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, 2019
or

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

For the transition period from ______to______
Commission File No. 1-15461

MATRIX SERVICE COMPANY
(Exact name of registrant as specified in its charter)

Delaware	**73-1352174**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

5100 East Skelly Drive, Suite 500, Tulsa, Oklahoma 74135
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (918) 838-8822

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-accelerated Filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

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

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

As of November 5, 2019 there were 27,888,217 shares of the Company's common stock, $0.01 par value per share, issued and 27,162,327 shares outstanding.

TABLE OF CONTENTS

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, 2019	September 30, 2018
Revenues	$ 338,097	$ 318,511
Cost of revenues	305,632	295,090
Gross profit	32,465	23,421
Selling, general and administrative expenses	23,691	21,201
Operating income	8,774	2,220
Other income (expense):		
Interest expense	(389)	(292)
Interest income	474	282
Other	3	546
Income before income tax expense	8,862	2,756
Provision for federal, state and foreign income taxes	2,711	451
Net income	$ 6,151	$ 2,305
Basic earnings per common share	$ 0.23	$ 0.09
Diluted earnings per common share	$ 0.22	$ 0.08
Weighted average common shares outstanding:		
Basic	26,935	26,921
Diluted	27,575	27,589

See accompanying notes.

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

	Three Months Ended	
	September 30, 2019	September 30, 2018
Net income	$ 6,151	$ 2,305
Other comprehensive income (loss), net of tax:		
Foreign currency translation gain (loss) (net of tax expense (benefit) of ($22) and $62 for the three months ended September 30, 2019 and 2018, respectively)	(394)	401
Comprehensive income	$ 5,757	$ 2,706

See accompanying notes.

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

	September 30, 2019	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 139,889	$ 89,715
Accounts receivable, less allowances (September 30, 2019— $1,091 and June 30, 2019—$923)	214,614	218,432
Costs and estimated earnings in excess of billings on uncompleted contracts	65,996	96,083
Inventories	7,561	8,017
Income taxes receivable	1,337	29
Other current assets	9,969	5,034
Total current assets	439,366	417,310
Property, plant and equipment at cost:		
Land and buildings	41,057	41,179
Construction equipment	92,142	91,793
Transportation equipment	55,179	52,526
Office equipment and software	44,164	43,632
Construction in progress	7,563	7,619
Total property, plant and equipment - at cost	240,105	236,749
Accumulated depreciation	(158,589)	(157,414)
Property, plant and equipment - net	81,516	79,335
Operating lease right-of-use assets	23,595	—
Goodwill	93,300	93,368
Other intangible assets	18,516	19,472
Deferred income taxes	2,719	2,683
Other assets	13,742	21,226
Total assets	$ 672,754	$ 633,394

See accompanying notes.

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

	September 30, 2019	June 30, 2019
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 96,984	$ 114,647
Billings on uncompleted contracts in excess of costs and estimated earnings	130,191	105,626
Accrued wages and benefits	34,214	38,357
Accrued insurance	9,539	9,021
Operating lease liabilities	8,660	—
Income taxes payable	—	2,517
Other accrued expenses	5,721	5,331
Total current liabilities	285,309	275,499
Deferred income taxes	2,346	298
Operating lease liabilities	15,998	—
Borrowings under senior secured revolving credit facility	11,366	5,347
Other liabilities	308	293
Total liabilities	315,327	281,437
Commitments and contingencies		
Stockholders’ equity:		
Common stock—$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of September 30, 2019 and June 30, 2019; 27,131,446 and 26,807,203 shares outstanding as of September 30, 2019 and June 30, 2019	279	279
Additional paid-in capital	132,936	137,712
Retained earnings	245,627	239,476
Accumulated other comprehensive loss	(8,145)	(7,751)
	370,697	369,716
Less: Treasury stock, at cost — 756,771 shares as of September 30, 2019, and 1,081,014 shares as of June 30, 2019	(13,270)	(17,759)
Total stockholders' equity	357,427	351,957
Total liabilities and stockholders’ equity	$ 672,754	$ 633,394

See accompanying notes.

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

	Three Months Ended	
	September 30, 2019	September 30, 2018
Operating activities:		
Net income	$ 6,151	$ 2,305
Adjustments to reconcile net income to net cash provided by operating activities, net of effects from acquisitions and disposals:		
Depreciation and amortization	4,779	4,543
Stock-based compensation expense	3,024	2,585
Deferred income tax	1,990	362
Gain on disposal of business	—	(427)
Gain on sale of property, plant and equipment	(93)	(171)
Provision for uncollectible accounts	224	76
Other	84	101
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions and disposals:		
Accounts receivable	3,594	(11,284)
Costs and estimated earnings in excess of billings on uncompleted contracts	30,087	302
Inventories	456	(1,369)
Other assets and liabilities	(297)	(10,860)
Accounts payable	(15,240)	15,261
Billings on uncompleted contracts in excess of costs and estimated earnings	24,565	(2,229)
Accrued expenses	(3,220)	9,624
Net cash provided by operating activities	56,104	8,819
Investing activities:		
Capital expenditures	(8,684)	(2,482)
Proceeds from disposal of business	—	3,693
Proceeds from asset sales	151	267
Net cash provided (used) by investing activities	$ (8,533)	$ 1,478

See accompanying notes.

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

	Three Months Ended	
	September 30, 2019	September 30, 2018
Financing activities:		
Advances under senior secured revolving credit facility	$ 8,984	$ 2,298
Repayments of advances under senior secured revolving credit facility	(2,872)	(765)
Issuances of common stock	—	128
Proceeds from issuance of common stock under employee stock purchase plan	83	78
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(3,394)	(1,559)
Net cash provided by financing activities	2,801	180
Effect of exchange rate changes on cash and cash equivalents	(198)	202
Increase in cash and cash equivalents	50,174	10,679
Cash and cash equivalents, beginning of period	89,715	64,057
Cash and cash equivalents, end of period	$ 139,889	$ 74,736
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 5,069	$ 66
Interest	$ 417	$ 456
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	$ 263	$ 274

See accompanying notes.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Total
Balances, July 1, 2019	$ 279	$ 137,712	$ 239,476	$ (17,759)	$ (7,751)	$ 351,957
Net income	—	—	6,151	—	—	6,151
Other comprehensive loss	—	—	—	—	(394)	(394)
Issuance of deferred shares (494,274 shares)	—	(7,813)	—	7,813	—	—
Treasury shares sold to Employee Stock Purchase Plan (4,053 shares)	—	13	—	70	—	83
Treasury shares purchased to satisfy tax withholding obligations (174,084 shares)	—	—	—	(3,394)	—	(3,394)
Stock-based compensation expense	—	3,024	—	—	—	3,024
Balances, September 30, 2019	$ 279	$ 132,936	$ 245,627	$ (13,270)	$ (8,145)	$ 357,427
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
Exercise of stock options (12,500 shares)	—	(126)	—	254	—	128
Issuance of deferred shares (221,775 shares)	—	(4,768)	—	4,768	—	—
Treasury shares sold to Employee Stock Purchase Plan (4,323 shares)	—	(4)	—	82	—	78
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

See accompanying notes.

