



**MATRIX SERVICE  
COMPANY**



# ANNUAL REPORT

**2019**

# OUR VISION

To be the **company of choice** for engineering, constructing and maintaining the **energy** and **industrial infrastructure** that **people rely on** around the world.

# OUR VALUES

## COMMITMENT TO SAFETY

Put safety first for yourself and others.  
Create a zero-incident environment through leadership.

## INTEGRITY

Do the right thing every time, ethically and honestly.

## POSITIVE RELATIONSHIPS

Be respectful, promote collaboration and build lasting relationships.

## STEWARDSHIP

Safeguard all that is entrusted to us.

## COMMUNITY INVOLVEMENT

Make a difference in the communities where we live and work.

## DELIVER THE BEST

Strive for excellence in all we do.



# TO OUR SHAREHOLDERS



In April 2019, Matrix Service Company celebrated its 35th year in business, providing an opportunity to reflect on the many achievements made by our people over the years. Through their hard work and commitment, our Company has been transformed from a regional provider of tank repair and maintenance services to a leading EPC contractor to North America's energy and industrial markets — one whose work makes life's daily necessities possible and improves quality of life for people all over the world.

Together, we have taken a disciplined approach to growth that has allowed us to acquire new skillsets and expertise, significantly increase our project capabilities and capacity, diversify our markets, and expand our geographic reach. This controlled approach has also protected our business during times when end market conditions have created considerable challenges for our customers and, in turn, for us.



In this fiscal year, with continued improvement in our customers' end markets, we saw a return of larger-scale capital construction and turnaround and plant services projects across the oil and gas, power, iron and steel, and other industrial markets. This shift, along with strong performance by our people across the Company, is reflected in our results.

For Matrix, fiscal 2019 has been a year characterized by increasing momentum.

Our end markets are strong, our project pipeline is robust, our people are best-in-class, and our vision and strategy are clear. We are well-positioned for continued revenue growth, improved profitability, and creation of sustainable long-term value for our shareholders, our customers, and our employees.





# THE YEAR IN REVIEW

As we look back on fiscal 2019, we improved our performance quarter over quarter, preserved backlog supported by solid project awards, maintained a strong balance sheet, and delivered on earnings — achievements made possible because of the resolve of our employees, the support of our Board of Directors, and the trust of our shareholders.

## REVENUE

**\$1.4B**

up 30% over the prior year

## BACKLOG

**\$1.1B**

on project awards of \$1.3B

## EPS

**\$1.01**

improved earnings performance

## LIQUIDITY

**\$242M**

up 76% in the fiscal year

We also made good progress on our multi-year strategy, focused on four key areas: Safety, People and Communication, Clients and Growth, and Execution Excellence.



## FOCUSED GROWTH AREA

Our world-class EPC storage and terminal capabilities in crude oil, LNG, and NGLs are in high demand for projects that support North America's energy abundance and the United States' leading position in the global energy market. This expertise is also advancing our position as the leading contractor of choice for mid-size LNG facilities, where significant opportunities exist for peak shaving, bunkering, and feedstock for off-grid and remote electrical generation.



## SAFETY

Our mission to achieve and maintain a zero-incident work environment is a never-ending journey that we believe is both a moral obligation and a business imperative. We continue to invest in our people, training, and processes to drive down our total recordable incident rate. We focused on engineered solutions to mitigate safety risk and implemented a world-class HSE management system that will provide better, more real time data to focus our actions to effectively improve our performance and advance our objective of zero incidents.



## PEOPLE & COMMUNICATION

Ultimately, our performance is a reflection of our commitment to our culture and core values which emphasize safety, building positive relationships, acting with stewardship and integrity, giving back to the communities where we live and work, and always delivering our best. As such, we continue to invest heavily in our people and in developing strong communication channels that will flow openly across our organization. Our executive and senior leadership, directors, and managers are actively engaged in key people initiatives focused on:

- Developing current and future workforce
- Improving hiring and selection processes
- Strengthening our learning culture
- Building an inclusive and diverse workplace
- Ensuring a harassment-free environment
- Doing all we can to promote health and wellness



## CLIENTS & GROWTH

As we take on increasing volumes of work and more complex projects, we continue to make necessary investments in people, processes, and technology.

Our world-class EPC storage and terminal capabilities in crude oil, LNG, and NGLs are in high demand for projects that support North America's energy abundance and the United States' leading position in the global energy market. This expertise is also advancing our position as the leading contractor of choice for mid-size LNG facilities, where significant opportunities exist for peak shaving, bunkering, and feedstock for off-grid and remote electrical generation. Our progress to build brand awareness and expand our service territory in midstream natural gas processing is gaining traction.

We continue to build on our strong position in North America's refineries, providing onsite maintenance and repair as well as ongoing turnarounds, capital projects, and plant services. We are also focused on extending our expertise in capital construction, turnarounds, and plant services to the petrochemical industry as it invests in new and existing facilities, primarily along the U.S. Gulf Coast.

We remain the leading contractor of choice for maintenance and repair services inside North America's integrated iron and steel facilities and for new capital projects supporting advanced high-strength steel and other next-generation processes. Our position in mining and minerals and material handling also positions us for improving opportunities when the industrial commodity demand and pricing strengthens for copper and other non-ferrous metals including gold and other rare earth minerals.

Finally, significant opportunity exists in power delivery as a result of aging infrastructure; the need for more reliable, efficient, secure, and interconnected distribution. Demand for environmentally compliant power generation fueled by low cost and abundant natural gas, is continuing to create unique opportunities to support our strategy of smaller, well-defined package work.

We will also pursue strategic and opportunistic acquisitions that are a good cultural and strategic fit.

# EXECUTION EXCELLENCE

We are actively engaged in initiatives that will allow for greater efficiencies and consistent, sustainable earnings. These initiatives include, among others, implementation of an enterprise-wide quality management system, enhanced engineering tools, improved business and project management processes, and continued strong cash management.

We are also actively at work formalizing our Sustainability Strategy to tell our story about initiatives already in place, and to expand our efforts even further. We want to thoughtfully ensure that we embed a strong Corporate Social Responsibility culture into our business strategy and processes, and that we communicate the results of our efforts to all stakeholders.

## LOOKING AHEAD

As we look ahead to fiscal 2020 and beyond, I am confident in our ability to deliver continued growth and sustainable shareholder value.

- We are working in strong, diversified markets where our services are in high demand.
- We are focused. We have a clear vision and strategy with experienced leadership, best-in-class people, and a solid culture and core values.
- We know how to execute. We put safety first, deliver on our promises, and conservatively manage our capital.

These elements — **demand, focus, and execution** — create significant momentum for higher backlog, revenue, earnings, and free cash flow.

In closing, I would like to thank our shareholders, customers, employees, and Board of Directors for your continued trust, confidence, and support.

Respectfully,



**John R. Hewitt**

President and Chief Executive Officer

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

(Mark One)

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

For the fiscal year ended June 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**  
(State or other jurisdiction of  
incorporation or organization)

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

**5100 E. Skelly Drive, Suite 500**  
**Tulsa, Oklahoma**  
(Address of Principal Executive Offices)

**74135**  
(Zip Code)

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

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

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

**Securities Registered Pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
Emerging growth company

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

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

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second quarter was approximately \$472 million.

The number of shares of the registrant's common stock outstanding as of August 30, 2019 was 27,131,446 shares.

**Documents Incorporated by Reference**

Certain sections of the registrant's definitive proxy statement relating to the registrant's 2019 annual meeting of stockholders, which definitive proxy statement will be filed within 120 days of the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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## TABLE OF CONTENTS

	<u>Page</u>
<b>Part I</b>	
Item 1. Business . . . . .	2
Item 1A. Risk Factors . . . . .	7
Item 1B. Unresolved Staff Comments . . . . .	17
Item 2. Properties . . . . .	18
Item 3. Legal Proceedings . . . . .	19
Item 4. Mine Safety Disclosures . . . . .	19
<b>Part II</b>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities . . . . .	20
Item 6. Selected Financial Data . . . . .	21
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations . . .	22
Item 7A. Quantitative and Qualitative Disclosures About Market Risk . . . . .	36
Item 8. Financial Statements and Supplementary Data . . . . .	37
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure . . .	72
Item 9A. Controls and Procedures . . . . .	72
Item 9B. Other Information . . . . .	72
<b>Part III</b>	
Item 10. Directors, Executive Officers and Corporate Governance . . . . .	73
Item 11. Executive Compensation . . . . .	73
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters . . . . .	73
Item 13. Certain Relationships and Related Transactions, and Director Independence . . . . .	73
Item 14. Principal Accounting Fees and Services . . . . .	73
<b>Part IV</b>	
Item 15. Exhibits and Financial Statement Schedules . . . . .	74
Item 16. Form 10-K Summary . . . . .	76

## PART I

### Item 1. Business

#### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report 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 Item 1A of this Annual Report 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, 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 Annual Report 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.

## **BACKGROUND**

The Company began operations in 1984 as an Oklahoma corporation under the name of Matrix Service. In 1989, we incorporated in the State of Delaware under the name of Matrix Service Company. We provide engineering, fabrication, infrastructure, construction, and maintenance services primarily to the oil, gas, power, petrochemical, industrial, agricultural, mining and minerals markets. We also sell products for crude oil and refined product aboveground storage tanks. We maintain regional offices throughout the United States, Canada and other international locations, and operate through separate union and merit subsidiaries.

The Company is licensed to operate in all 50 states, in four Canadian provinces and in other international locations. Our principal executive offices are located at 5100 E. Skelly Drive, Suite 500, Tulsa, Oklahoma 74135. Our telephone number is (918) 838-8822. Unless the context otherwise requires, all references herein to “Matrix Service Company”, “Matrix”, the “Company” or to “we”, “our”, and “us” are to Matrix Service Company and its subsidiaries.

## **WEBSITE ACCESS TO REPORTS**

Our public website is [matrixservicecompany.com](http://matrixservicecompany.com). We make available free of charge through the “Investor Relations” section of our website our annual reports to stockholders, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). Any materials we file with or furnish to the SEC is also maintained on the SEC website ([sec.gov](http://sec.gov)).

The information contained on our website, or available by hyperlink from our website, is not incorporated into this Form 10-K or other documents we file with, or furnish to, the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on our website in the “Investor Relations” section. Investors should monitor such portions of our website for press releases, SEC filings and public conference calls and webcasts.

While not our primary means of communication, investors can also learn more about the Company by visiting our social media channels. We encourage investors, the media, and others interested in Matrix to review the information posted by the Company on its Facebook site ([facebook.com/matrixservicecompany](https://facebook.com/matrixservicecompany)), the company LinkedIn account ([linkedin.com/company/matrix-service-company](https://linkedin.com/company/matrix-service-company)) and the company twitter account ([twitter.com/matrixserviceco](https://twitter.com/matrixserviceco)). Investors, the media or other interested parties can subscribe to the twitter feed at the address listed above.

## **OPERATING SEGMENTS**

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.

## OTHER BUSINESS MATTERS

### Customers and Marketing

The Company provided services to approximately 500 customers in fiscal 2019. Most of our revenue comes from long-term customer relationships. None of our customers individually accounted for more than 10% of our consolidated revenue in fiscal 2019. However, within our operating segments we do have customer concentrations of varying degrees. See Part II, Item 8. Financial Statement and Supplementary Data, Note 13 - Segment Information for more information about concentration of revenues by segment.

Matrix markets its services and products primarily through its marketing and business development personnel, senior professional staff and its operating management. We competitively bid most of our projects; however, we have a number of preferred provider relationships with customers who award us work through long-term agreements. Our projects have durations ranging from a few days to multiple years.

### Competition

We compete with local, regional, national and international contractors and service providers. Competitors vary with the markets we serve with few competitors competing in all of the markets we serve or in all of the services we provide. Contracts are generally awarded based on price, quality, safety performance, schedule, experience and customer satisfaction.

### 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 as high. For all other arrangements, we calculate backlog as the estimated contract amount less revenues recognized as of the reporting date.

The following table provides a summary of changes in our backlog in fiscal 2019:

	<u>Electrical Infrastructure</u>	<u>Oil Gas &amp; Chemical</u>	<u>Storage Solutions</u>	<u>Industrial</u>	<u>Total</u>
	(In thousands)				
Backlog as of June 30, 2018. . . . .	\$ 113,957	\$ 227,452	\$ 613,360	\$ 263,827	\$ 1,218,596
Project awards . . . . .	177,343	226,978	549,867	342,245	1,296,433
Revenue recognized. . . . .	<u>(217,417)</u>	<u>(319,867)</u>	<u>(521,932)</u>	<u>(357,464)</u>	<u>(1,416,680)</u>
Backlog as of June 30, 2019. . . . .	<u>\$ 73,883</u>	<u>\$ 134,563</u>	<u>\$ 641,295</u>	<u>\$ 248,608</u>	<u>\$ 1,098,349</u>
Book-to-bill ratio <sup>(1)</sup> . . . . .	0.8	0.7	1.1	1.0	0.9

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



Project awards in all segments are cyclical and are typically the result of a sales process that can take several months to complete. Backlog volatility may increase for some segments from time to time when individual project awards are less frequent, but more significant. We expect to recognize approximately 85% of our total backlog reported as of June 30, 2019 as revenue within the next year.

### **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.

### **Material Sources and Availability**

Steel plate and steel pipe are key materials used by the Company. Supplies of these materials are available throughout the United States and globally from numerous sources. We anticipate that adequate amounts of these materials will be available in the foreseeable future. However, the price, quantity, and the delivery schedules of these materials could change rapidly due to various factors, including producer capacity, the level of imports, worldwide demand, tariffs on imported goods and other market conditions.

### **Insurance**

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. 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. 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.

### **Employees**

As of June 30, 2019, the Company had approximately 5,000 employees of which approximately 1,050 were employed in non-field positions and 3,950 were employed in field or shop positions. The number of employees varies significantly throughout the year because of the number, type and size of projects we have in progress at any particular time.

The Company's subsidiaries include both merit and union companies. The union businesses operate under collective bargaining agreements with various unions representing different groups of our employees. Union agreements provide union employees with benefits including health and welfare, pension, training programs and competitive compensation plans. We have not experienced any strikes or work stoppages in recent years. We maintain health and welfare, retirement and training programs for our merit employees and administrative personnel.

## **Patents and Proprietary Technology**

Matrix Service Company's subsidiaries have several patents and patents pending, and continue to pursue new ideas and innovations to better serve our customers in several areas of our business. The Flex-A-Span® and Flex-A-Seal® trademarks are utilized to market the Company's unique seals for floating roof tanks. The FastFroth® trademark is utilized to market the Company's unique industrial cleaning process. Our patented RS 1000 Tank Mixer controls sludge build-up in crude oil tanks through resuspension. The Flexible Fluid Containment System patent covers a system that captures and contains flue leaking from pipe and valve connections. The Flex-A-Swivel patent refers to our unique pipe swivel joint assembly. Our patent for Spacerless or Geocomposite Double Bottom for Storage Tanks relates to a replacement bottom with leak detection and containment that allows for the retrofitting of an existing tank while minimizing the loss of capacity. The patent for the Training Tank for Personnel Entry, Exit and Rescue relates to a training device that can be used to train personnel on equipment that is made to simulate confined space scenarios.

The Company also holds a perpetual license to use various patents and technologies related to LNG storage tanks, liquid nitrogen/liquid oxygen storage tanks, liquid petroleum gas storage tanks and thermal vacuum chambers.

While the Company's intellectual property is not its main business, we believe that the ability to use these patents and technology enables us to expand our presence in the markets we serve and minimizes the development costs typically associated with organic growth.

## **Regulation**

### *Health and Safety Regulations*

Our operations are subject to regulation by the U.S. Occupational Safety and Health Administration ("OSHA") and Mine Safety and Health Administration ("MSHA"), the U.S. Department of Transportation, and to regulation under state laws and by the Canadian Workers' Compensation Board and its Workplace Health, Safety and Compensation Commission. Regulations promulgated by these agencies require employers and independent contractors to implement work practices, medical surveillance systems and personnel protection programs to protect employees from workplace hazards and exposure to hazardous chemicals and materials. In recognition of the potential for accidents within various scopes of work, these agencies have enacted strict and comprehensive safety regulations. The Company has established and consistently reinforces and monitors compliance with comprehensive programs intended to ensure that it complies with all applicable health and safety regulations to protect the safety of its workers, subcontractors and customers. While the Company believes that it operates safely and prudently, there can be no assurance that accidents will not occur or that the Company will not incur substantial liability in connection with the operation of its businesses. In order to minimize the financial exposure resulting from potential accidents associated with the Company's work, the Company maintains liability insurance to limit losses that could result from our work.

### *Environmental*

The Company's operations and the operations of its customers are subject to extensive and changing environmental laws and regulations. These laws and regulations relate primarily to air and water pollutants and the management and disposal of hazardous materials. The Company is exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or hazardous materials.

In order to limit costs incurred as a result of environmental exposure, the Company maintains contractor's pollution liability insurance that covers liability that may be incurred as a result of accidental releases of hazardous materials.

The Company believes that it is currently in compliance, in all material aspects, with all applicable environmental laws and regulations. The Company does not expect any material charges in subsequent periods relating to environmental conditions that currently exist and does not currently foresee any significant future capital spending relating to environmental matters.

## Item 1A. Risk Factors

The following risk factors should be considered with the other information included in this Annual Report on Form 10-K. As we operate in a continuously changing environment, other risk factors may emerge which could have a material adverse effect on our results of operations, financial condition and cash flow.

### Risk Factors Related to Our Business

*Unsatisfactory safety performance may subject us to penalties, affect customer relationships, result in higher operating costs, negatively impact employee morale and result in higher employee turnover.*

Our projects are conducted at a variety of sites including construction sites and industrial facilities. With each location, hazards are part of the day to day exposures that we must manage on a continuous basis to ensure our employees return home from work the same way they arrived. We understand that everyone plays a role with safety and everyone can make a difference with their active participation. With our proactive approach, our strategy is to identify the exposures and correct them before they result in an incident whether that involves an injury, damage or destruction of property, plant and equipment or an environmental impact. We are intensely focused on maintaining a strong safety culture and strive for zero incidents.

Although we have taken what we believe are appropriate precautions to adequately train and equip our employees, we have experienced serious accidents, including fatalities, in the past and may experience additional accidents in the future. Serious accidents may subject us to penalties, civil litigation or criminal prosecution. Claims for damages to persons, including claims for bodily injury or loss of life, could result in costs and liabilities, which could materially and adversely affect our financial condition, results of operations or cash flows. Poor safety performance could also jeopardize our relationships with our customers and increase our insurance premiums.

*Our profitability could be negatively impacted if we are not able to maintain appropriate utilization of our workforce.*

The extent to which we utilize our workforce affects our profitability. If we under utilize our workforce, our project gross margins and overall profitability suffer in the short-term. If we over utilize our workforce, we may negatively impact safety, employee satisfaction and project execution, which could result in a decline in future project awards. The utilization of our workforce is impacted by numerous factors including:

- our estimate of the headcount requirements for various operating units based upon our forecast of the demand for our products and services;
- our ability to maintain our talent base and manage attrition;
- productivity;
- our ability to schedule our portfolio of projects to efficiently utilize our employees and minimize downtime between project assignments; and
- our need to invest time and resources into functions such as training, business development, employee recruiting, and sales that are not chargeable to customer projects.

*An inability to attract and retain qualified personnel, and in particular, engineers, project managers, and skilled craft workers, could impact our ability to perform on our contracts, which could harm our business and impair our future revenues and profitability.*

Our ability to attract and retain qualified engineers, project managers, skilled craftsmen and other experienced professionals in accordance with our needs is an important factor in our ability to maintain profitability and grow our business. The market for these professionals is competitive, particularly during periods of economic growth when the supply is limited. We cannot provide any assurance that we will be successful in our efforts to retain or attract qualified personnel when needed. Therefore, when we anticipate or experience growing demand for our services, we may incur additional cost to maintain a professional staff in excess of our current contract needs in an effort to have sufficient qualified personnel available to address this anticipated demand. If we do incur additional compensation and benefit costs, our customer contracts may not allow us to pass through these costs.

Competent and experienced engineers, project managers, and craft workers are especially critical to the profitable performance of our contracts, particularly on our fixed-price contracts where superior design and execution of the project can result in profits greater than originally estimated or where inferior design and project execution can reduce or eliminate estimated profits or even result in a loss.

Our project managers are involved in most aspects of contracting and contract execution including:

- supervising the bidding process, including providing estimates of significant cost components, such as material and equipment needs, and the size, productivity and composition of the workforce;
- negotiating contracts;
- supervising project performance, including performance by our employees, subcontractors and other third-party suppliers and vendors;
- estimating costs for completion of contracts that is used to estimate amounts that can be reported as revenues and earnings on the contract under the percentage-of-completion method of accounting;
- negotiating requests for change orders and the final terms of approved change orders; and
- determining and documenting claims by us for increased costs incurred due to the failure of customers, subcontractors and other third-party suppliers of equipment and materials to perform on a timely basis and in accordance with contract terms.

***Our results of operations depend upon the award of new contracts and the timing of those awards.***

Our revenues are derived primarily from contracts awarded on a project-by-project basis. Generally, it is difficult to predict whether and when we will be awarded a new contract due to lengthy and complex bidding and selection processes, changes in existing or forecasted market conditions, customers' access to financing, governmental regulations, permitting and environmental matters. Because our revenues are derived from contract awards, our results of operations and cash flows can fluctuate materially from period to period.

The uncertainty associated with the timing of contract awards may reduce our short-term profitability as we balance our current capacity with expectations of future contract awards. If an expected contract award is delayed or not received, we could incur costs to maintain an idle workforce that may have a material adverse effect on our results of operations. Alternatively, we may decide that our long-term interests are best served by reducing our workforce and incurring increased costs associated with severance and termination benefits, which also could have a material adverse effect on our results of operations in the period incurred. Reducing our workforce could also impact our results of operations if we are unable to adequately staff projects that are awarded subsequent to a workforce reduction.

