments to reconcile net income (loss) to net cash provided by operating activities, net of effects from acquisitions and disposals:		
Depreciation and amortization	9,702	9,126
Goodwill and other intangible asset impairment	38,515	—
Stock-based compensation expense	5,813	5,738
Deferred income tax	(2,934)	(83)
Gain on disposal of business	—	(427)
Gain on sale of property, plant and equipment	(285)	(727)
Provision for uncollectible accounts	1,193	(34)
Other	(213)	202
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions and disposals:		
Accounts receivable	18,173	(177)
Costs and estimated earnings in excess of billings on uncompleted contracts	38,860	3,580
Inventories	832	(2,816)
Other assets and liabilities	1,547	(10,551)
Accounts payable	(38,182)	8,622
Billings on uncompleted contracts in excess of costs and estimated earnings	4,936	(5,243)
Accrued expenses	(17,475)	37
Net cash provided by operating activities	38,625	13,484
Investing activities:		
Capital expenditures	(14,492)	(6,055)
Proceeds from disposal of business	—	3,885
Proceeds from asset sales	377	923
Net cash used by investing activities	\$ (14,115)	\$ (1,247)

See accompanying notes.

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

	Six Months Ended	
	December 31, 2019	December 31, 2018
Financing activities:		
Advances under senior secured revolving credit facility	\$ 17,395	\$ 8,383
Repayments of advances under senior secured revolving credit facility	(8,126)	(8,243)
Open market purchase of treasury shares	(9,913)	(3,230)
Issuances of common stock	—	128
Proceeds from issuance of common stock under employee stock purchase plan	157	153
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(3,491)	(1,651)
Net cash used by financing activities	(3,978)	(4,460)
Effect of exchange rate changes on cash and cash equivalents	248	(345)
Increase in cash and cash equivalents	20,780	7,432
Cash and cash equivalents, beginning of period	89,715	64,057
Cash and cash equivalents, end of period	<u>\$ 110,495</u>	<u>\$ 71,489</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 4,751	\$ 255
Interest	\$ 947	\$ 849
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	\$ 682	\$ 820
Accrual for unsettled stock repurchases	\$ —	\$ 1,960

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	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Total
Balances, September 30, 2019	\$ 279	\$ 132,936	\$ 245,627	\$ (13,270)	\$ (8,145)	\$ 357,427
Net loss	—	—	(28,008)	—	—	(28,008)
Other comprehensive income	—	—	—	—	523	523
Issuance of deferred shares (40,786 shares)	—	(673)	—	673	—	—
Treasury shares sold to Employee Stock Purchase Plan (4,468 shares)	—	5	—	69	—	74
Open market purchases of treasury shares (500,000 shares)	—	—	—	(9,913)	—	(9,913)
Treasury shares purchased to satisfy tax withholding obligations (4,586 shares)	—	—	—	(97)	—	(97)
Stock-based compensation expense	—	2,789	—	—	—	2,789
Balances, December 31, 2019	<u>\$ 279</u>	<u>\$ 135,057</u>	<u>\$ 217,619</u>	<u>\$ (22,538)</u>	<u>\$ (7,622)</u>	<u>\$ 322,795</u>
Balances, September 30, 2018	\$ 279	\$ 129,885	\$ 213,799	\$ (14,172)	\$ (7,010)	\$ 322,781
Net income	—	—	3,932	—	—	3,932
Other comprehensive loss	—	—	—	—	(1,069)	(1,069)
Issuance of deferred shares (70,803 shares)	—	(1,172)	—	1,172	—	—
Treasury shares sold to Employee Stock Purchase Plan (3,124 shares)	—	23	—	52	—	75
Open market purchases of treasury shares (310,532 shares)	—	—	—	(5,190)	—	(5,190)
Treasury shares purchased to satisfy tax withholding obligations (4,814 shares)	—	—	—	(92)	—	(92)
Stock-based compensation expense	—	3,153	—	—	—	3,153
Balances, December 31, 2018	<u>\$ 279</u>	<u>\$ 131,889</u>	<u>\$ 217,731</u>	<u>\$ (18,230)</u>	<u>\$ (8,079)</u>	<u>\$ 323,590</u>

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	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Total
Balances, July 1, 2019	\$ 279	\$ 137,712	\$ 239,476	\$ (17,759)	\$ (7,751)	\$ 351,957
Net loss	—	—	(21,857)	—	—	(21,857)
Other comprehensive income	—	—	—	—	129	129
Issuance of deferred shares (535,060 shares)	—	(8,486)	—	8,486	—	—
Treasury shares sold to Employee Stock Purchase Plan (8,521 shares)	—	18	—	139	—	157
Open market purchases of treasury shares (500,000 shares)	—	—	—	(9,913)	—	(9,913)
Treasury shares purchased to satisfy tax withholding obligations (178,670 shares)	—	—	—	(3,491)	—	(3,491)
Stock-based compensation expense	—	5,813	—	—	—	5,813
Balances, December 31, 2019	<u>\$ 279</u>	<u>\$ 135,057</u>	<u>\$ 217,619</u>	<u>\$ (22,538)</u>	<u>\$ (7,622)</u>	<u>\$ 322,795</u>
Balances, July 1, 2018	\$ 279	\$ 132,198	\$ 211,494	\$ (17,717)	\$ (7,411)	\$ 318,843
Net income	—	—	6,237	—	—	6,237
Other comprehensive loss	—	—	—	—	(668)	(668)
Exercise of stock options (12,500 shares)	—	(126)	—	254	—	128
Issuance of deferred shares (292,578 shares)	—	(5,940)	—	5,940	—	—
Treasury shares sold to Employee Stock Purchase Plan (7,447 shares)	—	19	—	134	—	153
Open market purchase of treasury shares (310,532 shares)	—	—	—	(5,190)	—	(5,190)
Treasury shares purchased to satisfy tax withholding obligations (77,418 shares)	—	—	—	(1,651)	—	(1,651)
Stock-based compensation expense	—	5,738	—	—	—	5,738
Balances, December 31, 2018	<u>\$ 279</u>	<u>\$ 131,889</u>	<u>\$ 217,731</u>	<u>\$ (18,230)</u>	<u>\$ (8,079)</u>	<u>\$ 323,590</u>

See accompanying notes.

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 (“Matrix”, “we”, “our”, “us”, “its” or the “Company”) and its subsidiaries, 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 financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2019, included in the Company’s Annual Report on Form 10-K for the year then ended. The results of operations for the three and six month periods ended December 31, 2019 may not necessarily be indicative of the results of operations for the full year ending June 30, 2020.

Significant Accounting Policies

The Company has updated its significant accounting policies to include its lease accounting policy as a result of adopting the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* on July 1, 2019. The Company’s other significant accounting policies are detailed in “Note 1 - Summary of Significant Accounting Policies” of our Annual Report on Form 10-K for the year ended June 30, 2019.

Leases

Adoption of New Leases Standard

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under this guidance, lessees are required to recognize virtually all leases on the balance sheet as a right-of-use asset and an associated operating lease liability or finance lease liability. The right-of-use asset represents the lessee's right to use, or control the use of, a specified asset for the specified lease term. The lease liability represents the lessee's obligation to make lease payments arising from the lease, measured on a discounted basis. Based on certain characteristics, leases are classified as operating leases or finance leases. Operating lease liabilities and right-of-use assets are adjusted to result in a single straight-line lease expense over the life of the lease. Finance lease liabilities and right-of-use assets, which contain provisions similar to capital leases under the prior accounting standards, result in the recognition of interest expense on the lease liability and amortization expense on the right-of-use asset over the term of the lease.

On July 1, 2019, the Company adopted the standard using the modified retrospective method. The modified retrospective method permits the Company to record right-of-use assets and lease liabilities for existing leases as of the date of adoption rather than at the beginning of the earliest period presented. The Company recorded operating lease right-of-use assets of \$24.6 million and operating lease liabilities of \$25.8 million as of July 1, 2019. The adoption of the standard did not have a material impact on the Company’s retained earnings, Condensed Consolidated Statements of Income or Condensed Consolidated Statements of Cash Flows. Financial results reported in prior periods are unchanged and reflect the prior lease accounting standards in place at the time.

The Company elected the package of practical expedients permitted under the transition guidance for the new standard, which among other things, allowed the Company to carry forward the historical lease classification of its existing leases. All of the Company's existing leases were classified as operating leases prior to adoption and have retained this classification after adoption. In addition, the Company elected not to utilize the hindsight practical expedient to determine the lease term for existing leases at adoption.

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

Lease Accounting Policy

The Company enters into lease arrangements for real estate, construction equipment and information technology equipment in the normal course of business. The Company determines if an arrangement is or contains a lease at inception of the arrangement. An arrangement is determined to be a lease if it conveys the right to control the use of identified property or equipment for a period of time in exchange for consideration. If certain criteria are satisfied, the lease is classified as a financing lease. If none of these criteria are satisfied, the lease is considered an operating lease. All of the Company's leases are classified as operating leases.

Operating lease right-of-use assets are recognized as the present value of future lease payments over the lease term as of the commencement date, plus any lease payments made prior to commencement, and less any lease incentives received. Operating right-of-use assets are presented as noncurrent in the Condensed Consolidated Balance Sheets. Operating lease liabilities are recognized as the present value of the future lease payments over the lease term as of the commencement date and are presented as current and noncurrent in the Condensed Consolidated Balance Sheets. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases with an initial term of 12 months or less.

The lease term used to measure the right-of-use assets and lease liabilities is generally the non-cancelable lease term for real estate leases and information technology equipment. Construction equipment is typically rented on a "month-to-month" basis and the lease term is estimated based on the expected duration of the rental. An option to renew or terminate a lease is included in the lease term when it is reasonably certain that the Company will exercise the option. Renewal options for real estate leases are typically for five years or less.

Future lease payments are discounted based on the Company's estimate of its incremental borrowing rate at lease commencement. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments.

