

MATRIX SERVICE CO
Form 10-K/A
September 19, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
(Amendment No. 1)
(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, 2018

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File No. 1-15461

MATRIX SERVICE COMPANY
(Exact name of registrant as specified in its charter)
Delaware 73-1352174
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

5100 E. Skelly Drive, Suite 500 74135
Tulsa, Oklahoma
(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number, including area code: (918) 838-8822
Securities Registered Pursuant to Section 12(b) of the Act:

(Title of class)
Common Stock, par value \$0.01 per share
Securities Registered Pursuant to Section 12(g) of the Act: None

Name of each exchange on which registered: NASDAQ Global Select Market (common stock)
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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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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 \$466 million.

The number of shares of the registrant's common stock outstanding as of September 7, 2018 was 27,009,420 shares.

Table of Contents

Documents Incorporated by Reference

Certain sections of the registrant’s definitive proxy statement relating to the registrant’s 2018 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.

Explanatory Note

Matrix Service Company (the "Company") filed its Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (the "Original Filing") with the U.S. Securities and Exchange Commission (the "SEC") on September 12, 2018. The Company is filing this Amendment No. 1 (the "Amendment") to its Original Filing solely to revise two typographical errors as follows:

1. A date contained in the REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM related to their Opinion on Internal Control over Financial Reporting. In that report, the date cross-referencing their September 12, 2018 Opinion on the Financial Statements was inadvertently included as August 30, 2018. That error has been corrected in this Amendment.
2. A date contained in the REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM related to their Opinion on the Financial Statements. In that report, the date cross-referencing their September 12, 2018 Opinion on Internal Control over Financial Reporting was inadvertently included as August 30, 2018. That error has been corrected in this Amendment.

In addition, pursuant to the rules of the SEC, the exhibit list included in Item 15 of Part IV of the Original Filing has been amended to contain a currently dated consent of the Company's independent registered public accounting firm and currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The consent of the Company's independent registered public accounting firm and certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached as exhibits to this Amendment. Except as described above, this Amendment does not amend or update any other information contained in the Original Filing to reflect events or developments which may have occurred subsequent to September 12, 2018. For ease of reference, the Company has included a complete copy of the Original Filing, as amended as described above, in this filing.

TABLE OF CONTENTS

	Page
Part I	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>9</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>20</u>
Item 2. <u>Properties</u>	<u>21</u>
Item 3. <u>Legal Proceedings</u>	<u>22</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>22</u>

Part II

Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
Item 6.	<u>Selected Financial Data</u>	<u>24</u>
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>41</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>80</u>
Item 9A.	<u>Controls and Procedures</u>	<u>80</u>
Item 9B.	<u>Other Information</u>	<u>80</u>

Part III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>81</u>
Item 11.	<u>Executive Compensation</u>	<u>81</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>81</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>81</u>
Item 14.	<u>Principal Accounting Fees and Services</u>	<u>81</u>

Part IV

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>82</u>
Item 16.	<u>Form 10-K Summary</u>	<u>84</u>

Table of Contents

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

These statements are based on certain assumptions and analyses we made in light of our experience and our historical trends, current conditions and expected future developments as well as other factors we believe are appropriate.

However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including:

- the risk factors discussed in 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, gas, power, iron and steel, agricultural and mining industries in particular;
- delays in the commencement of major projects, whether due to permitting issues or other factors;
 - reduced creditworthiness of our customer base and the higher risk of non-payment of receivables due to volatility of crude oil and other commodity prices 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.

Table of Contents

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. 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).

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. We also intend to use social media channels as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. We encourage investors, the media, and others interested in Matrix to review the information posted on the company Facebook site (facebook.com/matrixservicecompany), the company LinkedIn account (linkedin.com/company/matrix-service-company) and the company twitter account (twitter.com/matrixserviceco). Investors, the media or other interested parties can subscribe to the twitter feed at the address listed above. Any updates to the list of social media channels Matrix will use to announce material information will be posted on the "Investor Relations" page of the company's website at matrixservicecompany.com. Accordingly, investors should monitor such portions of our website and social media channels, in addition to following our press releases, SEC filings and public conference calls and webcasts.

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

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

The Storage Solutions segment consists of work related to aboveground storage tanks (“ASTs”) and terminals. Also included in this segment are cryogenic and other specialty storage tanks and terminals including liquefied natural gas (“LNG”), liquid nitrogen/liquid oxygen (“LIN/LOX”), liquid petroleum (“LPG”), other specialty vessels such as spheres as

well as marine structures and truck and rail loading/offloading facilities. Our services include engineering, fabrication and construction, maintenance and repair, which includes planned and emergency services of 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.

