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

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2018

or

o **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)

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 Inter Active 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, smaller reporting company, or an emerging growth company. See definition 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 November 5, 2018 there were 27,888,217 shares of the Company's common stock, $0.01 par value per share, issued and 27,071,755 shares outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Matrix Service Company
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(unaudited)

	Three Months Ended	
	September 30, 2018	September 30, 2017
Revenues	$ 318,511	$ 269,910
Cost of revenues	295,090	241,019
Gross profit	23,421	28,891
Selling, general and administrative expenses	21,201	21,570
Operating income	2,220	7,321
Other income (expense):		
Interest expense	(292)	(618)
Interest income	282	39
Other	546	149
Income before income tax expense	2,756	6,891
Provision for federal, state and foreign income taxes	451	3,067
Net income	$ 2,305	$ 3,824
Basic earnings per common share	$ 0.09	$ 0.14
Diluted earnings per common share	$ 0.08	$ 0.14
Weighted average common shares outstanding:		
Basic	26,921	26,655
Diluted	27,589	26,762

See accompanying notes.

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

	Three Months Ended	
	September 30, 2018	September 30, 2017
Net income	$ 2,305	$ 3,824
Other comprehensive income, net of tax:		
Foreign currency translation gain (net of tax expense of $62 and $16 for the three months ended September 30, 2018 and 2017, respectively)	401	1,107
Comprehensive income	$ 2,706	$ 4,931

See accompanying notes.

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

	September 30, 2018	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 74,736	$ 64,057
Accounts receivable, less allowances (September 30, 2018— $6,359 and June 30, 2018—$6,327)	214,763	203,388
Costs and estimated earnings in excess of billings on uncompleted contracts	75,972	76,632
Inventories	6,514	5,152
Income taxes receivable	3,350	3,359
Other current assets	10,214	4,458
Total current assets	385,549	357,046
Property, plant and equipment at cost:		
Land and buildings	40,508	40,424
Construction equipment	89,482	89,036
Transportation equipment	47,913	48,339
Office equipment and software	41,622	41,236
Construction in progress	2,411	1,353
Total property, plant and equipment - at cost	221,936	220,388
Accumulated depreciation	(150,438)	(147,743)
Property, plant and equipment - net	71,498	72,645
Goodwill	93,451	96,162
Other intangible assets	22,007	22,814
Deferred income taxes	5,559	4,848
Other assets	9,130	4,518
Total assets	$ 587,194	$ 558,033

See accompanying notes.

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

	September 30, 2018	June 30, 2018
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 94,845	$ 79,439
Billings on uncompleted contracts in excess of costs and estimated earnings	118,380	120,740
Accrued wages and benefits	29,151	24,375
Accrued insurance	9,689	9,080
Income taxes payable	—	7
Other accrued expenses	9,079	4,824
Total current liabilities	261,144	238,465
Deferred income taxes	1,440	429
Borrowings under senior secured revolving credit facility	1,549	—
Other liabilities	280	296
Total liabilities	264,413	239,190
Commitments and contingencies		
Stockholders’ equity:		
Common stock—$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of September 30, 2018 and June 30, 2018; 27,019,817 and 26,853,823 shares outstanding as of September 30, 2018 and June 30, 2018	279	279
Additional paid-in capital	129,885	132,198
Retained earnings	213,799	211,494
Accumulated other comprehensive loss	(7,010)	(7,411)
	336,953	336,560
Less: Treasury stock, at cost — 868,400 shares as of September 30, 2018, and 1,034,394 shares as of June 30, 2018	(14,172)	(17,717)
Total stockholders' equity	322,781	318,843
Total liabilities and stockholders’ equity	$ 587,194	$ 558,033

See accompanying notes.

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

	Three Months Ended	
	September 30, 2018	September 30, 2017
Operating activities:		
Net income	$ 2,305	$ 3,824
Adjustments to reconcile net income to net cash provided by operating activities, net of effects from acquisitions and disposals:		
Depreciation and amortization	4,543	5,593
Stock-based compensation expense	2,585	2,086
Deferred income tax	362	2,711
Gain on disposal of business (Note 3)	(427)	—
Gain on sale of property, plant and equipment	(171)	(121)
Provision for uncollectible accounts	76	7
Other	101	93
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions and disposals:		
Accounts receivable	(11,284)	(7,734)
Costs and estimated earnings in excess of billings on uncompleted contracts	302	25,227
Inventories	(1,369)	(532)
Other assets and liabilities	(10,860)	(5,291)
Accounts payable	15,261	(14,463)
Billings on uncompleted contracts in excess of costs and estimated earnings	(2,229)	(9,568)
Accrued expenses	9,624	4,998
Net cash provided by operating activities	8,819	6,830
Investing activities:		
Proceeds from disposal of business (Note 3)	3,693	—
Acquisition of property, plant and equipment	(2,482)	(1,878)
Proceeds from asset sales	267	248
Net cash provided (used) by investing activities	$ 1,478	$ (1,630)

See accompanying notes.