***Demand for our products and services is cyclical and is vulnerable to the level of capital and maintenance spending of our customers and to downturns in the industries and markets we serve, as well as conditions in the general economy.***

The demand for our products and services depends upon the existence of construction and maintenance projects primarily in the midstream and downstream petroleum, power and other heavy industries in the United States and Canada. Therefore, it is likely that our business will continue to be cyclical in nature and vulnerable to general downturns in the United States, Canadian and world economies and changes in commodity prices, which could adversely affect the demand for our products and services.

The availability of engineering and construction projects is dependent upon economic conditions in the oil, gas, petrochemical, industrial, iron and steel and power industries, and specifically, the level of capital expenditures on energy infrastructure. A prolonged period of relatively low commodity prices in North America has had an adverse impact on the level of capital expenditures of our customers and/or their ability to finance these expenditures. Our failure to obtain projects, the delay of project awards, the cancellation of projects or delays in the execution of contracts has resulted and may continue to result in under-utilization of our resources, which could adversely impact our revenue, margins, operating results and cash flow. There are numerous factors beyond our control that influence the level of maintenance and capital expenditures of our customers, including:

- current or projected commodity prices, including oil, gas, power, steel and mineral prices;
- refining margins;
- the demand for oil, gas and electricity;
- the ability of oil, gas, industrial and power companies to generate, access and deploy capital;
- exploration, production and transportation costs;
- interest rates;
- tax incentives, including those for alternative energy projects;
- regulatory restraints on the rates that power companies may charge their customers; and
- local, national and international political and economic conditions.



***Our revenue and profitability may be adversely affected by a reduced level of activity in the hydrocarbon industry.***

In recent years, demand from the worldwide hydrocarbon industry has been a significant generator of our revenue. Numerous factors influence capital expenditure decisions in the hydrocarbon industry, including, but not limited to, the following:

- current and projected oil and gas prices;
- exploration, extraction, production and transportation costs;
- refining margins;
- the discovery rate, size and location of new oil and gas reserves;
- technological challenges and advances;
- ability to export hydrocarbon products;
- demand for hydrocarbon production;
- competition from alternative energy sources, including wind and solar; and
- changing taxes, price controls, and laws and regulations.

The aforementioned factors are beyond our control and could have a material adverse effect on our results of operations and on our financial position or cash flow, particularly in the Storage Solutions and Oil Gas & Chemical segments.

***The operations of our Storage Solutions segment are influenced by the overall forward market for crude oil, and certain market conditions may adversely affect that segment's financial and operating results.***

The results of our Storage Solutions segment may be influenced by the overall forward market for crude oil. A “contango” market (meaning that the price of crude oil for future delivery is higher than the current price) is associated with greater demand for crude oil storage capacity, because a party can simultaneously purchase crude oil at current prices for storage and sell at higher prices for future delivery. A “backwardated” market (meaning that the price of crude oil for future delivery is lower than the current price) is associated with lower demand for crude oil storage capacity, because a party can capture a premium for prompt delivery of crude oil rather than storing it for future sale. A prolonged backwardated market or other adverse market conditions could have an adverse impact on demand for new construction in our Storage Solutions segment. Finally, higher absolute levels of crude oil prices increase the costs of financing and insuring crude oil in storage, which negatively affects storage economics. As a result, the overall forward market for crude oil may have an adverse effect on our Storage Solution segment's business, results of operations and financial condition.

***The terms of our contracts could expose us to unforeseen costs and costs not within our control, which may not be recoverable and could adversely affect our results of operations and financial condition.***

A significant amount of our work is performed under fixed price contracts. Under fixed-price contracts, we agree to perform the contract for a fixed-price and, as a result, can improve our expected profit by superior execution, productivity, workplace safety and other factors resulting in cost savings. However, we could incur cost overruns above the approved contract price, which may not be recoverable. Under certain incentive fixed-price contracts, we may agree to share with a customer a portion of any savings we generate while the customer agrees to bear a portion of any increased costs we may incur up to a negotiated ceiling. To the extent costs exceed the negotiated ceiling price, we may be required to absorb some or all of the cost overruns.

Fixed-price contract prices are established based largely upon estimates and assumptions relating to project scope and specifications, personnel and productivity, material needs, and site conditions. These estimates and assumptions may prove inaccurate or conditions may change due to factors out of our control, resulting in cost overruns, which we may be required to absorb and which could have a material adverse effect on our business, financial condition and results of operations. In addition, our profits from these contracts could decrease or we could experience losses if we incur difficulties in performing the contracts or are unable to secure fixed-pricing commitments from our manufacturers, suppliers and subcontractors at the time we enter into fixed-price contracts with our customers.

Under cost-plus and time-and-material contracts, we perform our services in return for payment of our agreed upon reimbursable costs plus a profit. The profit component is typically expressed in the contract either as a percentage of the reimbursable costs we actually incur or is factored into the rates we charge for labor or for the cost of equipment and materials, if any, we are required to provide. Our profit could be negatively impacted if our actual costs exceed the estimated costs utilized to establish the billing rates included in the contracts.

***We may incur significant costs in providing services in excess of original project scope without having an approved change order.***

After commencement of a contract, we may perform, without the benefit of an approved change order from the customer, additional services requested by the customer that were not contemplated in our contract price for various reasons, including customer changes or incomplete or inaccurate engineering, changes in project specifications and other similar information provided to us by the customer. Our construction contracts generally require the customer to compensate us for additional work or expenses incurred under these circumstances.

A failure to obtain adequate compensation for these matters could require us to record in the current period an adjustment to revenue and profit recognized in prior periods under the percentage-of-completion accounting method. Any such adjustments, if substantial, could have a material adverse effect on our results of operations and financial condition, particularly for the period in which such adjustments are made. We can provide no assurance that we will be successful in obtaining, through negotiation, arbitration, litigation or otherwise, approved change orders in an amount adequate to compensate us for our additional work or expenses.

***Our use of percentage-of-completion accounting for fixed-price contracts and our reporting of profits for cost-plus contracts prior to contract completion could result in a reduction or elimination of previously reported profits.***

Our revenues are recognized using the percentage-of-completion method of accounting. Under percentage-of-completion accounting, contract revenues and earnings are recognized ratably over the contract term based on the proportion of actual costs incurred to total estimated costs. In addition, some contracts contain penalty provisions for failure to achieve certain milestones, schedules or performance standards. We review our estimates of contract revenues, costs and profitability on a monthly basis. As a result, we may adjust our estimates on one or more occasions as a result of changes in cost estimates, change orders to the original contract, or claims against the customer for increased costs incurred by us due to customer-induced delays and other factors.

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 in the period the loss is determined. Contract profit estimates are also adjusted, on a percentage of completion basis, in the fiscal period in which it is determined that an adjustment is required. No restatements are made to prior periods. Further, a number of our contracts contain various cost and performance incentives and penalties that impact the earnings we realize from our contracts, and adjustments related to these incentives and penalties are recorded on a percentage of completion basis in the period when estimable and probable.

As a result of the requirements of the percentage-of-completion method of accounting, the possibility exists that we could have estimated and reported a profit on a contract over several prior periods and later determine, as a result of additional information, that all or a portion of such previously estimated and reported profits were overstated. If this occurs, the full aggregate amount of the overstatement will be reported for the period in which such change in estimate occurs.

***Actual results could differ from the estimates and assumptions that we use to prepare our financial statements.***

To prepare financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions, as of the date of the financial statements, which affect the reported values of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Areas requiring significant estimation by our management include:

- contract costs and application of percentage-of-completion accounting;
- provisions for uncollectible receivables from customers for invoiced amounts;
- the amount and collectibility of unpriced change orders and claims against customers;
- provisions for income taxes and related valuation allowances;
- recoverability of goodwill and intangible assets;
- valuation of assets acquired and liabilities assumed in connection with business combinations; and
- accruals for estimated liabilities, including litigation and insurance reserves.

Our actual results could materially differ from these estimates.

***The steel industry is cyclical and sensitive to general economic conditions, which could have a material adverse effect on our operating results and financial condition.***

A significant percentage of our Industrial segment's revenues are derived from the steel industry. Demand for steel products is cyclical in nature and sensitive to general economic conditions. The timing and magnitude of the cycles

in the markets in which our customers' products are used, including automobiles and construction, are difficult to predict. The cyclical nature of our customers' operations tends to reflect and be amplified by changes in economic conditions, both domestically and internationally, supply/demand imbalances, foreign currency exchange fluctuations, and foreign and domestic import tariffs on steel. Economic downturns or a prolonged period of slow growth in the U.S. and foreign markets or any of the industries in which our steel industry customers operate could have a material adverse effect on our results of operations, financial condition and cash flows.

***Domestic and Foreign trade tariffs could have a material adverse effect on our customers' businesses and could raise the price and reduce the availability of raw materials to us, which could negatively impact our operating results and financial condition.***

Domestic and foreign trade tariffs could have a material adverse impact on our customers' businesses, which could cause our customers to reduce spending on capital and maintenance projects. This reduction in spending could lead to fewer project awards and/or more competition. Fewer project awards and more competition could reduce our revenues and gross margins.

In addition, domestic and foreign trade tariffs could raise the price and reduce the availability of raw materials such as steel plate and steel pipe, which are key materials used by the Company. Supplies of these materials are available throughout the United States and globally from numerous sources. We anticipate that adequate amounts of these materials will be available in the foreseeable future. However, if trade tariffs should significantly impact the price and availability of these materials, we could experience lower gross margins, operational inefficiencies and project delays.

***We are exposed to credit risk from customers. If we experience delays and/or defaults in customer payments, we could suffer liquidity problems or we could be unable to recover amounts owed to us.***

Under the terms of our contracts, at times we commit resources to customer projects prior to receiving payments from customers in amounts sufficient to cover expenditures on these projects as they are incurred. Many of our fixed-price or cost-plus contracts require us to satisfy specified progress milestones or performance standards in order to receive a payment. Under these types of arrangements, we may incur significant costs for labor, equipment and supplies prior to receipt of payment. If the customer fails or refuses to pay us for any reason, there is no assurance we will be able to collect amounts due to us for costs previously incurred. In some cases, we may find it necessary to terminate subcontracts with suppliers engaged by us to assist in performing a contract, and we may incur costs or penalties for canceling our commitments to them. Delays in customer payments require an investment in working capital. If we are unable to collect amounts owed to us under our contracts, we may be required to record a charge against previously recognized earnings related to the project, and our liquidity, financial condition and results of operations could be adversely affected.

***Acquisitions may result in significant transaction expenses, and unidentified liabilities and risks associated with entering new markets. We may also be unable to profitably integrate and operate these businesses.***

We may lack sufficient management, financial and other resources to successfully integrate future acquisitions, including acquisitions in markets where we have not previously operated. Any future acquisitions may result in significant transaction expenses, unexpected liabilities and other risks in addition to the integration and consolidation risks.

If we make any future acquisitions, we will likely assume liabilities of the acquired business or have exposure to contingent liabilities that may not be adequately covered by insurance or indemnification, if any, from the former owners of the acquired business. These potential liabilities could have a material adverse effect on our business.

***We may not be able to successfully integrate our acquisitions, which could cause our business to suffer.***

We may not be able to successfully complete our ongoing integration of the operations, personnel and technology from our acquisitions. Because of their size and complexity, if we fail to complete our integration efforts successfully, we may experience interruptions in our business activities, a decrease in the quality of our services, a deterioration in our employee and customer relationships, and harm to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations. Our integration activities have required significant attention from management, which potentially decreases the time that management may devote to serve existing customers, attract new customers and develop new services and strategies. We may also experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration efforts may also impose substantial demands on our operations or other projects. We will have to actively strive to demonstrate to our existing customers that these integrations have not resulted in adverse changes in our standards or business focus. Our acquisitions have involved a significant capital commitment, and the return that we achieve on any capital invested may be less than the return achieved on our other projects or investments. There will be challenges in consolidating and rationalizing information technology

platforms and administrative infrastructures. In addition, any delays or increased costs of integrating acquired companies could adversely affect our operations, financial results and liquidity.

***We may not realize the growth opportunities, operating margins and synergies that are anticipated from acquisitions.***

The benefits we expect to achieve as a result of an acquisition will depend, in part, on our ability to realize the anticipated growth opportunities, operating margins and synergies. Our success in realizing these growth opportunities, operating margins and synergies, and the timing of this realization, depends on the successful integration of the acquired business and operations with our existing business and operations. Even if we are able to integrate existing and acquired businesses successfully, this integration may not result in the realization of the full benefits of the growth opportunities, operating margins and synergies we currently expect within the anticipated time frame or at all. Accordingly, the benefits from an acquisition may be offset by costs incurred or delays in integrating the companies, which could cause our revenue assumptions and operating margin to be inaccurate.

***We may need to raise additional capital in the future for working capital, capital expenditures and/or acquisitions, and we may not be able to do so on favorable terms or at all, which would impair our ability to operate our business or achieve our strategic plan.***

To the extent that cash flow from operations, together with available borrowings under our senior secured revolving credit facility, are insufficient to make future investments, acquisitions or provide needed working capital, we may require additional financing from other sources. Our ability to obtain such additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us. If adequate funds are not available, or are not available on acceptable terms, we may not be able to make future investments, take advantage of acquisitions or other opportunities, or respond to competitive challenges.

***We face substantial competition in each of our business segments, which may have a material adverse effect on our business.***

We face competition in all areas of our business from regional, national and international competitors. Our competitors range from small, family-owned businesses to well-established, well-financed entities, both privately and publicly held, including many large engineering and construction companies and specialty contractors. We compete primarily on the basis of price, customer satisfaction, safety performance and programs, quality of our products and services, and schedule. As a result, an increase in the level of competition in one or more markets may result in lower operating margins than we have recently experienced.

***Our backlog is subject to unexpected fluctuations, adjustments and cancellations and does not include the full value of our long-term maintenance contracts, and therefore, may not be a reliable indicator of our future earnings.***

Backlog may not be a reliable indicator of our future performance. We cannot guarantee that the revenue projected in our backlog will be realized or profitable. Projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts included in our backlog that could reduce the dollar amount of our backlog and the revenue and profits that we actually earn. Many of our contracts have termination rights. Therefore, project adjustments may occur from time to time to contracts in our backlog.

***The loss of one or more of our significant customers could adversely affect us.***

One or more customers have in the past and may in the future contribute a material portion of our revenues in any one year. Because these significant customers generally contract with us for specific projects or for specific periods of time, we may lose these customers from year to year as the projects or maintenance contracts are completed. The loss of business from any one of these customers could have a material adverse effect on our business or results of operations.

***Future events, including those associated with our strategic plan, could negatively affect our liquidity position.***

We can provide no assurance that we will have sufficient earnings from operations or the credit capacity to meet all of our future cash needs should we encounter significant working capital requirements or incur significant acquisition costs. Insufficient earnings from operations, significant working capital requirements, and contract disputes have in the past, and could in the future, reduce availability under our senior secured revolving credit facility.



***Our business may be affected by difficult work sites and environments, which may adversely affect our overall business.***

We perform our work under a variety of conditions, including, but not limited to, difficult terrain, difficult site conditions and busy urban centers where delivery of materials and availability of labor may be impacted. Performing work under these conditions can slow our progress, potentially causing us to incur contractual liability to our customers. These difficult conditions may also cause us to incur additional, unanticipated costs that we might not be able to pass on to our customers.

***We are susceptible to adverse weather conditions, which may harm our business and financial results.***

Our business may be adversely affected by severe weather in areas where we have significant operations. Repercussions of severe weather conditions may include:

- curtailment of services;
- suspension of operations;
- inability to meet performance schedules in accordance with contracts and potential liability for liquidated damages;
- injuries or fatalities;
- weather related damage to our facilities;
- disruption of information systems;
- inability to receive machinery, equipment and materials at jobsites; and
- loss of productivity.

***Our senior secured revolving credit facility imposes restrictions that may limit business alternatives.***

Our senior secured revolving credit facility contains covenants that restrict or limit our ability to incur additional debt, acquire or dispose of assets, repurchase equity, or make certain distributions, including dividends. In addition, our senior secured revolving credit facility requires that we comply with a number of financial covenants. These covenants and restrictions may impact our ability to effectively execute operating and strategic plans and our operating performance may not be sufficient to comply with the required covenants. Additionally, availability under the credit facility is dependent upon profitable operating results. If results deteriorate, availability under the credit facility is reduced.

Our failure to comply with one or more of the covenants in our senior secured revolving credit facility could result in an event of default. We can provide no assurance that a default could be remedied, or that our creditors would grant a waiver or amend the terms of the senior secured revolving credit facility. If an event of default occurs, our lenders could elect to declare all amounts outstanding under the facility to be immediately due and payable, terminate all commitments, refuse to extend further credit, and require us to provide cash to collateralize any outstanding letters of credit. If an event of default occurs and the lenders under the senior secured revolving credit facility accelerate the maturity of any loans or other debt outstanding, we may not have sufficient liquidity to repay amounts outstanding under the existing agreement.

***We contribute to multiemployer plans that could result in liabilities to us if those plans are terminated or if we withdraw from those plans.***

We contribute to several multiemployer pension plans for employees covered by collective bargaining agreements. These plans are not administered by us and contributions are determined in accordance with provisions of negotiated labor contracts. The Employee Retirement Income Security Act of 1974, as amended by the Multiemployer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multiemployer plan in the event of the employer's withdrawal from, or upon termination of, such plan. If we terminate or withdraw from a multiemployer pension plan, we could be required to make significant cash contributions to fund that plan's unfunded vested benefit, which could materially and adversely affect our financial condition and results of operations; however, we are not currently able to determine the net assets and actuarial present value of the multiemployer pension plans' unfunded vested benefits allocable to us, if any, and we are not presently aware of the amounts, if any, for which we may be contingently liable if we were to withdraw from any of these plans. In addition, if the funding level of any of these multiemployer plans becomes classified as "critical status" under the Pension Protection Act of 2006, we could be required to make significant additional contributions to those plans.

***Earnings for future periods may be affected by impairment charges.***

Because we have grown in part through acquisitions, goodwill and other acquired intangible assets represent a substantial portion of our assets. We perform annual goodwill impairment reviews in the fourth quarter of every fiscal year. In addition, we perform an impairment review whenever events or changes in circumstances indicate the carrying value of goodwill or an intangible or fixed asset may not be recoverable. As of June 30, 2019, the Company had \$19.5 million of amortizing intangible assets and \$93.4 million of non-amortizing goodwill representing 3.1% and 14.7% of the Company's total assets, respectively.

***We are involved, and are likely to continue to be involved in legal proceedings, which will increase our costs and, if adversely determined, could have a material effect on our financial condition, results of operations, cash flows and liquidity.***

We are currently a defendant in legal proceedings arising from the operation of our business, and it is reasonable to expect that we would be named in future actions. Many of the actions against us arise out of the normal course of performing services on project sites, and include workers' compensation claims, personal injury claims and contract disputes with our customers. From time to time, we are also named as a defendant for actions involving the violation of federal and state labor laws related to employment practices, wages and benefits. We may also be a plaintiff in legal proceedings against customers seeking to recover payment of contractual amounts due to us as well as claims for increased costs incurred by us resulting from, among other things, services performed by us at the request of a customer that are in excess of original project scope that are later disputed by the customer and customer-caused delays in our contract performance.

We maintain insurance against operating hazards in amounts that we believe are customary in our industry. However, our insurance policies include deductibles and certain coverage exclusions, so we cannot provide assurance that we are adequately insured against all of the risks associated with the conduct of our business. A successful claim brought against us in excess of, or outside of, our insurance coverage could have a material adverse effect on our financial condition, results of operations, cash flows and liquidity.

Litigation, regardless of its outcome, is expensive, typically diverts the efforts of our management away from operations for varying periods of time, and can disrupt or otherwise adversely impact our relationships with current or potential customers, subcontractors and suppliers. Payment and claim disputes with customers may also cause us to incur increased interest costs resulting from incurring indebtedness under our revolving line of credit or receiving less interest income resulting from fewer funds invested due to the failure to receive payment for disputed claims and accounts.

***Our projects expose us to potential professional liability, product liability, pollution liability, warranty and other claims, which could be expensive, damage our reputation and harm our business. We may not be able to obtain or maintain adequate insurance to cover these claims.***

We perform construction and maintenance services at large industrial facilities where accidents or system failures can be disastrous and costly. Any catastrophic occurrence in excess of our insurance limits at locations engineered or constructed by us or where our products are installed or services performed could result in significant professional liability, product liability, warranty and other claims against us by our customers, including claims for cost overruns and the failure of the project to meet contractually specified milestones or performance standards. Further, the rendering of our services on these projects could expose us to risks and claims by third parties and governmental agencies for personal injuries, property damage and environmental matters, among others. Any claim, regardless of its merit or eventual outcome, could result in substantial costs, divert management's attention and create negative publicity, particularly for claims relating to environmental matters where the amount of the claim could be extremely large. We may not be able to or may choose not to obtain or maintain insurance coverage for the types of claims described above. If we are unable to obtain insurance at an acceptable cost or otherwise protect against the claims described above, we will be exposed to significant liabilities, which may materially and adversely affect our financial condition and results of operations.

***Employee, subcontractor or partner misconduct or our overall failure to comply with laws or regulations could harm our reputation, damage our relationships with customers, reduce our revenues and profits, and subject us to criminal and civil enforcement actions.***

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of our employees, subcontractors or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with safety standards, laws and regulations, customer requirements, regulations pertaining to the internal controls over financial reporting, environmental laws and any other applicable laws or regulations. The precautions we take to prevent and detect these activities may not be effective, since our internal controls are subject to inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, and fraud.

Our failure to comply with applicable laws or regulations or acts of misconduct could subject us to fines and penalties, harm our reputation, damage our relationships with customers, reduce our revenues and profits and subject us to criminal and civil enforcement actions.