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

Note 1 – Basis of Presentation and Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. The information furnished reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2019, included in the Company’s Annual Report on Form 10-K for the year then ended. The results of operations for the three-month period ended September 30, 2019 may not necessarily be indicative of the results of operations for the full year ending June 30, 2020.

Significant Accounting Policies

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

Leases

Adoption of New Leases Standard

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

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

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

Lease Accounting Policy

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

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

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

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

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

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

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

Recently Issued Accounting Standards

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

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

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

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

Note 2 – Revenue

Remaining Performance Obligations

The Company had $756.7 million of remaining performance obligations yet to be satisfied as of September 30, 2019. The Company expects to recognize approximately $637.6 million of its remaining performance obligations as revenue within the next twelve months.

Contract Balances

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

	September 30, 2019	June 30, 2019	Change
		(in thousands)	
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 65,996	$ 96,083	$ (30,087)
Billings on uncompleted contracts in excess of costs and estimated earnings	(130,191)	(105,626)	(24,565)
Net contract liabilities	$ (64,195)	$ (9,543)	$ (54,652)

The difference between the beginning and ending balances of the Company's CIE and BIE primarily results from the timing of revenue recognized relative to its billings. The amount of revenue recognized during the three months ended September 30, 2019 that was included in the prior period BIE balance was $72.0 million. This revenue consists primarily of work performed during the period on contracts with customers that had advance billings.

Progress billings in accounts receivable at September 30, 2019 and June 30, 2019 included retentions to be collected within one year of $31.3 million and $21.9 million, respectively. Contract retentions collectible beyond one year are included in other assets in the Condensed Consolidated Balance Sheet and totaled $10.4 million as of September 30, 2019 and $17.7 million as of June 30, 2019.

Disaggregated Revenue

Revenue disaggregated by reportable segment is presented in Note 9 - Segment Information. The following series of tables presents revenue disaggregated by geographic area where the work was performed and by contract type:

Geographic Disaggregation:

	Three Months Ended	
	September 30, 2019	September 30, 2018
	(In thousands)	
United States	$ 314,416	$ 310,137
Canada	21,170	7,081
Other international	2,511	1,293
Total Revenue	$ 338,097	$ 318,511

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

Contract Type Disaggregation:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
	(In thousands)	
Fixed-price contracts	$ 176,320	$ 179,122
Time and materials and other cost reimbursable contracts	161,777	139,389
Total Revenue	$ 338,097	$ 318,511

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

Note 3 – Leases

The Company enters into lease arrangements for real estate, construction equipment and information technology equipment in the normal course of business. Real estate leases accounted for approximately 83% of all right-of-use assets as of September 30, 2019. Most real estate and information technology equipment leases generally have fixed payments that follow an agreed upon payment schedule and have remaining lease terms ranging from less than a year to 16 years. Construction equipment leases generally have "month-to-month" lease terms that automatically renew as long as the equipment remains in use.

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

Lease expense	Location of Expense in Statements of Income	Three Months Ended September 30, 2019 (in thousands)
Operating lease expense	Cost of revenues and selling, general and administrative expenses	$ 3,117
Short-term lease expense[1]	Cost of revenues	9,608
Total lease expense		$ 12,725

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

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

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

	September 30, 2019
Maturity Analysis[1]:	(in thousands)
Remainder of Fiscal 2020	$ 7,446
Fiscal 2021	6,483
Fiscal 2022	4,828
Fiscal 2023	3,141
Fiscal 2024	1,519
Thereafter	5,024
Total future operating lease payments	28,441
Less: imputed interest	(3,783)
Net present value of future lease payments	24,658
Less: current portion of operating lease liabilities	8,660
Non-current operating lease liabilities	$ 15,998

(1) This analysis does not include a lease that has been executed, but is not expected to commence until December 2019. This lease has a 10 year term and future minimum lease payments of $11.9 million.

The following is a summary of the weighted average remaining operating lease term and weighted average discount rate as of September 30, 2019:

Weighted-average remaining lease term (in years)	5.1
Weighted-average discount rate	5.6%

Supplemental cash flow information related to leases is as follows:

	Three Months Ended September 30, 2019
	(in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 3,134
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	$ 26,399

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

Note 4 – Intangible Assets Including Goodwill

Goodwill

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

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
			(In thousands)		
Net balance at June 30, 2019	$ 24,830	$ 30,829	$ 16,736	$ 20,973	$ 93,368
Translation adjustment[1]	(13)	—	(53)	(2)	(68)
Net balance at September 30, 2019	$ 24,817	$ 30,829	$ 16,683	$ 20,971	$ 93,300

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

The Company tests its goodwill for impairment annually in May. The Company did not note any impairment indicators as of September 30, 2019. However, if our market view of project opportunities or gross margins deteriorates, then an interim goodwill impairment test will be performed, which could result in the recognition of an impairment to goodwill.

Other Intangible Assets

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

		At September 30, 2019		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)		(In thousands)	
Intellectual property	10 to 15	$ 2,579	$ (1,823)	$ 756
Customer-based	6 to 15	38,525	(20,773)	17,752
Non-compete agreements	4	1,453	(1,445)	8
Total amortizing intangible assets		$ 42,557	$ (24,041)	$ 18,516

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

Amortization expense totaled $0.9 million and $0.8 million during the three months ended September 30, 2019 and September 30, 2018, respectively.