Determinations with respect to lease term, including any renewals, incremental borrowing rate, and future lease payments require the use of judgment based on the facts and circumstances related to each lease. The Company considers various factors, including economic incentives, intent, past history and business need, to determine the likelihood that a renewal option will be exercised.

After the commencement date, operating lease expense is recognized based on the undiscounted future lease payments over the remaining lease term on a straight-line basis. Lease expense related to short-term leases is recognized on a straight-line basis over the lease term. Lease expense is included in cost of revenue and in selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

See Note 3 - Leases for the required periodic disclosures about the Company's leases.

Recently Issued Accounting Standards

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

On June 16, 2016, the FASB issued ASU 2016-13, which will change how the Company accounts for credit losses, including those related to its trade accounts receivable. The amendments in this update require a financial asset (or a group of financial assets) to be presented at the net amount expected to be collected. The income statement will reflect any increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.

Current GAAP delays the recognition of the full amount of credit losses until the loss is probable of occurring. The amendments in this update eliminate the probable initial recognition threshold and, instead, reflect the Company's current estimate of all expected credit losses. In addition, current guidance limits the information the Company may consider in measuring a credit loss to its past events and current conditions.

The amendments in this update broaden the information the Company may consider in developing its expected credit loss estimate to include forecasted information. The Company will adopt these amendments on July 1, 2020. The Company must apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the Company does not expect this update will have a material impact on its estimate of the allowance for uncollectible accounts.

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

Note 2 – Revenue

Remaining Performance Obligations

The Company had \$645.0 million of remaining performance obligations yet to be satisfied as of December 31, 2019. The Company expects to recognize \$540.9 million of its remaining performance obligations as revenue within the next twelve months.

Contract Balances

Contract terms with customers include the timing of billing and payment, which usually differs from the timing of revenue recognition. As a result, we carry contract assets and liabilities in our balance sheet. These contract assets and liabilities are calculated on a contract-by-contract basis and reported on a net basis at the end of each period and are classified as current. 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 advance payments and billings in excess of revenue recognized. The following table provides information about CIE and BIE:

	December 31, 2019	June 30, 2019	Change
	(in thousands)		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 57,223	\$ 96,083	\$ (38,860)
Billings on uncompleted contracts in excess of costs and estimated earnings	(110,562)	(105,626)	(4,936)
Net contract liabilities	\$ (53,339)	\$ (9,543)	\$ (43,796)

The difference between the beginning and ending balances of the Company's CIE and BIE primarily results from the timing of revenue recognized relative to its billings. The amount of revenue recognized during the six months ended December 31, 2019 that was included in the prior period BIE balance was \$97.0 million. This revenue consists primarily of work performed during the period on contracts with customers that had advance billings.

Progress billings in accounts receivable at December 31, 2019 and June 30, 2019 included retentions to be collected within one year of \$29.9 million and \$21.9 million, respectively. Contract retentions collectible beyond one year are included in other assets in the Condensed Consolidated Balance Sheet and totaled \$12.5 million as of December 31, 2019 and \$17.7 million as of June 30, 2019.

Disaggregated Revenue

Revenue disaggregated by reportable segment is presented in Note 9 - 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		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(In thousands)			
United States	\$ 291,348	\$ 329,513	\$ 605,765	\$ 639,650
Canada	24,703	9,714	45,872	16,795
Other international	2,626	1,341	5,137	2,634
Total Revenue	\$ 318,677	\$ 340,568	\$ 656,774	\$ 659,079

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

Contract Type Disaggregation:

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
(In thousands)				
Fixed-price contracts	\$ 174,773	\$ 182,811	\$ 351,093	\$ 361,933
Time and materials and other cost reimbursable contracts	143,904	157,757	305,681	297,146
Total Revenue	\$ 318,677	\$ 340,568	\$ 656,774	\$ 659,079

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

Note 3 – Leases

The Company enters into lease arrangements for real estate, construction equipment and information technology equipment in the normal course of business. Real estate leases accounted for approximately 86% of all right-of-use assets as of December 31, 2019. Most real estate and information technology equipment leases generally have fixed payments that follow an agreed upon payment schedule and have remaining lease terms ranging from less than a year to 16 years. Construction equipment leases generally have "month-to-month" lease terms that automatically renew as long as the equipment remains in use.

The components of lease expense in the Condensed Consolidated Statements of Income are as follows:

Lease expense	Location of Expense in Statements of Income	Three Months Ended		Six Months Ended	
		December 31, 2019		December 31, 2019	
(in thousands)					
Operating lease expense	Cost of revenues and selling, general and administrative expenses	\$ 3,256	\$ 6,372		
Short-term lease expense ⁽¹⁾	Cost of revenues	11,007	20,615		
Total lease expense		\$ 14,263	\$ 26,987		

(1) Primarily represents the lease expense of construction equipment that is subject to month-to-month rental agreements with expected rental durations of less than one year.

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

The future undiscounted lease payments, as reconciled to the discounted operating lease liabilities presented in the Company's Condensed Consolidated Balance Sheets, were as follows:

	December 31, 2019
	(in thousands)
Maturity Analysis:	
Remainder of Fiscal 2020	\$ 5,761
Fiscal 2021	8,503
Fiscal 2022	6,164
Fiscal 2023	4,559
Fiscal 2024	2,968
Thereafter	11,866
Total future operating lease payments	39,821
Less: imputed interest	(6,447)
Net present value of future lease payments	33,374
Less: current portion of operating lease liabilities	9,425
Non-current operating lease liabilities	\$ 23,949

The following is a summary of the weighted average remaining operating lease term and weighted average discount rate as of December 31, 2019:

Weighted-average remaining lease term (in years)	6
Weighted-average discount rate	5.6%

Supplemental cash flow information related to leases is as follows:

	Six Months Ended
	December 31, 2019
	(in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 6,788
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	\$ 39,338

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

Note 4 – Intangible Assets Including Goodwill

Goodwill

The changes in the carrying value of goodwill by segment are as follows:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Net balance at June 30, 2019	\$ 24,830	\$ 30,829	\$ 16,736	\$ 20,973	\$ 93,368
Goodwill impairment	(24,900)	—	—	(7,981)	(32,881)
Translation adjustment ⁽¹⁾	70	—	(17)	(36)	17
Net balance at December 31, 2019	\$ —	\$ 30,829	\$ 16,719	\$ 12,956	\$ 60,504

(1) The translation adjustments relate to the periodic translation of Canadian Dollar and South Korean Won denominated goodwill recorded as a part of prior acquisitions in Canada and South Korea, in which the local currency was determined to be the functional currency.

The Company tests its goodwill for impairment annually in May. Except for the impairments discussed below, the Company concluded that no other impairment indicators existed as of December 31, 2019. However, if our market view of project opportunities or gross margins deteriorates, then additional interim goodwill impairment tests will be performed, which could result in the recognition of additional impairments to goodwill.

In the second quarter, the Company concluded that a goodwill impairment indicator existed in the Electrical Infrastructure segment based on the recent history of depressed gross margins and the second quarter's downward acceleration of revenue and gross margin. Accordingly, the Company performed an interim impairment test as of December 31, 2019, reflecting updated revenue and gross margin assumptions, and concluded that the reporting unit's \$24.9 million of goodwill was fully impaired.

Additionally, in December 2019, the Company concluded that a goodwill impairment indicator existed for an Industrial segment reporting unit based on several second quarter events. These events included the deterioration of the relationship with a significant customer in the iron and steel industry in the second quarter. As a result, the customer canceled other previously awarded work and the Company is expecting little to no business from this customer in the foreseeable future. Accordingly, the Company performed an interim impairment test as of December 31, 2019 and concluded that the reporting unit's \$8.0 million of goodwill was fully impaired. The remaining goodwill in the Industrial segment is related to a separate reporting unit that serves a broader customer base beyond iron and steel.

The estimated fair value of each reporting unit was derived by utilizing a discounted cash flow analysis. The key assumptions used are described in Part II, Item 8. Financial Statements and Supplementary Data, Note 1 - Summary of Significant Accounting Policies, Goodwill in our fiscal 2019 Annual Report on Form 10-K.

Other Intangible Assets

In connection with the factors disclosed for the Industrial segment goodwill impairment above, the Company fully impaired a customer relationship with a net book value of \$5.6 million and a remaining useful life of 9 years. This intangible asset had a gross carrying amount of \$9.4 million and accumulated amortization of \$3.8 million. The impairment is included within the goodwill and other intangible asset impairment caption in the condensed consolidated statements of income.

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

Information on the carrying value of other intangible assets is as follows:

	Useful Life (Years)	At December 31, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Intellectual property	10 to 15	\$ 2,579	\$ (1,867)	\$ 712
Customer-based	6 to 15	29,180	(17,939)	11,241
Non-compete agreements	4	1,453	(1,451)	2
Total amortizing intangible assets		\$ 33,212	\$ (21,257)	\$ 11,955

	Useful Life (Years)	At June 30, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Intellectual property	10 to 15	\$ 2,579	\$ (1,779)	\$ 800
Customer-based	6 to 15	38,572	(19,915)	18,657
Non-compete agreements	4	1,453	(1,438)	15
Total amortizing intangible assets		\$ 42,604	\$ (23,132)	\$ 19,472

Amortization expense totaled \$0.9 million and \$1.9 million during the three and six months ended December 31, 2019 and \$0.8 million and \$1.7 million for the three and six months ended December 31, 2018, respectively.

We estimate that the remaining amortization expense related to December 31, 2019 amortizing intangible assets will be as follows (in thousands):

Period ending:	
Remainder of Fiscal 2020	\$ 1,567
Fiscal 2021	3,125
Fiscal 2022	2,272
Fiscal 2023	1,819
Fiscal 2024	1,506
Fiscal 2025	1,111
Thereafter	555
Total estimated remaining amortization expense at December 31, 2019	\$ 11,955

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

Note 5 – Debt

On February 8, 2017, the Company entered into the Fourth Amended and Restated Credit Agreement (the "Credit Agreement"), by and among the Company and certain foreign subsidiaries, as Borrowers, various subsidiaries of the Company, as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, Sole Lead Arranger and Sole Bookrunner, and the other Lenders party thereto.