Table of Contents

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

RECENT DEVELOPMENTS

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 for \$42.5 million in cash, net of working capital adjustments and cash acquired. 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 the Oil Gas & Chemical, Storage Solutions and Industrial segments.

Matrix Applied Technologies

On February 1, 2016, the Company completed the acquisition of all outstanding stock of Baillie Tank Equipment, Ltd. ("BTE") for \$13.0 million in cash. Founded in 1998, BTE is a provider of tank products including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems, and seals. BTE is headquartered in Sydney, Australia with a manufacturing facility near Seoul, South Korea. The Company acquired BTE to expand its service offerings of certain technical solutions for aboveground storage tanks. The business is now known as Matrix Applied Technologies, and its operating results are included in the Storage Solutions segment.

OTHER BUSINESS MATTERS

Customers and Marketing

The Company provided services to approximately 600 customers in fiscal 2018. Most of our revenue comes from long-term customer relationships. One customer, U.S. Steel Corporation, accounted for \$124.7 million or 11.4% of our consolidated revenue in fiscal 2018, all of which was in the Industrial segment. The loss of this major customer or other significant customers could have a material adverse effect on the Company; however, we are not dependent on any single contract or customer on an on-going basis.

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.

Segment Financial Information

Financial information for our operating segments is provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 13-Segment Information of the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

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, and customer satisfaction.

Table of Contents

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 the notice is significant relative to the overall project and if we conclude that the likelihood of the full project proceeding is high. For all other arrangements, we calculate backlog as the estimated contract amount less revenues recognized as of the reporting date.

The following table provides a summary of changes in our backlog in fiscal 2018:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of June 30, 2017	\$ 162,637	\$ 287,007	\$ 141,551	\$ 91,078	\$ 682,273
Project awards	207,251	263,217	786,505	370,903	1,627,876
Revenue recognized	(255,931)	(322,772)	(314,696)	(198,154)	(1,091,553)
Backlog as of June 30, 2018	\$ 113,957	\$ 227,452	\$ 613,360	\$ 263,827	\$ 1,218,596
Book-to-bill ratio ⁽¹⁾	0.8	0.8	2.5	1.9	1.5

(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 74% of our total backlog reported as of June 30, 2018 as revenue within the next year.

The change in backlog in the Electrical Infrastructure segment during the fiscal year ended June 30, 2018 is mainly attributable to work performed in fiscal 2018 related to a major power generation project that was not replaced as a result of the Company's strategic decision to exit full EPC power generation projects. In addition, year end backlog was affected by lower project awards for power generation package work and sluggish spending and increased competition for high voltage work in our traditional markets. We expect improvement in fiscal 2019, however the timing of the recovery of our traditional markets and the expected benefit of a planned geographic expansion is dependent on market conditions.

The change in backlog in the Oil, Gas & Chemical segment during the fiscal year ended June 30, 2018 is attributable to progress on previously announced awards, partially offset by new project awards. The lower book-to-bill ratio is primarily a result of higher capital work volumes related to a major capital project awarded in the prior fiscal year.

The level of awards in the segment has generally met our expectations and market conditions are favorable.

The change in backlog in the Storage Solutions segment during the fiscal year ended June 30, 2018 is attributable to increased project awards, including the previously announced engineering, construction and procurement, or "EPC", contract for a greenfield crude oil storage and blending terminal in Cushing, Oklahoma and the previously announced EPC contract for an expansion of crude oil storage and loading capabilities at a terminal on the Texas Gulf Coast. We expect awards in this segment to remain strong in the near term based on favorable market conditions and our bidding opportunities.

The change in backlog in the Industrial segment during the fiscal year ended June 30, 2018 is primarily attributable to significant awards for capital projects and maintenance work in the iron and steel industry and the previously announced award for a thermal vacuum chamber. We expect spending from our iron and steel customers to remain strong in the near term.

Table of Contents

Seasonality and Other Factors

Our operating results can exhibit seasonal fluctuations, especially in our Oil Gas & Chemical segment, for a variety of reasons. Turnarounds and planned outages at customer facilities are typically scheduled in the spring and the fall when the demand for energy is lower. Within the Electrical Infrastructure segment, transmission and distribution work is generally scheduled by the public utilities when the demand for electricity is at its lowest. Therefore, revenue volume in the summer months is typically lower than in other periods throughout the year. Also, we typically see a lower level of operating activity relating to construction projects during the winter months and early in the calendar year because many of our customers' capital budgets have not been finalized.