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

	Three Months Ended	
	September 30, 2018	**September 30, 2017**
Financing activities:		
Advances under senior secured revolving credit facility	$ 2,298	$ 24,890
Repayments of advances under senior secured revolving credit facility	(765)	(27,496)
Payment of debt amendment fees	—	(340)
Issuances of common stock	128	—
Proceeds from issuance of common stock under employee stock purchase plan	78	66
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(1,559)	(454)
Net cash provided (used) by financing activities	180	(3,334)
Effect of exchange rate changes on cash and cash equivalents	202	414
Increase in cash and cash equivalents	10,679	2,280
Cash and cash equivalents, beginning of period	64,057	43,805
Cash and cash equivalents, end of period	$ 74,736	$ 46,085
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 66	$ 98
Interest	$ 456	$ 582
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	$ 274	$ 191

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, 2018	$ 279	$ 132,198	$ 211,494	$ (17,717)	$ (7,411)	$ 318,843
Net income	—	—	2,305	—	—	2,305
Other comprehensive income	—	—	—	—	401	401
Treasury shares sold to Employee Stock Purchase Plan (4,323 shares)	—	(4)	—	82	—	78
Exercise of stock options (12,500 shares)	—	(126)	—	254	—	128
Issuance of deferred shares (221,775 shares)	—	(4,768)	—	4,768	—	—
Treasury shares purchased to satisfy tax withholding obligations (72,604 shares)	—	—	—	(1,559)	—	(1,559)
Stock-based compensation expense	—	2,585	—	—	—	2,585
Balances, September 30, 2018	$ 279	$ 129,885	$ 213,799	$ (14,172)	$ (7,010)	$ 322,781
Balances, July 1, 2017	$ 279	$ 128,419	$ 222,974	$ (22,539)	$ (7,324)	$ 321,809
Net income	—	—	3,824	—	—	3,824
Other comprehensive income	—	—	—	—	1,107	1,107
Treasury shares sold to Employee Stock Purchase Plan (7,121 shares)	—	(96)	—	162	—	66
Issuance of deferred shares (163,201 shares)	—	(2,883)	—	2,883	—	—
Treasury shares purchased to satisfy tax withholding obligations (42,909 shares)	—	—	—	(454)	—	(454)
Stock-based compensation expense	—	2,086	—	—	—	2,086
Balances, September 30, 2017	$ 279	$ 127,526	$ 226,798	$ (19,948)	$ (6,217)	$ 328,438

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, 2018, included in the Company’s Annual Report on Form 10-K for the year then ended. The results of operations for the three month period ended September 30, 2018 may not necessarily be indicative of the results of operations for the full year ending June 30, 2019.

Significant Accounting Policies

We have updated our revenue recognition accounting policy as a result of adopting the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606).* Our 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, 2018.

Revenue Recognition

Adoption of New Revenue Recognition Standard

The Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* on July 1, 2018. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and is applicable to all of the Company's contracts with customers. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The Company used the modified retrospective method of application. Under the modified retrospective method, revenue recognized on completed contracts is not restated, however contracts in progress are accounted for as if they were under this new standard at inception. Any difference between historical revenue and revenue under the new standard is recorded as a cumulative effect adjustment to retained earnings as of the date of adoption. The cumulative impact of adopting Topic 606 was immaterial and did not require an adjustment to retained earnings. See Note 2 – Revenue for new disclosures required as a result of adopting Topic 606.

General Information about our Contracts with Customers

Our revenues come from contracts to provide engineering, procurement, construction, repair and maintenance and other services. Our engineering, procurement 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 and profit 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 obligations(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.

Step 4: Assign Contract Price to Performance Obligations

After determining the price of the contract, we assign the contract price to the performance obligation(s) in the contract. Since nearly all of our contracts have only one performance obligation, all of the contract price is assigned to the single performance obligation. 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.

Recently Issued Accounting Standards

Accounting Standards Update 2016-02, Leases (Topic 842)

On February 25, 2016, the FASB issued ASU 2016-02 that amends accounting for leases. Under the new guidance, lessees will recognize the following for all leases (with the exception of short-term leases) at the lease commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Prior to the issuance of ASU 2018-11 in July 2018, lessees and lessors were required to adopt the new standard using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, even though those leases may have expired before the new standard's effective date. The amendments in ASU 2018-11 provide, among other things, an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, the Company may apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than having to apply the new standard to the earliest comparative period presented in the financial statements.

Both amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the amendments is permitted, but we do not plan to do so at this time.

We are currently evaluating the ASU's expected impact on our financial statements. As of June 30, 2018 the Company had $33.1 million of future minimum lease payments under non-cancelable operating leases, primarily for facilities. See Note 8 of Item 8. Financial Statements and Supplementary Data in our 2018 Form 10-K for more information about the timing and amount of future operating lease payments, which we believe is indicative of the materiality of adoption of the ASU to our financial statements.

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 and the Company may early adopt on July 1, 2019. 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.

Accounting Standards Update 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09 which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The Company adopted ASU 2017-09 on July 1, 2018, which did not have a material impact on our financial position, results of operations or cash flows.

Note 2 – Revenue

Remaining Performance Obligations

The Company had $958.9 million of remaining performance obligations yet to be satisfied as of September 30, 2018. The Company expects to recognize $733.7 million of its remaining performance obligations as revenue within the next twelve months.

Contract Balances

Contracts 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 on 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:

	September 30, 2018	June 30, 2018	Change
		(in thousands)	
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 75,972	$ 76,632	$ (660)
Billings on uncompleted contracts in excess of costs and estimated earnings	(118,380)	(120,740)	2,360
Net contract liabilities	$ (42,408)	$ (44,108)	$ 1,700

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

The difference between the beginning and ending balances of the Company's CIE and BIE primarily results from the timing of the Company's performance and its billings. The amount of revenue recognized in the three months ended September 30, 2018 that was included in the prior period BIE balance was $66.3 million. This revenue consists primarily of work performed during the period on contracts with customers that had advance billings.

Gross amounts of contact assets and liabilities on uncompleted contracts are as follows:

	September 30, 2018	June 30, 2018
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	$ 2,318,949	$ 2,081,799
Billings on uncompleted contracts	2,361,357	2,125,907
Net contract liabilities	$ (42,408)	$ (44,108)

Progress billings in accounts receivable at September 30, 2018 and June 30, 2018 included retentions to be collected within one year of $20.4 million and $25.9 million, respectively. Contract retentions collectible beyond one year are included in other assets in the Condensed Consolidated Balance Sheet and totaled $7.4 million as of September 30, 2018 and $2.6 million as of June 30, 2018.