The Credit Agreement provides for a five-year senior secured revolving credit facility of \$300.0 million that expires February 8, 2022. The credit facility may be used for working capital, acquisitions, capital expenditures, issuances of letters of credit and other lawful purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

- Our Leverage Ratio, determined as of the end of each fiscal quarter, may not exceed 3.00 to 1.00.
- We are required to maintain a Fixed Charge Coverage Ratio, determined as of the end of each fiscal quarter, greater than or equal to 1.25 to 1.00.
- Asset dispositions (other than dispositions in which all of the net cash proceeds therefrom are reinvested into the Company and dispositions of inventory and obsolete or unneeded equipment in the ordinary course of business) are limited to \$20.0 million per 12-month period.

The credit facility includes a U.S. Dollar equivalent sublimit of \$75.0 million for revolving loans denominated in Australian Dollars, Canadian Dollars, Euros and Pounds Sterling and letters of credit in Australian Dollars, Euros, and Pounds Sterling. The credit facility also includes a \$200.0 million sublimit for total letters of credit.

Each revolving borrowing under the Credit Agreement will bear interest at a rate per annum equal to:

- The ABR or the Adjusted LIBO Rate, in the case of revolving loans denominated in U.S. Dollars;
- The Canadian Prime Rate or the CDOR rate, in the case of revolving loans denominated in Canadian Dollars;
- The Adjusted LIBO Rate, in the case of revolving loans denominated in Pounds Sterling or Australian Dollars;
or
- The EURIBO Rate, in the case of revolving loans denominated in Euros,

in each case, plus the Applicable Margin, which is based on the Company's Leverage Ratio. The Applicable Margin on ABR loans ranges between 0.625% and 1.625%. The Applicable Margin for Adjusted LIBO, EURIBO and CDOR loans ranges between 1.625% and 2.625% and the Applicable Margin for Canadian Prime Rate loans ranges between 2.125% and 3.125%.

The unused credit facility fee is between 0.25% and 0.45% based on the Leverage Ratio.

The Credit Agreement includes a Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, or "Covenant EBITDA," over the previous four quarters. For the four quarters ended December 31, 2019, Covenant EBITDA was \$78.2 million. Consolidated Funded Indebtedness at December 31, 2019 was \$68.5 million.

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

Availability under the senior secured revolving credit facility at December 31, 2019 was as follows:

	December 31, 2019	June 30, 2019
	(In thousands)	
Senior secured revolving credit facility	\$ 300,000	\$ 300,000
Capacity constraint due to the Leverage Ratio	65,544	94,323
Capacity under the credit facility	234,456	205,677
Letters of credit	53,636	48,147
Borrowings outstanding	14,817	5,347
Availability under the senior secured revolving credit facility	\$ 166,003	\$ 152,183

At December 31, 2019, the Company was in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

Note 6 – Income Taxes

Effective Tax Rate

Our effective tax rates for the three and six months ended December 31, 2019 were 10.5% and 2.6%, respectively, compared to 27.4% and 23.7%, respectively, for the same period a year ago. We previously expected our fiscal 2020 effective tax rate to be approximately 27.0%. The effective tax rate in both periods in fiscal 2020 was negatively impacted by a \$2.4 million valuation allowance placed on a deferred tax asset that was created by net operating loss carryforwards and other tax credits in Canada that was triggered by the second quarter cancellation of a Canadian iron and steel project that significantly impacted the fiscal 2020 financial forecast. Additionally, the effective tax rate in both periods in fiscal 2020 was negatively impacted by the non-deductible portion of the goodwill impairments. We expect the effective tax rate to be approximately 28.0% for the remainder of the fiscal year.

The effective tax rate for the three months ended December 31, 2018 was in line with expected statutory rate. The effective tax rate for the sixth months ended December 31, 2018 was positively impacted by \$0.3 million of excess tax benefits related to the vesting of stock-based compensation.

Note 7 – Commitments and Contingencies

Insurance Reserves

The Company maintains insurance coverage for various aspects of its operations. However, exposure to potential losses is retained 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. The Company 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. Matrix maintains a performance and payment bonding line sufficient to support the business. The Company generally requires its subcontractors to indemnify the Company and the Company's customer and name the Company 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 the Company, 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.

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

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 \$9.1 million at December 31, 2019 and \$10.1 million at June 30, 2019. Generally, collection of amounts related to unpriced change orders and claims is expected within twelve months. However, since customers may not pay these amounts until final resolution of related claims, collection of these amounts may extend beyond one year.

Other

The Company and its subsidiaries are participants in various legal actions. It is the opinion of management that none of the known legal actions will have a material impact on the Company's financial position, results of operations or liquidity.

Note 8 – Earnings per Common Share

Basic earnings per share ("Basic EPS") is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share ("Diluted EPS") includes the dilutive effect of stock options and nonvested deferred shares. In the event we report a loss, stock options and nonvested deferred shares are not included since they are anti-dilutive.

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(In thousands, except per share data)			
Basic EPS:				
Net income (loss)	\$ (28,008)	\$ 3,932	\$ (21,857)	\$ 6,237
Weighted average shares outstanding	26,925	27,043	26,930	26,982
Basic earnings (loss) per share	\$ (1.04)	\$ 0.15	\$ (0.81)	\$ 0.23
Diluted EPS:				
Weighted average shares outstanding – basic	26,925	27,043	26,930	26,982
Dilutive stock options	—	27	—	29
Dilutive nonvested deferred shares	—	512	—	617
Diluted weighted average shares	26,925	27,582	26,930	27,628
Diluted earnings (loss) per share	\$ (1.04)	\$ 0.14	\$ (0.81)	\$ 0.23

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(In thousands)			
Stock options	26	—	25	—
Nonvested deferred shares	718	1,543	870	1,458
Total antidilutive securities	744	1,543	895	1,458

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

Note 9 – Segment Information

We operate our business through four reportable segments: Electrical Infrastructure; Oil Gas & Chemical; Storage Solutions; and Industrial.

The Electrical Infrastructure segment consists of power delivery services provided to investor owned utilities, including construction of new substations, upgrades of existing substations, short-run transmission line installations, distribution upgrades and maintenance, as well as emergency and storm restoration services. We also provide construction and maintenance services to a variety of power generation facilities, such as combined cycle plants and other natural gas fired power stations.

The Oil Gas & Chemical segment serves customers primarily in the downstream and midstream petroleum industries who are engaged in refining crude oil and processing, fractionating, and marketing of natural gas and natural gas liquids. We also perform work in the petrochemical, upstream petroleum, and sulfur extraction, recovery and processing markets. Our services include plant maintenance, turnarounds, engineering and capital construction. We also offer industrial cleaning services, including hydro-blasting, hydro-excavating, advanced chemical cleaning and vacuum services.

The Storage Solutions segment consists of work related to aboveground storage tanks ("AST") and terminals. Also included in this segment are cryogenic and other specialty storage tanks and terminals including liquefied natural gas, liquid nitrogen/liquid oxygen, liquid petroleum and other specialty vessels such as spheres as well as marine structures and truck and rail loading/offloading facilities. Our services include engineering, fabrication and construction, and maintenance and repair, which includes planned and emergency services for both tanks and full terminals. Finally, we offer AST products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems and floating roof seals.

The Industrial segment consists of work for integrated iron and steel companies, major mining and minerals companies engaged primarily in the extraction of copper, as well as companies in other industries, including aerospace and defense, cement, and agriculture and grain. Our services include engineering, fabrication and construction, and maintenance and repair, which includes planned and emergency services. We also design instrumentation and control systems and offer specialized expertise in the design and construction of bulk material handling systems.

The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies footnote included in the Company's Annual Report on Form 10-K for the year ended June 30, 2019 and in Note 1 of this Quarterly Report on Form 10-Q. Intersegment sales and transfers are recorded at cost; therefore, no intersegment profit or loss is recognized.

Segment assets consist primarily of accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, property, plant and equipment, operating lease right-of-use assets, goodwill and other intangible assets.

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

Results of Operations
(In thousands)

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Gross revenues				
Electrical Infrastructure	\$ 30,030	\$ 58,173	\$ 61,562	\$ 102,874
Oil Gas & Chemical	56,496	87,521	114,282	163,083
Storage Solutions	144,034	126,198	294,786	239,965
Industrial	90,267	70,385	189,554	155,942
Total gross revenues	<u>\$ 320,827</u>	<u>\$ 342,277</u>	<u>\$ 660,184</u>	<u>\$ 661,864</u>
Less: Inter-segment revenues				
Oil Gas & Chemical	\$ 504	\$ 1,234	\$ 760	\$ 1,305
Storage Solutions	1,265	475	1,950	1,480
Industrial	381	—	700	—
Total inter-segment revenues	<u>\$ 2,150</u>	<u>\$ 1,709</u>	<u>\$ 3,410</u>	<u>\$ 2,785</u>
Consolidated revenues				
Electrical Infrastructure	\$ 30,030	\$ 58,173	\$ 61,562	\$ 102,874
Oil Gas & Chemical	55,992	86,287	113,522	161,778
Storage Solutions	142,769	125,723	292,836	238,485
Industrial	89,886	70,385	188,854	155,942
Total consolidated revenues	<u>\$ 318,677</u>	<u>\$ 340,568</u>	<u>\$ 656,774</u>	<u>\$ 659,079</u>
Gross profit (loss)				
Electrical Infrastructure	\$ (2,880)	\$ 3,562	\$ (2,776)	\$ 6,945
Oil Gas & Chemical	4,197	9,157	7,832	14,782
Storage Solutions	19,775	11,147	40,830	20,700
Industrial	8,909	4,020	16,580	8,880
Total gross profit	<u>\$ 30,001</u>	<u>\$ 27,886</u>	<u>\$ 62,466</u>	<u>\$ 51,307</u>
Goodwill and other intangible asset impairment				
Electrical Infrastructure	\$ 24,900	\$ —	\$ 24,900	\$ —
Oil Gas & Chemical	—	—	—	—
Storage Solutions	—	—	—	—
Industrial	13,615	—	13,615	—
Total goodwill and other intangible asset impairment	<u>\$ 38,515</u>	<u>\$ —</u>	<u>\$ 38,515</u>	<u>\$ —</u>
Operating income (loss)				
Electrical Infrastructure	\$ (29,663)	\$ 438	\$ (31,507)	\$ 1,095
Oil Gas & Chemical	(1,272)	3,585	(3,045)	4,099
Storage Solutions	8,899	1,356	18,351	1,641
Industrial	(9,643)	148	(6,704)	912
Total operating income (loss)	<u>\$ (31,679)</u>	<u>\$ 5,527</u>	<u>\$ (22,905)</u>	<u>\$ 7,747</u>