Our business can also be affected, both positively and negatively, by seasonal factors such as energy demand or weather conditions including hurricanes, snowstorms, and abnormally low or high temperatures. Some of these seasonal factors may cause some of our offices and projects to close or reduce activities temporarily. In addition to the above noted factors, the general timing of project starts and completions could exhibit significant fluctuations.

Accordingly, results for any interim period may not necessarily be indicative of operating results for the full year.

Other factors impacting operating results in all segments come from 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, 2018, the Company had approximately 4,650 employees of which approximately 1,000 were employed in non-field positions and 3,650 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.

Table of Contents

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, LIN/LOX storage tanks, LPG 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 United States Occupational Safety and Health Administration ("OSHA") and Mine Safety and Health Administration ("MSHA"), 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.

Table of Contents

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.

Table of Contents

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, iron and steel and power industries, 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 and power companies to generate, access and deploy capital;
- exploration, production and transportation costs;
- interest rates;

Table of Contents

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; 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, particularly in the Storage Solutions and Oil Gas & Chemical segments, and on our financial position or cash flow.

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.

Table of Contents

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.

Table of Contents

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 unapproved 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.

Table of Contents

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 recent 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 recent 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 continuing 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 recent 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 the 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.

Table of Contents

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.

Table of Contents

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. Current market conditions have resulted in an impairment of goodwill related to our Electrical Infrastructure segment and have led to narrow differences between the fair values and carrying amounts of our other reporting units, which has increased the likelihood of additional impairments. If market conditions further deteriorate, we may determine that a significant impairment has occurred, which could require us to write off a portion of our assets and could adversely affect our financial condition or results of operations. As of June 30, 2018, the Company had \$22.8 million of amortizing intangible assets and \$96.2 million of non-amortizing goodwill representing 4.1% and 17.2% 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

Item 2. Properties

The principal properties of Matrix Service Company are as follows:

Location	Description of Facility	Segment	Interest
United States:			
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 ⁽¹⁾
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	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	All segments	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
International:			
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.

Table of Contents

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.

Table of Contents

PART II

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

Price Range of Common Stock

Our common stock trades on the NASDAQ Global Select Market ("NASDAQ") under the trading symbol "MTRX". The following table sets forth the high and low sale prices for our common stock as reported by NASDAQ for the periods indicated:

	Fiscal Year		Fiscal Year	
	2018		2017	
	High	Low	High	Low
First quarter	\$ 15.45	\$ 9.05	\$ 19.57	\$ 15.88
Second quarter	18.50	12.76	23.20	16.20
Third quarter	20.25	13.00	23.45	15.00
Fourth quarter	19.90	13.15	17.70	7.80

Substantially all of our stockholders maintain their shares in "street name" accounts and are not individually stockholders of record. As of July 31, 2018, there were 22 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, 2018:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (C)
April 1 to April 30, 2018				
Share Repurchase Program ^(A)	—	—	—	1,362,398
Employee Transactions ^(B)	39	\$ 15.85	—	
May 1 to May 31, 2018				
Share Repurchase Program ^(A)	—	—	—	1,362,398
Employee Transactions ^(B)	—	—	—	
June 1 to June 30, 2018				
Share Repurchase Program ^(A)	—	—	—	1,362,398
Employee Transactions ^(B)	—	—	—	

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

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

(C)

On December 12, 2016, the Board of Directors approved a new stock buyback program (the "December 2016 Program"). Under the December 2016 Program, the Company may repurchase common stock of the Company in any calendar year commencing with calendar year 2016 and continuing through calendar year 2018, up to a maximum of \$25.0 million per calendar year. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. The December 2016 Program will continue through December 31, 2018 unless and until revoked by the Board of Directors. The amount shown as the maximum number of shares that may yet be purchased was calculated using the closing price of our stock on the last trading day of the fiscal period and the cumulative limit of \$25.0 million remaining under the program.

Table of Contents

Item 6. Selected Financial Data

Selected Financial Data

(In thousands, except percentages and per share data)