Disaggregated Revenue

Revenue disaggregated by reportable segment is presented in Note 9 - Segment Information. The following table presents revenue disaggregated by the geographic area where the work was performed:

	Three Months Ended	
	September 30, 2018	September 30, 2017
	(In thousands)	
United States	$ 310,137	$ 221,772
Canada	7,081	46,860
Other international	1,293	1,278
Total Revenue	$ 318,511	$ 269,910

Note 3 – Disposals

Sale of Process Heating Business

In August 2018, the Company sold non-core assets associated with a business that marketed process heating equipment for $3.9 million in cash, including $0.2 million of customary final post-closing adjustments paid in October 2018. The Company recognized a gain of $0.4 million on the sale, which was included in Other in the Condensed Consolidated Statements of Income. The revenues and operating results of the business, which were included in the Oil Gas & Chemical segment, are not material.

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, 2018	$ 24,826	$ 33,604	$ 16,760	$ 20,972	$ 96,162
Disposal of business[1]	—	(2,775)	—	—	(2,775)
Translation adjustment[2]	21	—	39	4	64
Net balance at September 30, 2018	$ 24,847	$ 30,829	$ 16,799	$ 20,976	$ 93,451

(1) The Company disposed of a business that marketed process heating equipment. See Note 3 - Disposals for more information about the disposal. The business disposed of constituted its own reporting unit and the amount of goodwill written off was all of the goodwill assigned to that reporting unit. None of the goodwill was considered impaired since the Company recorded a gain on the disposal.

(2) 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 did not note any impairment indicators as of September 30, 2018. However, if our market view of project opportunities or gross margins deteriorates materially from the date of our last test, the Company may need to perform an interim analysis, which could result in the recognition of an additional material impairment to goodwill.

Other Intangible Assets

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

		At September 30, 2018		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)		(In thousands)	
Intellectual property	10 to 15	$ 2,579	$ (1,647)	$ 932
Customer-based	6 to 15	38,632	(17,590)	21,042
Non-compete agreements	4	1,453	(1,420)	33
Total amortizing intangible assets		$ 42,664	$ (20,657)	$ 22,007

		At June 30, 2018		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)		(In thousands)	
Intellectual property	9 to 15	$ 2,579	$ (1,603)	$ 976
Customer-based	6 to 15	38,562	(16,763)	21,799
Non-compete agreements	4	1,453	(1,414)	39
Total amortizing intangible assets		$ 42,594	$ (19,780)	$ 22,814

Amortization expense totaled $0.8 million and $1.6 million during the three months ended September 30, 2018 and September 30, 2017, respectively.

We estimate that the remaining amortization expense related to September 30, 2018 amortizing intangible assets will be as follows (in thousands):

Period ending:		
Remainder of Fiscal 2019	$	2,872
Fiscal 2020		3,697
Fiscal 2021		3,678
Fiscal 2022		2,823
Fiscal 2023		2,369
Fiscal 2024		2,094
Thereafter		4,474
Total estimated remaining amortization expense at September 30, 2018	$	22,007

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 sub-facility for revolving loans denominated in Australian Dollars, Canadian Dollars, Euros and Pounds Sterling in an aggregate amount not to exceed the U.S. Dollar equivalent of $75.0 million and a $200.0 million sublimit for 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 September 30, 2018, Covenant EBITDA was $31.3 million. Consolidated Funded Indebtedness at September 30, 2018 was $39.2 million.

Availability under the senior secured revolving credit facility at September 30, 2018 was as follows:

	September 30, 2018	June 30, 2018
	(In thousands)	
Senior secured revolving credit facility	$ 300,000	$ 300,000
Capacity constraint due to the Leverage Ratio	206,208	189,741
Capacity under the credit facility	93,792	110,259
Borrowings outstanding	1,549	—
Letters of credit	37,684	37,073
Availability under the senior secured revolving credit facility	$ 54,559	$ 73,186

At September 30, 2018, the Company was in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

Note 6 – Income Taxes

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act makes broad and complex changes to the U.S. tax code, which have affected our current results and will affect our future results.

The following are significant changes in the tax code that are effective for the Company beginning July 1, 2018:

- eliminating the deduction for domestic production activity;
- limiting the annual deduction for business interest;
- taxing global intangible low-tax income;
- allowing a deduction for domestically earned foreign intangible income; and
- establishing a new base erosion and anti-abuse tax on payments between U.S. taxpayers and foreign related parties.

The SEC staff issued SAB 118 which provides guidance on accounting for the tax effects of the Act. SAB 118 provides a measurement period that should not extend beyond one year from the Act’s enactment date for companies to complete the accounting under ASC 740. As of September 30, 2018, we have not completed our accounting for the tax effect of the Act. In accordance with SAB 118 and as discussed below, we have reflected the income tax effects of the those items where the accounting is complete; have recorded a provisional amount with regards for those items where the accounting is not complete but we have made a reasonable estimate; and have continued to account for items based on our existing accounting under ASC 740 in those areas where we have not been able to make a reasonable estimate.

Accounting Complete

Deferred Taxes Remeasurement

We remeasured our domestic deferred tax assets and liabilities based on the rates at which we expect them to reverse in the future. At June 30, 2018, we completed the remeasurement of our domestic deferred tax assets and liabilities which resulted in an income tax benefit of $0.5 million included in fiscal 2018.