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

Total assets by segment were as follows:

	December 31, 2019	June 30, 2019
Electrical Infrastructure	\$ 108,929	\$ 155,880
Oil Gas & Chemical	82,216	91,959
Storage Solutions	206,224	188,912
Industrial	43,539	90,336
Unallocated assets	150,980	106,307
Total segment assets	<u>\$ 591,888</u>	<u>\$ 633,394</u>

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

CRITICAL ACCOUNTING POLICIES

Except for the new accounting policy for leases described below, there have been no material changes in our critical accounting policies from those reported in our fiscal 2019 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 2019 Annual Report on Form 10-K. The following section provides certain information with respect to our critical accounting policies as of the close of our most recent quarterly period.

Revenue Recognition

General Information about our Contracts with Customers

Our revenues come from contracts to provide engineering, procurement, fabrication and construction, repair and maintenance and other services. Our engineering, procurement and fabrication and construction services are usually provided in association with capital projects, which commonly are fixed price contracts and are billed based on project milestones. Our repair and maintenance services typically are cost reimbursable or time and material based contracts and are billed monthly or, for projects of short duration, at the conclusion of the project. The elapsed time from award to completion of performance may be in excess of one year for capital projects.

Step 1: Contract Identification

We do not recognize revenue unless we have identified a contract with a customer. A contract with a customer exists when it has approval and commitment from both parties, the rights and obligations of the parties are identified, payment terms are identified, the contract has commercial substance, and collectibility is probable. We also evaluate whether a contract should be combined with other contracts and accounted for as one single contract. This evaluation requires judgment and could change the timing of the amount of revenue and profit recorded for a given period.

Step 2: Identify Performance Obligations

Next, we identify each performance obligation in the contract. A performance obligation is a promise to provide a distinct good or service or a series of distinct goods or services to the customer. Revenue is recognized separately for each performance obligation in the contract. Many of our contracts have one clearly identifiable performance obligation. However, many of our contracts provide the customer an integrated service that includes two or more of the following services: engineering, procurement, fabrication, construction, repair and maintenance services. For these contracts, we do not consider the integrated services to be distinct within the context of the contract when the separate scopes of work combine into a single commercial objective or capability for the customer. Accordingly, we generally identify one performance obligation in our contracts. The determination of the number of performance obligations in a contract requires significant judgment and could change the timing of the amount of revenue recorded for a given period.

Step 3: Determine Contract Price

After determining the performance obligations in the contract, we determine the contract price. The contract price is the amount of consideration we expect to receive from the customer for completing the performance obligation(s). In a fixed price contract, the contract price is a single lump-sum amount. In reimbursable and time and materials based contracts, the contract price is determined by the agreed upon rates or reimbursements for time and materials expended in completing the performance obligation(s) in the contract.

A number of our contracts contain various cost and performance incentives and penalties that can either increase or decrease the contract price. These variable consideration amounts are generally earned or incurred based on certain performance metrics, most commonly related to project schedule or cost targets. We estimate variable consideration at the most likely amount of additional consideration to be received (or paid in the case of penalties), provided that meeting the variable condition is probable. We include estimated amounts of variable consideration in the contract price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the contract price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us. We reassess the amount of variable consideration each accounting period until the uncertainty associated with the variable consideration is resolved. Changes in the assessed amount of variable consideration are accounted for prospectively as a cumulative adjustment to revenue recognized in the current period.

[Table of Contents](#)

Step 4: Assign Contract Price to Performance Obligations

After determining the contract price, we assign such price to the performance obligation(s) in the contract. If a contract has multiple performance obligations, we assign the contract price to each performance obligation based on the stand-alone selling prices of the distinct services that comprise each performance obligation.

Step 5: Recognize Revenue as Performance Obligations are Satisfied

We record revenue for contracts with our customers as we satisfy the contracts' performance obligations. We recognize revenue on performance obligations associated with fixed price contracts for engineering, procurement and construction services over time since these services create or enhance assets the customer controls as they are being created or enhanced. We measure progress of satisfying these performance obligations by using the percentage-of-completion method, which is based on costs incurred to date compared to the total estimated costs at completion, since it best depicts the transfer of control of assets being created or enhanced to the customer.

We recognize revenue over time for reimbursable and time and material based repair and maintenance contracts since the customer simultaneously receives and consumes the benefit of those services as we perform work under the contract. As a practical expedient allowed under ASC 606, we record revenue for these contracts in the amount to which we have a right to invoice for the services performed provided that we have a right to consideration from the customer in an amount that corresponds directly with the value of the performance completed to date.

Costs incurred may include direct labor, direct materials, subcontractor costs and indirect costs, such as salaries and benefits, supplies and tools, equipment costs and insurance costs. Indirect costs are charged to projects based upon direct costs and overhead allocation rates per dollar of direct costs incurred or direct labor hours worked. Typically, customer contracts will include standard warranties that provide assurance that products and services will function as expected. The Company does not sell separate warranties.

We have numerous contracts that are in various stages of completion which require estimates to determine the forecasted costs at completion. Due to the nature of the work left to be performed on many of our contracts, the estimation of total cost at completion for fixed price contracts is complex, subject to many variables and requires significant judgment. Estimates of total cost at completion are made each period and changes in these estimates are accounted for prospectively as cumulative adjustments to revenue recognized in the current period. If estimates of costs to complete fixed price contracts indicate a loss, a provision is made through a contract write-down for the total loss anticipated.

Change Orders

Contracts are often modified through change orders, which are changes to the agreed upon scope of work. Most of our change orders, which may be priced or unpriced, are for goods or services that are not distinct from the existing contract due to the significant integration of services provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a change order on the contract price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue on a cumulative catch-up basis. For unpriced change orders, we estimate the increase or decrease to the contract price using the variable consideration method described in the Step 3: Determine Contract Price paragraph above. Unpriced change orders are more fully discussed in Note 7 - Commitments and Contingencies.

Claims

Sometimes we seek claims for amounts in excess of the contract price for delays, errors in specifications and designs, contract terminations, change orders in dispute or other causes of additional costs incurred by us. Recognition of amounts as additional contract price related to claims is appropriate only if there is a legal basis for the claim. The determination of our legal basis for a claim requires significant judgment. We estimate the change to the contract price using the variable consideration method described in the Step 3: Determine Contract Price paragraph above. Claims are more fully discussed in Note 7 - Commitments and Contingencies.

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 \$9.1 million at December 31, 2019 and \$10.1 million at June 30, 2019. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings.

Loss Contingencies

Various legal actions, claims, and other contingencies arise in the normal course of our business. Contingencies are recorded in the consolidated financial statements, or are otherwise disclosed, in accordance with Accounting Standard Codification ("ASC") Topic 450-20, "Loss Contingencies". Specific reserves are provided for loss contingencies to the extent we conclude that a loss is both probable and estimable. We use a case-by-case evaluation of the underlying data and update our evaluation as further information becomes known. We believe that any amounts exceeding our recorded accruals should not materially affect our financial position, results of operations or liquidity. 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.

Legal costs are expensed as incurred.

Goodwill

Goodwill represents the excess of the purchase price of acquisitions over the acquisition date fair value of the net identifiable tangible and intangible assets acquired. In accordance with current accounting guidance, goodwill is not amortized, but is tested at least annually for impairment at the reporting unit level, which is a level below our reportable segments.

We perform our annual impairment test in the fourth quarter of each fiscal year to determine whether an impairment exists and to determine the amount of headroom. We define "headroom" as the percentage difference between the fair value of a reporting unit and its carrying value. The goodwill impairment test involves comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, then goodwill is not impaired. If the fair value of a reporting unit is less than its carrying value, then goodwill is impaired to the extent of the difference, but the impairment may not exceed the balance of goodwill assigned to that reporting unit.

We utilize a discounted cash flow analysis, referred to as an income approach, and market multiples, referred to as a market approach, to determine the estimated fair value of our reporting units. For the income approach, significant judgments and assumptions including forecasted project awards, discount rate, anticipated revenue growth rate, gross margins, operating expenses, working capital needs and capital expenditures are inherent in the fair value estimates, which are based on our operating and capital budgets and on our strategic plan. As a result, actual results may differ from the estimates utilized in our income approach. For the market approach, significant judgments and assumptions include the selection of guideline companies, forecasted guideline company EBITDA and our forecasted EBITDA. The use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and could result in the recognition of additional impairment charges in the financial statements. As a test for reasonableness, we also consider the combined carrying values of our reporting units to our market capitalization.

In the second quarter, the Company concluded that a goodwill impairment indicator existed in the Electrical Infrastructure segment based on the recent history of depressed gross margins and the second quarter's downward acceleration of revenue and gross margin. Accordingly, the Company performed an interim impairment test as of December 31, 2019, reflecting updated revenue and gross margin assumptions, and concluded that the reporting unit's \$24.9 million of goodwill was fully impaired.