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

We estimate that the remaining amortization expense related to September 30, 2019 amortizing intangible assets will be as follows (in thousands):

Period ending:		
Remainder of Fiscal 2020	$	2,819
Fiscal 2021		3,743
Fiscal 2022		2,899
Fiscal 2023		2,447
Fiscal 2024		2,134
Fiscal 2025		1,739
Thereafter		2,735
Total estimated remaining amortization expense at September 30, 2019	$	18,516

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 sublimit for revolving loans and letters of credit 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 total letters of credit.

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

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

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

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

The Credit Agreement includes a Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, or "Covenant EBITDA," over the previous four quarters. For the four quarters ended September 30, 2019, Covenant EBITDA was $75.9 million. Consolidated Funded Indebtedness at September 30, 2019 was $59.4 million.

Availability under the senior secured revolving credit facility at September 30, 2019 was as follows:

	September 30, 2019	June 30, 2019
	(In thousands)	
Senior secured revolving credit facility	$ 300,000	$ 300,000
Capacity constraint due to the Leverage Ratio	72,174	94,323
Capacity under the credit facility	227,826	205,677
Letters of credit	48,040	48,147
Borrowings outstanding	11,366	5,347
Availability under the senior secured revolving credit facility	$ 168,420	$ 152,183

At September 30, 2019, the Company was in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

Note 6 – Income Taxes

Effective Tax Rate

Our effective tax rate for the three months ended September 30, 2019 was 30.6%, compared to 16.4% for the same period a year ago. We expected our fiscal 2020 effective tax rate to be approximately 27.0%. The effective tax rate in fiscal 2020 was negatively impacted by $0.3 million of excess tax expense related to the vesting of stock-based compensation. 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.

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 $8.5 million at September 30, 2019 and $10.1 million at June 30, 2019. Generally, collection of amounts related to unpriced change orders and claims is expected within twelve months. However, since customers may not pay these amounts until final resolution of related claims, collection of these amounts may extend beyond one year.

Other

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

Note 8 – Earnings per Common Share

Basic earnings per share ("Basic EPS") is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share ("Diluted EPS") includes the dilutive effect of stock options and nonvested deferred shares.

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

	Three Months Ended	
	September 30, 2019	September 30, 2018
	(In thousands, except per share data)	
Basic EPS:		
Net income	$ 6,151	$ 2,305
Weighted average shares outstanding	26,935	26,921
Basic earnings per share	$ 0.23	$ 0.09
Diluted EPS:		
Weighted average shares outstanding – basic	26,935	26,921
Dilutive stock options	25	31
Dilutive nonvested deferred shares	615	637
Diluted weighted average shares	27,575	27,589
Diluted earnings per share	$ 0.22	$ 0.08

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

	Three Months Ended	
	September 30, 2019	September 30, 2018
	(In thousands)	
Nonvested deferred shares	269	167
Total antidilutive securities	269	167

Note 9 – Segment Information

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

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

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

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

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

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

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

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

Results of Operations

(In thousands)

	Three Months Ended	
	September 30, 2019	September 30, 2018
Gross revenues		
Electrical Infrastructure	$ 31,532	$ 44,701
Oil Gas & Chemical	57,786	75,562
Storage Solutions	150,752	113,767
Industrial	99,287	85,557
Total gross revenues	$ 339,357	$ 319,587
Less: Inter-segment revenues		
Oil Gas & Chemical	$ 256	$ 71
Storage Solutions	685	1,005
Industrial	319	—
Total inter-segment revenues	$ 1,260	$ 1,076
Consolidated revenues		
Electrical Infrastructure	$ 31,532	$ 44,701
Oil Gas & Chemical	57,530	75,491
Storage Solutions	150,067	112,762
Industrial	98,968	85,557
Total consolidated revenues	$ 338,097	$ 318,511
Gross profit		
Electrical Infrastructure	$ 104	$ 3,383
Oil Gas & Chemical	3,635	5,625
Storage Solutions	21,055	9,553
Industrial	7,671	4,860
Total gross profit	$ 32,465	$ 23,421
Operating income (loss)		
Electrical Infrastructure	$ (1,844)	$ 657
Oil Gas & Chemical	(1,773)	514
Storage Solutions	9,452	285
Industrial	2,939	764
Total operating income	$ 8,774	$ 2,220

Total assets by segment were as follows:

	September 30, 2019	June 30, 2019
Electrical Infrastructure	$ 137,643	$ 155,880
Oil Gas & Chemical	93,866	91,959
Storage Solutions	206,144	188,912
Industrial	68,091	90,336
Unallocated assets	167,010	106,307
Total segment assets	$ 672,754	$ 633,394

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

CRITICAL ACCOUNTING POLICIES

Except for the new accounting policy for leases described below, there have been no material changes in our critical accounting policies from those reported in our fiscal 2019 Annual Report on Form 10-K filed with the SEC. For more information on our critical accounting policies, see Part II, Item 7 of our fiscal 2019 Annual Report on Form 10-K. The following section provides certain information with respect to our critical accounting policies as of the close of our most recent quarterly period.

Revenue Recognition

General Information about our Contracts with Customers

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

Step 1: Contract Identification

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

Step 2: Identify Performance Obligations

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

Step 3: Determine Contract Price

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

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

Step 4: Assign Contract Price to Performance Obligations

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

Step 5: Recognize Revenue as Performance Obligations are Satisfied

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

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

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

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

Change Orders

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

Claims

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

Unpriced Change Orders and Claims

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unpriced change orders and claims of $8.5 million at September 30, 2019 and $10.1 million at June 30, 2019. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings.

Loss Contingencies

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

Legal costs are expensed as incurred.

Goodwill

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

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

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

The Company tests its goodwill for impairment annually in May. The Company did not note any impairment indicators as of September 30, 2019. However, if our market view of project opportunities or gross margins deteriorates, then an interim goodwill impairment test will be performed, which could result in the recognition of an 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.

Leases

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

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

Recently Issued Accounting Standards

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

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

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

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

RESULTS OF OPERATIONS

Overview

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

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

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

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

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

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Consolidated

Consolidated revenue was $338.1 million for the three months ended September 30, 2019, compared to $318.5 million in the same period in the prior fiscal year. On a segment basis, consolidated revenue increased in the Storage Solutions and Industrial segments by $37.3 million and $13.4 million, respectively. These increases were partially offset by decreases in consolidated revenue for the Oil Gas & Chemical and Electrical Infrastructure segments of $18.0 million and $13.2 million, respectively.