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

Accounting not Complete - Provisional Amount Recorded

One-time Transition Tax on Unrepatriated Earnings of Certain Foreign Subsidiaries

The Act includes a one-time transition tax based on our total post-1986 foreign earnings and profits (E&P) which we have previously deferred from U.S. income taxes. We have not completed the calculations surrounding this tax, but based on our preliminary calculations, our foreign subsidiaries have overall negative E&P. Therefore, we do not anticipate incurring tax related to this provision of the Act since any return of assets would be a return of capital, not earnings. Due to the preliminary nature of our calculations, no additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax and any outside basis difference inherent in these entities as these amounts continue to be indefinitely reinvested in foreign operations.

Global Intangible Low-Tax Income (“GILTI”)

The Act creates a new requirement that certain income earned by controlled foreign corporations must be included currently in the gross income of the U.S. shareholder. Because of the complexity of the new GILTI rules, we are continuing to evaluate this provision of the Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either: 1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred or 2) factoring such amounts into the measurement of our deferred taxes. Our preliminary analysis indicates that we will treat GILTI taxes as a current period expense when incurred. Currently we project the tax impact of GILTI for fiscal 2019 to be immaterial.

Accounting not Complete - Using Existing Accounting Under ASC 740

Valuation Allowances on Foreign Tax Credit Carryforwards

We are currently assessing and have not completed our analysis of how various aspects of the Act such as deemed repatriation of foreign income, base erosion and anti-abuse tax (“BEAT”), deduction for foreign-derived intangible income (“FDII”), and new categories of foreign tax credits affect our ability to utilize our existing foreign tax credit carryforwards before they expire. Currently, we have stated our foreign tax credits at the amount at which we are more likely than not to realize the tax benefit before consideration of the tax law changes under the Act. Our completed analysis may result in an increased valuation allowance against our current foreign tax credit carryforwards.

Indefinite Reinvestment Assertion

Currently we do not provide for outside basis differences under the indefinite reinvestment assertion of ASC 740-30. Our complete analysis of the Act may require us to provide for additional taxes to basis differences or withholding taxes on remitted foreign earnings.

Effective Tax Rate

Our effective tax rate for the three months ended September 30, 2018 was 16.4% compared to 44.5% in the same period last year. The effective tax rate for the three months ended September 30, 2018 was positively impacted by $0.3 million of excess tax benefits related to the vesting of stock-based compensation awards. The effective tax rate for the three months ended September 30, 2017 was negatively impacted by a higher mix of income in the U.S., which was taxed at a higher rate than the Company's foreign operations. In addition, the prior year effective tax rate was negatively affected by a $0.5 million tax shortfall on the vesting of stock-based compensation awards. We expect our effective income tax rate to be approximately 27.0% during fiscal 2019.

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.

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 $18.8 million at September 30, 2018 and $15.0 million at June 30, 2018. 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.

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

	Three Months Ended	
	September 30, 2018	September 30, 2017
	(In thousands, except per share data)	
Basic EPS:		
Net income	$ 2,305	$ 3,824
Weighted average shares outstanding	26,921	26,655
Basic earnings per share	$ 0.09	$ 0.14
Diluted EPS:		
Weighted average shares outstanding – basic	26,921	26,655
Dilutive stock options	31	10
Dilutive nonvested deferred shares	637	97
Diluted weighted average shares	27,589	26,762
Diluted earnings per share	$ 0.08	$ 0.14

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

	Three Months Ended	
	September 30, 2018	September 30, 2017
	(In thousands)	
Nonvested deferred shares	167	718

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 high voltage 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 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 turnarounds, plant maintenance, 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, 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, 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 other companies in aerospace and defense, cement, agriculture and grain, food and other industries. Our services include engineering, fabrication and construction, 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, 2018. Intersegment sales and transfers are recorded at cost; therefore, no intersegment profit or loss is recognized.

Segment assets consist primarily of cash and cash equivalents, accounts receivable, CIE/BIE, property, plant and equipment, goodwill and other intangible assets.

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

Results of Operations
(In thousands)

	Three Months Ended	
	September 30, 2018	September 30, 2017
Gross revenues		
Electrical Infrastructure	$ 44,701	$ 79,971
Oil Gas & Chemical	75,562	85,861
Storage Solutions	113,767	71,572
Industrial	85,557	33,271
Total gross revenues	$ 319,587	$ 270,675
Less: Inter-segment revenues		
Oil Gas & Chemical	$ 71	$ 208
Storage Solutions	1,005	557
Total inter-segment revenues	$ 1,076	$ 765
Consolidated revenues		
Electrical Infrastructure	$ 44,701	$ 79,971
Oil Gas & Chemical	75,491	85,653
Storage Solutions	112,762	71,015
Industrial	85,557	33,271
Total consolidated revenues	$ 318,511	$ 269,910
Gross profit		
Electrical Infrastructure	$ 3,383	$ 8,267
Oil Gas & Chemical	5,625	11,038
Storage Solutions	9,553	7,540
Industrial	4,860	2,046
Total gross profit	$ 23,421	$ 28,891
Operating income (loss)		
Electrical Infrastructure	$ 657	$ 3,577
Oil Gas & Chemical	514	4,134
Storage Solutions	285	(75)
Industrial	764	(315)
Total operating income	$ 2,220	$ 7,321

Total assets by segment were as follows:

	September 30, 2018	June 30, 2018
Electrical Infrastructure	$ 159,595	$ 161,207
Oil Gas & Chemical	109,417	111,064
Storage Solutions	163,125	149,695
Industrial	61,080	58,816
Unallocated assets	93,977	77,251
Total segment assets	$ 587,194	$ 558,033

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

CRITICAL ACCOUNTING POLICIES

Except for the Revenue Recognition accounting policy which has been updated for the adoption the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, there have been no material changes in our critical accounting policies from those reported in our fiscal 2018 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 2018 Annual Report on Form 10-K. The following section provides certain information with respect to our critical accounting estimates 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, construction, repair and maintenance and other services. Our engineering, procurement 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 and profit 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 obligations(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.