Additionally, in December 2019, the Company concluded that a goodwill impairment indicator existed for an Industrial segment reporting unit based on several second quarter events. These events included the deterioration of the relationship with a significant customer in the iron and steel industry in the second quarter. As a result, the customer canceled other previously awarded work and the Company is expecting little to no business from this customer in the foreseeable future. Accordingly, the Company performed an interim impairment test as of December 31, 2019 and concluded that the reporting unit's \$8.0 million of goodwill was fully impaired. The remaining goodwill in the Industrial segment is related to a separate reporting unit that serves a broader customer base beyond iron and steel.

Except for the impairments previously discussed, the Company did not note any other impairment indicators as of December 31, 2019. However, if our market view of project opportunities or gross margins deteriorates, then additional interim goodwill impairment tests will be performed, which could result in the recognition of additional impairments to goodwill.

Income Taxes

We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances based on our judgments and estimates are established when necessary to reduce deferred tax assets to the amount expected to be realized in future operating results. Company management believes that realization of deferred tax assets in excess of the valuation allowance is more likely than not. Our estimates are based on facts and circumstances in existence as well as interpretations of existing tax regulations and laws applied to the facts and circumstances, with the help of professional tax advisors. Therefore, we estimate and provide for amounts of additional income taxes that may be assessed by the various taxing authorities.

Leases

The Company enters into lease arrangements for real estate, construction equipment and information technology equipment in the normal course of business. The Company determines if an arrangement is or contains a lease at inception of the arrangement. An arrangement is determined to be a lease if it conveys the right to control the use of identified property and equipment for a period of time in exchange for consideration. Operating lease right-of-use assets are recognized as the present value of future lease payments over the lease term as of the commencement date, plus any lease payments made prior to commencement, and less any lease incentives received. Operating lease liabilities are recognized as the present value of the future lease payments over the lease term as of the commencement date. Operating lease expense is recognized based on the undiscounted future lease payments over the remaining lease term on a straight-line basis. Lease expense related to short-term leases is recognized on a straight-line basis over the lease term.

Determinations with respect to lease term (including any renewals and terminations), incremental borrowing rate used to discount lease payments, variable lease expense and future lease payments require the use of judgment based on the facts and circumstances related to each lease. The Company considers various factors, including economic incentives, intent, past history and business need, to determine the likelihood that a renewal option will be exercised.

Recently Issued Accounting Standards

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

On June 16, 2016, the FASB issued ASU 2016-13, which will change how the Company accounts for its allowance for uncollectible accounts. The amendments in this update require a financial asset (or a group of financial assets) to be presented at the net amount expected to be collected. The income statement will reflect any increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.

Current GAAP delays the recognition of the full amount of credit losses until the loss is probable of occurring. The amendments in this update eliminate the probable initial recognition threshold and, instead, reflect the Company's current estimate of all expected credit losses. In addition, current guidance limits the information the Company may consider in measuring a credit loss to its past events and current conditions.

The amendments in this update broaden the information the Company may consider in developing its expected credit loss estimate to include forecasted information. The amendments in this update are effective for the Company on July 1, 2020. The Company must apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the Company does not expect this update to have a material impact to its estimate of the allowance for uncollectible accounts.

RESULTS OF OPERATIONS

Overview

We operate our business through four reportable segments: Electrical Infrastructure; Oil Gas & Chemical; Storage Solutions; and Industrial.

The Electrical Infrastructure segment consists of power delivery services provided to investor owned utilities, including construction of new substations, upgrades of existing substations, short-run transmission line installations, distribution upgrades and maintenance, as well as emergency and storm restoration services. We also provide construction and maintenance services to a variety of power generation facilities, such as combined cycle plants and other natural gas fired power stations.

The Oil Gas & Chemical segment serves customers primarily in the downstream and midstream petroleum industries who are engaged in refining crude oil and processing, fractionating, and marketing of natural gas and natural gas liquids. We also perform work in the petrochemical, upstream petroleum, and sulfur extraction, recovery and processing markets. Our services include plant maintenance, turnarounds, engineering and capital construction. We also offer industrial cleaning services, including hydro-blasting, hydro-excavating, advanced chemical cleaning and vacuum services.

The Storage Solutions segment consists of work related to aboveground storage tanks ("AST") and terminals. Also included in this segment are cryogenic and other specialty storage tanks and terminals including liquefied natural gas, liquid nitrogen/liquid oxygen, liquid petroleum and other specialty vessels such as spheres as well as marine structures and truck and rail loading/offloading facilities. Our services include engineering, fabrication and construction, and maintenance and repair, which includes planned and emergency services for both tanks and full terminals. Finally, we offer AST products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems and floating roof seals.

The Industrial segment consists of work for integrated iron and steel companies, major mining and minerals companies engaged primarily in the extraction of copper, as well as companies in other industries, including aerospace and defense, cement, and agriculture and grain. Our services include engineering, fabrication and construction, and maintenance and repair, which includes planned and emergency services. We also design instrumentation and control systems and offer specialized expertise in the design and construction of bulk material handling systems.

Business Update

Summary

During the second quarter of fiscal 2020, the Company recorded \$38.5 million of impairments to goodwill and other intangible assets and a \$2.4 million valuation allowance on a deferred tax asset that significantly impacted the provision for income taxes. The events and circumstances that led to these charges as well as an update to each of our segments' business is provided in the sections below. The following table presents our net income and earnings per fully diluted share after adjusting for these one-time non-cash items:

Reconciliation of Adjusted Net Income (Loss) and Diluted Earnings (Loss) per Common Share⁽¹⁾
(In thousands, except per share data)

	Amount of Charge	Income Tax Effect of Charge	Three Months Ended December 31, 2019		Six Months Ended December 31, 2019	
			Net Income (Loss)	Earnings (Loss) Per Diluted Share	Net Income (Loss)	Earnings (Loss) Per Diluted Share
Net loss and diluted loss per common share, as reported			\$ (28,008)	\$ (1.04)	\$ (21,857)	\$ (0.81)
Electrical Infrastructure segment goodwill impairment	\$ 24,900	\$ (4,889)	20,011	0.74	20,011	0.74
Industrial segment goodwill and other intangible asset impairment	13,615	(2,803)	10,812	0.40	10,812	0.39
Valuation allowance placed on a deferred tax asset	2,417	—	2,417	0.09	2,417	0.09
Adjusted net income and diluted earnings per common share			<u>\$ 5,232</u>	<u>\$ 0.19</u>	<u>\$ 11,383</u>	<u>\$ 0.41</u>
Weighted average common shares outstanding - diluted:						
As reported				26,925		26,930
Previously anti-dilutive common shares				394		563
Adjusted weighted average common shares outstanding - diluted				<u>27,319</u>		<u>27,493</u>

(1) This table presents non-GAAP financial measures of our adjusted net income and adjusted diluted earnings per common share for the three and six months ended December 31, 2019. The most directly comparable financial measures are net income (loss) and diluted earnings (loss) per common share, respectively, presented in the Condensed Consolidated Statements of Income. We have presented these financial measures because we believe they more clearly depict the core operating results of the Company during the periods presented and provide a more comparable measure of the Company's operating results to other companies considered to be in similar businesses. Since adjusted net income and adjusted diluted earnings per common share are not measures of performance calculated in accordance with GAAP, they should be considered in addition to, rather than as a substitute for, the most directly comparable GAAP financial measures.

Three Months Ended December 31, 2019 Compared to the Three Months Ended December 31, 2018

Consolidated

Consolidated revenue was \$318.7 million for the three months ended December 31, 2019, compared to \$340.6 million in the same period in the prior fiscal year. On a segment basis, revenue decreased for the Oil Gas & Chemical and Electrical Infrastructure segments by \$30.3 million and \$28.1 million, respectively. These decreases were partially offset by increases in the Industrial and Storage Solutions segments of \$19.5 million and \$17.0 million, respectively.

Consolidated gross profit increased to \$30.0 million in the three months ended December 31, 2019 compared to \$27.9 million in the same period in the prior fiscal year. Gross margin increased to 9.4% in the three months ended December 31, 2019 compared to 8.2% in the same period in the prior fiscal year. Fiscal 2020 gross margin was positively impacted by strong project execution in the Storage Solutions and Industrial segments. Gross margin in the Electrical Infrastructure segment was negatively impacted by poor execution, which included a charge on a transmission and distribution upgrade project. Gross margin in the Oil Gas & Chemical segment was negatively impacted by lower volumes, which led to the under recovery of construction overhead costs.

Consolidated SG&A expenses were \$23.2 million in the three months ended December 31, 2019 compared to \$22.4 million in the same period a year earlier.

The Company recorded non-cash goodwill and other intangible asset impairments of \$38.5 million during the three months ended December 31, 2019. See Item 1. Financial Statements, Note 4 - Intangible Assets Including Goodwill for more information about the impairments.

Interest expense was \$0.4 million in the three months ended December 31, 2019 compared to the same amount in the same period a year ago. Interest expense was the same as the prior fiscal year despite having a higher average debt balance in the current year because of lower interest rates in the current year. Interest income was \$0.4 million in the three months ended December 31, 2019 compared to \$0.3 million in the same period a year ago due to an increase in our average cash balance.

Our effective tax rate for the three months ended December 31, 2019 was 10.5%, compared to 27.4% for the same period a year ago. We previously expected our fiscal 2020 effective tax rate to be approximately 27.0%. The effective tax rate in fiscal 2020 was negatively impacted by a \$2.4 million valuation allowance placed on a deferred tax asset that was created by net operating loss carryforwards and other tax credits in Canada. The charge was the result of the second quarter cancellation of a Canadian iron and steel project that significantly impacted the fiscal 2020 financial forecast. Additionally, the effective tax rate in fiscal 2020 was negatively impacted by the non-deductible portion of the goodwill impairments. We expect the effective tax rate to be approximately 28.0% for the remainder of the fiscal year. The fiscal 2019 effective tax rate was in line with our expected effective tax rate.