Consolidated gross profit increased to $32.5 million in the three months ended September 30, 2019 compared to $23.4 million in the same period in the prior fiscal year. Gross margin increased to 9.6% in the three months ended September 30, 2019 compared to 7.4% in the same period in the prior fiscal year. Fiscal 2020 gross margin was positively impacted by strong project execution in the Storage Solutions segment. In the Electrical Infrastructure and Oil Gas & Chemical segments, results were negatively impacted by lower than previously expected margins on a project in each of these segments and lower revenues in both segments, which led to the under recovery of construction overhead costs.

Consolidated SG&A expenses were $23.7 million in the three months ended September 30, 2019 compared to $21.2 million in the same period a year earlier. The increase was primarily due to improved operating results, which led to higher incentive compensation expense, and other investments to support the business.

Interest expense was $0.4 million in the three months ended September 30, 2019 compared to $0.3 million in the same period a year ago. The increase was due to a higher average debt balance during the three months ended September 30, 2019. Interest income was $0.5 million in the three months ended September 30, 2019 compared to $0.3 million in the same period a year ago due to an increase in our average cash balance.

Our effective tax rate for the three months ended September 30, 2019 was 30.6%, compared to 16.4% for the same period a year ago. We expected our fiscal 2020 effective tax rate to be approximately 27.0%. The effective tax rate in fiscal 2020 was negatively impacted by $0.3 million of excess tax expense related to the vesting of stock-based compensation. 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.

For the three months ended September 30, 2019, net income and the related fully diluted earnings per share were $6.2 million and $0.22, compared to $2.3 million and $0.08 in the same period a year earlier.

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment decreased $13.2 million to $31.5 million in the three months ended September 30, 2019 compared to $44.7 million in the same period a year earlier. The decrease is primarily due to lower volumes of power delivery and power generation package work. The segment gross margin was 0.3% in fiscal 2020 and 7.6% in fiscal 2019. The fiscal 2020 segment gross margin was negatively impacted by a charge on a transmission and distribution upgrade project due to lower than expected productivity and craft retention incentives, and lower volumes, which led to the under recovery of construction overhead costs. The fiscal 2019 segment gross margin was negatively impacted by lower margin work 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 $57.5 million in the three months ended September 30, 2019 compared to $75.5 million in the same period a year earlier. The decrease of $18.0 million is primarily due to lower volumes of capital, turnaround, and repair and maintenance work. The segment gross margin was 6.3% for the three months ended September 30, 2019 compared to 7.5% in the same period last year. The fiscal 2020 segment gross margin was negatively impacted by a lower than previously expected margin on a capital project due to purchased equipment that was found to be under performing during start-up and commissioning. In addition, lower volumes led to the under recovery of construction overhead costs. The fiscal 2019 segment gross margin was negatively impacted by a higher mix of lower margin maintenance work, partially offset by higher volumes, which led to better recovery of overhead costs.

Storage Solutions

Revenue for the Storage Solutions segment was $150.1 million in the three months ended September 30, 2019 compared to $112.8 million in the same period a year earlier, an increase of $37.3 million. The increase in segment revenue is primarily a result of increased tank and terminal construction work, and higher levels of repair and maintenance spending. The segment gross margin was 14.0% in the three months ended September 30, 2019 and 8.5% in the three months ended September 30, 2018. The fiscal 2020 segment gross margin was positively impacted by strong project execution on large capital projects. The fiscal 2019 segment gross margin was negatively impacted by a mix of lower margin work that was bid in a highly competitive environment in prior periods and lower than previously forecasted margins on a limited number of those projects.

Industrial

Revenue for the Industrial segment increased $13.4 million to $99.0 million in the three months ended September 30, 2019 compared to $85.6 million in the same period a year earlier. The increase in revenue is primarily attributable to higher volumes of iron and steel work, partially offset by lower volumes of thermal vacuum chamber work. The segment gross margin was 7.8% in the three months ended September 30, 2019 compared to 5.7% in the same period a year earlier. The fiscal 2020 segment gross margin was positively impacted by good project execution on both capital and repair and maintenance work. The fiscal 2019 segment gross margin was negatively impacted by lower than previously forecasted margins on a thermal vacuum chamber 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, limited notice to proceed or other type of assurance that we consider firm. The following arrangements are considered firm:

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

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

The following table provides a summary of changes in our backlog for the three months ended September 30, 2019:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
			(In thousands)		
Backlog as of June 30, 2019	$ 73,883	$ 134,563	$ 641,295	$ 248,608	$ 1,098,349
Project awards	30,312	91,160	143,467	56,749	321,688
Revenue recognized	(31,532)	(57,530)	(150,067)	(98,968)	(338,097)
Backlog as of September 30, 2019	$ 72,663	$ 168,193	$ 634,695	$ 206,389	$ 1,081,940
Book-to-bill ratio[1]	1.0	1.6	1.0	0.6	1.0

(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 only represents an interim period and may not be indicative of full year awards.

Seasonality and Other Factors

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

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

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

Non-GAAP Financial Measure

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, 2019	September 30, 2018
	(In thousands)	
Net income	$ 6,151	$ 2,305
Interest expense	389	292
Provision for income taxes	2,711	451
Depreciation and amortization	4,779	4,543
EBITDA	$ 14,030	$ 7,591

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, 2019 were cash and cash equivalents on hand, capacity under our senior secured revolving credit facility and cash and cash equivalents generated from operations before consideration of changes in working capital. Cash and cash equivalents on hand at September 30, 2019 totaled $139.9 million and availability under the senior secured revolving credit facility totaled $168.4 million resulting in available liquidity of $308.3 million as of September 30, 2019. The Company's liquidity continues to be adequate to support its short-term needs and long-term strategic growth plans.

The following table provides a summary of changes in our liquidity for the three months ended September 30, 2019 (in thousands):

Liquidity as of June 30, 2019	$ 241,898
Net increase in cash and cash equivalents	50,174
Decrease in credit facility capacity constraint	22,149
Increase in net borrowings on credit facility	(6,019)
Decrease in letters of credit outstanding	107
Liquidity as of September 30, 2019	$ 308,309

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

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

- Changes in costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs due to contract terms that determine the timing of billings to customers and the collection of those billings:
  - Some cost plus and fixed price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collections from our customers.
  - Some fixed price customer contracts allow for significant upfront billings at the beginning of a project, which temporarily increases liquidity near term.
  - Time and material contracts are normally billed in arrears. Therefore, we are routinely required to carry these costs until they can be billed and collected.
  - Some of our large construction projects may require security in the form of letters of credit or significant retentions. The timing of collection of retentions is often uncertain.