Step 4: Assign Contract Price to Performance Obligations

After determining the price of the contract, we assign the contract price to the performance obligation(s) in the contract. Since nearly all of our contracts have only one performance obligation, all of the contract price is assigned to the single performance obligation. 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 $18.8 million at September 30, 2018 and $15.0 million at June 30, 2018. 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.

The Company did not note any impairment indicators as of September 30, 2018. However, if our market view of project opportunities or gross margins deteriorates materially from the date of our last test, the Company may need to perform an interim analysis, which could result in the recognition of an additional material impairment 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.

Recently Issued Accounting Standards

Accounting Standards Update 2016-02, Leases (Topic 842)

On February 25, 2016, the FASB issued ASU 2016-02 that amends accounting for leases. Under the new guidance, lessees will recognize the following for all leases (with the exception of short-term leases) at the lease commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Prior to the issuance of ASU 2018-11 in July 2018, lessees and lessors were required to adopt the new standard using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, even though those leases may have expired before the new standard's effective date. The amendments in ASU 2018-11 provide, among other things, an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, the Company may apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than having to apply the new standard to the earliest comparative period presented in the financial statements.

Both amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the amendments is permitted, but we do not plan to do so at this time.

We are currently evaluating the ASU's expected impact on our financial statements. As of June 30, 2018 the Company had $33.1 million of future minimum lease payments under non-cancelable operating leases, primarily for facilities. See Note 8 of Item 8. Financial Statements and Supplementary Data in our 2018 Form 10-K for more information about the timing and amount of future operating lease payments, which we believe is indicative of the materiality of adoption of the ASU to our financial statements.

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 and the Company may early adopt on July 1, 2019. 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.

Accounting Standards Update 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09 which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The Company adopted ASU 2017-09 on July 1, 2018, which did not have a material impact on our financial position, results of operations or cash flows.

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 high voltage 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 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 turnarounds, plant maintenance, 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, 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, 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 other companies in aerospace and defense, cement, agriculture and grain, food and other industries. Our services include engineering, fabrication and construction, 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.

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

Consolidated

Consolidated revenue was $318.5 million for the three months ended September 30, 2018, compared to $269.9 million in the same period in the prior fiscal year. On a segment basis, consolidated revenue increased in the Industrial and Storage Solutions segments by $52.3 million and $41.8 million, respectively. These increases were partially offset by decreases in consolidated revenue for the Electrical and Oil Gas & Chemical segments of $35.3 million and $10.2 million.

Consolidated gross profit decreased to $23.4 million in the three months ended September 30, 2018 compared to $28.9 million in the same period in the prior fiscal year. Gross margin decreased to 7.4% in the three months ended September 30, 2018 compared to 10.7% in the same period in the prior fiscal year. Fiscal 2019 gross margin was negatively impacted by lower margin work bid in a highly competitive environment in prior periods and lower than previously forecasted margins on a limited number of those projects.

Consolidated SG&A expenses were $21.2 million in the three months ended September 30, 2018 compared to $21.6 million in the same period a year earlier. The decrease was attributable to lower amortization expense on intangible assets that fully amortized in fiscal 2018 and lower professional fees, partially offset by higher compensation expense.

Interest expense was $0.3 million in the three months ended September 30, 2018 compared to $0.6 million in the same period a year ago. The decrease was due to a lower average debt balance during the three months ended September 30, 2018. Interest income was $0.3 million in the three months ended September 30, 2018 compared to less than $0.1 million in the same period a year ago due to an increase in our average cash balance and higher interest rates.

Our effective tax rate for the three months ended September 30, 2018 was 16.4% compared to 44.5% in the same period last year. The effective tax rate for the three months ended September 30, 2018 was positively impacted by $0.3 million of excess tax benefits related to the vesting of stock-based compensation awards. The effective tax rate for the three months ended September 30, 2017 was negatively impacted by a higher mix of income in the U.S., which was taxed at a higher rate than the Company's foreign operations. In addition, the prior year effective tax rate was negatively affected by a $0.5 million tax shortfall related to the vesting of stock-based compensation awards. We expect our effective income tax rate to be approximately 27.0% for the balance of fiscal 2019.

For the three months ended September 30, 2018, net income and the related fully diluted earnings per share were $2.3 million and $0.08, respectively, compared to net income and related fully diluted earnings per share of $3.8 million and $0.14, respectively, in the same period a year earlier.

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment decreased $35.3 million to $44.7 million in the three months ended September 30, 2018 compared to $80.0 million in the same period a year earlier. The decrease is primarily due to a decline in EPC power generation work attributable to a large power generating facility that was completed in fiscal 2018. The segment gross margin was 7.6% in fiscal 2019 and 10.3% in fiscal 2018. Fiscal 2019 segment gross margin was negatively impacted by lower direct margins due to working off the backlog that was awarded during a period of increased competition and under recovery of construction overhead costs due to lower than anticipated volumes.

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was $75.5 million in the three months ended September 30, 2018 compared to $85.7 million in the same period a year earlier. The decrease of $10.2 million is primarily due to lower levels of capital work, partially offset by higher volumes of turnarounds and maintenance work. The segment gross margin was 7.5% for the three months ended September 30, 2018 compared to 12.9% in the same period last year. The fiscal 2019 segment gross margin was negatively impacted by lower direct margins due to higher relative levels of lower margin maintenance work, partially offset by improved recovery of construction overhead costs. The fiscal 2018 gross margin was positively impacted by strong project execution, project closeouts and a more favorable mix of higher margin engineering work.