***Environmental factors and changes in laws and regulations could increase our costs and liabilities.***

Our operations are subject to environmental laws and regulations, including those concerning emissions into the air; discharges into waterways; generation, storage, handling, treatment and disposal of hazardous material and wastes; and health and safety.

Our projects often involve highly regulated materials, including hazardous wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require us to obtain permits and comply with various other requirements. The improper characterization, handling, or disposal of regulated materials or any other failure by us to comply with federal, state and local environmental laws and regulations or associated environmental permits could subject us to the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, or the issuance of injunctions that could restrict or prevent our ability to operate our business and complete contracted projects.

In addition, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”), and comparable state and foreign laws, we may be required to investigate and remediate regulated materials. CERCLA and the comparable state laws typically impose liability without regard to whether a company knew of or caused the release, and liability for the entire cost of clean-up can be imposed upon any responsible party.

We are subject to numerous other laws and regulations including those related to business registrations and licenses, environment, workplace, employment, health and safety. These laws and regulations are complex, change frequently and could become more stringent in the future. It is impossible to predict the effect on us of any future changes to these laws and regulations. We can provide no absolute assurance that our operations will continue to comply with future laws and regulations or that the costs to comply with these laws and regulations and/or a failure to comply with these laws will not significantly adversely affect our business, financial condition and results of operations.

***Climate change legislation or regulations restricting emissions of “greenhouse gases” could result in reduced demand for our services and products.***

There has been an increased focus in the last several years on climate change in response to findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment. As a result, there have been a variety of regulatory developments, proposals or requirements and legislative initiatives that have been introduced in the U.S. (and other parts of the world) that are focused on restricting the emission of greenhouse gases. The adoption of new or more stringent legislation or regulatory programs limiting greenhouse gas emissions from customers for whom we provide services could affect demand for our products and services. Further, some scientists have concluded that increasing greenhouse gas concentrations in the atmosphere may produce physical effects, such as increased severity and frequency of storms, droughts, floods and other climate events. Such climate events have the potential to adversely affect our operations or those of our customers, which in turn could have a negative effect on us.

***A failure or outage in our operational systems or cyber security attacks on any of our systems, or those of third parties, may adversely affect our financial results.***

We have become more reliant on technology to help increase efficiency in our business. We use numerous technologies to help run our operations, and this may subject our business to increased risks. Any cyber security attack that affects our facilities, our systems, our customers and any of our financial data could have a material adverse effect on our business.

In addition, a cyber-attack on our customer and employee data may result in a financial loss, including potential fines for failure to safeguard data, and may negatively impact our reputation. Third-party systems on which we rely could also suffer system failure. Any of these occurrences could disrupt our business, result in potential liability or reputational damage or otherwise have an adverse effect on our financial results.

We have experienced cybersecurity threats to our information technology infrastructure and have experienced cyber-attacks, attempts to breach our systems and other similar incidents. Such prior events have not had a material impact on our financial condition, results of operations or liquidity. However, future threats could cause harm to our business and our reputation, as well as negatively impact our results of operations materially. Our insurance coverage may not be adequate to cover all the costs related to cyber-attacks or disruptions resulting from such events.

Any security breach resulting in the unauthorized use or disclosure of certain personal information could put individuals at risk of identity theft and financial or other harm and result in costs to the Company in investigation, remediation, legal defense and in liability to parties who are financially harmed. We may incur significant costs to protect against the threat of information security breaches or to respond to or alleviate problems caused by such breaches. For example, laws may require notification to regulators, clients or employees and enlisting credit monitoring or identity theft protection in the event of a privacy breach. A cybersecurity attack could also be directed at our systems and result in interruptions in our operations or delivery of services to our clients and their customers. Furthermore, a material security breach could cause us to lose revenues, lose clients or cause damage to our reputation.

***We rely on internally and externally developed software applications and systems to support critical functions including project management, estimating, scheduling, human resources, accounting, and financial reporting. Any sudden loss, disruption or unexpected costs to maintain these systems could significantly increase our operational expense as well as disrupt the management of our business operations.***

We rely on various software systems to conduct our critical operating and administrative functions. We depend on our software vendors to provide long-term software maintenance support for our information systems. Software vendors may decide to discontinue further development, integration or long-term software maintenance support for our information systems, in which case we may need to abandon one or more of our current information systems and migrate some or all of our project management, human resources, estimating, scheduling, accounting and financial information to other systems, thus increasing our operational expense as well as disrupting the management of our business operations.

***We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.***

The U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to officials or others for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in parts of the world that have experienced corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We train our personnel concerning anti-bribery laws and issues, and we also inform our customers, vendors, and others who work for us or on our behalf that they must comply with anti-bribery law requirements. We also have procedures and controls in place to monitor compliance. We cannot assure that our internal controls and procedures always will protect us from the possible reckless or criminal acts committed by our employees or agents. If we are found to be liable for anti-bribery law violations (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others including our partners, agents, subcontractors or suppliers), we could suffer from criminal or civil penalties or other sanctions, including contract cancellations or debarment, and loss of reputation, any of which could have a material adverse effect on our business. Litigation or investigations relating to alleged or suspected violations of anti-bribery laws, even if ultimately such litigation or investigations demonstrate that we did not violate anti-bribery laws, could be costly and could divert management's attention away from other aspects of our business.

***Economic, political and other risks associated with international operations could adversely affect our business.***

A portion of our operations are conducted outside the United States, and accordingly, our business is subject to risks associated with doing business internationally, including changes in foreign currency exchange rates, instability in political or economic conditions, difficulty in repatriating cash proceeds, differing employee relations, differing regulatory environments, trade protection measures, and difficulty in administering and enforcing corporate policies which may be different than the normal business practices of local cultures.

## **Risk Factors Related to Our Common Stock**

*Our common stock, which is listed on the NASDAQ Global Select Market, has experienced significant price and volume fluctuations. These fluctuations could continue in the future, and our stockholders may not be able to resell their shares of common stock at or above the purchase price paid.*

The market price of our common stock may change significantly in response to various factors and events beyond our control, including the following:

- the risk factors described in this Item 1A;
- general conditions in our customers' industries;
- general conditions in the security markets;
- the significant concentration of ownership of our common stock in the hands of a small number of institutional investors;
- a shortfall in operating revenue or net income from that expected by securities analysts and investors; and
- changes in securities analysts' estimates of our financial performance or the financial performance of our competitors or companies in our industry.

Some companies that have volatile market prices for their securities have been subject to security class action suits filed against them. If a suit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion of our management's attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

*Future sales of our common stock may depress our stock price.*

Sales of a substantial number of shares of our common stock in the public market or otherwise, either by us, a member of management or a major stockholder, or the perception that these sales could occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

*We may issue additional equity securities, which could lead to dilution of our issued and outstanding stock.*

The issuance of additional common stock, restricted stock units or securities convertible into our common stock could result in dilution of the ownership interest held by existing stockholders. We are authorized to issue, without stockholder approval 5,000,000 shares of preferred stock, par value \$0.01 per share, in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. In addition, we are authorized to issue, without stockholder approval, a significant number of additional shares of our common stock and securities convertible into either common stock or preferred stock.

*Shareholder activists could cause a disruption to our business.*

An activist investor may indicate disagreement with our strategic direction or capital allocation policies and may seek representation on our Board of Directors. Our business, operating results or financial condition could be adversely affected and may result in, among other things:

- increased operating costs, including increased legal expenses, insurance, administrative expenses and associated costs incurred in connection with director election contests;
- uncertainties as to our future direction, which could result in the loss of potential business opportunities and could make it more difficult to attract, retain, or motivate qualified personnel, and strain relationships with investors and customers; and
- reduction or delay in our ability to effectively execute our current business strategy and to implement new strategies.

## **Item 1B. Unresolved Staff Comments**

None



## Item 2. Properties

The principal properties of Matrix Service Company are as follows:

Location	Description of Facility	Segment	Interest
<b>United States:</b>			
Tulsa, Oklahoma	Corporate headquarters and regional office	All segments	Leased
Bakersfield, California	Regional office	All segments	Leased
Bellingham, Washington	Regional office, fabrication facility and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Owned
Canonsburg, Pennsylvania	Regional office	Electrical Infrastructure, Oil Gas & Chemical, Industrial	Leased
Catoosa, Oklahoma	Fabrication facilities, regional office and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Leased & Owned <sup>(1)</sup>
Columbus, Ohio	Regional office	All segments	Leased
Eddystone, Pennsylvania	Regional office, fabrication facility and warehouse	All segments	Leased
Hammond, Indiana	Regional office, fabrication facility, and warehouse	Oil Gas & Chemical, Industrial	Leased
Houston, Texas	Regional offices and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Leased & Owned
Metairie, Louisiana	Regional office	All segments	Leased
Norco, California	Regional office and warehouse	Storage Solutions, Oil Gas & Chemical	Leased
Orange, California	Fabrication facility, regional office and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Leased & Owned
Pittsburgh, Pennsylvania	Regional office	Oil Gas & Chemical, Storage Solutions, Industrial	Leased
Rahway, New Jersey	Regional office and warehouse	Electrical Infrastructure, Oil Gas & Chemical, Industrial	Leased
Sewickley, Pennsylvania	Regional office	Oil Gas & Chemical, Storage Solutions, Industrial	Leased
Temperance, Michigan	Regional office and warehouse	Storage Solutions	Owned
Tucson, Arizona	Regional office and warehouse	Industrial, Storage Solutions, Oil Gas & Chemical	Leased
<b>International:</b>			
Burlington, Ontario, Canada	Regional office	Electrical Infrastructure, Industrial, Storage Solutions	Owned
Calgary, Alberta, Canada	Regional office	Storage Solutions	Leased
Leduc, Alberta, Canada	Regional office and warehouse	Storage Solutions	Leased
Sarnia, Ontario, Canada	Regional office and warehouse	Storage Solutions	Owned
Paju-si, Gyeonggi-do, South Korea	Fabrication facility, regional office and warehouse	Storage Solutions	Owned
Sydney, New South Wales, Australia	Regional office	Storage Solutions	Leased

(1) Certain facilities were constructed by the Company on land acquired through ground leases with renewal options.

In addition to the locations listed above, Matrix has smaller regional locations and temporary office facilities at numerous customer locations throughout the United States and Canada.

**Item 3. 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 4. Mine Safety Disclosures**

Section 1503 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 owner of any mines, but as a result of our performing services or construction at mine sites as an independent contractor, we may be 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 annual report under Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Annual Report on Form 10-K.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Our common stock trades on the NASDAQ Global Select Market under the trading symbol “MTRX”. Substantially all of our stockholders maintain their shares in “street name” accounts and are not individually stockholders of record. As of July 31, 2019, there were 20 holders of record of our common stock.

#### Dividend Policy

We have never paid cash dividends on our common stock, and the terms of our Credit Agreement (see Item 8. Financial Statements and Supplementary Data, Note 5 - Debt for more information about our Credit Agreement) limit the amount of cash dividends we can pay. Under our Credit Agreement, we may declare and pay cash dividends on our capital stock during any fiscal year up to an amount which, when added to all other cash dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to date. While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

#### Issuer Purchases of Equity Securities

Our Credit Agreement limits the Company’s purchases of its equity securities to \$30.0 million in any calendar year. The table below sets forth the information with respect to purchases made by the Company of its common stock during the fourth quarter of the fiscal year ended June 30, 2019:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(C)</sup>
<b>April 1 to April 30, 2019</b>				
Share Repurchase Program <sup>(A)</sup> .....	—	—	—	2,396,643
Employee Transactions <sup>(B)</sup> .....	—	—	—	
<b>May 1 to May 31, 2019</b>				
Share Repurchase Program <sup>(A)</sup> .....	—	—	—	2,396,643
Employee Transactions <sup>(B)</sup> .....	—	—	—	
<b>June 1 to June 30, 2019</b>				
Share Repurchase Program <sup>(A)</sup> .....	—	—	—	2,396,643
Employee Transactions <sup>(B)</sup> .....	—	—	—	

(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) On November 6, 2018, the Board of Directors approved a new stock buyback program (the “November 2018 Program”), which replaced the December 2016 Program. Under the November 2018 Program, the Company may repurchase common stock of the Company up to a maximum of \$30.0 million per calendar year provided that the aggregate number of shares repurchased may not exceed 10%, or approximately 2.7 million, of the Company’s shares outstanding as of November 6, 2018. The November 2018 Program will continue unless and until it is modified or revoked by the Board of Directors.

## Item 6. Selected Financial Data

### Selected Financial Data (In thousands, except percentages and per share data)

	Fiscal Years Ended				
	June 30, 2019	June 30, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2016	June 30, 2015
Revenues . . . . .	\$1,416,680	\$1,091,553	\$1,197,509	\$1,311,917	\$1,343,135
Cost of revenues . . . . .	1,284,729	999,617	1,116,506	1,185,926	1,255,765
Gross profit . . . . .	131,951	91,936	81,003	125,991	87,370
Gross margin % . . . . .	9.3%	8.4%	6.8%	9.6%	6.5%
Selling, general and administrative expenses . .	94,021	84,417	76,144	85,109	78,568
Selling, general and administrative % . . . . .	6.6%	7.7%	6.4%	6.5%	5.8%
Operating income (loss) . . . . .	37,930	(10,479)	4,859	40,882	8,802
Operating income (loss) % . . . . .	2.7%	(1.0)%	0.4%	3.1%	0.7%
Net income (loss) . . . . .	27,982	(11,480)	138	25,537	(1,898)
Net income (loss) attributable to noncontrolling interest . . . . .	—	—	321	(3,326)	(19,055)
Net income (loss) attributable to Matrix Service Company . . . . .	27,982	(11,480)	(183)	28,863	17,157
Earnings (loss) per share-basic . . . . .	1.04	(0.43)	(0.01)	1.09	0.64
Earnings (loss) per share-diluted . . . . .	1.01	(0.43)	(0.01)	1.07	0.63
Working capital . . . . .	141,811	118,581	139,654	129,416	114,209
Total assets . . . . .	633,394	558,033	586,030	564,967	561,689
Long-term debt . . . . .	5,347	—	44,682	—	8,804
Capital expenditures . . . . .	19,558	8,711	11,908	13,939	15,773
Cash flows provided (used) by operations . . . .	41,394	74,671	(18,746)	33,587	26,240
Backlog . . . . .	1,098,349	1,218,596	682,273	868,672	1,420,598

(1) Intangible asset impairment charges totaling \$18.0 million were included in the Company's fiscal 2018 operating results.

Refer to the Results of Operations section included in Part II, Item 7 of this Annual Report on Form 10-K for a discussion of the impacts of business combinations and contract charges that materially impacted the comparability of information in the Selected Financial Data table above, particularly for the fiscal year ended 2019 in comparison to the fiscal year ended 2018, and the fiscal year ended 2018 in comparison to the fiscal year ended 2017.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

Management’s discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). GAAP represents a comprehensive set of accounting and disclosure rules and requirements, the application of which requires management judgments and estimates including, in certain circumstances, choices between acceptable GAAP alternatives. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. Note 1 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Part II, Item 8 - Financial Statements and Supplementary Data in this Annual Report on Form 10-K, contains a comprehensive summary of our significant accounting policies. The following is a discussion of our most critical accounting policies, estimates, judgments and uncertainties that are inherent in our application of GAAP.

### **CRITICAL ACCOUNTING POLICIES**

#### **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 the revenue accounting standards, 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 \$10.1 million at June 30, 2019 and \$15.0 million at June 30, 2018. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings. Generally, collection of amounts related to unpriced change orders and claims is expected within twelve months. However, customers may not pay these amounts until final resolution of related claims, and accordingly, collection of these amounts may extend beyond one year.

### **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 and is tested at least annually for impairment at the reporting unit level, which is a level below our reportable segments.

We perform our annual test during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional tests. 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 performed our annual goodwill impairment test as of May 31, 2019, which indicated no impairment.

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 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 an impairment charge in the financial statements. As a test for reasonableness, we also consider the combined estimated fair values of our reporting units to our market capitalization.

We also consider the amount of headroom for each reporting unit when determining whether an impairment existed. We define “headroom” as the percentage difference between the fair value of a reporting unit and its carrying value. The amount of headroom varies by reporting unit. Our significant assumptions, including revenue growth rates, gross

margins, discount rate and other factors may change in light of changes in the economic and competitive environment in which we operate. Assuming that all other components of our fair value estimate remain unchanged, a change in the following assumptions would have the following effect on headroom:

<b>Headroom Sensitivity Analysis</b>					
	<b>Goodwill as of June 30, 2019 (in thousands)<sup>(1)</sup></b>	<b>Baseline Headroom</b>	<b>Headroom if Revenue Growth Rate Declines by 100 Basis Points</b>	<b>Headroom if Gross Margin Declines by 100 Basis Points</b>	<b>Headroom if Discount Rate Increases by 100 Basis Points</b>
Reporting Unit 1 . . . . .	\$24,904	21%	18%	-5%	8%
Reporting Unit 2 . . . . .	\$16,892	11%	5%	-4%	1%
Reporting Unit 3 . . . . .	\$ 7,981	10%	6%	-17%	1%
Reporting Unit 4 . . . . .	\$ 6,112	38%	30%	-1%	24%
All other reporting units . . . .	\$37,479	43% to 987%	35% to 941%	25% to 812%	28% to 860%

(1) In August 2018, the Company disposed of a business that marketed process heating equipment, which reduced goodwill by \$2.8 million. The business disposed of constituted its own reporting unit and the amount of goodwill written off was all of the goodwill assigned to that reporting unit. None of the goodwill was considered impaired since the Company recorded a gain on the disposal. See Item 8. Financial Statements and Supplementary Data, Note 3 - Acquisitions and Disposals for more information about the disposal.

The fiscal 2019 test indicated that some reporting units were at higher risk of future impairment than others. If the market view of project opportunities or gross margins deteriorates next year prior to the annual test, an interim test may be required, particularly for the higher risk reporting units, which could result in a material impairment of goodwill.

### **Income Taxes**

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

### **Recently Issued Accounting Standards**

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

On February 25, 2016, the FASB issued ASU 2016-02 that amends accounting for leases. Under the new guidance, lessees will recognize the following for all leases (with the exception of short-term leases) at the lease commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company plans to apply the new leases standard using the modified retrospective method, which recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

We currently expect to recognize between \$23 million and \$28 million of operating right-of-use lease assets and liabilities upon adoption during the first quarter of fiscal 2020. We are not expecting the modified retrospective adjustment to retained earnings upon adoption to be material, and we do not expect the ASU will have a material impact on our future operating results or cash flows. Our conclusions are preliminary and could change once we finalize the implementation during the first fiscal quarter of fiscal 2020.

*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.

## **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.

The majority of the work for all segments is performed in the United States, with 3.4% of revenues generated internationally during fiscal 2019, 10.1% in fiscal 2018 and 19.7% in fiscal 2017. The percentage of revenues generated internationally decreased in fiscal 2019 compared to fiscal 2018 and fiscal 2017 due to the completion of a significant Canadian power generation project in our Electrical Infrastructure segment in fiscal 2018.

Significant period to period changes in revenues, gross profits and operating results are discussed below on a consolidated basis and for each segment:

**Matrix Service Company  
Results of Operations  
(In thousands)**

	<u>Electrical Infrastructure</u>	<u>Oil Gas &amp; Chemical</u>	<u>Storage Solutions</u>	<u>Industrial</u>	<u>Total</u>
<b>Fiscal Year 2019</b>					
Consolidated revenues . . . . .	\$ 217,417	\$319,867	\$ 521,932	\$357,464	\$1,416,680
Gross profit . . . . .	15,470	35,987	56,011	24,483	131,951
Gross profit % . . . . .	7.1%	11.3%	10.7%	6.8%	9.3%
Selling, general and administrative expenses . .	11,802	23,003	41,914	17,302	94,021
Operating income . . . . .	3,668	12,984	14,097	7,181	37,930
Operating income % . . . . .	1.7%	4.1%	2.7%	2.0%	2.7%
<b>Fiscal Year 2018</b>					
Consolidated revenues . . . . .	\$ 255,931	\$322,772	\$ 314,696	\$198,154	\$1,091,553
Gross profit . . . . .	18,300	33,423	25,778	14,435	91,936
Gross profit % . . . . .	7.2%	10.4%	8.2%	7.3%	8.4%
Selling, general and administrative expenses . .	17,550	23,908	31,685	11,274	84,417
Operating income (loss) . . . . .	(16,531)	8,798	(5,907)	3,161	(10,479)
Operating income (loss) % . . . . .	(6.5)%	2.7%	(1.9)%	1.6%	(1.0)%
<b>Fiscal Year 2017</b>					
Consolidated revenues . . . . .	\$ 373,384	\$240,523	\$ 481,696	\$101,906	\$1,197,509
Gross profit . . . . .	7,137	12,675	55,651	5,540	81,003
Gross profit % . . . . .	1.9%	5.3%	11.6%	5.4%	6.8%
Selling, general and administrative expenses . .	15,446	21,458	32,723	6,517	76,144
Operating income (loss) . . . . .	(8,309)	(8,783)	22,928	(977)	4,859
Operating income (loss) % . . . . .	(2.2)%	(3.7)%	4.8%	(1.0)%	0.4%
<b>Variances Fiscal Year 2019 to Fiscal Year 2018 Increase/(Decrease)</b>					
Consolidated revenues . . . . .	\$ (38,514)	\$ (2,905)	\$ 207,236	\$159,310	\$ 325,127
Gross profit . . . . .	(2,830)	2,564	30,233	10,048	40,015
Selling, general and administrative expenses . .	(5,748)	(905)	10,229	6,028	9,604
Operating income . . . . .	20,199	4,186	20,004	4,020	48,409
<b>Variances Fiscal Year 2018 to Fiscal Year 2017 Increase/(Decrease)</b>					
Consolidated revenues . . . . .	\$(117,453)	\$ 82,249	\$(167,000)	\$ 96,248	\$ (105,956)
Gross profit . . . . .	11,163	20,748	(29,873)	8,895	10,933
Selling, general and administrative expenses . .	2,104	2,450	(1,038)	4,757	8,273
Operating income . . . . .	(8,222)	17,581	(28,835)	4,138	(15,338)

**Fiscal 2019 Versus Fiscal 2018**

**Consolidated**

Consolidated revenue was \$1.417 billion for the fiscal year ended June 30, 2019, compared to \$1.092 billion in fiscal 2018. On a segment basis, consolidated revenue increased in the Storage Solutions and Industrial segments by \$207.2 million and \$159.3 million, respectively. These increases were partially offset by decreases in consolidated revenue for the Electrical Infrastructure and Oil Gas & Chemical segments of \$38.5 million and \$2.9 million, respectively.