- Other changes in working capital.
- Capital expenditures.

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

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

Cash Flow for the Three Months Ended September 30, 2019

Cash Flows Provided by Operating Activities

Cash provided by operating activities for the three months ended September 30, 2019 totaled $56.1 million. The various components are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net income	$	6,151
Non-cash expenses		7,934
Deferred income tax		1,990
Cash effect of changes in working capital		39,945
Other		84
Net cash provided by operating activities	$	56,104

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

- Accounts receivable, net of bad debt expense recognized during the period, decreased $3.6 million during the three months ended September 30, 2019, which increased cash flows from operating activities. The variance is primarily attributable to the timing of billing and collections.
- Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") decreased $30.1 million, which increased cash flows from operating activities. Billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") increased $24.6 million, which increased cash flows from operating activities. CIE and BIE balances can experience significant fluctuations based on the timing of when job costs are incurred and the invoicing of those job costs to the customer.
- Prepaid expenses and other assets decreased $3.5 million, which increased cash flows from operating activities.
- Accounts payable and accrued expenses decreased by $18.5 million during the three months ended September 30, 2019, which decreased cash flows from operating activities. The variance is primarily attributable to the timing of vendor payments.
- Income tax payable decreased $3.8 million, which decreased cash flows from operating activities.

Cash Flows Used by Investing Activities

Investing activities used $8.5 million of cash in the three months ended September 30, 2019 primarily due to $8.7 million of capital expenditures, partially offset by $0.2 million of proceeds from other assets sales. Capital expenditures consisted of: $4.8 million for transportation equipment, $2.0 million for software and office equipment, $1.7 million for construction and fabrication equipment, and $0.2 million for facilities.

Cash Flows Provided by Financing Activities

Financing activities provided $2.8 million of cash in the three months ended September 30, 2019 primarily due to net borrowings of $6.1 million under the Company's Senior Secured Revolving Credit Facility, partially offset by the repurchase of $3.4 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 sublimit for revolving loans and letters of credit 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 total letters of credit.

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

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

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

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

The Credit Agreement includes a Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, or "Covenant EBITDA," over the previous four quarters. For the four quarters ended September 30, 2019, Covenant EBITDA was $75.9 million. Consolidated Funded Indebtedness at September 30, 2019 was $59.4 million.

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

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

Availability under the senior secured revolving credit facility at September 30, 2019 was as follows:

	September 30, 2019	June 30, 2019
	(In thousands)	
Senior secured revolving credit facility	$ 300,000	$ 300,000
Capacity constraint due to the Leverage Ratio	72,174	94,323
Capacity under the credit facility	227,826	205,677
Letters of credit	48,040	48,147
Borrowings outstanding	11,366	5,347
Availability under the senior secured revolving credit facility	$ 168,420	$ 152,183

At September 30, 2019, the Company was in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

Dividend Policy

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

Stock Repurchase Program and Treasury Shares

Treasury Shares

On November 6, 2018, the Board of Directors approved a 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 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. As of September 30, 2019, no shares have been repurchased under the November 2018 Program during the 2019 calendar year and there were 2,396,643 shares available for repurchase.

The Company has 756,771 treasury shares as of September 30, 2019 and intends to utilize these treasury shares in connection with equity awards under the Company’s stock incentive plans and for sales to the Employee Stock Purchase Plan.

FORWARD-LOOKING STATEMENTS

This Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-Q which address activities, events or developments which we expect, believe or anticipate will or may occur in the future are forward-looking statements. The words “believes,” “intends,” “expects,” “anticipates,” “projects,” “estimates,” “predicts” and similar expressions are also intended to identify forward-looking statements.

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

- our ability to generate sufficient cash from operations, access our credit facility, or raise cash in order to meet our short and long-term capital requirements;
- the impact to our business of changes in crude oil, natural gas and other commodity prices;
- amounts and nature of future revenues and margins from each of our segments;
- trends in the industries we serve;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- expansion and other trends of the industries we serve;
- 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, 2019 and listed from time to time in our filings with the Securities and Exchange Commission;
- economic, market or business conditions in general and in the oil, natural gas, power, iron and steel, agricultural and mining industries in particular;
- the under-utilization of our work force;
- delays in the commencement of major projects, whether due to permitting issues or other factors;
- reduced creditworthiness of our customer base and the higher risk of non-payment of receivables due to volatility of crude oil, natural gas, steel and other commodity prices to which our customers' businesses are affected;
- the inherently uncertain outcome of current and future litigation;
- the adequacy of our reserves for claims and contingencies;
- changes in laws or regulations, including the imposition or threatened imposition, cancellation or delay of tariffs on imported goods; and
- other factors, many of which are beyond our control.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2019 Annual Report on Form 10-K.

Item 4. Controls and Procedures

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

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2019. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2019.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended September 30, 2019.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes in our Risk Factors from those reported in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019.

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

Issuer Purchases of Equity Securities

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

	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (C)
July 1 to July 31, 2019					
Share Repurchase Program (A)	—	$	—	—	2,396,643
Employee Transactions (B)	287	$	20.38	—	—
August 1 to August 31, 2019					
Share Repurchase Program (A)	—	$	—	—	2,396,643
Employee Transactions (B)	173,797	$	19.49	—	—
September 1 to September 30, 2019					
Share Repurchase Program (A)	—	$	—	—	2,396,643
Employee Transactions (B)	—	$	—	—	—

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

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

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

Dividend Policy

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

Table of Contents

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

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

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

Item 5. Other Information

None

Item 6. Exhibits:

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

Exhibit No.	Description
Exhibit 10:	Form of Indemnification Agreement.
Exhibit 31.1:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
Exhibit 31.2:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
Exhibit 32.1:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
Exhibit 32.2:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
Exhibit 95:	Mine Safety Disclosure.
Exhibit 101.INS:	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH:	XBRL Taxonomy Schema Document.
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase Document.
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase Document.
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURE

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

		MATRIX SERVICE COMPANY
Date:	November 7, 2019	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

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this “Agreement”) is made and entered into as of the ___ day of __________, 2019, by and between Matrix Service Company, a Delaware corporation (the “Company”), and ____________________ (“Indemnitee”).