Storage Solutions

Revenue for the Storage Solutions segment was $112.8 million in the three months ended September 30, 2018 compared to $71.0 million in the same period a year earlier, an increase of $41.8 million. The increase in segment revenue is primarily a result of increased tank and terminal construction revenue and higher volumes of tank repair and maintenance work. The segment gross margin was 8.5% in the three months ended September 30, 2018 and 10.6% in the three months ended September 30, 2017. The fiscal 2019 segment gross margin was negatively impacted by a mix of lower margin work that was bid in a highly competitive environment in prior periods, lower than previously forecasted margins on a limited number of those projects, and, while improved from fiscal 2018, an under recovery of construction overhead costs.

Industrial

Revenue for the Industrial segment increased $52.3 million to $85.6 million in the three months ended September 30, 2018 compared to $33.3 million in the same period a year earlier. The increase in revenue is primarily attributable to higher business volumes in the iron and steel industry and increased thermal vacuum chamber work. The segment gross margin was 5.7% in the three months ended September 30, 2018 compared to 6.1% in the same period a year earlier. The fiscal 2019 segment gross margin was negatively impacted by cost escalation on a capital project that was bid in a highly competitive environment and low margin revenue associated with an iron and steel project.

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, 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 the notice is significant relative to the overall project and if we conclude that the likelihood of the full project proceeding as 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 September 30, 2018:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
			(In thousands)		
Backlog as of June 30, 2018	$ 113,957	$ 227,452	$ 613,360	$ 263,827	$ 1,218,596
Project awards	39,589	37,531	85,139	47,128	209,387
Revenue recognized	(44,701)	(75,491)	(112,762)	(85,557)	(318,511)
Backlog as of September 30, 2018	$ 108,845	$ 189,492	$ 585,737	$ 225,398	$ 1,109,472
Book-to-bill ratio[(1)]	0.9	0.5	0.8	0.6	0.7

(1) 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 represents only a three month period and, based on our view of the market and project funnel, is not indicative of the longer term opportunities available to us.

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. Also, we typically see a lower level of operating activity relating to construction projects during the winter months and early in the calendar year because many of our customers' capital budgets have not been finalized. 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 include 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

EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as net income (loss) before interest expense, income taxes, depreciation and amortization. We present EBITDA 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” is the most directly comparable GAAP measure to EBITDA. Since 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. 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 EBITDA excludes certain financial information compared with net income, 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, EBITDA, has certain material limitations as follows:

- 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 EBITDA to net income follows:

	Three Months Ended	
	September 30, 2018	September 30, 2017
	(In thousands)	
Net income	$ 2,305	$ 3,824
Interest expense	292	618
Provision for income taxes	451	3,067
Depreciation and amortization	4,543	5,593
EBITDA	$ 7,591	$ 13,102

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 September 30, 2018 were cash on hand, capacity under our senior secured revolving credit facility and cash generated from operations before consideration of changes in working capital. Cash on hand at September 30, 2018 totaled $74.7 million and availability under the senior secured revolving credit facility totaled $54.6 million resulting in available liquidity of $129.3 million as of September 30, 2018. 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 September 30, 2018 (in thousands):

Liquidity as of June 30, 2018	$	137,243
Net increase in cash		10,679
Increase in credit facility capacity constraint		(16,467)
Net borrowings on credit facility		(1,533)
Increase in letters of credit outstanding		(611)
Foreign currency translation of outstanding borrowings		(16)
Liquidity as of September 30, 2018	$	129,295

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

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

- Cash on hand outside of the United States that cannot be repatriated without incremental taxation.

Cash Flow for the Three Months Ended September 30, 2018

Cash Flows Provided by Operating Activities

Cash provided by operating activities for the three months ended September 30, 2018 totaled $8.8 million. The various components are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net income	$	2,305
Non-cash expenses		6,606
Deferred income tax		362
Cash effect of changes in working capital		(555)
Other		101
Net cash provided by operating activities	$	8,819

Working capital changes, net of the effects of a disposal of a business (see Item 1. Financial Statements, Note 3 - Disposals), at September 30, 2018 in comparison to June 30, 2018 include the following:

- Accounts receivable, net of bad debt expense recognized during the period, increased by $11.3 million during the three months ended September 30, 2018, which decreased cash flows from operating activities. The variance is attributable to the timing of billing and collections and increasing business volumes during the fiscal quarter.

- Accounts payable increased by $15.3 million during the three months ended September 30, 2018, which increased cash flows from operating activities. The variance is primarily attributable to the timing of vendor payments and increasing business volumes during the fiscal quarter.

- Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") decreased $0.3 million, which increased cash flows from operating activities. Billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") decreased $2.2 million, which decreased cash flows from operating activities. The net change in CIE and BIE decreased cash $1.9 million for the three months ended September 30, 2018. 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.

Cash Flows Provided by Investing Activities

Investing activities provided $1.5 million of cash in the three months ended September 30, 2018 primarily due to $3.7 million of proceeds from the disposal of a business (see Item 1. Financial Statements, Note 3 - Disposals) and $0.3 million of proceeds from other assets sales, partially offset by $2.5 million of capital expenditures. Capital expenditures consisted of: $1.1 million for transportation and fabrication equipment, $0.9 million for construction equipment, $0.4 million for software and office equipment, and $0.1 million for buildings.

Cash Flows Provided by Financing Activities

Financing activities provided $0.2 million of cash in the three months ended September 30, 2018 primarily due to net borrowings of $1.5 million under our senior secured revolving credit facility and $0.2 million of proceeds from the issuance of common stock under the employee stock purchase plan and proceeds from the exercise of employee stock options. These proceeds were partially offset by the repurchase of $1.5 million of Company stock for payment of withholding taxes due on equity-based compensation.