	Fiscal Years Ended					
	June 30, 2018 ⁽¹⁾	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	
Revenues	\$1,091,553	\$1,197,509	\$1,311,917	\$1,343,135	\$1,263,089	
Cost of revenues	999,617	1,116,506	1,185,926	1,255,765	1,126,616	
Gross profit	91,936	81,003	125,991	87,370	136,473	
Gross margin %	8.4	% 6.8	% 9.6	% 6.5	% 10.8	%
Selling, general and administrative expenses	84,417	76,144	85,109	78,568	77,866	
Selling, general and administrative %	7.7	% 6.4	% 6.5	% 5.8	% 6.2	%
Operating income (loss)	(10,479)	4,859	40,882	8,802	58,607	
Operating income (loss) %	(1.0)%	0.4	% 3.1	% 0.7	% 4.6	%
Net income (loss)	(11,480)	138	25,537	(1,898)	36,877	
Net income (loss) attributable to noncontrolling interest	—	321	(3,326)	(19,055)	1,067	
Net income (loss) attributable to Matrix Service Company	(11,480)	(183)	28,863	17,157	35,810	
Earnings (loss) per share-basic	(0.43)	(0.01)	1.09	0.64	1.36	
Earnings (loss) per share-diluted	(0.43)	(0.01)	1.07	0.63	1.33	
Working capital	118,581	139,654	129,416	114,209	105,687	
Total assets	558,033	586,030	564,967	561,689	568,932	
Long-term debt	—	44,682	—	8,804	11,621	
Capital expenditures	8,711	11,908	13,939	15,773	23,589	
Cash flows provided (used) by operations	74,671	(18,746)	33,587	26,240	76,988	
Backlog	1,218,596	682,273	868,672	1,420,598	915,826	

See Item 8. Financial Statements and Supplementary Data, Note - 4 Goodwill and Other Intangible Assets for a (1) discussion of intangible asset impairment charges totaling \$18.0 million 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 2018 in comparison to the fiscal year ended 2017, and the fiscal year ended 2017 in comparison to the fiscal year ended 2016.

Table of Contents

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**

Matrix records revenue on fixed-price contracts on a percentage-of-completion basis, primarily based on costs incurred to date compared to the total estimated cost. The Company records revenue on cost-plus and time-and-material contracts on a proportional performance basis as costs are incurred. Contracts in process are valued at cost plus accrued profits less billings on uncompleted contracts. Contracts are generally considered substantially complete when field construction is completed. The elapsed time from award of a contract to completion of performance may be in excess of one year. Matrix includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix determines that it is responsible for the procurement and management of such cost components.

Matrix has numerous contracts that are in various stages of completion, which require estimates to determine the appropriate cost and revenue recognition. The Company has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs, and accordingly, does not believe significant fluctuations are likely to materialize. However, current estimates may be revised as additional information becomes available. 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. A number of our contracts contain various cost and performance incentives and penalties that impact the earnings we realize from our contracts. Adjustments related to these incentives and penalties are recorded in the period on a percentage of completion basis when estimable and probable.

Indirect costs, such as salaries and benefits, supplies and tools, equipment costs and insurance costs, are charged to projects based upon direct labor hours and overhead allocation rates per direct labor hour or a percentage of cost incurred. Warranty costs are normally incurred prior to project completion and are charged to project costs as they are incurred. Warranty costs incurred subsequent to project completion were not material for the periods presented. Overhead allocation rates are established annually during the budgeting process and evaluated for accuracy throughout the year based upon actual direct labor hours and actual costs incurred.

Change Orders and Claims

Change orders are modifications of an original contract that effectively change the existing provisions of the contract. Change orders may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Matrix or our clients may initiate change orders. The client's agreement to the terms of change orders is, in many cases, reached prior to work commencing; however, sometimes circumstances require that work progress prior to obtaining client agreement. Costs related to change orders are recognized as incurred. Revenues attributable to change orders that are unapproved as to price or scope are recognized to the extent that costs have been incurred if the amounts can be reliably estimated and their realization is probable. Revenues in excess of the costs attributable to change orders that are unapproved as to price or scope are recognized

only when realization is assured beyond a reasonable doubt. Change orders that are unapproved as to both price and scope are evaluated as claims.

Claims are amounts in excess of the agreed contract price that we seek to collect from customers or others for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price or other causes of anticipated additional costs incurred by us. Recognition of amounts as additional contract revenue related to claims is appropriate only if it is probable that the claims will result in additional contract revenue and if the amount can be reliably estimated. We must determine if:

Table of Contents

- there is a legal basis for the claim;
- the additional costs were caused by circumstances that were unforeseen by the Company and are not the result of deficiencies in our performance;
- the costs are identifiable or determinable and are reasonable in view of the work performed; and
- the evidence supporting the claim is objective and verifiable.

If all of the these requirements are met, revenue from a claim is recorded only to the extent that we have incurred costs relating to the claim.

As of June 30, 2018 and June 30, 2017, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$15.0 million and \$11.0 million, respectively.

Historically, our collections for unapproved change orders and claims have approximated the amount of revenue recognized.