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available;

WHEREAS, Indemnitee is an officer and/or director of the Company or of an entity in which the Company directly or indirectly owns an interest;

WHEREAS, both the Company and Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and officers of corporations in the current environment;

WHEREAS, the Certificate of Incorporation and Bylaws of the Company (the “Charter Documents”) require the Company to indemnify and advance expenses to its officers and directors to the fullest extent permitted under Delaware law and Indemnitee has agreed to serve or has served and continues to serve in such capacity, in part, in reliance on the Charter Documents; and

WHEREAS, in recognition of Indemnitee’s need for (i) substantial protection against personal liability based on Indemnitee’s reliance on the Charter Documents, (ii) specific contractual assurance that the protection promised by the Charter Documents will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Charter Documents or any change in the composition of the Company’s Board of Directors or acquisition transaction relating to the Company) and (iii) an inducement to agreeing to or to continue to provide effective services to the Company, the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted under Delaware law and as set forth in this Agreement, and for the coverage of Indemnitee under the Company’s directors’ and officers’ liability insurance policies.

NOW, THEREFORE, in consideration of the premises and of Indemnitee’s agreeing to or continuing to serve the Company directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain Definitions:

(a) “Change in Control” means and shall be deemed to have occurred if (i) any Person is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the total voting power of all the then outstanding Voting Securities, (ii) any Person purchases or otherwise acquires under a tender offer, securities representing thirty percent (30%) or more of the total voting power of all the then outstanding Voting Securities, (iii) during any period of two (2) consecutive years, individuals (a) who at the beginning of such period constitute the Board of Directors of the Company and (b) any new director whose election by the Company’s Board of Directors or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved (but excluding, for purposes of this definition, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Company’s Board of Directors), cease for any reason to constitute a majority of the members of the Company’s Board of Directors, (iv) the stockholders of the Company approve a merger or consolidation of the Company with another entity, other than a merger or consolidation which would result in the Voting Securities outstanding immediately prior thereto continuing to represent, either by remaining outstanding or by being converted into voting securities of the surviving entity (or if the surviving entity is a subsidiary of another entity, then of the parent entity of such surviving entity), at least sixty percent (60%) of the total voting power represented by the voting securities of the surviving entity (or parent entity) outstanding immediately after such merger or consolidation, or (v) the stockholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company (in one transaction or a series of transactions) of all or substantially all of the Company’s assets.

(b) “Claim” shall mean any threatened, pending or completed action, suit, proceeding, alternative dispute resolution mechanism, hearing or any inquiry or investigation, whether formal or informal, and whether conducted by the Company, any federal, state, local or foreign governmental agency or authority (including without limitation, the Securities and Exchange Commission) or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.

(c) “Expenses” shall include reasonable attorneys’ and experts’ fees, court costs, transcript costs, travel expenses, duplicating, printing and binding costs, telephone charges, and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in, participating in (including on appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event. Expenses shall also include (i) Expenses incurred in connection with any appeal resulting from any Claim, including without limitation, the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent, and (ii) for purposes of Section 5 only, Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee’s rights under this Agreement, by litigation or otherwise. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(d) “Indemnifiable Event” shall mean any event or occurrence that takes place either prior to or after the execution of this Agreement related to the fact that Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company or any subsidiary of the Company, or is or was serving at the request (expressed or implied) of the Company as a director, officer, employee, manager, trustee, agent or fiduciary of another corporation, limited liability company, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity (whether or not serving in such capacity at the time any loss is incurred for which indemnification can be provided under this Agreement).

(e) “Losses” shall mean any and all Expenses, damages, losses, liabilities, judgments, fines, penalties (whether civil, criminal or other), ERISA excise taxes, amounts paid or payable in settlement, including any interest, assessments, and all other charges paid or payable in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness or participate in, any Claim.

(f) “Person” shall mean any person, as such term is used in Sections 13(d) and 14(d) of the Exchange Act, but excluding therefrom a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(g) “Potential Change in Control” shall be deemed to have occurred if (i) the Company enters into an agreement the consummation of which would result in the occurrence of a Change in Control; (ii) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; or (iii) the Board of Directors of the Company adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(h) “Reviewing Party” shall mean any appropriate person or body consisting of a member or members of the Company’s Board of Directors or any other person or body appointed by the Company’s Board of Directors (including the Independent Counsel referred to in Section 3 below) who is not a party to the particular Claim for which Indemnitee is seeking indemnification.

(i) “Voting Securities” shall mean any securities of the Company which vote generally in the election of directors.

2. <u>Basic Indemnification Arrangement</u>.

(a) In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee to the fullest extent permitted by law, as the same exists or hereafter may be amended or interpreted (but in the case of any such amendment or interpretation, only to the extent that such amendment or interpretation permits the Company to provide broader indemnification rights than were provided prior thereto), promptly upon the receipt of written demand, against any and all Losses. If so requested by Indemnitee, the Company shall advance any and all Expenses to Indemnitee (whether such funds are paid directly on Indemnitee’s behalf, advanced to Indemnitee in an amount sufficient pay such Expenses or reimbursed to Indemnitee after Indemnitee pays such Expenses, an “Expense Advance”). Indemnitee’s right to an Expense Advance is not subject to the satisfaction of any standard of conduct. Without limiting the generality of the foregoing, unless payment in full has actually been made to or on behalf of Indemnitee under any insurance policy or Other Indemnity Provision (as defined in Section 11 below), within ten (10) business days after any request by Indemnitee, the Company shall, in accordance with such request, (i) pay such Expenses on behalf of Indemnitee, (ii) advance to Indemnitee funds in an amount sufficient to pay such Expenses, or (iii) reimburse Indemnitee for such Expenses. Notwithstanding anything in this Agreement to the contrary (except as set forth in Section 5), prior to a Change in Control, Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any claim initiated by Indemnitee against the Company or any director or officer of the Company unless the Company has joined in or the Board of Directors of the Company has consented to the initiation of such claim.