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 sub-facility for revolving loans denominated in Australian Dollars, Canadian Dollars, Euros and Pounds Sterling in an aggregate amount not to exceed the U.S. Dollar equivalent of $75.0 million and a $200.0 million sublimit for 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 September 30, 2018, Covenant EBITDA was $31.3 million. Consolidated Funded Indebtedness at September 30, 2018 was $39.2 million.

Covenant EBITDA differs from EBITDA, as reported under "Results of Operations - Non-GAAP Financial Measure," in Item 7 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 September 30, 2018 was as follows:

	September 30, 2018	June 30, 2018
	(In thousands)	
Senior secured revolving credit facility	$ 300,000	$ 300,000
Capacity constraint due to the Senior Leverage Ratio	206,208	189,741
Capacity under the credit facility	93,792	110,259
Borrowings outstanding	1,549	—
Letters of credit	37,684	37,073
Availability under the senior secured revolving credit facility	$ 54,559	$ 73,186

At September 30, 2018, 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. While we currently do not intend to pay cash dividends, 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 new 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 of the Company in any calendar year commencing with calendar year 2018, 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. No shares have been repurchased under the November 2018 Program or the previous program.

The Company has 868,400 treasury shares as of September 30, 2018 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;
- the impact to our business of crude oil, natural gas and other commodity prices;
- amounts and nature of future revenues and margins from each of our segments;
- the potential impact of the Tax Cuts and Jobs Act on our business;
- 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;
- our expectations with respect to the likelihood of a future impairment; 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, 2018 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, gas, power, iron and steel, agricultural and mining industries in particular;
- 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 and other commodity prices which affect our customers' businesses;
- 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, 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, 2018, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2018 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 September 30, 2018. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2018.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended September 30, 2018.

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, 2018.

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

Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by the Company of its common stock during the first quarter of fiscal year 2019.

	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)
July 1 to July 31, 2018				
Share Repurchase Program (A)	—	$ —	—	1,014,199
Employee Transactions (B)	196	$ 19.65	—	
August 1 to August 31, 2018				
Share Repurchase Program (A)	—	$ —	—	1,014,199
Employee Transactions (B)	70,090	$ 21.38	—	
September 1 to September 30, 2018				
Share Repurchase Program (A)	—	$ —	—	1,014,199
Employee Transactions (B)	2,318	$ 24.40	—	

(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) In December 2016, the Board of Directors approved a stock buyback program (the "December 2016 Program"). Under the December 2016 Program, the Company may repurchase common stock of the Company in any calendar year commencing with calendar year 2016 and continuing through calendar year 2018, up to a maximum of $25.0 million per calendar year. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. 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 new stock buyback program (the "November 2018 Program"), which replaced the December 2016 Program. Under the November 2018 Program, the Company may repurchase common stock of the Company in any calendar year commencing with calendar year 2018, 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 November 2018 Program will continue unless and until it is modified or revoked by the Board of Directors. The amount shown as the maximum number of shares that may yet be purchased was calculated using the closing price of our stock on the last trading day of the quarter and the cumulative limit of $25.0 million remaining under the December 2016 Program, which was still in place as of the end of the quarter.

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. While we currently do not intend to pay cash dividends, 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:

Exhibit No.	Description
Exhibit 10	Form of Restricted Stock Unit Award Agreement for Directors (2018 Stock and Incentive Compensation Plan).
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.
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.

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:	November 8, 2018	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

EXHIBIT 10

Grantee:
Shares:

MATRIX SERVICE COMPANY
AWARD AGREEMENT

[Date]

Name/Address

Dear ______:

1. **Award**. The awards set forth in this Award Agreement (the "Award Agreement") are subject to your acceptance of and agreement to all of the applicable terms, conditions, and restrictions described in the 2018 Stock and Incentive Compensation Plan, effective as of October 30, 2018 (the "Plan"), of Matrix Service Company, a Delaware corporation (the "Company"), a copy of which is on file with, and may be obtained from, the Secretary of the Company, and to your acceptance of and agreement to the further terms, conditions, and restrictions described in this Award Agreement. To the extent that any provision of this Award Agreement conflicts with the expressly applicable terms of the Plan, it is hereby acknowledged and agreed that those terms of the Plan shall control and, if necessary, the applicable provisions of this Award Agreement shall be hereby deemed amended so as to carry out the purpose and intent of the Plan.

2. **Restricted Stock Units.**

(a) **Restricted Stock Units Award.** The Company hereby grants to you an aggregate of ____ restricted stock units (individually, an "RSU," and collectively, "RSUs") as more specifically set forth in Section 2(e). Each RSU entitles you to receive one share of common stock, par value $.01 per share, of the Company (the "Shares") at such time as the restrictions described in Section 2(d)(ii) lapse as described in Section 2(e).

(b) **Form of Shares; Possession of Certificates.** The Company shall issue the Shares you become entitled to receive hereunder by book-entry registration or by issuance of a certificate or certificates for the Shares in your name as soon as practicable after the restrictions in Section 2(d)(ii) lapse as described in Section 2(e). In the event the Company issues a certificate or certificates for the Shares, such certificates shall be subject to such stop transfer orders and other restrictions as the committee of the Board of Directors that administers the Plan may deem necessary or advisable under the Plan and rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are then listed, and any applicable foreign, federal or state securities laws.

(c) **Stockholder Rights Prior to Issuance of Shares.** Neither you nor any of your beneficiaries shall be deemed to have any voting rights, rights to receive dividends or other rights as a stockholder of the Company with respect to any Shares covered by the RSUs until the date of book-entry registration or issuance by the Company of a certificate to you for such Shares.