For the three months ended December 31, 2019, we had a net loss was \$28.0 million, or \$1.04 per fully diluted share, compared to net income of \$3.9 million, or \$0.14 per fully diluted share, in the three months ended December 31, 2018.

Electrical Infrastructure

Revenue for the Electrical Infrastructure was \$30.0 million in the three months ended December 31, 2019 compared to \$58.2 million in the same period a year earlier. The decrease is primarily due to lower volumes of power delivery and power generation package work. The segment gross margin (loss) was (9.6)% in fiscal 2020 and 6.1% in fiscal 2019. The fiscal 2020 segment gross loss was negatively impacted by poor execution, which included a charge on a transmission and distribution upgrade project. Fiscal 2019 segment gross margin was negatively impacted by lower than previously forecasted margins on a limited number of projects.

The Company recorded a goodwill impairment of \$24.9 million in this segment in the second quarter of 2020. The impairment of the goodwill was due to the financial performance of portions of the power delivery business that led to the recent history of depressed gross margins, which accelerated during the second quarter. The Company is implementing significant changes to the operations and management of the business, including changes to leadership, modifications to operational processes, changes to mid-level operational personnel, and increased business development resources. The Company believes that these changes will result in revenue growth and margin improvement although the timing of financial improvement is dependent upon the effectiveness and execution of the improvement plan, the markets we serve, the spending volumes of our existing clients and other external factors.

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was \$56.0 million in the three months ended December 31, 2019 compared to \$86.3 million in the same period a year earlier. The decrease of \$30.3 million is primarily due to lower volumes of turnaround work. The segment gross margin was 7.5% for the three months ended December 31, 2019 compared to 10.6% in the same period last year. The fiscal 2020 segment gross margin was negatively impacted by lower volumes, which led to the under recovery of construction overhead costs.

The outlook for this segment's revenue and margin is expected to improve in the second half of the fiscal year, with increased levels of capital work in new and retrofit process infrastructure as well as engineering led projects in the mid-stream natural gas industry.

Storage Solutions

Revenue for the Storage Solutions segment was \$142.8 million in the three months ended December 31, 2019 compared to \$125.7 million in the same period a year earlier. The increase in segment revenue is primarily a result of increased tank and terminal construction work and higher levels of capital work in Canada. The segment gross margin was 13.9% in the three months ended December 31, 2019 compared to 8.9% in the three months ended December 31, 2018. The fiscal 2020 segment gross margin was positively impacted by strong project execution on large capital projects. The fiscal 2019 segment gross margins were negatively impacted by the wind down of lower margin work awarded in a highly competitive environment in prior periods.

[Table of Contents](#)

Subsequent to the end of the quarter the Company announced that it has been selected by Eagle LNG Partners LLC for the engineering, procurement, fabrication and construction of a LNG export facility to be built in Jacksonville, Florida. This project, which is expected to commence in 2020 is not reflected in the Company's backlog as of December 31, 2019. The opportunity pipeline remains strong for crude, LNG and NGL storage and export terminal construction along the Gulf Coast. Additionally, the Company is seeing increased opportunities in the Upper Midwest and Mid-Atlantic regions of the United States and in Canada.

Industrial

Revenue for the Industrial segment increased \$19.5 million to \$89.9 million in the three months ended December 31, 2019 compared to \$70.4 million in the same period a year earlier. The increase in revenue is primarily attributable to higher volumes of iron and steel work, including spending on a capital project on which we received mechanical completion and demobilized in the second quarter. The segment gross margin was 9.9% in the three months ended December 31, 2019 compared to 5.7% in the same period a year earlier. The fiscal 2020 segment gross margin was positively impacted by good project execution on both capital and repair and maintenance projects. The fiscal 2019 segment gross margin was negatively impacted by a lower than previously forecasted margin on a thermal vacuum chamber project.

The Company recorded goodwill and other intangible asset impairments of \$13.6 million in the segment in the second quarter of fiscal 2020. The impairments were due to a significant deterioration in the outlook of the segment based on the following:

- general economic and trade issues impacting the spending of the nation's integrated iron and steel producers;
- deterioration of the relationship with a key iron and steel customer that, directly and through a joint venture, represents almost 70% of the current year Industrial segment revenue; and
- the issues noted above resulted in the cancellation of previously awarded projects in the U.S. and Canada.

The Company has decided that it will reduce its focus on the iron and steel industry due to various factors, including those noted above as well as the low margin profile of the business, high working capital requirements and its cyclical nature. Accordingly, the Company expects a significant reduction in business volumes for this segment in the second half of the fiscal year. The Company is currently assessing alternatives regarding the disposition of the remainder of the business.

Six Months Ended December 31, 2019 Compared to the Six Months Ended December 31, 2018

Consolidated

Consolidated revenue was \$656.8 million for the six months ended December 31, 2019, compared to \$659.1 million in the same period in the prior fiscal year. On a segment basis, revenue decreased in the Oil Gas & Chemical and Electrical Infrastructure segments by \$48.3 million and \$41.3 million, respectively. These decreases were partially offset by increases in the Storage Solutions and Industrial segments of \$54.4 million and \$32.9 million, respectively.

Consolidated gross profit increased to \$62.5 million in the six months ended December 31, 2019 compared to \$51.3 million in the same period in the prior fiscal year. Gross margin increased to 9.5% in the six months ended December 31, 2019 compared to 7.8% in the same period in the prior fiscal year. Fiscal 2020 gross margin was positively impacted by strong project execution in the Storage Solutions and Industrial segments. Gross margin in the Electrical Infrastructure segment was negatively impacted by poor execution, which included a charge on a transmission and distribution upgrade project. Gross margin in the Oil Gas & Chemical segment was negatively impacted by lower volumes, which led to the under recovery of construction overhead costs.

Consolidated SG&A expenses were \$46.9 million in the six months ended December 31, 2019 compared to \$43.6 million in the same period a year earlier. The increase was primarily due to investments to support the business and bad debt charges.

The Company recorded non-cash goodwill and other intangible asset impairments of \$38.5 million during the six months ended December 31, 2019. See Item 1. Financial Statements, Note 4 - Intangible Assets Including Goodwill for more information about the impairments.

Interest expense was \$0.8 million in the three months ended December 31, 2019 compared to \$0.7 million in the same period a year ago. The increase was due to a higher average debt balance during the six months ended December 31, 2019, partially offset by lower interest rates in the current year. Interest income was \$0.9 million in the six months ended December 31, 2019 compared to \$0.6 million in the same period a year ago due to an increase in our average cash balance.

[Table of Contents](#)

Our effective tax rate for these six months ended December 31, 2019 was 2.6%, compared to 23.7% for the same period a year ago. We previously expected our fiscal 2020 effective tax rate to be approximately 27.0%. The effective tax rate in fiscal 2020 was negatively impacted by a \$2.4 million valuation allowance placed on a deferred tax asset that was created by net operating loss carryforwards and other tax credits in Canada. The charge was the result of the second quarter cancellation of a Canadian iron and steel project that significantly impacted the fiscal 2020 financial forecast. Additionally, the effective tax rate in fiscal 2020 was negatively impacted by the non-deductible portion of the goodwill impairments. We expect the effective tax rate to be approximately 28.0% for the remainder of the fiscal year. The effective tax rate for the six months ended December 31, 2018 was positively impacted by \$0.3 million of excess tax benefits related to the vesting of stock-based compensation.

For the six months ended December 31, 2019, we had a net loss of \$21.9 million, or \$0.81 per fully diluted share, compared to net income of \$6.2 million, or \$0.23 per fully diluted share in the six months ended December 31, 2018.

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment decreased \$41.3 million to \$61.6 million in the six months ended December 31, 2019 compared to \$102.9 million in the same period a year earlier. The decrease is primarily due to lower volumes of power delivery and power generation package work. The segment gross margin (loss) was (4.5)% in fiscal 2020 and 6.8% in fiscal 2019. The fiscal 2020 segment gross loss was negatively impacted by poor execution, which included a charge on a transmission and distribution upgrade project. Fiscal 2019 segment gross margin was negatively impacted by lower than previously forecasted margins on a limited number of projects.

See the three months ended December 31, 2019 Electrical Infrastructure discussion above for information about the segment outlook.

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was \$113.5 million in the six months ended December 31, 2019 compared to \$161.8 million in the same period a year earlier. The decrease of \$48.3 million is primarily due to lower volumes of turnaround work. The segment gross margin was 6.9% for the six months ended December 31, 2019 compared to 9.1% in the same period last year. The fiscal 2020 segment gross margin was negatively impacted by a lower than previously expected margin on a capital project due to purchased equipment that was found to be under performing during start-up and commissioning. In addition, lower volumes led to the under recovery of construction overhead costs.

See the three months ended December 31, 2019 Oil Gas & Chemical discussion above for information about the segment outlook.

Storage Solutions

Revenue for the Storage Solutions segment was \$292.8 million in the six months ended December 31, 2019 compared to \$238.5 million in the same period a year earlier. The increase in segment revenue is primarily a result of increased tank and terminal construction work and higher levels of capital work in Canada. The segment gross margin was 13.9% in the six months ended December 31, 2019 and 8.7% in the six months ended December 31, 2018. The fiscal 2020 segment gross margin was positively impacted by strong project execution on large capital projects. The fiscal 2019 segment gross margin was negatively impacted by the completion of projects awarded at lower margins and lower than previously forecasted margins on a limited number of projects.

See the three months ended December 31, 2019 Storage Solutions discussion above for information about the segment outlook.