(b) Notwithstanding the foregoing, (i) the obligations of the Company under Section 2(a) (other than the obligations of the Company to Indemnitee to make an Expense Advance and the obligations of the Company to Indemnitee if Indemnitee was, is, or is threatened to be made a witness in a Claim), shall be subject to the condition that the Reviewing Party shall not have determined subsequent to the final disposition of any Claim (in a written legal opinion if the Independent Counsel referred to in Section 3 below is involved) that indemnification of Indemnitee would not be permitted under applicable law, provided, that to be effective any such denial of indemnity must be in writing, delivered to the Indemnitee, stating with particularity the reason for such denial; and (ii) if, when and to the extent that the Reviewing Party determines subsequent to the final disposition of any Claim that indemnification of Indemnitee would not be permitted under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such Expense Advances theretofore paid; provided, however, that if Indemnitee has commenced legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that indemnification of Indemnitee would not be permitted under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnitee's obligation to reimburse the Company for any Expense Advance shall be unsecured and no interest shall be charged thereon.

(c) If there has not been a Change in Control, the Reviewing Party shall be selected by the Board of Directors of the Company, and if there has been such a Change in Control, the Reviewing Party shall be the Independent Counsel referred to in Section 3 below. The Company shall use its reasonable best efforts to cause the Reviewing Party to make its determination as promptly as possible. If the Reviewing Party shall not have made a determination within 60 days after the final disposition of any Claim, then Indemnitee shall be deemed to have satisfied the applicable standard of conduct; provided that such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the Reviewing Party in good faith requires such additional time to obtain or evaluate information relating thereto. Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement of Indemnitee to indemnification under this Agreement shall be required to be made prior to the final disposition of any Claim. If the Reviewing Party determines that indemnification of Indemnitee would not be permitted in whole or in part under applicable law, Indemnitee shall have the right to commence litigation, in any court in the State of Delaware having subject matter jurisdiction thereof and in which venue is proper, seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof. The Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party not challenged by the Indemnitee shall be conclusive and binding on the Company and Indemnitee.

(d) No indemnification pursuant to this Agreement shall be paid by the Company on account of any Claim in which a final judgment is rendered against Indemnitee or Indemnitee enters into a settlement, in each case, (i) for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Exchange Act or similar provisions of any federal, state or local laws; (ii) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or Other Indemnity Provision (as defined in Section 11 below), except with respect to any excess beyond the amount paid under any insurance policy or Other Indemnity Provision; or (iii) for which payment is prohibited by law.

3. Change in Control. The Company agrees that if there is a Change in Control, then, with respect to all matters thereafter arising concerning the rights of Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement or the Charter Documents now or hereafter in effect relating to Claims for Indemnifiable Events, the Company shall seek legal advice only from special, independent counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld or delayed), which counsel has not otherwise performed services for the Company or Indemnitee within the last five (5) years (other than in connection with such matters) (the "Independent Counsel"). The Independent Counsel shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to

whether and to what extent the Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or such counsel's engagement pursuant hereto.

4. Establishment of Trust. In the event of a Potential Change in Control, the Company shall promptly, upon written request by Indemnitee, create a trust for the benefit of Indemnitee (the "Trust") and, from time to time upon written request by Indemnitee, shall fund the Trust in an amount sufficient to satisfy (a) any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for and defending any Claim relating to an Indemnifiable Event, and (b) any and all judgments, fines, penalties and settlement amounts of any and all Claims relating to an Indemnifiable Event from time to time actually paid or claimed, reasonably anticipated or proposed to be paid. The terms of the Trust shall provide that, upon a Change in Control, (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnitee; (ii) the trustee of the Trust (the "Trustee"), shall advance to Indemnitee, within ten (10) business days of a request by Indemnitee, any and all Expenses and Indemnitee hereby agrees to reimburse the Trust under the same circumstances for which Indemnitee would be required to reimburse the Company under Section 2(b) above); (iii) the Trust shall continue to be funded by the Company in accordance with the funding obligation set forth above; (iv) the Trustee shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise; and (v) all unexpended funds in the Trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be chosen by Indemnitee, with the approval of the Company (which approval shall not be unreasonably withheld or delayed). Nothing in this Section 4 shall relieve the Company of any of its obligations under this Agreement or any provision of the Charter Documents or other agreement now or hereafter in effect. The Company shall pay all costs of establishing and maintaining the Trust and shall agree to indemnify the Trustee against any and all expenses (including attorneys' fees), claims, liabilities, losses and damages arising out of or relating to this Agreement or the establishment and maintenance of the Trust.

5. Indemnification for Additional Expenses. The Company shall indemnify Indemnitee against any and all Expenses (including attorneys' fees) and, if requested by Indemnitee, shall advance such Expenses to Indemnitee, which are incurred by Indemnitee in connection with any Claim asserted against or action brought by Indemnitee for (a) indemnification or advance payment of Expenses by the Company under this Agreement or any Other Indemnity Provision; and/or (b) recovery under any directors' and officers' liability insurance policies maintained by the Company. Unless payment in full has actually been made to or on behalf of Indemnitee under any insurance policy or Other Indemnity Provision (as defined in Section 11 below), within ten (10) business days after any request by Indemnitee, the Company shall, in accordance with such request, (i) pay such Expenses on behalf of Indemnitee, (ii) advance to Indemnitee funds in an amount sufficient to pay such Expenses, or (iii) reimburse Indemnitee for such Expenses. The Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid Indemnitee under this Section 5 if, subsequent to the final disposition of any Claim asserted against or action brought by Indemnitee, Indemnitee ultimately is determined not to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

6. Partial Indemnification; Mandatory Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion, but not all, of the Losses paid in settlement of a Claim, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including without limitation dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

7. Notification and Defense of Proceeding.

(a) Promptly after receipt by Indemnitee of notice of the commencement of any Claim by reason of (or arising in part out of) an Indemnifiable Event, Indemnitee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not relieve the Company from any liability that it may have to Indemnitee, except as provided in Section 7(c).