(d) **Restrictions.**

(i) Your ownership of the RSUs shall be subject to the restrictions set forth in subsection (ii) of this Section 2(d) until such restrictions lapse pursuant to the terms of Section 2(e).

(ii) The restrictions referred to in subsection (i) of this Section 2(d) are as follows:

(A) At the time of your termination of service as a member of the Board of Directors other than a termination of service that is described in Section 2(e)(ii), you shall forfeit the RSUs to the Company and all of your rights thereto shall terminate without any payment of consideration by the Company.

(B) You may not sell, assign, transfer or otherwise dispose of any RSUs or any rights under the RSUs. No RSU and no rights under any such RSU may be pledged, alienated, attached or otherwise encumbered, other than by will or the laws of descent and distribution. If you or anyone claiming under or through you attempts to violate this Section 2(d)(ii), such attempted violation shall be null and void and without effect, and all of the Company's obligations hereunder shall terminate.

(e) **Lapse of Restrictions.**

(i) The restrictions described in Section 2(d)(ii) shall lapse with respect to the RSUs on the first anniversary of the date of this Award Agreement.

(ii) Notwithstanding the provisions of subsection (i) of this Section 2(e), the restrictions described in Section 2(d)(ii) shall lapse with respect to all RSUs upon the occurrence of any of the following events:

(A) Your death, "Disability" or "Retirement"; or

(B) A Change of Control of the Company.

The term "Disability" shall mean your inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months. The term "Retirement" shall mean the termination of your service as a member of the Board of Directors at the end of any term to which you were elected or appointed.

(iii) On the date of the lapse of the restrictions in accordance with this Section 2(e), or in any event, no later than the earlier of ninety (90) days after such date or two and one-half months following the end of the calendar year in which the restrictions lapsed in accordance with Section 2(e), the Company will make a book-entry registration or will issue you a certificate as provided inSection 2(b) of this Award Agreement for the Shares covered by such RSUs in redemption of such RSUs.

3. **Adjustment of Shares.** The number of Shares subject to the RSUs awarded to you under this Award Agreement may be adjusted as provided in the Plan.

4. **Agreement With Respect to Securities Matters.** You agree that you will not sell or otherwise transfer any Shares received pursuant to this Award Agreement except pursuant to an effective registration statement under the U.S. Securities Act of 1933, as amended, or pursuant to an applicable exemption from such registration. Unless a registration statement relating to the Shares issuable upon the lapse of the restrictions on the RSUs pursuant to this Award Agreement is in effect at the time of issuance of such Shares, the certificate(s) for the Shares shall contain the following legend:

> The securities evidenced by this certificate have not been registered under the Securities Act of 1933 or any other securities laws. These securities have been acquired for investment and may not be sold or transferred for value in the absence of an effective registration of them under the U.S. Securities Act of 1933 and any other applicable securities laws, or receipt by the Company of an opinion of counsel or other evidence acceptable to the Company that such registration is not required under such acts.

5. **Compliance with 409A**. The Company intends that this Award Agreement and the Plan either (1) comply with Section 409A of the Internal Revenue Code of 1986, as amended, and guidance thereunder ("Section 409A") or (b) be excepted from the provisions of Section 409A. Accordingly, the Company reserves the right and you agree that the Company shall have the right, without your consent and without prior notice to you, to amend either or both this Award Agreement and the Plan to cause this Award Agreement and the Plan to be so compliant or so excepted and to take such other actions under the Plan and this Award Agreement to achieve such compliance or exception.

6. **Certain Definitions.** Capitalized terms used in this Award Agreement and not otherwise defined herein shall have the respective meanings provided in the Plan.

7. **Designation of Beneficiary**. Your beneficiary for receipt of any payment made under this Award Agreement in the event of your death shall be the person(s) designated as your beneficiary(ies) on a form prescribed by the Company. If no beneficiary is designated, upon your death, payment shall be made to your estate.

[Signature Page to Follow]

If you accept this Award Agreement and agree to the foregoing terms and conditions, please so confirm by signing and returning the duplicate copy of this Award Agreement enclosed for that purpose.

MATRIX SERVICE COMPANY

By: ______________________________
Name:_____________________________
Title:______________________________

The foregoing Award Agreement is accepted by me as of _______________________, and I hereby agree to the terms, conditions, and restrictions set forth above and in the Plan.

____

Grantee

Exhibit 31.1

CERTIFICATIONS

I, John R. Hewitt, certify that:

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

Date: November 8, 2018

/s/ John R. Hewitt

John R. Hewitt
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Kevin S. Cavanah, certify that:

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

Date: November 8, 2018

/s/ Kevin S. Cavanah

Kevin S. Cavanah
Vice President and Chief Financial Officer

EXHIBIT 32.1

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 September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John R. Hewitt, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

/s/ John R. Hewitt

John R. Hewitt
President and Chief Executive Officer

EXHIBIT 32.2

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 September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kevin S. Cavanah, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

/s/ Kevin S. Cavanah

Kevin S. Cavanah
Vice President and Chief Financial Officer

Exhibit 95

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

The following table provides information for the three months ended September 30, 2018:

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
Permanente Cement Plan & Quarry 04-04075	—	—	—	—	—	$118	—	No	No	1	—	1

(1) The total number of citations issued under section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to a serious injury if left unabated.

(2) The total number of orders issued under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA.

(3) The total number of citations and orders issued by MSHA under section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.

(4) The total number of flagrant violations identified under section 110(b)(2) of the Mine Act.

(5) The total number of orders issued under section 107(a) of the Mine Act for situations in which MSHA determined an imminent danger existed.

(6) A written notice from the MSHA regarding a pattern of violations under section 104(e) of the Mine Act.

(7) A written notice from the MSHA regarding a potential to have a pattern of violations under section 104(e) of the Mine Act.