Industrial

Revenue for the Industrial segment was \$188.9 million in the six months ended December 31, 2019 compared to \$155.9 million in the same period a year earlier. The increase in revenue is primarily attributable to higher volumes of iron and steel capital work, including spending on a capital project on which we received mechanical completion and demobilized in the second quarter. This increase was partially offset by reduced volumes of iron and steel maintenance spending and lower volumes of thermal vacuum chamber work. The segment gross margin was 8.8% in the six months ended December 31, 2019 compared to 5.7% in the same period a year earlier. The fiscal 2020 segment gross margin was positively impacted by good project execution on both capital and repair and maintenance projects. The fiscal 2019 segment gross margin was negatively impacted by a lower than previously forecasted margin on a thermal vacuum chamber project.

See the three months ended December 31, 2019 Industrial discussion above for information about the segment outlook.

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 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 limited notice to proceed, we include the entire scope of work in our backlog if we conclude that the likelihood of the full project proceeding is high. For all other arrangements, we calculate backlog as the estimated contract amount less revenues recognized as of the reporting date.

The following table provides a summary of changes in our backlog for the three months ended December 31, 2019:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of September 30, 2019	\$ 72,663	\$ 168,193	\$ 634,695	\$ 206,389	\$ 1,081,940
Project awards	12,796	44,449	111,678	28,359	197,282
Project cancellations ⁽¹⁾	—	—	—	(88,310)	(88,310)
Revenue recognized	(30,030)	(55,992)	(142,769)	(89,886)	(318,677)
Backlog as of December 31, 2019	<u>\$ 55,429</u>	<u>\$ 156,650</u>	<u>\$ 603,604</u>	<u>\$ 56,552</u>	<u>\$ 872,235</u>
Book-to-bill ratio ⁽²⁾	0.4	0.8	0.8	0.3	0.6

(1) Primarily related to the deterioration of our relationship with a key customer in the iron and steel industry and the subsequent cancellations of work and the cancellation of a coke battery project in Canada. See Business Update section included in this Results of Operations for additional information.

(2) Calculated by dividing project awards by revenue recognized during the period.

[Table of Contents](#)

The following table provides a summary of changes in our backlog for the six months ended December 31, 2019:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of June 30, 2019	\$ 73,883	\$ 134,563	\$ 641,295	\$ 248,608	\$ 1,098,349
Project awards	43,108	135,609	255,145	85,108	518,970
Project cancellations ⁽¹⁾	—	—	—	(88,310)	(88,310)
Revenue recognized	(61,562)	(113,522)	(292,836)	(188,854)	(656,774)
Backlog as of December 31, 2019	<u>\$ 55,429</u>	<u>\$ 156,650</u>	<u>\$ 603,604</u>	<u>\$ 56,552</u>	<u>\$ 872,235</u>
Book-to-bill ratio ⁽²⁾	0.7	1.2	0.9	0.5	0.8

(1) Primarily related to the deterioration of our relationship with a key customer in the iron and steel industry and the subsequent cancellations of work and the cancellation of a coke battery project in Canada. See Business Update section included in this Results of Operations for additional information.

(2) Calculated by dividing project awards by revenue recognized during the period.

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. The level of awards presented above only represents an interim period and may not be indicative of full year awards.

Seasonality and Other Factors

Our operating results can exhibit seasonal fluctuations, especially in our Oil Gas & Chemical segment, for a variety of reasons. Turnarounds and planned outages at customer facilities are typically scheduled in the spring and the fall when the demand for energy is lower. Within the Electrical Infrastructure segment, transmission and distribution work is generally scheduled by the public utilities when the demand for electricity is at its lowest. Therefore, revenue volume in the summer months is typically lower than in other periods throughout the year.

Our business can also be affected, both positively and negatively, by seasonal factors such as energy demand or weather conditions including hurricanes, snowstorms, and abnormally low or high temperatures. Some of these seasonal factors may cause some of our offices and projects to close or reduce activities temporarily. In addition to the above noted factors, the general timing of project starts and completions could exhibit significant fluctuations. Accordingly, results for any interim period may not necessarily be indicative of operating results for the full year.

Other factors impacting operating results in all segments come from decreased work volumes during holidays, work site permitting delays or customers accelerating or postponing work. The differing types, sizes, and durations of our contracts, combined with their geographic diversity and stages of completion, often results in fluctuations in the Company's operating results.

Non-GAAP Financial Measure

Adjusted EBITDA

We have presented Adjusted EBITDA, which we define as net income (loss) before impairment of goodwill and other intangible assets, interest expense, income taxes, depreciation and amortization, because it is used by the financial community as a method of measuring our performance and of evaluating the market value of companies considered to be in similar businesses. We believe that the line item on our Consolidated Statements of Income entitled "Net income (loss)" is the most directly comparable GAAP measure to Adjusted EBITDA. Since Adjusted EBITDA is not a measure of performance calculated in accordance with GAAP, it should not be considered in isolation of, or as a substitute for, net earnings as an indicator of operating performance. Adjusted EBITDA, as we calculate it, may not be comparable to similarly titled measures employed by other companies. In addition, this measure is not a measure of our ability to fund our cash needs. As Adjusted EBITDA excludes certain financial information compared with net income (loss), the most directly comparable GAAP financial measure, users of this financial information should consider the type of events and transactions that are excluded. Our non-GAAP performance measure, Adjusted EBITDA, has certain material limitations as follows:

[Table of Contents](#)

- It does not include impairments to goodwill and other intangible assets. While impairments to intangible assets are non-cash expenses in the period recognized, cash or other consideration was still transferred in exchange for intangible assets in the period of the acquisition. Any measure that excludes impairments to intangible assets has material limitations since these expenses represent the loss of an asset that was acquired in exchange for cash or other assets.
- It does not include interest expense. Because we have borrowed money to finance our operations and acquisitions, pay commitment fees to maintain our credit facility, and incur fees to issue letters of credit under the credit facility, interest expense is a necessary and ongoing part of our costs and has assisted us in generating revenue. Therefore, any measure that excludes interest expense has material limitations.
- It does not include income taxes. Because the payment of income taxes is a necessary and ongoing part of our operations, any measure that excludes income taxes has material limitations.
- It does not include depreciation or amortization expense. Because we use capital and intangible assets to generate revenue, depreciation and amortization expense is a necessary element of our cost structure. Therefore, any measure that excludes depreciation or amortization expense has material limitations.

A reconciliation of Adjusted EBITDA to net income (loss) follows:

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(In thousands)			
Net income (loss)	\$ (28,008)	\$ 3,932	\$ (21,857)	\$ 6,237
Goodwill and other intangible asset impairment	38,515	—	38,515	—
Interest expense	444	361	833	653
Provision (benefit) for income taxes	(3,302)	1,486	(591)	1,937
Depreciation and amortization	4,923	4,583	9,702	9,126
Adjusted EBITDA	<u>\$ 12,572</u>	<u>\$ 10,362</u>	<u>\$ 26,602</u>	<u>\$ 17,953</u>

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 as of December 31, 2019 were cash and cash equivalents on hand, capacity under our senior secured revolving credit facility and cash and cash equivalents generated from operations before consideration of changes in working capital. Cash and cash equivalents on hand at December 31, 2019 totaled \$110.5 million and availability under the senior secured revolving credit facility totaled \$166.0 million resulting in available liquidity of \$276.5 million as of December 31, 2019. The Company's liquidity continues to be adequate to support its short-term needs and long-term strategic growth plans.

The following table provides a summary of changes in our liquidity for the three months ended December 31, 2019 (in thousands):

Liquidity as of September 30, 2019	308,309
Net decrease in cash and cash equivalents	(29,394)
Decrease in credit facility capacity constraint	6,630
Increase in net borrowings on credit facility	(3,157)
Increase in letters of credit outstanding	(5,596)
Foreign currency translation of outstanding borrowings	(294)
Liquidity as of December 31, 2019	<u>276,498</u>

The following table provides a summary of changes in our liquidity for the six months ended December 31, 2019 (in thousands):

Liquidity as of June 30, 2019	\$	241,898
Net increase in cash and cash equivalents		20,780
Decrease in credit facility capacity constraint		28,779
Increase in net borrowings on credit facility		(9,269)
Increase in letters of credit outstanding		(5,489)
Foreign currency translation of outstanding borrowings		(201)
Liquidity as of December 31, 2019	\$	<u>276,498</u>

A detailed discussion of our credit agreement is provided under the caption "Senior Secured Revolving Credit Facility" included in the Liquidity and Capital Resources section of this Form 10-Q.

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 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.
 - Some fixed price customer contracts allow for significant upfront billings at the beginning of a project, which temporarily increases liquidity near term.
 - 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.
 - Some of our large construction projects may require security in the form of letters of credit or significant retentions. The timing of collection of retentions is often uncertain.
- Other changes in working capital.
- Capital expenditures.

[Table of Contents](#)

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

- Acquisitions and disposals of businesses.
- Strategic investments in new operations.
- Purchases of shares under our stock buyback program.
- Contract disputes, which can be significant.
- Collection issues, including those caused by weak commodity prices or other factors which can lead to credit deterioration of our customers.
- Capacity constraints under our senior secured revolving credit facility and remaining in compliance with all covenants contained in the credit agreement.
- Issuances of letters of credit.

Cash Flow for the Six Months Ended December 31, 2019

Cash Flows Provided by Operating Activities

Cash provided by operating activities for the six months ended December 31, 2019 totaled \$38.6 million. The various components are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net loss	\$	(21,857)
Non-cash expenses		16,423
Goodwill and other intangible asset impairment		38,515
Deferred income tax		(2,934)
Cash effect of changes in working capital		8,691
Other		(213)
Net cash provided by operating activities	\$	<u>38,625</u>

Working capital changes at December 31, 2019 in comparison to June 30, 2019 include the following:

- Accounts receivable, net of bad debt expense recognized during the period, decreased \$18.2 million during the six months ended December 31, 2019, which increased 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 \$38.9 million, which increased cash flows from operating activities. The decrease in CIE is primarily attributable to the timing of billings on a specific iron and steel project. Billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") increased \$4.9 million, which increased cash flows from operating activities. CIE and BIE balances can experience significant fluctuations based on the timing of when job costs are incurred and the invoicing of those job costs to the customer.
- Accounts payable and accrued expenses decreased by \$55.7 million during the six months ended December 31, 2019, which decreased cash flows from operating activities. The variance is primarily attributable to lower business volumes, the timing of vendor payments, the timing of incentive payments and other related payroll accruals.