(b) With respect to any such Claim as to which Indemnitee notifies the Company of the commencement thereof, the Company will be entitled to participate in the Claim at its own expense and, except as otherwise provided below, to the extent the Company so wishes, it may assume the defense thereof with counsel reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election to assume the defense of any Claim, the Company shall not be liable to Indemnitee under this Agreement or otherwise for any Expenses subsequently incurred by Indemnitee in connection with the defense of such Claim other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ legal counsel in such Claim, but all Expenses related thereto incurred after notice from the Company of its assumption of the defense shall be at Indemnitee’s expense unless: (i) the employment of legal counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee has reasonably determined that there may be a conflict of interest between Indemnitee and the Company in the defense of the Claim, (iii) after a Change in Control, the employment of counsel by Indemnitee has been approved by the Independent Counsel or (iv) the Company shall not in fact have employed counsel to assume the defense of such Claim, in each of which cases all Expenses of the Claim shall be borne by the Company. The Company shall not be entitled to assume the defense of any Claim brought by or on behalf of the Company, or as to which Indemnitee shall have made the determination provided for in (ii) above or under the circumstances provided for in (iii) and (iv) above.

(c) The Company shall not be liable to indemnify Indemnitee under this Agreement or otherwise for any amounts paid in settlement of any Claim effected without the Company’s written consent, such consent not to be unreasonably withheld; provided, however, that if a Change in Control has occurred, the Company shall be liable for indemnification of Indemnitee for amounts paid in settlement if the Independent Counsel has approved the settlement. The Company shall not settle any Claim in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee’s written consent. The Company shall not be liable to indemnify the Indemnitee under this Agreement with regard to any judicial award if the Company was not given a reasonable and timely opportunity as a result of Indemnitee’s failure to provide notice, at its expense, to participate in the defense of such action, and the lack of such notice materially prejudiced the Company’s ability to participate in defense of such action. The Company’s liability hereunder shall not be excused if participation in the Claim by the Company was barred by this Agreement.

8. Burden of Proof. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified hereunder the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

9. Reliance as a Safe Harbor. For purposes of this Agreement, and without creating any presumption as to a lack of good faith if the following circumstances do not exist, Indemnitee shall be deemed to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company if Indemnitee's actions or omissions to act are taken in good faith reliance upon the records of the Company, including its financial statements, or upon information, opinions, reports or statements furnished to Indemnitee by the officers or employees of the Company or any of its subsidiaries in the course of their duties, or by committees of the Board of Directors or by any other Person (including legal counsel, accountants and financial advisors) as to matters Indemnitee reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company. In addition, the knowledge and/or actions, or failures to act, of any director, officer, agent or employee of the Company shall not be imputed to Indemnitee for purposes of determining the right to indemnity hereunder.

10. No Presumption. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

11. Non-exclusivity, etc. The rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Charter Documents, applicable law, any other contract or otherwise (collectively, “Other Indemnity Provisions”); provided, however, that (a) to the extent that Indemnitee otherwise would have any greater right to indemnification under any Other Indemnity Provision, Indemnitee will be deemed to have such greater right hereunder, and (b) to the extent that any change is made to any Other Indemnity Provision which permits any greater right to indemnification that that provided by this Agreement as of the date hereof, Indemnitee will be deemed to have such greater right hereunder. To the extent that a change in applicable law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under Other Indemnity Provisions or this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

12. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors’ and officers’ liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.

13. Duration; Amendment; Waiver. All agreements and obligations of the Company hereunder shall continue during the period that Indemnitee is a director or officer of the Company (or is serving at the request of the Company as a director, officer, employee, manager, trustee, agent or fiduciary of another enterprise) and shall continue thereafter (i) so long as Indemnitee may be subject to any possible Claim relating to an Indemnifiable Event (including any rights to appeal therefrom) and (ii) throughout the pendency of any proceeding (including any rights of appeal therefrom), including any proceeding commenced by Indemnitee to enforce or interpret his or her rights under this Agreement, even if, in either case, he or she may have ceased to serve in such capacity at the time of any such Claim or proceeding. No supplement, modification or amendment of this Agreement shall be

binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

14. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including without limitation the execution of such documents as may be necessary to enable the Company effectively to bring suit to enforce such rights.

15. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against Indemnitee for an Indemnifiable Event to the extent Indemnitee has otherwise actually received payment (under any insurance policy, Other Indemnity Provisions or otherwise) of the amounts otherwise indemnifiable hereunder.

16. Binding Effect. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including without limitation any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company), assigns, spouse, heirs, and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

17. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law.

18. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such State without giving effect to its principles of conflicts of laws. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement, agree that any action instituted under this Agreement shall only be brought in the state courts of the State of Delaware, and waive, and agree not to plead or make, any claim that the courts of the State of Delaware lack venue or that any such action or proceeding brought in the courts of the State of Delaware has been brought in an improper or inconvenient forum.

19. Notices. All notices, demands and other communications required or permitted hereunder shall be made in writing and shall be deemed to have been duly given if delivered by hand, against receipt, or mailed, postage prepaid, certified or registered mail, return receipt requested and addressed to the Company at:

Matrix Service Company
5100 E. Skelly Drive
Suite 500
Tulsa, OK 74135
Attention: Vice President Legal & Risk Management

and to Indemnitee at:

The address set forth below Indemnitee's signature hereto.

Notice of change of address shall be effective only when given in accordance with this Section. All notices complying with this Section shall be deemed to have been received on the date of hand delivery or on the third business day after mailing.

20. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by Indemnitee and a duly authorized representative of the Company as of the date first above written.

MATRIX SERVICE COMPANY

By: ______________________________
Name: ____________________________
Title: ____________________________

INDEMNITEE:

____
[Indemnitee’s typed name]

Address for notices:

____
____

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 7, 2019

/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 7, 2019

/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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John R. Hewitt, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

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

Date: November 7, 2019

/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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kevin S. Cavanah, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

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

Date: November 7, 2019

/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, 2019:

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations(1)	Section 104(b) Orders(2)	Section 104(d) Citations and Orders(3)	Section 110(b)(2) Violations(4)	Section 107(a) Orders(5)	Total Dollar Value of MSHA Assessments Proposed ($)	Total Number of Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e) (6) (yes/no)	Received Notice of Potential to Have Pattern of Violations Under Section 104(e)(7) (yes/no)	Total Number of Legal Actions Pending as of Last Day of Period	Total Number of Legal Actions Initiated During Period	Total Number of Legal Actions Resolved During Period
Castle Mountain Gold Mine, Equinox Gold 04-04918	—	—	—	—	—	—	—	No	No	—	—	—

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

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

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

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

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

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

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