Consolidated gross profit was \$132.0 million in fiscal 2019 compared to \$91.9 million in fiscal 2018. Gross margin increased to 9.3% in fiscal 2019 compared to 8.4% in fiscal 2018. Fiscal 2019 was positively impacted by higher revenue volumes, which led to improved recovery of construction overhead costs. Additionally, during the first half



of fiscal 2019, the gross margin was negatively impacted by the wind down of lower margin work awarded in a highly competitive environment. In the second half of fiscal 2019, the gross margin was positively impacted by increased volumes of higher margin capital work awarded in an improved business environment.

Consolidated SG&A expenses were \$94.0 million in fiscal 2019 compared to \$84.4 million in fiscal 2018. The increase in fiscal 2019 was primarily due to improved operating results, which led to higher incentive compensation expense, investment in personnel to support increased revenue, and higher stock compensation expense. These increases were partially offset by lower amortization expense on intangible assets that fully amortized in fiscal 2018.

Interest expense was \$1.3 million in fiscal 2019 and \$2.6 million in fiscal 2018. The decrease in interest expense was primarily due to a lower average debt balance during fiscal 2019. Interest income was \$1.2 million during fiscal 2019 compared to \$0.4 million in fiscal 2018 due to an increase in our average cash balance and higher short-term interest rates.

Our effective tax rate for fiscal 2019 was 27.2% compared to 5.5% in fiscal 2018. The effective tax rate in fiscal 2019 was negatively impacted by \$4.5 million of valuation allowances placed on net operating loss carryforwards and foreign tax credits generated by our branch operations in Canada, which we believe will not be utilized prior to their expiration, and \$1.2 million of non-deductible expenses. These negative impacts were largely offset by the reversal of \$3.5 million of branch liabilities associated with the valuation allowances placed on our Canadian branch net operating loss carryforwards and foreign tax credits, \$2.0 million of research and development and other tax credits and \$0.3 million of excess tax benefits related to the vesting of stock-based compensation. A full analysis of the Company's provision for income taxes is included in Item 8. Financial Statements and Supplementary Data, Note 6 - Income Taxes. The rate for fiscal 2018 was negatively impacted by the impairment of \$8.3 million of non-deductible goodwill and by a \$0.8 million valuation allowance recorded on a deferred tax asset in connection with stock-based compensation. In fiscal 2020, we expect our effective income tax rate to be 27.0%.

In fiscal 2019, net income was \$28.0 million, or \$1.01 per fully diluted share, compared to a net loss of \$11.5 million, or \$0.43 per fully diluted share, in fiscal 2018.

### ***Electrical Infrastructure***

Revenue for the Electrical Infrastructure segment decreased \$38.5 million to \$217.4 million in fiscal 2019 compared to \$255.9 million in fiscal 2018. The decrease is primarily due to the strategic shift away from EPC power generation projects and lower volumes of power delivery work, partially offset by higher volumes of power generation package work. The segment gross margin was 7.1% in fiscal 2019 compared to 7.2% in the same period last year. The segment gross margins in both fiscal 2019 and 2018 were negatively impacted by lower than previously forecasted margins on a limited number of power delivery projects. In fiscal 2019, we expanded our power delivery business geographically, however, the margins on this work did not meet our expectations. The fiscal 2019 segment margin was also negatively impacted when the proceeds from the settlement of a customer dispute were less than previously anticipated. The negative impacts to the fiscal 2019 segment gross margin were partially offset by strong project execution on power generation package work. The fiscal 2018 segment gross margin was also negatively impacted by higher construction overhead costs.

### ***Oil Gas & Chemical***

Revenue for the Oil Gas & Chemical segment was \$319.9 million in fiscal 2019 compared to \$322.8 million in the same period a year earlier. The decrease of \$2.9 million is primarily due to lower volumes of engineering and capital work, largely offset by higher volumes of turnaround and maintenance work. The segment gross margin was 11.3% in fiscal 2019 compared to 10.4% in the same period last year. Project execution was strong in both fiscal 2019 and 2018. Fiscal 2019 was also positively impacted by improved recovery of overhead costs.

### ***Storage Solutions***

Revenue for the Storage Solutions segment was \$521.9 million in fiscal 2019 compared to \$314.7 million in fiscal 2018, an increase of \$207.2 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 by our customers. The segment gross margin was 10.7% in fiscal 2019 compared to 8.2% in fiscal 2018. During the first half of fiscal 2019, the segment gross margin was negatively impacted by the wind down of lower margin work awarded in a highly competitive environment and lower than previously forecasted margins on a limited number of those projects. In the

second half of fiscal 2019, the segment gross margin was positively impacted by increased volumes of higher margin work on capital projects awarded in an improved business environment, which also led to improved recovery of construction overhead costs. The fiscal 2018 segment gross margin was negatively impacted by lower margin work awarded in a highly competitive environment and lower volumes, which led to the under recovery of construction overhead costs.

### ***Industrial***

Revenue for the Industrial segment was \$357.5 million in fiscal 2019 compared to \$198.2 million in fiscal 2018, an increase of \$159.3 million. The increase in revenue is primarily attributable to higher volumes of iron and steel spending and increased thermal vacuum chamber work. The segment gross margin was 6.8% in fiscal 2019 compared to 7.3% in fiscal 2018. The fiscal 2019 segment gross margin was negatively impacted by a lower than previously forecasted margin on a thermal vacuum chamber project nearing completion, partially offset by improved gross margins on iron and steel work.

### **Fiscal 2018 Versus Fiscal 2017**

#### ***Consolidated***

Consolidated revenue was \$1.092 billion for the fiscal year ended June 30, 2018, compared to \$1.198 billion in fiscal 2017. On a segment basis, consolidated revenue decreased in the Storage Solutions and Electrical Infrastructure segments by \$167.0 million and \$117.5 million, respectively. These decreases were partially offset by increases in consolidated revenue for the Industrial and Oil Gas & Chemical segments of \$96.3 million and \$82.3 million, respectively.

Consolidated gross profit was \$91.9 million in fiscal 2018 compared to \$81.0 million in fiscal 2017. Gross margin increased to 8.4% in fiscal 2018 compared to 6.8% in fiscal 2017. The increase in gross margin in fiscal 2018 is primarily attributable to the financial impact of a large power generation project in the Electrical Infrastructure segment in fiscal 2017 and better recovery of overhead costs in fiscal 2018.

Consolidated SG&A expenses were \$84.4 million in fiscal 2018 compared to \$76.1 million in fiscal 2017. The increase in fiscal 2018 is primarily attributable to overhead associated with a mid-year fiscal 2017 acquisition (see Note 3 - Acquisitions and Disposals, Item 8. Financial Statements and Supplementary Data) that expanded the Company's engineering business, as well as higher project pursuit costs.

We performed our annual goodwill impairment test as of May 31, 2018. The test indicated that the carrying amount of our Electrical Infrastructure reporting unit exceeded its estimated fair value, resulting in an impairment to goodwill of \$17.3 million. The impairment was triggered by lower financial projections as a result of the Company's decision to shift its strategy away from EPC power generation projects to smaller, individual packages that better fit the Company's strategy and risk profile, and the recent trend of sluggish maintenance and capital spending by some key clients in our Northeast and Mid-Atlantic high voltage markets. We also recorded an impairment of \$0.7 million associated with the customer relationships of a previous acquisition. This impairment was recorded in the Oil Gas & Chemical segment.

Net interest expense was \$2.2 million in fiscal 2018 and \$2.1 million in fiscal 2017. Interest expense in both fiscal years is primarily attributable to borrowings used to fund a mid-year fiscal 2017 acquisition, borrowings used to fund working capital requirements for a major project in the Electrical Infrastructure segment, and an increase in the unused senior secured revolving credit facility fee. The Company repaid all of its outstanding debt under its senior secured revolving credit facility in the fourth quarter of fiscal 2018.

As a result of the Tax Cuts and Jobs Act and its transitional application to our June 30 fiscal year end, we expected our effective income tax rate to be approximately 32.0% during fiscal 2018. Our effective tax rate for fiscal 2018 was 5.5% compared to 94.4% in fiscal 2017. The rate for fiscal 2018 was negatively impacted by the impairment of \$8.3 million of non-deductible goodwill and by a \$0.8 million valuation allowance recorded on a deferred tax asset in connection with stock-based compensation. The fiscal 2017 tax rate was negatively impacted, in part, by the Electrical Infrastructure project discussed above. The loss on this project produced a tax benefit in Canada, which had a lower tax rate than the U.S. during fiscal 2017. At the same time, the Company earned most of its taxable income domestically, which was taxed at a higher rate. A full analysis of the Company's provision for income taxes is included in Item 8. Financial Statements and Supplementary Data, Note 6 - Income Taxes.

In fiscal 2018, the Company had a net loss of \$11.5 million, or \$0.43 per fully diluted share, compared to a net loss of \$0.2 million, or \$0.01 per fully diluted share, in fiscal 2017.

### ***Electrical Infrastructure***

Revenue for the Electrical Infrastructure segment decreased \$117.5 million to \$255.9 million in fiscal 2018 compared to \$373.4 million in fiscal 2017. The decrease is due to the expected reduction in power generation revenue in connection with our strategic decision to exit full EPC power generation work and a reduction in high voltage revenue. The segment gross margin of 7.2% in fiscal 2018 was impacted by under recovery of construction overhead costs, lower than expected direct margins and increased competition. The fiscal 2017 segment gross margin was 1.9%, which was primarily attributable to the financial impact of an increased cost estimate on the power generating facility project mentioned above that was caused by various factors that delayed schedule progress and reduced productivity.

### ***Oil Gas & Chemical***

Revenue for the Oil Gas & Chemical segment was \$322.8 million in fiscal 2018 compared to \$240.5 million in the same period a year earlier. The increase of \$82.3 million is primarily attributable to higher turnaround and maintenance and construction volumes. The segment gross margin was 10.4% in fiscal 2018 compared to 5.3% in the same period last year. The segment gross margin for fiscal 2018 was positively impacted by strong project execution and improved recovery of construction overhead costs. Fiscal 2017 gross margin was negatively impacted by project execution and lower volume which led to higher under recovery of construction overhead costs.

### ***Storage Solutions***

Revenue for the Storage Solutions segment was \$314.7 million in fiscal 2018 compared to \$481.7 million in fiscal 2017, a decrease of \$167.0 million. The decrease in segment revenue is primarily the result of delays in project awards during fiscal 2017 and the first half of fiscal 2018, which prevented the Company from replacing higher revenue generated in fiscal 2017 in connection with work on the construction of a significant crude gathering terminals project. The segment gross margin was 8.2% in fiscal 2018 and 11.6% in fiscal 2017. The fiscal 2018 segment gross margin was negatively impacted by lower direct margins and under recovery of construction overhead costs. The fiscal 2017 segment gross margin was supported by strong project execution, partially offset by under recovery of construction overhead costs.

### ***Industrial***

Revenue for the Industrial segment was \$198.2 million in fiscal 2018 compared to \$101.9 million in fiscal 2017, an increase of \$96.3 million. The increase in revenue is primarily attributable to higher business volumes in the iron and steel industry. The segment gross margin was 7.3% in fiscal 2018 compared to 5.4% in fiscal 2017. The fiscal 2018 segment gross margin was positively impacted by higher volumes, which led to improved recovery of construction overhead costs, and a favorable project closeout. The fiscal 2017 segment gross margin was negatively impacted by lower than anticipated volumes, which led to under recovery of construction overhead costs.

## **Non-GAAP Financial Measures**

### ***Adjusted EBITDA***

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

to Matrix Service Company, the most directly comparable GAAP financial measure, users of this financial information should consider the type of events and transactions that are excluded. Our non-GAAP performance measure, Adjusted EBITDA, has certain material limitations as follows:

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

A reconciliation of Adjusted EBITDA to net income (loss) attributable to Matrix Service Company follows:

	Fiscal Years Ended		
	June 30, 2019	June 30, 2018	June 30, 2017
		(in thousands)	
Net income (loss) attributable to Matrix Service Company . . . . .	\$27,982	\$(11,480)	\$ (183)
Goodwill and other intangible asset impairment . . . . .	—	17,998	—
Interest expense . . . . .	1,296	2,600	2,211
Provision (benefit) for federal, state and foreign income taxes . . . . .	10,430	(668)	2,308
Depreciation and amortization . . . . .	<u>18,224</u>	<u>20,347</u>	<u>21,602</u>
Adjusted EBITDA . . . . .	<u>\$57,932</u>	<u>\$ 28,797</u>	<u>\$25,938</u>

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

We define liquidity as the ability to pay our liabilities as they become due, fund business operations and meet all contractual and financial obligations. Our primary sources of liquidity in fiscal 2019 were cash and cash equivalents on hand, capacity under our senior secured revolving credit facility and cash generated from operations. Cash and cash equivalents on hand at June 30, 2019 totaled \$89.7 million and availability under the senior secured revolving credit facility totaled \$152.2 million, resulting in total liquidity of \$241.9 million. We expect to fund our operations for the next twelve months through the use of cash generated from operations, existing cash and cash equivalents balances and borrowings under our senior secured revolving credit facility, as necessary. The Company's liquidity continues to be adequate to support its long-term strategic growth plans.

The following table provides a summary of changes in our liquidity for the fiscal year ended June 30, 2019 (in thousands):

Liquidity as of June 30, 2018 . . . . .	\$137,243
Net increase in cash and cash equivalents . . . . .	25,658
Decrease in credit facility capacity constraint . . . . .	95,418
Net borrowings on credit facility . . . . .	(5,329)
Increase in letters of credit outstanding . . . . .	(11,074)
Foreign currency translation of outstanding borrowings . . . . .	(18)
Liquidity as of June 30, 2019 . . . . .	<u>\$241,898</u>

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

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

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

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

*Cash Flows Provided by Operating Activities*

Cash flows provided by operating activities for the fiscal year ended June 30, 2019 totaled \$41.4 million. Major components of cash flows from operating activities for the year ending June 30, 2019 are as follows:

**Net Cash Provided by Operating Activities**

**(In thousands)**

Net income . . . . .	\$ 27,982
Non-cash expenses . . . . .	28,856
Deferred income tax . . . . .	2,061
Cash effect of changes in working capital, net of disposition . . . . .	(18,206)
Other . . . . .	<u>701</u>
Net cash provided by operating activities . . . . .	<u>\$ 41,394</u>

Working capital changes, net of effects of a disposal of a business (see Item 8. Financial Statements and Supplementary Data, Note 3 - Acquisitions and Disposals), at June 30, 2019 in comparison to June 30, 2018 include the following:

- Accounts receivable, net of bad debt expense recognized during the period, increased by \$15.4 million during fiscal 2019, which decreased cash flows from operating activities. The increase is primarily due to higher volumes of business and the timing of billing and collections.
- Costs and estimated earnings in excess of billings on uncompleted contracts (“CIE”) increased \$19.8 million, which decreased cash flows from operating activities. Billings on uncompleted contracts in



excess of costs and estimated earnings (“BIE”) decreased \$15.0 million, which decreased 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.

- Inventories increased \$2.9 million, which decreased cash flows from operating activities. The increase in inventories is primarily related to aluminum coil purchased to support our storage tank products business.
- Other assets and liabilities increased \$12.2 million, which decreased cash flows from operating activities. The increase is primarily related to an increase in retentions that are expected to be collected beyond one year in connection with large projects. These increases were partially offset by an increase in net income taxes payable and a decrease in income taxes receivable.
- Accounts payable and other accrued expenses increased by \$47.1 million, which increased cash flows from operating activities. The variance is primarily attributable to higher volumes of business and the timing of vendor payments.

#### *Cash Flows Used for Investing Activities*

Investing activities used \$14.4 million of cash in the fiscal year ended June 30, 2019 primarily due to \$19.5 million of capital expenditures, partially offset by \$3.9 million of proceeds from the disposal of a business (see Item 8. Financial Statements and Supplementary Data, Note 3 - Acquisitions and Disposals) and \$1.2 million of proceeds from other assets sales. Capital expenditures consisted of: \$7.8 million for transportation equipment, \$5.9 million for software and office equipment, \$5.2 million for construction and fabrication equipment, and \$0.6 million for facilities.

#### *Cash Flows Used by Financing Activities*

Financing activities used \$1.1 million of cash in the fiscal year ended June 30, 2019 primarily due to share repurchases of \$5.2 million and the repurchase of \$1.7 million of Company stock for payment of withholding taxes due on equity-based compensation, partially offset by net borrowings of \$5.3 million under the Company’s senior secured revolving credit facility.

#### *Senior Secured Revolving Credit Facility*

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

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

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

The credit facility includes a sub-facility for revolving loans 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 defined in the Credit Agreement, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended June 30, 2019, Consolidated EBITDA was \$68.6 million. Consolidated Funded Indebtedness at June 30, 2019 was \$53.5 million.

Consolidated EBITDA, as defined in the Credit Agreement, or "Covenant EBITDA," differs from Adjusted EBITDA, as reported under "Results of Operations - Non-GAAP Financial Measure," in Item 7 primarily because it permits the Company to:

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

Availability under the senior secured revolving credit facility is as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
	(In thousands)	
Senior secured revolving credit facility . . . . .	\$300,000	\$300,000
Capacity constraint due to the Leverage Ratio . . . . .	<u>94,323</u>	<u>189,741</u>
Capacity under the senior secured revolving credit facility . . . . .	205,677	110,259
Letters of credit . . . . .	48,147	37,073
Borrowings outstanding . . . . .	<u>5,347</u>	<u>—</u>
Availability under the senior secured revolving credit facility . . . . .	<u>\$152,183</u>	<u>\$ 73,186</u>

The Company is in compliance with all other affirmative, negative, and financial covenants under the Credit Agreement.

At June 30, 2019, the Company was at the lowest margin tier for all categories of loans and the unused revolving credit facility fee under the Credit Agreement.

#### *Dividend Policy*

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

#### *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. In December 2018, the Company repurchased 310,532 shares of its common stock for \$5.2 million under the November 2018 Program. There were 2,396,643 shares available for repurchase under the November 2018 Program as of June 30, 2019.

In addition to the stock buyback program, the Company may withhold shares of common stock to satisfy the tax withholding obligations upon vesting of an employee's deferred shares. The Company withheld 79,111 and 52,950 shares of common stock during fiscal 2019 and 2018, respectively, to satisfy these obligations. These shares were returned to the Company's pool of treasury shares. The Company has 1,081,014 treasury shares as of June 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.

#### *Off-Balance Sheet Arrangements*

As of June 30, 2019, the following off-balance sheet arrangements were in place to support our ordinary course obligations:

	Expiration Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
	(In thousands)				
Letters of credit <sup>(1)</sup> . . . . .	\$ 26,903	\$ 28,040	\$—	\$—	\$ 54,943
Surety bonds. . . . .	<u>208,694</u>	<u>77,111</u>	<u>—</u>	<u>—</u>	<u>285,805</u>
Total . . . . .	<u>\$235,597</u>	<u>\$105,151</u>	<u>\$—</u>	<u>\$—</u>	<u>\$340,748</u>

(1) All letters of credit issued under our senior secured revolving credit facility are in support of our workers' compensation insurance programs or certain construction contracts. The letters of credit that support our workers' compensation programs are expected to renew annually through the term of our senior secured revolving credit facility. The letters of credit that support construction contracts carry expiry dates into calendar year 2021. Our Credit Agreement allows exclusion of letters of credit that support our workers' compensation programs when calculating availability under the credit facility. At June 30, 2019, there were \$6.8 million of letters of credit that support our workers' compensation programs.

#### *Contractual Obligations*

Contractual obligations at June 30, 2019 are summarized below:

	Contractual Obligations by Expiration Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
	(In thousands)				
Borrowings under senior secured revolving credit facility <sup>(1)</sup> . . . . .	\$ —	\$ 5,347	\$ —	\$ —	\$ 5,347
Interest payments on debt <sup>(1)</sup> . . . . .	1,843	2,165	—	—	4,008
Operating leases <sup>(2)</sup> . . . . .	7,758	12,899	7,046	11,715	39,418
Purchase obligations . . . . .	<u>1,024</u>	<u>1,043</u>	<u>—</u>	<u>—</u>	<u>2,067</u>
Total contractual obligations . . . . .	<u>\$10,625</u>	<u>\$21,454</u>	<u>\$7,046</u>	<u>\$11,715</u>	<u>\$50,840</u>

(1) Assumes total debt principal at June 30, 2019 is carried to maturity with no future borrowings or repayments and no changes to total letters of credit outstanding as of June 30, 2019. Interest payments on debt assumes the margin tier that the Company was at on June 30, 2019, which is the lowest margin tier under the Credit Agreement.

(2) Includes an operating lease that the Company expects to commence during its first quarter of fiscal 2020. The lease has a 10 year term and future lease payments of \$11.9 million.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

### Interest Rate Risk

Our interest rate risk results primarily from our variable rate indebtedness under our Credit Agreement, which is influenced by movements in short-term rates. Borrowings under our \$300.0 million senior secured revolving credit facility 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%.

Financial instruments with interest rate risk at June 30, 2019 were as follows:

	Maturity by Fiscal Year					Fair Value as of June 30, 2019
	2020	2021	2022	2023	2024	
	(In thousands)					
Long-term debt:						
Variable rate debt . . . . .	\$—	\$—	\$5,347	\$—	\$—	\$5,347

The Company has not entered into any derivative instruments to hedge interest rate risk, but evaluates the materiality of interest rate risk exposure. An increase of 100 basis points in interest rates would not have had a material impact on the financial results of the Company for the fiscal year ended June 30, 2019.