Cash Flows Used by Investing Activities

Investing activities used \$14.1 million of cash in the six months ended December 31, 2019 primarily due to \$14.5 million of capital expenditures, partially offset by \$0.4 million of proceeds from other assets sales. Capital expenditures consisted of: \$5.9 million for transportation equipment, \$4.1 million for construction and fabrication equipment, \$3.5 million for software and office equipment, and \$1.0 million for facilities.

Cash Flows Used by Financing Activities

Financing activities used \$4.0 million of cash in the six months ended December 31, 2019 primarily due to stock repurchases of \$9.9 million and the repurchase of \$3.5 million of Company stock for payment of withholding taxes due on equity-based compensation. These uses of cash were partially offset by net borrowings of \$9.3 million under the Company's Senior Secured Revolving Credit Facility.

Senior Secured Revolving Credit Facility

As noted previously in Note 5 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, on February 8, 2017, the Company entered into the Fourth Amended and Restated Credit Agreement (the "Credit Agreement"), by and among the Company and certain foreign subsidiaries, as Borrowers, various subsidiaries of the Company, as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, Sole Lead Arranger and Sole Bookrunner, and the other Lenders party thereto.

The Credit Agreement provides for a five-year senior secured revolving credit facility of \$300.0 million that expires February 8, 2022. The credit facility may be used for working capital, acquisitions, capital expenditures, issuances of letters of credit and other lawful purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

- Our Leverage Ratio, determined as of the end of each fiscal quarter, may not exceed 3.00 to 1.00.
- We are required to maintain a Fixed Charge Coverage Ratio, determined as of the end of each fiscal quarter, greater than or equal to 1.25 to 1.00.
- Asset dispositions (other than dispositions in which all of the net cash proceeds therefrom are reinvested into the Company and dispositions of inventory and obsolete or unneeded equipment in the ordinary course of business) are limited to \$20.0 million per 12-month period.

The credit facility includes a U.S. Dollar equivalent sublimit of \$75.0 million for revolving loans denominated in Australian Dollars, Canadian Dollars, Euros and Pounds Sterling and letters of credit in Australian Dollars, Euros, and Pounds Sterling. The credit facility also includes a \$200.0 million sublimit for total letters of credit.

Each revolving borrowing under the Credit Agreement will bear interest at a rate per annum equal to:

- The ABR or the Adjusted LIBO Rate, in the case of revolving loans denominated in U.S. Dollars;
- The Canadian Prime Rate or the CDOR rate, in the case of revolving loans denominated in Canadian Dollars;
- The Adjusted LIBO Rate, in the case of revolving loans denominated in Pounds Sterling or Australian Dollars; or
- The EURIBO Rate, in the case of revolving loans denominated in Euros,

in each case, plus the Applicable Margin, which is based on the Company's Leverage Ratio. The Applicable Margin on ABR loans ranges between 0.625% and 1.625%. The Applicable Margin for Adjusted LIBO, EURIBO and CDOR loans ranges between 1.625% and 2.625% and the Applicable Margin for Canadian Prime Rate loans ranges between 2.125% and 3.125%.

The unused credit facility fee is between 0.25% and 0.45% based on the Leverage Ratio.

The Credit Agreement includes a Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, or "Covenant EBITDA," over the previous four quarters. For the four quarters ended December 31, 2019, Covenant EBITDA was \$78.2 million. Consolidated Funded Indebtedness at December 31, 2019 was \$68.5 million.

[Table of Contents](#)

Covenant EBITDA differs from Adjusted EBITDA, as reported under "Results of Operations - Non-GAAP Financial Measure," primarily because it permits the Company to:

- exclude non-cash stock-based compensation expense,
- include pro forma EBITDA of acquired businesses as if the acquisition occurred at the beginning of the previous four quarters, and
- exclude certain other extraordinary items, as defined in the Credit Agreement.

Availability under the senior secured revolving credit facility at December 31, 2019 was as follows:

	December 31, 2019	June 30, 2019
	(In thousands)	
Senior secured revolving credit facility	\$ 300,000	\$ 300,000
Capacity constraint due to the Leverage Ratio	65,544	94,323
Capacity under the credit facility	234,456	205,677
Letters of credit	53,636	48,147
Borrowings outstanding	14,817	5,347
Availability under the senior secured revolving credit facility	\$ 166,003	\$ 152,183

At December 31, 2019, the Company was in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

Dividend Policy

We have never paid cash dividends on our common stock, and the terms of our Credit Agreement limit the amount of cash dividends we can pay. Under our Credit Agreement, we may declare and pay cash dividends on our capital stock during any fiscal year up to an amount which, when added to all other cash dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to date. Any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

Stock Repurchase Program and Treasury Shares

Treasury Shares

On November 6, 2018, the Board of Directors approved a stock buyback program (the "November 2018 Program"), which replaced the previous program that had been in place since December 2016 and was set to expire in December 2018. Under the November 2018 Program, the Company may repurchase common stock up to a maximum of \$30.0 million per calendar year provided that the aggregate number of shares repurchased may not exceed 10%, or approximately 2.7 million, of the Company's shares outstanding as of November 6, 2018. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions and is not obligated to purchase any shares. The November 2018 Program will continue unless and until it is modified or revoked by the Board of Directors. During the second quarter of fiscal 2020, 500,000 shares were repurchased under the November 2018 Program and there were 1,896,643 shares available for repurchase as of December 31, 2019.

The Company had 1,216,103 treasury shares as of December 31, 2019 and intends to utilize these treasury shares in connection with equity awards under the Company's stock incentive plans and for sales to the Employee Stock Purchase Plan.

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.

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

- 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 expectations with respect to the likelihood of a future impairment;
- the impact to our business of changes in crude oil, natural gas and other commodity prices;
- amounts and nature of future revenues and margins from each of our segments;
- trends in the industries we serve;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- expansion and other trends of the industries we serve; and
- our ability to comply with the covenants in our credit agreement.

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:

- the risk factors discussed in our Form 10-K for the fiscal year ended June 30, 2019 and listed from time to time in our filings with the Securities and Exchange Commission;
- economic, market or business conditions in general and in the oil, natural gas, power, iron and steel, agricultural and mining industries in particular;
- the under-utilization of our work force;
- delays in the commencement 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 due to volatility of crude oil, natural gas, steel and other commodity prices to which our customers' businesses are affected;
- the inherently uncertain outcome of current and future litigation;
- the adequacy of our reserves for claims and contingencies;
- changes in laws or regulations, including the imposition or threatened imposition, cancellation or delay of tariffs on imported goods; and
- other factors, many of which are beyond our control.

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 publicly, except as required by law, any such forward-looking statements, whether as a result of new information, future events or otherwise.

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, 2019, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2019 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).

The disclosure controls and procedures are designed to provide reasonable, not absolute, assurance of achieving the desired control objectives. The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all errors or fraud. The design of our internal control system takes into account the fact that there are resource constraints and the benefits of controls must be weighed against the costs. Additionally, controls can be circumvented by the acts of key individuals, collusion or management override.

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 December 31, 2019. 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 December 31, 2019.

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 December 31, 2019.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to a number of legal proceedings. We believe that the nature and number of these proceedings are typical for a company of our size engaged in our type of business and that none of these proceedings will result in a material effect on our business, results of operations, financial condition, cash flows or liquidity.

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, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

The table below sets forth information with respect to purchases made by the Company of its common stock during the second quarter of fiscal year 2020.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (C)
October 1 to October 31, 2019				
Share Repurchase Program (A)	—	\$ —	—	2,396,643
Employee Transactions (B)	—	\$ —	—	—
November 1 to November 30, 2019				
Share Repurchase Program (A)	500,000	\$ 19.83	—	1,896,643
Employee Transactions (B)	275	\$ 20.94	—	—
December 1 to December 31, 2019				
Share Repurchase Program (A)	—	\$ —	—	1,896,643
Employee Transactions (B)	—	\$ —	—	—

(A) Represents shares purchased under our stock buyback program.

(B) Represents shares withheld to satisfy the employee's tax withholding obligation that is incurred upon the vesting of deferred shares granted under the Company's stock incentive plans.

(C) As described under the caption "Stock Repurchase Program and Treasury Shares" in the Liquidity and Capital Resources section of Part I, Item 2 of this Form 10-Q, on November 6, 2018, the Board of Directors approved a stock buyback program (the "November 2018 Program"), which replaced the December 2016 Program. Under the November 2018 Program, the Company may repurchase common stock up to a maximum of \$30.0 million per calendar year provided that the aggregate number of shares repurchased may not exceed 10%, or approximately 2.7 million, of the Company's shares outstanding as of November 6, 2018. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions and is not obligated to purchase any shares. The November 2018 Program will continue unless and until it is modified or revoked by the Board of Directors.

Dividend Policy

We have never paid cash dividends on our common stock, and the terms of our Credit Agreement limit the amount of cash dividends we can pay. Under our Credit Agreement, we may declare and pay cash dividends on our capital stock during any fiscal year up to an amount which, when added to all other cash dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to date. Any future dividend payments will depend on 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

None

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.

MATRIX SERVICE COMPANY

Date: February 6, 2020

By: /s/ Kevin S. Cavanah

Kevin S. Cavanah Vice President and Chief Financial Officer signing on behalf of the registrant and as the registrant's principal 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: February 6, 2020

/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: February 6, 2020

/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 Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending December 31, 2019 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: February 6, 2020

/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 Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending December 31, 2019 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: February 6, 2020

/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 December 31, 2019:

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
Castle Mountain Gold Mine, Equinox Gold 04-04918	—	—	—	—	—	—	—	No	No	—	—	—

- (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 represent 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.