### Foreign Currency Risk

Matrix Service Company has subsidiaries with operations in Canada and South Korea, which use the Canadian Dollar and South Korean Won, respectively, as their functional currencies. The Company also has a subsidiary with operations in Australia, but its functional currency is the U.S. Dollar since its sales are primarily denominated in U.S. Dollars.

Historically, movements in the Canadian Dollar to U.S. Dollar exchange rate have not significantly impacted the Company's results. Also, the Company does not expect exchange rate fluctuations in its South Korean and Australian operations to materially impact its financial results since these operations represent an insignificant portion of the Company's consolidated revenues and expenses. However, further growth in its Canadian, South Korean and/or Australian operations and/or significant fluctuations in the Canadian Dollar, South Korean Won and/or Australian Dollar to U.S. Dollar exchange rates could impact the Company's financial results in the future.

Management has not entered into derivative instruments to hedge foreign currency risk, but periodically evaluates the materiality of our foreign currency exposure. To mitigate our risk, on occasion we borrow Canadian Dollars under our senior secured revolving credit facility to settle U.S. Dollar account balances. A 10% unfavorable change in the Canadian Dollar against the U.S. Dollar would not have had a material impact on the financial results of the Company for the fiscal year ended June 30, 2019.

### Commodity Price Risk

The Company has no direct commodity exposure, but we do have exposure to materials derived from certain commodities including steel plate, steel pipe, and copper, which are key materials used by the Company. Supplies of these materials are available throughout the United States and worldwide. We anticipate that adequate amounts of these materials will be available in the foreseeable future. However, the price, quantity, and delivery schedules of these materials could change rapidly due to various factors, including producer capacity, the level of foreign imports, worldwide demand, the imposition or removal of tariffs on imported steel and other market conditions. We mitigate these risks primarily by procuring materials upon contract execution to ensure that our purchase price approximates the costs included in the project estimate, and also by negotiating contract escalation clauses to cover unexpected costs due to fluctuations in materials derived from certain commodities.

## Item 8. Financial Statements and Supplementary Data

### Financial Statements of the Company

Management’s Report on Internal Control Over Financial Reporting.....	38
Reports of Independent Registered Public Accounting Firm.....	39
Consolidated Statements of Income for the Fiscal Years Ended June 30, 2019, June 30, 2018, and June 30, 2017.....	41
Consolidated Statements of Comprehensive Income for the Fiscal Years Ended June 30, 2019, June 30, 2018, and June 30, 2017.....	42
Consolidated Balance Sheets as of June 30, 2019 and June 30, 2018.....	43
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2019, June 30, 2018, and June 30, 2017.....	44
Consolidated Statements of Changes in Stockholders’ Equity for the Fiscal Years Ended June 30, 2019, June 30, 2018, and June 30, 2017.....	45
Notes to Consolidated Financial Statements.....	46
Quarterly Financial Data (Unaudited).....	70
Schedule II—Valuation and Qualifying Accounts.....	71

### Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II – Valuation and Qualifying Accounts for the three fiscal years ended June 30, 2019, June 30, 2018 and June 30, 2017 immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.



## MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Matrix Service Company (the “Company”) and its wholly-owned subsidiaries are responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations and cannot provide absolute assurance that all objectives will be met. Internal control over financial reporting is a process that involves diligence and is subject to lapses in judgment and human error. Internal control over financial reporting can also be circumvented by collusion or management override of controls. Because of these limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis.

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of June 30, 2019. In making this assessment, the Company’s management used the criteria established in *Internal Control—Integrated Framework (2013)* set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework.

Management’s assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, overall control environment and information systems control environment. Based on this assessment, the Company’s management has concluded that the Company’s internal control over financial reporting as of June 30, 2019 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of June 30, 2019. Deloitte & Touche LLP’s report on the Company’s internal control over financial reporting is included herein.



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**John R. Hewitt**  
**President and Chief Executive Officer**



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**Kevin S. Cavanah**  
**Vice President and Chief Financial Officer**

September 4, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of  
Matrix Service Company

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Matrix Service Company and subsidiaries (the “Company”) as of June 30, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019 based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended June 30, 2019 of the Company and our report dated September 4, 2019, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

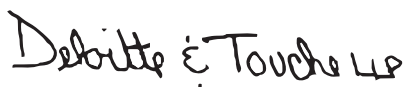
The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Tulsa, Oklahoma  
September 4, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of  
Matrix Service Company

### Opinion on the Financial Statements

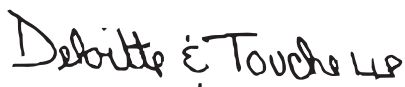
We have audited the accompanying Consolidated Balance Sheets of Matrix Service Company and subsidiaries (the "Company") as of June 30, 2019 and 2018, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Changes in Stockholders' Equity for each of the three years in the period ended June 30, 2019 and the related notes and schedules listed in the Index at Item 8 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 4, 2019 expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



Tulsa, Oklahoma  
September 4, 2019

We have served as the Company's auditor since 2006.

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

	<b>Fiscal Years Ended</b>		
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues .....	\$1,416,680	\$1,091,553	\$1,197,509
Cost of revenues .....	<u>1,284,729</u>	<u>999,617</u>	<u>1,116,506</u>
Gross profit .....	131,951	91,936	81,003
Selling, general and administrative expenses.....	94,021	84,417	76,144
Goodwill and other intangible asset impairment .....	<u>—</u>	<u>17,998</u>	<u>—</u>
Operating income (loss) .....	37,930	(10,479)	4,859
Other income (expense):			
Interest expense .....	(1,296)	(2,600)	(2,211)
Interest income .....	1,167	381	132
Other .....	<u>611</u>	<u>550</u>	<u>(334)</u>
Income (loss) before income tax expense .....	38,412	(12,148)	2,446
Provision (benefit) for federal, state and foreign income taxes .....	<u>10,430</u>	<u>(668)</u>	<u>2,308</u>
Net income (loss) .....	27,982	(11,480)	138
Less: Net income attributable to noncontrolling interest.....	<u>—</u>	<u>—</u>	<u>321</u>
Net income (loss) attributable to Matrix Service Company .....	<u>\$ 27,982</u>	<u>\$ (11,480)</u>	<u>\$ (183)</u>
Basic earnings (loss) per common share .....	<u>\$ 1.04</u>	<u>\$ (0.43)</u>	<u>\$ (0.01)</u>
Diluted earnings (loss) per common share.....	<u>\$ 1.01</u>	<u>\$ (0.43)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding:			
Basic .....	26,891	26,769	26,533
Diluted .....	27,587	26,769	26,533

*See accompanying notes*

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

	Fiscal Years Ended		
	June 30, 2019	June 30, 2018	June 30, 2017
Net income (loss) . . . . .	\$27,982	\$(11,480)	\$ 138
Other comprehensive loss, net of tax:			
Foreign currency translation loss (net of tax expense (benefit) of \$27, \$ (24) and \$180 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively) . . . . .	(340)	(87)	(479)
Comprehensive income (loss) . . . . .	27,642	(11,567)	(341)
Less: Comprehensive income attributable to noncontrolling interest . . . . .	—	—	321
Comprehensive income (loss) attributable to Matrix Service Company . . . . .	\$27,642	\$(11,567)	\$(662)

*See accompanying notes*



**Matrix Service Company**  
**Consolidated Balance Sheets**  
(In thousands)

	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 89,715	\$ 64,057
Accounts receivable, less allowances (2019 - \$923; 2018 - \$6,327) . . . . .	218,432	203,388
Costs and estimated earnings in excess of billings on uncompleted contracts. . . . .	96,083	76,632
Inventories . . . . .	8,017	5,152
Income taxes receivable . . . . .	29	3,359
Other current assets . . . . .	<u>5,034</u>	<u>4,458</u>
Total current assets . . . . .	417,310	357,046
Property, plant and equipment, at cost:		
Land and buildings . . . . .	41,179	40,424
Construction equipment. . . . .	91,793	89,036
Transportation equipment . . . . .	52,526	48,339
Office equipment and software. . . . .	43,632	41,236
Construction in progress . . . . .	<u>7,619</u>	<u>1,353</u>
Total property, plant and equipment - at cost . . . . .	236,749	220,388
Accumulated depreciation . . . . .	<u>(157,414)</u>	<u>(147,743)</u>
Property, plant and equipment - net . . . . .	79,335	72,645
Goodwill . . . . .	93,368	96,162
Other intangible assets . . . . .	19,472	22,814
Deferred income taxes. . . . .	2,683	4,848
Other assets . . . . .	<u>21,226</u>	<u>4,518</u>
Total assets. . . . .	<u>\$ 633,394</u>	<u>\$ 558,033</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable. . . . .	\$ 114,647	\$ 79,439
Billings on uncompleted contracts in excess of costs and estimated earnings. . . . .	105,626	120,740
Accrued wages and benefits . . . . .	38,357	24,375
Accrued insurance. . . . .	9,021	9,080
Income taxes payable . . . . .	2,517	7
Other accrued expenses. . . . .	<u>5,331</u>	<u>4,824</u>
Total current liabilities . . . . .	275,499	238,465
Deferred income taxes. . . . .	298	429
Borrowings under senior secured revolving credit facility . . . . .	5,347	—
Other liabilities . . . . .	<u>293</u>	<u>296</u>
Total liabilities . . . . .	281,437	239,190
Commitments and contingencies		
Stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of June 30, 2019 and June 30, 2018; 26,807,203 and 26,853,823 shares outstanding as of June 30, 2019 and June 30, 2018 . . . . .	279	279
Additional paid-in capital . . . . .	137,712	132,198
Retained earnings . . . . .	239,476	211,494
Accumulated other comprehensive loss . . . . .	<u>(7,751)</u>	<u>(7,411)</u>
	369,716	336,560
Less treasury stock, at cost — 1,081,014 and 1,034,394 shares as of June 30, 2019 and June 30, 2018 . . . . .	<u>(17,759)</u>	<u>(17,717)</u>
Total stockholders' equity . . . . .	<u>351,957</u>	<u>318,843</u>
Total liabilities and stockholders' equity . . . . .	<u>\$ 633,394</u>	<u>\$ 558,033</u>

*See accompanying notes*

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

	Fiscal Years Ended		
	June 30, 2019	June 30, 2018	June 30, 2017
<b>Operating activities:</b>			
Net income (loss) . . . . .	\$ 27,982	\$ (11,480)	\$ 138
Adjustments to reconcile net income to net cash provided (used) by operating activities, net of effects of acquisitions:			
Depreciation and amortization . . . . .	18,224	20,347	21,602
Goodwill and other intangible asset impairment . . . . .	—	17,998	—
Stock-based compensation expense . . . . .	11,908	8,618	7,461
Deferred income tax . . . . .	2,061	(1,186)	(2,556)
Gain on disposal of business (Note 3) . . . . .	(427)	—	—
Gain on sale of property, plant and equipment . . . . .	(854)	(662)	(142)
Provision for uncollectible accounts . . . . .	5	107	1,748
Other . . . . .	701	397	289
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:			
Accounts receivable . . . . .	(15,374)	5,504	(11,932)
Costs and estimated earnings in excess of billings on uncompleted contracts . .	(19,809)	14,548	13,567
Inventories . . . . .	(2,872)	(1,415)	198
Other assets and liabilities . . . . .	(12,246)	369	(7,641)
Accounts payable . . . . .	32,651	(25,883)	(37,047)
Billings on uncompleted contracts in excess of costs and estimated earnings . .	(14,983)	45,613	5,212
Accrued expenses . . . . .	14,427	1,796	(9,643)
Net cash provided (used) by operating activities . . . . .	41,394	74,671	(18,746)
<b>Investing activities:</b>			
Capital expenditures . . . . .	(19,558)	(8,711)	(11,908)
Acquisitions, net of cash acquired (Note 3) . . . . .	—	(1,687)	(40,819)
Proceeds from disposal of business (Note 3) . . . . .	3,885	—	—
Proceeds from asset sales . . . . .	1,225	1,062	1,308
Net cash used by investing activities . . . . .	(14,448)	(9,336)	(51,419)
<b>Financing activities:</b>			
Advances under senior secured revolving credit facility . . . . .	16,225	85,317	126,933
Repayments of advances under senior secured revolving credit facility . . . . .	(10,896)	(130,248)	(82,251)
Payment of debt amendment fees . . . . .	—	(364)	(1,073)
Open market purchase of treasury shares . . . . .	(5,190)	—	—
Issuances of common stock . . . . .	128	317	253
Proceeds from issuance of common stock under employee stock purchase plan . .	311	293	305
Repurchase of common stock for payment of statutory taxes due on equity-based compensation . . . . .	(1,685)	(627)	(2,290)
Capital contributions from noncontrolling interest . . . . .	—	—	855
Net cash provided (used) by financing activities . . . . .	(1,107)	(45,312)	42,732
Effect of exchange rate changes on cash . . . . .	(181)	229	(418)
Net increase (decrease) in cash and cash equivalents . . . . .	25,658	20,252	(27,851)
Cash and cash equivalents, beginning of period . . . . .	64,057	43,805	71,656
Cash and cash equivalents, end of period . . . . .	<u>\$ 89,715</u>	<u>\$ 64,057</u>	<u>\$ 43,805</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the period for:			
Income taxes . . . . .	<u>\$ 3,309</u>	<u>\$ 1,410</u>	<u>\$ 11,968</u>
Interest . . . . .	<u>\$ 1,705</u>	<u>\$ 2,719</u>	<u>\$ 1,788</u>
Non-cash investing and financing activities:			
Accrued acquisition working capital adjustment (Note 3) . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,687</u>
Purchases of property, plant and equipment on account . . . . .	<u>\$ 2,686</u>	<u>\$ 156</u>	<u>\$ 483</u>

*See accompanying notes*

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interest	Total
Balances, July 1, 2016 . . . . .	\$279	\$127,058	\$223,157	\$(26,907)	\$(6,845)	\$(1,176)	\$315,566
Capital contributions from noncontrolling interest . .	—	—	—	—	—	855	855
Net income (loss) . . . . .	—	—	(183)	—	—	321	138
Other comprehensive loss . . . . .	—	—	—	—	(479)	—	(479)
Treasury Shares sold to Employee Stock Purchase Plan (16,609 shares) . . . . .	—	(25)	—	330	—	—	305
Exercise of stock options (24,813 shares) . . . . .	—	(317)	—	570	—	—	253
Issuance of deferred shares (396,530 shares) . . . . .	—	(5,758)	—	5,758	—	—	—
Treasury shares repurchased to satisfy tax withholding obligations (134,535 shares) . . . . .	—	—	—	(2,290)	—	—	(2,290)
Stock-based compensation expense . . . . .	—	7,461	—	—	—	—	7,461
Balances, June 30, 2017 . . . . .	279	128,419	222,974	(22,539)	(7,324)	—	321,809
Net loss . . . . .	—	—	(11,480)	—	—	—	(11,480)
Other comprehensive loss . . . . .	—	—	—	—	(87)	—	(87)
Treasury Shares sold to Employee Stock Purchase Plan (21,920 shares) . . . . .	—	(130)	—	423	—	—	293
Exercise of stock options (31,050 shares) . . . . .	—	(240)	—	557	—	—	317
Issuance of deferred shares (253,241 shares) . . . . .	—	(4,469)	—	4,469	—	—	—
Treasury shares repurchased to satisfy tax withholding obligations (52,950 shares) . . . . .	—	—	—	(627)	—	—	(627)
Stock-based compensation expense . . . . .	—	8,618	—	—	—	—	8,618
Balances, June 30, 2018 . . . . .	279	132,198	211,494	(17,717)	(7,411)	—	318,843
Net income . . . . .	—	—	27,982	—	—	—	27,982
Other comprehensive loss . . . . .	—	—	—	—	(340)	—	(340)
Treasury Shares Sold to Employee Stock Purchase Plan (15,812 shares) . . . . .	—	38	—	273	—	—	311
Exercise of stock options (12,500 shares) . . . . .	—	(126)	—	254	—	—	128
Issuance of deferred shares (314,711 shares) . . . . .	—	(6,306)	—	6,306	—	—	—
Treasury shares repurchased to satisfy tax withholding obligations (79,111 shares) . . . . .	—	—	—	(1,685)	—	—	(1,685)
Open market purchases of treasury shares (310,532 shares) . . . . .	—	—	—	(5,190)	—	—	(5,190)
Stock-based compensation expense . . . . .	—	11,908	—	—	—	—	11,908
Balances, June 30, 2019 . . . . .	<u>\$279</u>	<u>\$137,712</u>	<u>\$239,476</u>	<u>\$(17,759)</u>	<u>\$(7,751)</u>	<u>\$ —</u>	<u>\$351,957</u>

*See accompanying notes*

## Matrix Service Company

### Notes to Consolidated Financial Statements

#### Note 1—Summary of Significant Accounting Policies

##### *Organization and Basis of Presentation*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Matrix Service Company (“Matrix” or the “Company”) and its subsidiaries, all of which are wholly owned. Intercompany transactions and balances have been eliminated in consolidation.

The Company operates in the United States, Canada, South Korea and Australia. The Company’s reportable segments are Electrical Infrastructure, Oil Gas & Chemical, Storage Solutions and Industrial.

##### *Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We believe the most significant estimates and judgments are associated with revenue recognition, the recoverability tests that must be periodically performed with respect to our goodwill and other intangible assets, valuation reserves on our accounts receivable and deferred tax assets, and the estimation of loss contingencies, including liabilities associated with litigation and with the self-insured retentions on our insurance programs. Actual results could materially differ from those estimates.

##### *Revenue Recognition*

###### *Adoption of New Revenue Recognition Standard*

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

###### *General Information about our Contracts with Customers*

Our revenues come from contracts to provide engineering, procurement, 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

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

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 the revenue accounting standards, 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.



## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

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 - 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.

#### *Cash and Cash Equivalents*

The Company includes as cash equivalents all investments with original maturities of three months or less which are readily convertible into cash. We have cash on deposit at June 30, 2019 with banks in the United States, Canada, South Korea and Australia in excess of Federal Deposit Insurance Corporation ("FDIC"), Canada Deposit Insurance Corporation ("CDIC"), Korea Deposit Insurance Corporation ("KDIC") and Financial Claims Scheme ("FCS") protection limits, respectively. The United States Dollar equivalent of Canadian, South Korean and Australian deposits totaled \$2.6 million as of June 30, 2019.

#### *Accounts Receivable*

Accounts receivable are carried on a gross basis, less the allowance for uncollectible accounts. The Company's customers consist primarily of major integrated oil companies, steel companies, independent refiners and marketers, power companies, petrochemical companies, pipeline companies, mining companies, contractors and engineering firms. The Company is exposed to the risk of individual customer defaults or depressed cycles in our customers' industries. To mitigate this risk many of our contracts require payment as projects progress or advance payment in some circumstances. In addition, in most cases the Company can place liens against the property, plant or equipment constructed or terminate the contract if a material contract default occurs. Management estimates the allowance for uncollectible accounts based on existing economic conditions, the financial condition of its customers and the amount and age of past due accounts. Accounts are written off against the allowance for uncollectible accounts only after all reasonable collection attempts have been exhausted.

#### *Retentions*

Contract retentions collectible beyond one year are included in Other assets in the Consolidated Balance Sheets. Accounts payable retentions are generally settled within one year.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### *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 ASC 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.

#### *Inventories*

Inventories consist primarily of steel plate and pipe and aluminum coil and extrusions. Cost is determined primarily using the average cost method and inventories are stated at the lower of cost or net realizable value.

#### *Depreciation*

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Depreciable lives are as follows: buildings—40 years, construction equipment—3 to 15 years, transportation equipment—3 to 5 years, and office equipment and software—3 to 10 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term.

#### *Impairment of Long-Lived Assets*

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets used in operations may not be recoverable. The determination of whether an impairment has occurred is based on management's estimate of undiscounted future cash flows attributable to the assets as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and, to the extent the carrying value exceeds the fair value of the assets, recording a loss provision.

For assets identified to be disposed of in the future, the carrying value of the assets are compared to the estimated fair value less the cost of disposal to determine if an impairment has occurred. Until the assets are disposed of, an estimate of the fair value is redetermined when related events or circumstances change.

#### *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 and is tested at least annually for impairment at the reporting unit level, which is a level below our reportable segments.

We perform our annual test during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional tests. 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

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

from the estimates utilized in our income approach. For the market approach, significant judgments and assumptions include the selection of guideline companies 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 an impairment charge in the financial statements. As a test for reasonableness, we also consider the combined estimated fair values of our reporting units to our market capitalization.

#### *Other Intangible Assets*

Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives ranging from 4 years to 15 years. A finite intangible asset is considered impaired when its carrying amount is not recoverable and exceeds the asset's fair value. The carrying amount is deemed unrecoverable if it is greater than the sum of undiscounted cash flows expected to result from use and eventual disposition of the asset. An impairment loss is equal to the excess of the carrying amount over the fair value of the asset. If quoted market prices are not available, the fair values of the intangible assets are based on present values of expected future cash flows or royalties avoided using discount rates commensurate with the risks involved.

#### *Insurance Reserves*

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, coverage limits and self-insured retentions. We establish reserves for claims using a combination of actuarially determined estimates and case-by-case evaluations of the underlying claim data and update our evaluations as further information becomes known. Judgments and assumptions are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. If actual results of claim settlements are different than the amounts estimated we may be exposed to future gains and losses that could be material.

#### *Stock-Based Compensation*

The Company has issued stock options and nonvested deferred share awards under its long-term incentive compensation plans. The fair value of these awards is calculated at grant date. The fair value of time-based, nonvested deferred shares is the value of the Company's common stock at the grant date. The fair value of market-based nonvested deferred shares is based on several factors, including the probability that the market condition specified in the grant will be achieved, which is calculated using a Monte Carlo model. The fair value of stock options is determined based on the Black-Scholes option pricing model. For all stock-based awards, expense is recognized over the requisite service period with forfeitures recorded as they occur.

#### *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.

#### *Foreign Currency*

The functional currencies of the Company's operations in Canada, South Korea and Australia are the Canadian Dollar, South Korean Won and U.S. Dollar, respectively. The functional currency of the Company's Australian operations is the U.S. Dollar since its sales are primarily denominated in that currency. For subsidiaries with operations using a foreign functional currency, assets and liabilities are translated at the year-end exchange rates and

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

the income statement accounts are translated at average exchange rates throughout the year. Translation gains and losses are reported in Accumulated Other Comprehensive Income (Loss), net of tax, in the Consolidated Statements of Changes in Stockholders' Equity and in Other Comprehensive Income (Loss) in the Consolidated Statements of Comprehensive Income. Translation gains and losses are reversed from Accumulated Other Comprehensive Income (Loss) and are recognized in current period income in the event the Company disposes of an entity with accumulated translation gains or losses. Transaction gains and losses are reported as a component of Other income (expense) in the Consolidated Statements of Income.

#### ***Recently Issued Accounting Standards***

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

On February 25, 2016, the FASB issued ASU 2016-02 that amends accounting for leases. Under the new guidance, lessees will recognize the following for all leases (with the exception of short-term leases) at the lease commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company plans to apply the new leases standard using the modified retrospective method, which recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

We currently expect to recognize between \$23 million and \$28 million of operating right-of-use lease assets and liabilities upon adoption during the first quarter of fiscal 2020. We are not expecting the modified retrospective adjustment to retained earnings upon adoption to be material, and we do not expect the ASU will have a material impact on our future operating results or cash flows. Our conclusions are preliminary and could change once we finalize the implementation during the first fiscal quarter of fiscal 2020.

##### *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 \$823.3 million of remaining performance obligations yet to be satisfied as of June 30, 2019. The Company expects to recognize approximately \$656.4 million of its remaining performance obligations as revenue within the next twelve months.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### *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:

	June 30, 2019	June 30, 2018	Change
(In thousands)			
Costs and estimated earnings in excess of billings on uncompleted contracts . . .	\$ 96,083	\$ 76,632	\$19,451
Billings on uncompleted contracts in excess of costs and estimated earnings . . .	<u>(105,626)</u>	<u>(120,740)</u>	<u>15,114</u>
Net contract liabilities . . . . .	<u>\$ (9,543)</u>	<u>\$ (44,108)</u>	<u>\$34,565</u>

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 twelve months ended June 30, 2019 that was included in the prior period BIE balance was \$120.7 million. This revenue consists primarily of work performed during the period on contracts with customers that had advance billings.

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

	June 30, 2019	June 30, 2018
(In thousands)		
Costs incurred and estimated earnings on uncompleted contracts . . . . .	\$1,942,903	\$2,081,799
Billings on uncompleted contracts . . . . .	<u>1,952,446</u>	<u>2,125,907</u>
Net contract liabilities . . . . .	<u>\$ (9,543)</u>	<u>\$ (44,108)</u>

Progress billings in accounts receivable at June 30, 2019 and June 30, 2018 included retentions to be collected within one year of \$21.9 million and \$25.9 million, respectively. Contract retentions collectible beyond one year are included in other assets in the Consolidated Balance Sheet and totaled \$17.7 million as of June 30, 2019 and \$2.6 million as of June 30, 2018.

#### *Disaggregated Revenue*

The following table presents revenue disaggregated by the geographic area where the work was performed:

	Twelve months ended		
	June 30, 2019	June 30, 2018	June 30, 2017
(In thousands)			
United States . . . . .	\$1,367,844	\$ 981,292	\$ 961,049
Canada . . . . .	41,410	104,208	228,625
Other international . . . . .	<u>7,426</u>	<u>6,053</u>	<u>7,835</u>
Total . . . . .	<u>\$1,416,680</u>	<u>\$1,091,553</u>	<u>\$1,197,509</u>



## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### Note 3—Acquisitions and Disposals

##### *Sale of Process Heating Business*

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

##### *Purchase of Houston Interests, LLC*

On December 12, 2016, the Company completed the acquisition of Houston Interests, LLC (“Houston Interests”), a global solutions company that provides consulting, engineering, design, construction services and systems integration. Houston Interests brings expertise to the Company in natural gas processing; sulfur recovery, processing and handling; liquid terminals, silos and other bulk storage; process plant design; power generation environmental controls and material handling; industrial power distribution; electrical, instrumentation and controls; marine structures; and material handling systems and terminals for cement, sulfur, fertilizer, coal and grain facilities. The business has been included in our Matrix PDM Engineering, Inc. subsidiary, and its operating results impact primarily the Oil Gas & Chemical, Storage Solutions and Industrial segments.

The Company purchased all of the equity interests of Houston Interests for \$42.5 million, net of working capital adjustments and cash acquired. The consideration paid is as follows (in thousands):

Cash paid for equity interest . . . . .	\$ 46,000
Cash paid for working capital . . . . .	6,837
Less: cash acquired. . . . .	<u>(10,331)</u>
Net purchase price . . . . .	<u>\$ 42,506</u>

The Company funded the acquisition primarily from borrowings under the Company’s senior secured revolving credit facility (See Note 5). The net purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date.

The following table summarizes the net purchase price allocation (in thousands):

#### **Assets Acquired:**

Cash and cash equivalents . . . . .	\$10,331
Accounts receivable . . . . .	10,273
Costs and estimated earnings in excess of billings on uncompleted contracts . . . . .	746
Other current assets . . . . .	<u>454</u>
Current assets . . . . .	21,804
Property, plant and equipment . . . . .	942
Goodwill . . . . .	35,146
Other intangible assets . . . . .	<u>10,220</u>
Total assets acquired. . . . .	<u>\$68,112</u>

#### **Liabilities Acquired:**

Accounts payable . . . . .	\$ 962
Billings on uncompleted contracts in excess of costs and estimated earnings . . . . .	11,648
Other accrued expenses . . . . .	<u>2,475</u>
Current liabilities . . . . .	15,085
Other liabilities . . . . .	<u>190</u>
Total liabilities acquired. . . . .	<u>\$15,275</u>

#### **Net Purchase Price:**

Net assets acquired . . . . .	\$52,837
Less: cash acquired. . . . .	<u>10,331</u>
Net purchase price . . . . .	<u>\$42,506</u>

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

The goodwill recognized from the acquisition is primarily attributable to the technical expertise of the acquired workforce and the complementary nature of Houston Interests' operations, which the Company believes will enable the combined entity to expand its service offerings and enter new markets. All of the goodwill recognized is deductible for income tax purposes.

The Company agreed to pay the previous owners for any unused portion of acquired warranty obligations outstanding as of June 30, 2017. This agreement was settled for \$1.7 million, which was paid in July 2017. This settlement was reflected as a decrease to the acquired current liabilities and an increase to the net purchase price.

The Company incurred \$0.6 million of expenses related to closing the acquisition during the fiscal year ended June 30, 2017, which were included within selling, general and administrative expenses in the Consolidated Statements of Income.

The unaudited financial information in the table below summarizes the combined results of operations of Matrix Service Company and Houston Interests for the fiscal year ended June 30, 2017, on a pro forma basis, as though the companies had been combined as of July 1, 2016. The pro forma financial information presented in the table below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at July 1, 2016 nor should it be taken as indicative of future consolidated results of operations.

	<u>Fiscal Year Ended</u>
	<u>June 30, 2017</u>
	(In thousands, except per share data)
Revenues .....	\$1,233,372
Net income attributable to Matrix Service Company .....	\$ 7,326
Basic earnings per common share .....	\$ 0.28
Diluted earnings per common share.....	\$ 0.27

The pro forma financial information presented in the table above includes the following adjustments to the combined entities' historical financial statements:

- Pro forma earnings were adjusted to include \$0.8 million of integration expenses that would have been recognized had the acquisition occurred on July 1, 2016.
- Interest expense for the combined entities was increased by \$0.7 million for the fiscal year ended June 30, 2017. The increase was attributable to the assumption that the Company's borrowings of \$46.0 million used to fund a portion of the acquisition had been outstanding as of July 1, 2016. This increase was partially offset by the assumption that Houston Interests' former debt was extinguished as of July 1, 2016.
- Depreciation and intangible asset amortization expense for the combined entities was reduced by \$1.4 million during the fiscal year ended June 30, 2017. This reduction is primarily due to the recognition of amortizable intangible assets as part of the acquisition and the effect of fair value adjustments to acquired property, plant and equipment.
- Pro forma earnings were adjusted to include additional income tax expense of \$2.0 million. Houston Interests was previously an exempt entity and income taxes were not assessed in its historical financial information.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### Note 4—Goodwill and Other Intangible Assets

##### Goodwill

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

	<u>Electrical Infrastructure</u>	<u>Oil Gas &amp; Chemical</u>	<u>Storage Solutions</u>	<u>Industrial</u>	<u>Total</u>
	(In thousands)				
Net balance at July 1, 2016 . . . . .	\$ 42,170	\$14,008	\$16,681	\$ 5,434	\$ 78,293
Purchase of Houston Interests (Note 3) . . . . .	—	19,596	—	15,550	35,146
Acquisition related adjustments . . . . .	—	—	88	—	88
Translation adjustment <sup>(1)</sup> . . . . .	<u>(18)</u>	<u>—</u>	<u>(5)</u>	<u>(3)</u>	<u>(26)</u>
Net balance at June 30, 2017 . . . . .	42,152	33,604	16,764	20,981	113,501
Goodwill impairment . . . . .	(17,281)	—	—	—	(17,281)
Translation adjustment <sup>(1)</sup> . . . . .	<u>(45)</u>	<u>—</u>	<u>(4)</u>	<u>(9)</u>	<u>(58)</u>
Net balance at June 30, 2018 . . . . .	24,826	33,604	16,760	20,972	96,162
Disposal of business <sup>(2)</sup> . . . . .	—	(2,775)	—	—	(2,775)
Translation adjustment <sup>(1)</sup> . . . . .	<u>4</u>	<u>—</u>	<u>(24)</u>	<u>1</u>	<u>(19)</u>
Net balance at June 30, 2019 . . . . .	<u>\$ 24,830</u>	<u>\$30,829</u>	<u>\$16,736</u>	<u>\$20,973</u>	<u>\$ 93,368</u>

(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.

(2) In August 2018, the Company disposed of a business that marketed process heating equipment. See Note 3 - Acquisitions and Disposals for more information about the disposal. The business disposed of constituted its own reporting unit and the amount of goodwill written off was all of the goodwill assigned to that reporting unit. None of the goodwill was considered impaired since the Company recorded a gain on the disposal.

The Company performed its annual goodwill impairment test as of May 31, 2019, which resulted in no impairment. However, the risk of impairment is dependent upon the relationship of fair values to carrying amounts at the reporting unit level. The fiscal 2019 test indicated that some reporting units were at higher risk of future impairment than others. If the market view of project opportunities or gross margins deteriorates next year prior to the annual test, an interim test may be required, particularly for the higher risk reporting units, which could result in a material impairment of goodwill.

In fiscal 2018, the Company recorded a \$17.3 million impairment of goodwill included in the Electrical Infrastructure segment. The impairment was triggered by lower financial projections as a result of the Company's decision to shift its strategy away from EPC power generation projects to smaller, individual packages that better fit the Company's strategy and risk profile, and sluggish maintenance and capital spending by some key clients in our Northeast and Mid-Atlantic high voltage markets. The estimated fair value of the reporting unit was derived by utilizing a combination of discounted cash flow analysis and market multiples.

##### Other Intangible Assets

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

		<u>At June 30, 2019</u>		
	<u>Useful Life</u>	<u>Gross</u>	<u>Accumulated</u>	<u>Net Carrying</u>
	(Years)	<u>Carrying</u>	<u>Amortization</u>	<u>Amount</u>
		(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 other intangible assets . . . . .		<u>\$42,604</u>	<u>\$(23,132)</u>	<u>\$19,472</u>

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

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

In June 2018, the Company recorded a \$0.7 million impairment to a customer relationship intangible asset associated with an acquisition that was completed in fiscal 2013. The impairment was triggered by lower than anticipated revenue and operating income. The impairment is included in the Oil Gas & Chemical segment and is presented within the Goodwill and other intangible asset impairment caption in the Consolidated Statements of Income.

Amortization expense totaled \$3.3 million, \$4.8 million, and \$4.9 million in fiscal 2019, 2018, and 2017, respectively. We estimate that future amortization of other intangible assets will be as follows (in thousands):

**For year ending:**

June 30, 2020.....	\$ 3,768
June 30, 2021.....	3,749
June 30, 2022.....	2,900
June 30, 2023.....	2,447
June 30, 2024.....	2,134
Thereafter.....	<u>4,474</u>
Total estimated amortization expense.....	<u>\$19,472</u>

**Note 5—Debt**

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

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

The Credit Agreement includes the following covenants and borrowing limitations:

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

The credit facility includes a sub-facility for revolving loans 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.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

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 defined in the Credit Agreement, 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 June 30, 2019, Covenant EBITDA was \$68.6 million. Consolidated Funded Indebtedness at June 30, 2019 was \$53.5 million.

Availability under the senior secured revolving credit facility is as follows:

	June 30, 2019	June 30, 2018
	(In thousands)	
Senior secured revolving credit facility . . . . .	\$300,000	\$300,000
Capacity constraint due to the Leverage Ratio . . . . .	94,323	189,741
Capacity under the senior secured revolving credit facility . . . . .	205,677	110,259
Letters of credit issued . . . . .	48,147	37,073
Borrowings outstanding. . . . .	5,347	—
Availability under the senior secured revolving credit facility . . . . .	\$152,183	\$ 73,186

The Company is in compliance with all other affirmative, negative, and financial covenants under the Credit Agreement. At June 30, 2019, the Company was at the lowest margin tier for all categories of loans and the unused revolving credit facility fee under the Credit Agreement. The carrying value of the senior secured revolving credit facility approximates its fair value at each balance sheet date.

#### Note 6—Income Taxes

##### *Tax Cuts and Jobs Act*

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

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

- eliminating the deduction for domestic production activity;
- limiting the annual deduction for business interest;
- taxing global intangible low-tax income;
- allowing a deduction for domestically earned foreign intangible income; and
- restricting further deductibility of executive performance compensation in excess of \$1.0 million; and

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

- establishing a new base erosion and anti-abuse tax on payments between U.S. taxpayers and foreign related parties.

We completed the accounting for the Act as of December 31, 2018 and accounted for the tax effect of the Act as follows:

#### Deferred Taxes Remeasurement

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

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

The Act includes a one-time transition tax based on our total post-1986 foreign earnings and profits (“E&P”) which we have previously deferred from U.S. income taxes. Based on our completed calculations surrounding this tax, we incurred no additional tax related to this provision since our foreign subsidiaries have overall negative E&P.

#### Global Intangible Low-Tax Income (“GILTI”)

The Act creates a new requirement that certain income earned by controlled foreign corporations must be included currently in the gross income of the U.S. shareholder. Under U.S. GAAP, we have made an accounting policy election to treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred instead of factoring such amounts into the measurement of our deferred taxes. For fiscal 2019, we have no U.S. taxable income inclusion related to GILTI.

#### Valuation Allowances on Foreign Tax Credit Carryforwards

We continue to assess our ability to utilize our foreign tax credits in light of the lower U.S. federal income tax rate. As of June 30, 2019, we had \$1.5 million of foreign tax credit carryforwards, the majority of which relate to our branch operations in Canada. Future operations of our Canadian branches will impact our ability to utilize these credits. During our third fiscal quarter we concluded that we are unlikely to realize the benefit of foreign tax credits generated by our Canadian branch operations, which expire in fiscal 2021. Therefore, we recorded a valuation allowance of \$0.6 million during the third fiscal quarter. In our fourth fiscal quarter, we placed an additional valuation allowance of \$0.3 million on foreign tax credits expiring in fiscal 2025. The remaining credits will expire in fiscal 2023 through fiscal 2025 if not utilized.

#### Indefinite Reinvestment Assertion

We do not provide for outside basis differences under the indefinite reinvestment assertion of ASC 740-30. Based on our analysis of the Act, we do not anticipate the need to provide for additional taxes for basis differences or withholding taxes on remitted foreign earnings in the immediate future.

#### *Sources of pretax income (loss)*

	<u>Fiscal Years Ended</u>		
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	(In thousands)		
Domestic . . . . .	\$46,032	\$ (2,656)	\$ 19,763
Foreign . . . . .	(7,620)	(9,492)	(17,317)
Total . . . . .	<u>\$38,412</u>	<u>\$(12,148)</u>	<u>\$ 2,446</u>



## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### Components of the provision for income tax expense (benefit)

	Fiscal Years Ended		
	June 30, 2019	June 30, 2018	June 30, 2017
	(In thousands)		
Current:			
Federal .....	\$ 6,085	\$ (121)	\$ 6,522
State .....	2,390	135	(185)
Foreign .....	(97)	504	(1,509)
	<u>8,378</u>	<u>518</u>	<u>4,828</u>
Deferred:			
Federal .....	(528)	1,093	618
State .....	451	(590)	101
Foreign .....	2,129	(1,689)	(3,239)
	<u>2,052</u>	<u>(1,186)</u>	<u>(2,520)</u>
	<u>\$10,430</u>	<u>\$ (668)</u>	<u>\$ 2,308</u>

#### Reconciliation between the expected income tax provision applying the domestic federal statutory tax rate and the reported income tax provision

	Fiscal Years Ended		
	June 30, 2019	June 30, 2018	June 30, 2017
	(In thousands)		
Expected provision (benefit) for federal income taxes at the statutory rate ..	\$ 8,067	\$(3,408)	\$ 857
State income taxes, net of federal benefit.....	2,288	247	808
Impairment of non-deductible goodwill <sup>(1)</sup> .....	—	2,342	—
Charges without tax benefit.....	1,233	1,100	1,741
Change in valuation allowance <sup>(2)</sup> .....	4,512	1,173	1,295
Reversal of branch liability <sup>(2)</sup> .....	(3,546)	—	—
Excess tax expense (benefit) on stock-based compensation <sup>(3)</sup> .....	(296)	511	(496)
Remeasurement of deferred taxes <sup>(4)</sup> .....	—	(455)	—
IRC S199 deduction.....	—	—	(749)
Research and development and other tax credits.....	(1,972)	(1,665)	(1,626)
Foreign tax differential.....	(248)	(10)	1,496
Noncontrolling interest.....	—	—	(112)
Change in uncertain tax positions.....	22	(7)	(22)
Other.....	370	(496)	(884)
Provision (benefit) for federal, state and foreign income taxes.....	<u>\$10,430</u>	<u>\$ (668)</u>	<u>\$ 2,308</u>

- (1) Relates to a \$17.3 million impairment of goodwill, which included \$8.3 million of non-deductible goodwill. See Note 4 - Goodwill and Other Intangible Assets for more information about the impairment.
- (2) In fiscal 2019, the Company placed \$4.5 million of valuation allowances on net operating loss carryforwards and foreign tax credits generated by its branch operations in Canada, which will likely not be utilized prior to their expiration. These valuation allowances were largely offset by the reversal \$3.5 million of branch liabilities associated with the Canadian net operating loss carryforwards and foreign tax credits.
- (3) This represents the amount recognized for excess tax benefits upon the vesting or exercise of nonvested deferred share awards and stock options, respectively, for which the Company expects to receive an income tax deduction. The Company adopted ASU 2016-09 in fiscal 2017, which required that excess tax benefits and tax deficiencies be recognized as part of the provision for income taxes.
- (4) This represents the remeasurement of deferred taxes in connection with Tax Cuts and Jobs Act - see Deferred Taxes Remeasurement paragraph above.

**Matrix Service Company**

**Notes to Consolidated Financial Statements (continued)**

*Significant components of the Company's deferred tax assets and liabilities*

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
	(In thousands)	
Deferred tax assets:		
Warranty reserve . . . . .	\$ 206	\$ 206
Bad debt reserve . . . . .	238	1,629
Paid-time-off accrual . . . . .	616	575
Insurance reserve . . . . .	1,577	1,608
Legal reserve . . . . .	1	27
Net operating loss benefit and credit carryforwards . . . . .	10,054	10,169
Valuation allowance . . . . .	(4,959)	(1,638)
Accrued compensation and pension . . . . .	1,115	758
Stock compensation expense on nonvested deferred shares . . . . .	3,679	2,733
Accrued losses . . . . .	194	171
Foreign currency translation and other . . . . .	<u>833</u>	<u>1,066</u>
Total deferred tax assets . . . . .	13,554	17,304
Deferred tax liabilities:		
Tax over book depreciation . . . . .	9,349	8,137
Tax over book amortization . . . . .	1,770	702
Branch future liability . . . . .	34	3,018
Receivable holdbacks and other . . . . .	<u>16</u>	<u>1,028</u>
Total deferred tax liabilities . . . . .	<u>11,169</u>	<u>12,885</u>
Net deferred tax asset . . . . .	<u>\$ 2,385</u>	<u>\$ 4,419</u>

As reported in the Consolidated Balance Sheets:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
	(In thousands)	
Deferred income tax assets . . . . .	2,683	4,848
Deferred income tax liabilities . . . . .	<u>(298)</u>	<u>(429)</u>
Net deferred tax asset . . . . .	<u>\$2,385</u>	<u>\$4,419</u>

*Operating loss and tax credit carryforwards*

The Company has state net operating loss carryforwards, state tax credit carryforwards, federal foreign tax credit carryforwards, foreign net operating loss carryforwards and foreign tax credit carryforwards. The valuation allowance at June 30, 2019 and June 30, 2018 reduces the recognized tax benefit of these carryforwards to an amount that is more likely than not to be realized. These carryforwards will generally expire as shown below:

<u>Operating Loss Carryforwards</u>	<u>Expiration Period</u>	<u>Amount (in thousands)</u>
State net operating losses . . . . .	June 2024 to June 2039	\$18,638
Foreign net operating losses . . . . .	June 2029 to June 2039	\$23,749
<u>Tax Credit Carryforwards</u>	<u>Expiration Period</u>	<u>Amount (in thousands)</u>
State tax credits . . . . .	June 2032 to June 2034	\$ 834
Federal foreign tax credits . . . . .	June 2020 to June 2025	\$1,302
Foreign tax credits . . . . .	June 2035 to June 2039	\$ 660

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### *Other*

The Company files tax returns in multiple domestic and foreign taxing jurisdictions. With a few exceptions, the Company is no longer subject to examination by taxing authorities through fiscal 2014. At June 30, 2019, the Company updated its evaluation of its open tax years in all known jurisdictions. We have recorded a \$0.5 million liability as of June 30, 2019 for unrecognized tax positions and the payment of related interest and penalties. We treat the related interest and penalties as income tax expense. Due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority will occur.

#### **Note 7—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*

As of June 30, 2019 and June 30, 2018, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unpriced change orders and claims of \$10.1 million and \$15.0 million, respectively. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings. Generally, collection of amounts related to unpriced change orders and claims is expected within twelve months. However, customers may not pay these amounts until final resolution of related claims, and accordingly, 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—Operating Leases**

The Company is the lessee under operating leases covering real estate and office equipment under non-cancelable operating lease agreements that expire at various times. Future minimum lease payments under non-cancelable operating leases that were in effect at June 30, 2019 total \$39.4 million and are payable as follows: fiscal 2020—\$7.8 million; fiscal 2021—\$6.9 million; fiscal 2022—\$6.0 million; fiscal 2023—\$4.3 million; fiscal 2024—\$2.7 million and thereafter—\$11.7 million. Included in these payments is an operating lease the Company is expecting to commence in the first quarter of fiscal 2020 that has a 10 year term and future minimum lease payments of \$11.9 million. Operating lease expense was \$8.3 million, \$8.6 million and \$7.9 million for the fiscal years ended June 30, 2019, June 30, 2018 and June 30, 2017, respectively.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### Note 9—Stockholders' Equity

##### *Preferred Stock*

The Company has 5.0 million shares of preferred stock authorized, none of which was issued or outstanding at June 30, 2019 or June 30, 2018.

##### *Treasury Shares*

On November 6, 2018, the Board of Directors approved a new stock buyback program (the “November 2018 Program”), which replaced the previous program that had been in place since December 2016 and was set to expire in December 2018. Under the November 2018 Program, the Company may repurchase common stock of the Company 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. In December 2018, the Company repurchased 310,532 shares of its common stock for \$5.2 million under the November 2018 Program. There were 2,396,643 shares available for repurchase under the November 2018 Program as of June 30, 2019.

In addition to the stock buyback program, the Company may withhold shares of common stock to satisfy the tax withholding obligations upon vesting of an employee’s deferred shares. The Company withheld 79,111 and 52,950 shares of common stock during fiscal 2019 and 2018, respectively, to satisfy these obligations. These shares were returned to the Company’s pool of treasury shares. The Company has 1,081,014 treasury shares as of June 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.

#### Note 10—Stock-Based Compensation

Total stock-based compensation expense for the fiscal years ended June 30, 2019, June 30, 2018, and June 30, 2017 was \$11.9 million, \$8.6 million and \$7.5 million, respectively. Measured but unrecognized stock-based compensation expense at June 30, 2019 was \$14.7 million, all of which related to nonvested deferred shares which are expected to be recognized as expense over a weighted average period of 1.7 years. The Company recognized excess tax benefits of \$0.3 million and \$0.5 million related to stock-based compensation vesting for the fiscal years ended June 30, 2019 and 2017, respectively. The Company recognized excess tax expense of \$0.5 million for the fiscal year ended June 30, 2018 related to stock-based compensation vesting.

##### *Plan Information*

In October 2018, the Company’s stockholders approved the Matrix Service Company 2018 Stock and Incentive Compensation Plan (the “2018 Plan”), which provides stock-based and cash-based incentives for officers, directors and other key employees. Stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares and cash-based awards can be issued under this plan. Upon approval of the 2018 Plan, the 2016 Stock and Incentive Compensation Plan (“2016 Plan”) was frozen with the exception of normal vesting and other activity associated with awards previously granted under the 2016 Plan. The 2016 Plan was preceded by the 2012 Stock Incentive Plan (“2012 Plan”), which was frozen upon approval of the 2016 Plan with the exception of normal vesting, forfeiture and other activity associated with awards previously granted under the 2012 Plan. Shares awarded under either the 2016 Plan or the 2012 Plan that are subsequently forfeited or net settled for tax withholding purposes are returned to the treasury share pool and become available for grant under the 2018 Plan. The 2012 Plan was preceded by the 2004 Stock Incentive Plan (“2004 Plan”), which was frozen upon approval of the 2012 Plan with the exception of normal vesting, forfeiture and other activity associated with awards previously granted under the 2004 Plan.

Awards totaling 1,600,000 shares have been authorized under the 2018 Plan. There were 1,629,134 shares available for grant under the 2018 Plan as of June 30, 2019.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### *Stock Options*

Stock options are granted at the market value of the Company's common stock on the grant date and expire after 10 years. The Company's policy is to issue shares upon the exercise of stock options from its treasury shares, if available. The Company did not award any new stock options in fiscal years 2019, 2018, or 2017.

Stock option activity and related information for the fiscal year ended June 30, 2019 is as follows:

	<u>Number of Options</u>	<u>Weighted-Average Remaining Contractual Life</u> (Years)	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u> (In thousands)
Outstanding at June 30, 2018 .....	66,200	3.4	\$10.19	<u>\$540</u>
Granted .....	—	—		
Exercised .....	(12,500)		\$10.19	<u>\$143</u>
Canceled .....	—	—		
Outstanding at June 30, 2019 .....	<u>53,700</u>	2.4	\$10.19	<u>\$541</u>
Vested at June 30, 2019 .....	<u>53,700</u>	2.4	\$10.19	<u>\$541</u>
Exercisable at June 30, 2019 .....	<u>53,700</u>	2.4	\$10.19	<u>\$541</u>

The total intrinsic value of stock options exercised was \$0.3 million during each of fiscal 2018 and fiscal 2017.

#### *Nonvested Deferred Shares*

The Company has issued nonvested deferred shares under the following types of arrangements:

- Time-based awards—Employee awards generally vest in four equal annual installments beginning one year after the grant date. Beginning in fiscal 2019, the award agreements contain a provision that accelerates the vesting for retirement eligible participants and participants that become retirement eligible during the vesting period. The award is forfeited if retirement occurs before the first anniversary of the award. Settlement still occurs on the normal vesting schedules. Director awards vest one year after the grant date.
- Market-based awards—These awards are in the form of performance units which vest 3 years after the grant date only if the Company's common stock achieves certain levels of total shareholder return when compared to the total shareholder return of a peer group of companies as selected by the Compensation Committee of the Board of Directors. The payout can range from zero to 200% of the original award depending on the Company's relative total shareholder return during the performance period. These awards are settled in stock. As of June 30, 2019, there are approximately 173,000, 261,000, and 185,000 performance units that are scheduled to vest in fiscal 2020, fiscal 2021, and fiscal 2022, respectively, assuming target performance.

All awards vest upon the death or disability of the participant or upon a change of control of the Company.

The grant date fair value of the time-based awards is determined by the market value of the Company's common stock on the grant date. The grant date fair value of stock options is determined based on the Black-Scholes option pricing model. The grant date fair value of the market-based awards is calculated using a Monte Carlo model. For the fiscal 2019 grant, the model estimated the fair value of the award based on approximately 100,000 simulations of the future prices of the Company's common stock compared to the future prices of the common stock of its peer companies based on historical volatilities. The model also took into account the expected dividends over the performance period of those peer companies which pay cash dividends.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

Nonvested deferred share activity for the fiscal year ended June 30, 2019 is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value per Share</u>
Nonvested shares at June 30, 2018 . . . . .	1,366,047	\$17.18
Shares granted . . . . .	602,148	\$25.10
Shares vested and released. . . . .	(314,711)	\$16.23
Shares canceled . . . . .	<u>(193,973)</u>	\$22.97
Nonvested shares at June 30, 2019 . . . . .	<u>1,459,511</u>	\$19.88

There were 715,539 and 516,969 deferred shares granted in fiscal 2018 and 2017 with average grant date fair values of \$13.64 and \$19.80 per share, respectively. There were 253,241 and 396,530 deferred shares that vested and were released in fiscal 2018 and 2017 with weighted average fair values of \$19.60 and \$18.24 per share, respectively.

#### Note 11—Earnings per Common Share

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

The computation of basic and diluted EPS is as follows:

	<u>Fiscal Years Ended</u>		
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	(In thousands, except per share data)		
<b>Basic EPS:</b>			
Net income (loss) attributable to Matrix Service Company . . . . .	<u>\$27,982</u>	<u>\$(11,480)</u>	<u>\$ (183)</u>
Weighted average shares outstanding . . . . .	<u>26,891</u>	<u>26,769</u>	<u>26,533</u>
Basic earnings (loss) per share . . . . .	<u>\$ 1.04</u>	<u>\$ (0.43)</u>	<u>\$ (0.01)</u>
<b>Diluted EPS:</b>			
Weighted average shares outstanding—basic . . . . .	26,891	26,769	26,533
Dilutive stock options . . . . .	28	—	—
Dilutive nonvested deferred shares . . . . .	<u>668</u>	<u>—</u>	<u>—</u>
Diluted weighted average shares . . . . .	<u>27,587</u>	<u>26,769</u>	<u>26,533</u>
Diluted earnings (loss) per share . . . . .	<u>\$ 1.01</u>	<u>\$ (0.43)</u>	<u>\$ (0.01)</u>



## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

The following securities are considered antidilutive and have been excluded from the calculation of diluted earnings (loss) per share:

	Fiscal Years Ended		
	June 30, 2019	June 30, 2018	June 30, 2017
	(In thousands of shares)		
Stock options . . . . .	—	31	43
Nonvested deferred shares . . . . .	<u>160</u>	<u>424</u>	<u>430</u>
Total antidilutive securities . . . . .	<u>160</u>	<u>455</u>	<u>473</u>

#### Note 12—Employee Benefit Plans

##### *Defined Contribution Plans*

The Company sponsors defined contribution savings plans for all eligible employees meeting length of service requirements. Under the primary plan, participants may contribute an amount up to 25% of pretax annual compensation subject to certain limitations. The Company matches 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions. The Company matching contributions vest immediately.

The Company's matching contributions were \$6.2 million, \$5.8 million, and \$5.5 million for the fiscal years ended June 30, 2019, 2018 and 2017, respectively.

##### *Multiemployer Pension Plans*

The Company contributes to various union sponsored multiemployer benefit plans in the U.S. and Canada. Benefits under these plans are generally based on compensation levels and years of service.

For the Company, the financial risks of participating in multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer discontinues contributions to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If a participating employer chooses to stop participating in a plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

Under federal legislation regarding multiemployer pension plans, in the event of a withdrawal from a plan or plan termination, companies are required to continue funding their proportionate share of such plan's unfunded vested benefits. We are a participant in multiple union sponsored multiemployer plans, and, as a plan participant, our potential obligation could be significant. The amount of the potential obligation is not currently ascertainable because the information required to determine such amount is not identifiable or readily available.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

Our participation in significant plans for the fiscal year ended June 30, 2019 is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employer Identification Number (“EIN”) and the three digit plan number. The zone status is based on the latest information that the Company received from the plan and is certified by the plan’s actuary. Plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are generally less than 80 percent funded, and plans in the green zone are generally at least 80 percent funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented. The “Surcharge Imposed” column includes plans in a red zone status that require a payment of a surcharge in excess of regular contributions. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending or Implemented	Company Contributions Fiscal Year			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement	
		2019	2018		2019	2018	2017			
(In thousands)										
Boilermaker-Blacksmith National Pension Trust	48-6168020/001	Red	Yellow	Yes	\$12,434	\$ 8,525	\$ 7,098	Yes	Described below <sup>(1)</sup>	
Joint Pension Fund Local Union 164 IBEW	22-6031199/001	Described below <sup>(2)</sup>	Yellow	Yes	2,180	2,391	2,709	No	5/31/2021	
Joint Pension Fund of Local Union No 102 IBEW	22-1615726/001	Green	Green	N/A	1,610	2,489	2,392	No	5/31/2022	
IBEW Local 456 Pension Plan	22-6238995/001	Green	Green	N/A	574	6,005	2,777	No	5/31/2021	
Local 351 IBEW Pension Plan	22-3417366/001	Green	Green	N/A	2,025	1,187	2,796	No	12/4/2021	
Steamfitters Local Union No 420 Pension Plan	23-2004424/001	Red	Red	Yes	639	1,558	2,234	Yes	4/30/2020	
IBEW Local Union 98 Pension Plan	23-1990722/001	Described below <sup>(2)</sup>	Red	Yes	828	1,106	1,519	Yes	5/29/2020	
Indiana Laborers Pension Fund	35-6027150/001	Described below <sup>(2)</sup>	Yellow	Yes	3,349	3,542	2,458	No	5/31/2020	
Iron Workers Mid-America Pension Plan, Local 395	36-6488227/001	Green	Green	N/A	2,596	4,412	1,785	No	5/31/2024	
Pipe Fitters Retirement Fund, Local 597	62-6105084/001	Green	Green	N/A	3,469	3,682	2,563	No	Described below <sup>(3)</sup>	
Iron Workers Pension Plan of Western Pennsylvania, Local 3	25-1283169/001	Yellow	Yellow	Yes	2,317	1,539	748	No	5/1/2021	
Iron Workers Pension Plan, Local 55	34-6682351/001	Described below <sup>(2)</sup>	Green	N/A	4,333	198	—	No	6/30/2020	
National Electrical Benefit Fund, Local 488	53-0181657/001	Green	Green	N/A	4,577	824	116	No	1/1/2023	
Connecticut Plumbers and Pipefitters Pension Fund, Local 777	06-6050353/001	Green	Green	N/A	3,307	115	—	No	6/1/2020	
Contributions to other multiemployer plans					<u>20,148</u>	<u>17,151</u>	<u>19,514</u>			
Total contributions made					<u>\$64,386</u>	<u>\$54,724</u>	<u>\$48,709</u>			

- (1) Our employees are members of several Boilermaker unions that participate in the Boilermaker-Blacksmith National Pension Trust. The most significant of these unions are Boilermakers Local 374 and Boilermakers Local 128, which have collective bargaining agreements that expire on December 31, 2019 and April 30, 2022, respectively.
- (2) For the Local 164 IBEW Pension Plan, Local 98 IBEW Pension Plan, Indiana Laborers Pension Fund, and Iron Workers Pension Plan Local 55, the Company has not received a funding notification that covers the Company’s fiscal year 2019 during the preparation of this Form 10-K. Under Federal pension law, if a multiemployer pension plan is determined to be in critical or endangered status, the plan must provide notice of this status to participants, beneficiaries, the bargaining parties, the Pension Benefit Guaranty Corporation, and the Department of Labor. The Company also observed that these plans have not submitted any Critical or Endangered Status Notices to the Department of Labor for calendar years that we have not received notification. The Critical or Endangered Status Notices can be accessed at <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/public-disclosure/2019-funding-status-notices>.
- (3) The Company’s collective bargaining agreement with Pipe Fitters Local 597 does not have an expiration date. The agreement was last renegotiated in 2012.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### *Employee Stock Purchase Plan*

The Matrix Service Company 2011 Employee Stock Purchase Plan (“ESPP”) was effective January 1, 2011. The ESPP allows employees to purchase shares through payroll deductions and members of the Board of Directors to purchase shares from amounts withheld from their cash retainers. Share purchases are limited to an aggregate market value of no greater than \$60,000 per calendar year per participant and are purchased from the Company at the current market value with no discount to the participant. Contributions are with after tax earnings and are accumulated in non-interest bearing accounts for quarterly purchases of company stock. Upon the purchase of shares, the participants receive all stockholder rights including dividend and voting rights, and are permitted to sell their shares at any time. The Company has made 1,000,000 shares available under the ESPP. The ESPP can be terminated at the discretion of the Board of Directors or on January 2, 2021. Shares are issued from Treasury Stock under the ESPP. There were 15,812 shares issued in fiscal 2019, 21,920 shares in fiscal 2018, and 16,609 shares in fiscal 2017.

#### **Note 13—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. Intersegment sales and transfers are recorded at cost; therefore, no intercompany 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, goodwill and other intangible assets.

**Matrix Service Company**

**Notes to Consolidated Financial Statements (continued)**

**Results of Operations  
(In thousands)**

	<u>Electrical Infrastructure</u>	<u>Oil Gas &amp; Chemical</u>	<u>Storage Solutions</u>	<u>Industrial</u>	<u>Unallocated Corporate</u>	<u>Total</u>
<b>Fiscal Year ended June 30, 2019</b>						
Gross revenues . . . . .	\$217,417	\$322,065	\$524,330	\$357,464	\$ —	\$1,421,276
Less: inter-segment revenues . . . . .	—	2,198	2,398	—	—	4,596
Consolidated revenues . . . . .	217,417	319,867	521,932	357,464	—	1,416,680
Gross profit . . . . .	15,470	35,987	56,011	24,483	—	131,951
Operating income . . . . .	3,668	12,984	14,097	7,181	—	37,930
Segment assets . . . . .	155,880	91,959	188,912	90,336	106,307	633,394
Capital expenditures . . . . .	2,493	2,736	4,644	3,464	6,221	19,558
Depreciation and amortization expense . .	2,460	4,661	6,666	4,437	—	18,224
<b>Fiscal Year ended June 30, 2018</b>						
Gross revenues . . . . .	\$255,931	\$324,546	\$319,106	\$198,155	\$ —	\$1,097,738
Less: inter-segment revenues . . . . .	—	1,774	4,410	1	—	6,185
Consolidated revenues . . . . .	255,931	322,772	314,696	198,154	—	1,091,553
Gross profit . . . . .	18,300	33,423	25,778	14,435	—	91,936
Operating income (loss) . . . . .	(16,531)	8,798	(5,907)	3,161	—	(10,479)
Segment assets . . . . .	161,207	111,064	149,695	58,816	77,251	558,033
Capital expenditures . . . . .	493	1,514	3,346	—	3,358	8,711
Depreciation and amortization expense . .	4,359	5,904	6,623	3,461	—	20,347
<b>Fiscal Year ended June 30, 2017</b>						
Gross revenues . . . . .	\$373,384	\$247,423	\$483,254	\$103,449	\$ —	\$1,207,510
Less: inter-segment revenues . . . . .	—	6,900	1,558	1,543	—	10,001
Consolidated revenues . . . . .	373,384	240,523	481,696	101,906	—	1,197,509
Gross profit . . . . .	7,137	12,675	55,651	5,540	—	81,003
Operating income (loss) . . . . .	(8,309)	(8,783)	22,928	(977)	—	4,859
Segment assets . . . . .	183,351	129,177	166,742	53,754	53,006	586,030
Capital expenditures . . . . .	1,390	829	2,017	38	7,634	11,908
Depreciation and amortization expense . .	5,198	6,299	7,277	2,828	—	21,602

Geographical information is as follows:

	<b>Long-Lived Assets</b>		
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	<b>(In thousands)</b>		
United States . . . . .	\$193,472	\$174,241	\$193,164
Canada . . . . .	10,110	13,738	21,419
Other international . . . . .	12,502	13,008	12,817
	<u>\$216,084</u>	<u>\$200,987</u>	<u>\$227,400</u>

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

Information about Significant Customers:

	<u>Significant Customers as a Percentage of Segment Revenues</u>				
	<u>Consolidated</u>	<u>Electrical Infrastructure</u>	<u>Oil Gas &amp; Chemical</u>	<u>Storage Solutions</u>	<u>Industrial</u>
<b>Fiscal Year ended June 30, 2019</b>					
Customer one . . . . .	9.7%	—%	—%	—%	38.4%
Customer two . . . . .	7.6%	49.0%	—%	—%	0.4%
Customer three . . . . .	7.6%	—%	—%	—%	30.1%
Customer four . . . . .	7.2%	—%	30.9%	0.6%	—%
Customer five . . . . .	7.1%	—%	—%	19.4%	—%
Customer six . . . . .	5.0%	—%	—%	13.6%	—%
Customer seven . . . . .	4.6%	0.3%	3.1%	10.6%	—%
Customer eight . . . . .	3.4%	22.4%	—%	—%	—%
Customer nine . . . . .	3.1%	—%	—%	—%	12.3%
Customer ten . . . . .	3.0%	—%	—%	—%	12.0%
Customer eleven . . . . .	2.1%	13.4%	—%	—%	—%
<b>Fiscal Year ended June 30, 2018</b>					
Customer one . . . . .	11.4%	—%	—%	—%	62.9%
Customer two . . . . .	8.6%	—%	29.0%	—%	—%
Customer three . . . . .	6.4%	26.5%	—%	0.6%	—%
Customer four . . . . .	6.0%	25.4%	—%	—%	—%
Customer five . . . . .	4.2%	—%	12.0%	2.2%	—%
Customer six . . . . .	3.2%	—%	10.8%	—%	—%
Customer seven . . . . .	3.2%	—%	—%	10.9%	—%
Customer eight . . . . .	3.0%	12.9%	—%	—%	—%
Customer nine . . . . .	2.7%	—%	—%	—%	14.7%
Customer ten . . . . .	2.3%	10.0%	—%	—%	—%
<b>Fiscal Year ended June 30, 2017</b>					
Customer one . . . . .	19.5%	—%	—%	48.5%	—%
Customer two . . . . .	15.3%	46.0%	—%	2.4%	—%
Customer three . . . . .	5.2%	—%	25.8%	—%	—%
Customer four . . . . .	4.2%	—%	20.7%	—%	—%
Customer five . . . . .	4.0%	12.7%	—%	—%	—%
Customer six . . . . .	2.7%	—%	—%	—%	31.7%
Customer seven . . . . .	2.2%	—%	—%	—%	25.8%

**Matrix Service Company**  
**Quarterly Financial Data (Unaudited)**  
**Fiscal Years Ended June 30, 2019 and June 30, 2018**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
<b>Fiscal Year 2019</b>				
Revenues .....	\$318,511	\$340,568	\$358,887	\$398,714
Gross profit .....	23,421	27,886	36,906	43,738
Operating income.....	2,220	5,527	12,794	17,389
Net income.....	2,305	3,932	8,933	12,812
Earnings per common share:				
Basic.....	0.09	0.15	0.33	0.48
Diluted .....	0.08	0.14	0.33	0.47
<b>Fiscal Year 2018</b>				
Revenues .....	\$269,910	\$282,911	\$245,645	\$293,087
Gross profit .....	28,891	26,703	14,891	21,451
Operating income (loss).....	7,321	5,174	(5,862)	(17,112)
Net income (loss) attributable to Matrix Service Company .....	3,824	4,532	(5,153)	(14,683)
Earnings (loss) per common share:				
Basic.....	0.14	0.17	(0.19)	(0.55)
Diluted .....	0.14	0.17	(0.19)	(0.55)

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*The sum of earnings per share for the four quarters may not equal the total earnings per share for the year due to changes in the average number of common shares outstanding and rounding.*



**Matrix Service Company**  
**Schedule II—Valuation and Qualifying Accounts**  
**June 30, 2019, June 30, 2018, and June 30, 2017**  
(In thousands)

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts— Describe	Deductions— Describe	Balance at End of Period
<b>Fiscal Year 2019</b>					
Deducted from asset accounts:					
Allowance for doubtful accounts . . . . .	\$ 6,327	\$ 5	\$—	\$(5,409) <sup>(A)</sup>	\$ 923
Valuation reserve for deferred tax assets . . .	<u>1,638</u>	<u>4,594</u>	<u>—</u>	<u>(1,273)<sup>(B)</sup></u>	<u>4,959</u>
Total . . . . .	<u>\$ 7,965</u>	<u>\$4,599</u>	<u>\$—</u>	<u>\$(6,682)</u>	<u>\$ 5,882</u>
<b>Fiscal Year 2018</b>					
Deducted from asset accounts:					
Allowance for doubtful accounts . . . . .	\$ 9,887	\$ 107	\$—	\$(3,667) <sup>(C)</sup>	\$ 6,327
Valuation reserve for deferred tax assets . . .	<u>1,719</u>	<u>1,020</u>	<u>—</u>	<u>(1,101)<sup>(D)</sup></u>	<u>1,638</u>
Total . . . . .	<u>\$11,606</u>	<u>\$1,127</u>	<u>\$—</u>	<u>\$(4,768)</u>	<u>\$ 7,965</u>
<b>Fiscal Year 2017</b>					
Deducted from asset accounts:					
Allowance for doubtful accounts . . . . .	\$ 8,403	\$1,748	\$—	\$ (264) <sup>(E)</sup>	\$ 9,887
Valuation reserve for deferred tax assets . . .	<u>424</u>	<u>1,295</u>	<u>—</u>	<u>—</u>	<u>1,719</u>
Total . . . . .	<u>\$ 8,827</u>	<u>\$3,043</u>	<u>\$—</u>	<u>\$ (264)</u>	<u>\$11,606</u>

- (A) Primarily relates to a \$5.2 million reversal of a previous reserved account receivable balance that was fully settled with an agreement with the customer.
- (B) Relates to the deferred tax asset of \$0.8 million created by a stock-based compensation award with a market condition that was fully reserved in fiscal 2018. In fiscal 2019, upon the final determination that the award would not vest, the Company wrote off the deferred tax asset against the reserve. The remaining balance relates to \$0.5 million of fully reserved tax credits that expired in fiscal 2019.
- (C) Primarily relates to the reversal of reserved account receivable that was fully settled with cash and future backlog.
- (D) Primarily relates to \$0.8 million of stock-based compensation expense recognized in fiscal 2018 that was not deductible for tax purposes due to not meeting a market condition vesting requirement and to \$0.3 million of foreign tax credits that expired.
- (E) Primarily relates to a \$0.2 million receivable written off against allowance for doubtful accounts.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

### **Item 9A. Controls and Procedures**

#### ***Evaluation of Disclosure 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 June 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 June 30, 2019.

#### ***Management's Report on Internal Control over Financial Reporting***

See "Management's Report on Internal Control over Financial Reporting" set forth in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

#### ***Changes in Internal Control Over Financial Reporting***

There have been no changes during the fourth fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item with respect to the Company's directors and corporate governance is incorporated herein by reference to the sections entitled "Proposal Number 1: Election of Directors" and "Corporate Governance and Board Matters" in the Company's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders ("Proxy Statement"). The information required by this item with respect to the Company's executive officers is incorporated herein by reference to the section entitled "Executive Officer Information" in the Proxy Statement.

The Company has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees, including the principal executive officer, principal financial officer and principal accounting officer of the Company. In addition, we have adopted Corporate Governance Guidelines for the Board of Directors and Charters for the Audit, Compensation and Nominating and Corporate Governance Committees of the Board of Directors. The current version of these corporate governance documents is publicly available in the "Investors" section of the Company's website at [matrixservicecompany.com](http://matrixservicecompany.com) under "Corporate Governance." If we make any substantive amendments to the Code of Business Conduct and Ethics, or grant any waivers, including implicit waivers, from the Code of Business Conduct and Ethics applicable to the principal executive officer, principal financial officer or principal accounting officer, or any person performing similar functions, we will disclose such amendment or waiver on our website or in a report on Form 8-K.

### **Item 11. Executive Compensation**

The information required by this item is incorporated herein by reference to the sections entitled "Director Compensation," "Compensation Discussion and Analysis" and "Executive Officer Compensation" in the Proxy Statement.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated herein by reference to the sections entitled "Securities Authorized for Issuance Under Executive Compensation Plans" and "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated herein by reference to the section entitled "Corporate Governance and Board Matters" and "Certain Relationships and Related Transactions" in the Proxy Statement.

### **Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated herein by reference to the sections entitled "Fees of Independent Registered Public Accounting Firm" and "Audit Committee Pre-Approval Policy" in the Proxy Statement.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### (a) (1) Financial Statements of the Company

The following financial statements and supplementary data are filed as a part of this report under “Item 8—Financial Statements and Supplementary Data” in this Annual Report on Form 10-K:

#### Financial Statements of the Company

Management’s Report on Internal Control Over Financial Reporting .....	38
Reports of Independent Registered Public Accounting Firm (Deloitte & Touche LLP).....	39
Consolidated Statements of Income for the Fiscal Years Ended June 30, 2019, June 30, 2018 and June 30, 2017 .....	41
Consolidated Statements of Comprehensive Income for the Fiscal Years Ended June 30, 2019, June 30, 2018 and June 30, 2017 .....	42
Consolidated Balance Sheets as of June 30, 2019 and June 30, 2018.....	43
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2019, June 30, 2018 and June 30, 2017 .....	44
Consolidated Statements of Changes in Stockholders’ Equity for the Fiscal Years Ended June 30, 2019, June 30, 2018 and June 30, 2017.....	45
Notes to Consolidated Financial Statements .....	46
Quarterly Financial Data (Unaudited) .....	70
Schedule II—Valuation and Qualifying Accounts.....	71

#### (2) Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II—Valuation and Qualifying Accounts June 30, 2019, June 30, 2018 and June 30, 2017, immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.

#### (3) The following documents are included as exhibits to this Annual Report on Form 10-K. The exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical hereafter.

- 2 Membership Interest Purchase Agreement dated as of December 12, 2016 among Matrix PDM Engineering, Inc., as purchaser, the C. Douglas Houston Revocable Trust U/T/A dated November 21, 2016, as seller, and C. Douglas Houston, as seller representative (Exhibit 2 to the Company’s Current Report on Form 8-K filed December 16, 2016 (File No. 1-15461).
- 3.1 Amended and Restated Certificate of Incorporation of Matrix Service Company (Appendix A to the Company’s Proxy Statement filed October 7, 2016 (File No. 1-15461).
- 3.2 Certification of Designations, Preferences and Rights of Series B Junior Preferred Stock dated November 12, 1999 (Exhibit 3.2 to the Company’s Registration Statement on Form S-3 (File No. 333-117077) filed July 1, 2004.

- 3.3 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated July 11, 2005 (Exhibit 3.5 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 17, 2005).
- 3.4 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated October 23, 2006 (Exhibit 3.7 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 14, 2007).
- 3.5 Second Amended and Restated Bylaws, effective as of May 4, 2017 (Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed May 10, 2017).
- P4.1 Specimen Common Stock Certificate (Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-36081) filed July 26, 1990, P).
- \*4.2 Description of the Company's Common Stock.
- +10.1 Matrix Service Company 2004 Stock Incentive Plan (Appendix B to the Company's Proxy Statement filed September 15, 2006 (File No. 1-15461)).
- +10.2 Amendment 1 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10 to Amended Schedule 14A filed October 4, 2006 (File No. 1-15461)).
- +10.3 Amendment 2 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10.6 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 5, 2008).
- +10.4 Amendment 3 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit A to the Company's Proxy Statement filed September 11, 2009 (File No. 1-15461)).
- +10.5 Matrix Service Company 2012 Stock and Incentive Compensation Plan (Attachment A to the Company's Proxy Statement (File No. 1-15461) filed October 10, 2012).
- + 10.6 Amendment Number 1 to the Matrix Service Company 2012 Stock and Incentive Compensation Plan (Exhibit A to the Company's Proxy Statement (File No. 1-15461) filed October 10, 2014).
- +10.7 Form of Long-Term Incentive Award Agreement (2012 Stock and Incentive Compensation Plan) (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 7, 2016).
- +10.8 Form of Restricted Stock Unit Award Agreement for employees (2012 Stock and Incentive Compensation Plan) (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 7, 2016).
- +10.9 Matrix Service Company 2016 Stock and Incentive Compensation Plan (Appendix B to the Company's Proxy Statement (File No. 1-15461), filed October 7, 2016).
- +10.10 Form of Restricted Stock Unit Award Agreement for Directors (2016 Stock and Incentive Compensation Plan) (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461), filed February 9, 2017).
- +10.11 Form of Long-Term Incentive Award Agreement (2016 Stock and Incentive Compensation Plan) (Exhibit 10.11 to the Company's Annual Report on Form 10-K/A (File No. 1-15461), filed September 19, 2018).
- +10.12 Matrix Service Company 2018 Stock and Incentive Compensation Plan (Appendix A to the Company's Proxy Statement (File No. 1-15461), filed September 21, 2018).
- +10.13 Form of Restricted Stock Unit Award Agreement for Directors (2018 Stock and Incentive Compensation Plan) (Exhibit 10 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461), filed November 8, 2018).

- +10.14 Form of Amended and Restated Severance Agreement (Exhibit 10 to the Company's Current Report on Form 8-K filed November 15, 2016 (File No. 1-15461)).
- +10.15 Amended and Restated Deferred Compensation Plan for Members of the Board of Directors (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed January 8, 2009).
- +10.16 Amendment 1 to Amended and Restated Deferred Compensation Plan for Members of the Board of Directors (Exhibit 10 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 9, 2012).
- 10.17 Fourth Amended and Restated Credit Agreement dated as of February 8, 2017 among the Company and certain foreign subsidiaries, as Borrowers, various subsidiaries of the Company, as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, Lead Arranger and Sole Bookrunner, and the other lenders party thereto (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed May 10, 2017).
- 10.18 First Amendment dated as of August 31, 2017 to Fourth Amended and Restated Credit Agreement (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461), filed November 7, 2017).
- +10.19 Form of Indemnification Agreement (Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15461) filed June 9, 2015).
- \*21 Subsidiaries.
- \*23 Consent of Independent Registered Public Accounting Firm—Deloitte & Touche LLP.
- \*31.1 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CEO.
- \*31.2 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CFO.
- \*32.1 Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CEO.
- \*32.2 Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CFO.
- \*95 Mine Safety Disclosure.
- \*101.INS XBRL Instance Document.
- \*101.SCH XBRL Taxonomy Schema Document.
- \*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- \*101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- \*101.LAB XBRL Taxonomy Extension Labels Linkbase Document.
- \*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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\* Filed herewith.

+ Management Contract or Compensatory Plan.

P: Paper filing.

## **Item 16. Form 10-K Summary**

None




**SIGNATURES**

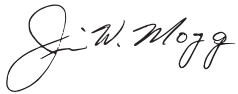

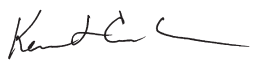



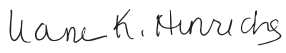

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Matrix Service Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Matrix Service Company**

Date: September 4, 2019

By:   
 \_\_\_\_\_  
**John R. Hewitt, President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
 _____ <b>Jim W. Mogg</b>	Chairman of the Board of Directors	September 4, 2019
 _____ <b>John R. Hewitt</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	September 4, 2019
 _____ <b>Kevin S. Cavanah</b>	Vice President and Chief Financial Officer (Principal Accounting and Principal Financial Officer)	September 4, 2019
 _____ <b>Martha Z. Carnes</b>	Director	September 4, 2019
 _____ <b>John D. Chandler</b>	Director	September 4, 2019
 _____ <b>John W. Gibson</b>	Director	September 4, 2019
 _____ <b>Liane K. Hinrichs</b>	Director	September 4, 2019
 _____ <b>James H. Miller</b>	Director	September 4, 2019

**Matrix Service Company**

**Subsidiaries**

Matrix Service Inc., an Oklahoma corporation  
Matrix Service Canada ULC, an Alberta, Canada unlimited liability corporation  
Matrix North American Construction, Inc., an Oklahoma corporation  
Matrix North American Construction, Ltd., a Canadian corporation  
Matrix North American Construction, LLC, a Delaware limited liability company  
Matrix SME Canada, Inc., a Delaware corporation  
Matrix SME Canada ULC, a Nova Scotia, Canada unlimited liability corporation  
Matrix PDM Engineering, Inc., a Delaware corporation  
Matrix PDM, LLC, an Oklahoma limited liability company  
Matrix Applied Technologies, Inc., a Delaware corporation  
Matrix International Holding Company, Ltd., a British corporation  
Matrix Applied Technologies, Ltd., a South Korean corporation  
Matrix Applied Technologies, Pty. Ltd., an Australian corporation  
Houston Interests, LLC, an Oklahoma limited liability company  
River Consulting, LLC, a Louisiana limited liability company  
Matrix Products and Services S. de R.L. de C.V., a Mexican limited liability variable stock corporation  
Matrix Service VI, LLC, a U.S. Virgin Island limited liability company  
Mobile Aquatic Solutions, Inc., an Oklahoma corporation  
MSI Federal Contracting, LLC, a Delaware limited liability company  
Matrix-SJC, LLC, a Delaware limited liability company  
Devco USA, LLC, an Oklahoma limited liability company  
Houston Dynamics, LLC, a Qatar limited liability company  
Matrix Service International, LLC, a Delaware limited liability company

CERTIFICATIONS

I, John R. Hewitt, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: September 4, 2019



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John R. Hewitt  
President and Chief Executive Officer

CERTIFICATIONS

I, Kevin S. Cavanah, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: September 4, 2019



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Kevin S. Cavanah  
Vice President and Chief Financial Officer

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

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending June 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: September 4, 2019

A handwritten signature in black ink, appearing to read "John R. Hewitt", with a stylized flourish at the end.

---

John R. Hewitt  
President and Chief Executive Officer

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

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending June 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: September 4, 2019



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Kevin S. Cavanah  
Vice President and Chief Financial Officer



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# SHAREHOLDER INFORMATION

## CORPORATE OFFICES

5100 E. Skelly Dr., Ste. 100  
Tulsa, OK 74135  
Ph: 918 838 8822  
Fax: 918 838 8810

## NOTICE OF ANNUAL MEETING

The Annual Meeting of Stockholders will be at the Matrix Service Company office located at:  
5100 E. Skelly Dr., Ste. 100  
Tulsa, OK 74135  
November 5th, 2019 at 9:00 a.m. CT

## STOCK TRANSFER AGENT & REGISTRAR

Computershare Trust Company, N.A.  
250 Royall St.  
Canton, MA 02021

## WEBSITES

matrixservicecompany.com  
matrixpdm.com  
matrixnac.com  
matrixservice.com  
matrixappliedtech.com

## COMMON STOCK DATA

Matrix Service Company's Common Stock is traded on NASDAQ Global Select Market under the Ticker Symbol: "MTRX"

## INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Deloitte & Touche LLP  
6100 S. Yale Ave. — Ste. 2010  
Tulsa, OK 74136

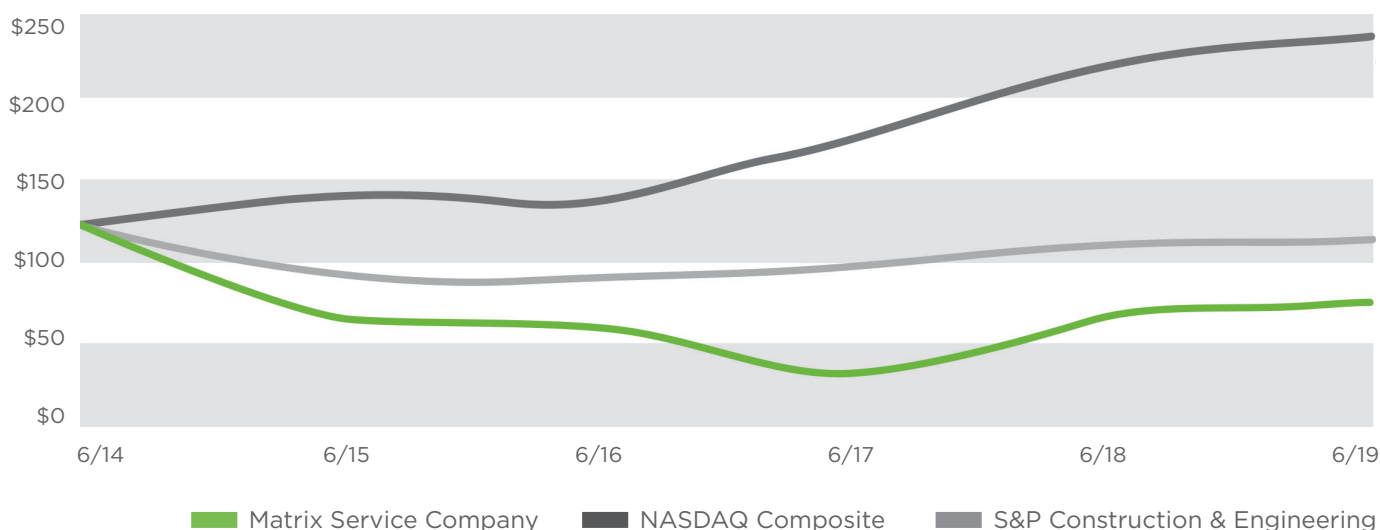
## INVESTOR AND MEDIA RELATIONS STOCKHOLDER RELATIONS & AVAILABLE INFORMATION

Matrix Service Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained by writing to:

Kevin S. Cavanah  
Vice President and Chief Financial Officer  
Matrix Service Company  
5100 E. Skelly Dr., Ste. 100  
Tulsa, OK 74135

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Matrix Service Company, the NASDAQ Composite Index and the S&P Construction & Engineering Index



\*\$100 invested on 6/30/14 in stock or index, including reinvestment of dividends. Fiscal year ending June 30. Copyright© 2019 Standard & Poor's, a division of S&P Global. All rights reserved.

# BOARD OF DIRECTORS

**Jim W. Mogg**  
Chairman of the Board

**John R. Hewitt**  
President and Chief Executive Officer

**Martha Z. Carnes**  
Audit Committee Chair

**John D. Chandler**  
Director

**John W. Gibson**  
Compensation Committee Chair

**Liane K. Hinrichs**  
Nominating and Corporate Governance Chair

**James H. Miller**  
Director

## MATRIX SERVICE COMPANY LEADERSHIP TEAM

**John R. Hewitt**  
President and Chief Executive  
Officer and Director

**Joseph F. Montalbano**  
Chief Operating Officer

**Kevin S. Cavanah**  
Vice President and  
Chief Financial Officer

**Alan R. Updyke**  
President, Operations

**Nancy E. Austin**  
Vice President and Chief  
Administrative Officer

**D. Quinton Beasley**  
Vice President, Accounting

**Rick J. Bennett**  
Vice President and  
Chief Information Officer

**Jack Frost**  
Vice President, Health,  
Safety and Environmental

**Melissa K. Gilliland**  
Vice President, Human Resources

**Justin D. Sheets**  
Vice President and General Counsel

## SUBSIDIARY LEADERSHIP TEAM

**Bradley J. Rinehart**  
President, Matrix Service

**Glyn A. Rodgers**  
President, Matrix PDM Engineering

**Jason W. Turner**  
President, Matrix NAC

**Kenneth L. Erdmann, P.E.**  
Senior Vice President,  
Matrix PDM Engineering

**Shawn P. Payne**  
Senior Vice President,  
Matrix Service

**Terry D. Stewart**  
Senior Vice President,  
Matrix NAC

**Daniel T. Blair**  
Vice President, Matrix NAC

**Frank M. Capristo**  
Vice President, Matrix Service

**Patrick M. Chambers**  
Vice President, Matrix Service

**Kevin A. Durkin**  
Vice President, Matrix Service

**James C. Faroh**  
Vice President, Matrix NAC

**Michael E. Formaini**  
Vice President, Matrix NAC

**Jeffrey A. Hermann**  
Vice President, Matrix NAC

**Bradley C. Killmer**  
Vice President, Matrix Service

**Karen A. McDonald**  
Vice President, Matrix Service

**Douglas J. Montalbano**  
Vice President, Matrix NAC

**Vicki R. Reese**  
Vice President, Matrix NAC