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, 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 utilize a discounted cash flow analysis, referred to as an income approach, and market multiples, referred to as a market approach, to determine the estimated fair value of our reporting units. For the income approach, significant judgments and assumptions including forecasted project awards, discount rate, anticipated revenue growth rate, gross margins, operating expenses, working capital needs and capital expenditures are inherent in the fair value estimates, which are based on our operating and capital budgets and on our strategic plan. As a result, actual results may differ from the estimates utilized in our income approach. For the market approach, significant judgments and assumptions include the selection of guideline companies, forecasted guideline company EBITDA and our forecasted EBITDA.

The use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and could result in the recognition of additional impairment charges in the financial statements. As a test for reasonableness, we also consider the combined carrying values of our reporting units to our market capitalization.

Table of Contents

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:

	Sensitivity Analysis				
	Goodwill				
	as of		Decline of 100 Basis	Increase of 100 Basis	
	June 30, Headroom		Points in Revenue	Points in Discount	
	2018 (in		Growth Rate	Rate	
	thousands)				
Reporting Unit 1 ⁽¹⁾	\$24,900 0%		-3%	-19%	-8%
Reporting Unit 2	\$7,980 15%		11%	-21%	4%
Reporting Unit 3	\$6,112 34%		28%	-2%	21%
All other reporting units	\$57,170 17% to 292%		11% to 277%	1% to 233%	6% to 254%

We recorded a \$17.3 million impairment to this reporting unit, which is described fully in the paragraphs above. As a result, the cushion for this reporting unit is zero since the impairment was the amount by which the carrying amount of the reporting unit exceeded its fair value. Accordingly, an adverse change in one or more of the key assumptions could result in an additional impairment.

If our market view of project opportunities or gross margins changes for any of the reporting units, we may need to perform an interim impairment analysis, which could result in a material impairment of goodwill. The Company will continue to monitor the operating results of its reporting units each period and perform additional tests as needed.

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 2014-09, Revenue from Contracts with Customers (Topic 606)**

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. 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 ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and

uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the ASC. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

Table of Contents

The Company adopted this standard on July 1, 2018 using 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 the 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 Company has completed the analysis of its contracts in progress and noted that the modified retrospective adjustment was immaterial. The Company does not expect the new standard to have a material impact to its financial statements going forward.

Accounting Standards Update 2016-02, Leases (Topic 842) and Accounting Standards Update No. 2018-11, Leases (Topic 842)

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

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

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

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

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

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

The amendments in this update broaden the information the Company may consider in developing its expected credit loss estimate to include forecasted information. The amendments in this update are effective for the Company on July 1, 2020 and the Company may early adopt on July 1, 2019. The Company must apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the Company does not expect this update to have a material impact to its estimate of the allowance for uncollectible accounts.

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

In May 2017, the FASB issued ASU 2017-09 which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted and prospective application is required. The adoption of ASU 2017-09 did not have a material impact on our financial position, results of operations or cash flows.

Table of Contents

Results of Operations

Overview

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

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

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

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

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

The majority of the work for all segments is performed in the United States, with 10.1% of revenues generated internationally during fiscal 2018, 19.7% in fiscal 2017 and 14.0% in fiscal 2016. The percentage of revenues generated internationally decreased in fiscal 2018 compared to 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:

Table of ContentsMatrix Service Company
Results of Operations
(In thousands)

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total	
Fiscal Year 2018						
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)%	%
Fiscal Year 2017						
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 %	%
Fiscal Year 2016						
Consolidated revenues	\$349,011	\$249,795	\$563,512	\$149,599	\$1,311,917	
Gross profit	29,301	18,553	67,843	10,294	125,991	
Gross profit %	8.4	% 7.4	% 12.0	% 6.9	% 9.6	%
Selling, general and administrative expenses	18,157	22,056	34,394	10,502	85,109	
Operating income (loss)	11,144	(3,503)	33,449	(208)	40,882	
Operating income (loss) %	3.2	% (1.4)%	5.9 %	(0.1)%	3.1 %	%
Variances Fiscal Year 2018 to Fiscal Year 2017 Increase/(Decrease)						
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)	
Variances Fiscal Year 2017 to Fiscal Year 2016 Increase/(Decrease)						
Consolidated revenues	\$24,373	\$(9,272)	\$(81,816)	\$(47,693)	\$(114,408)	
Gross profit	(22,164)	(5,878)	(12,192)	(4,754)	(44,988)	
Selling, general and administrative expenses	(2,711)	(598)	(1,671)	(3,985)	(8,965)	
Operating income	(19,453)	(5,280)	(10,521)	(769)	(36,023)	

Table of Contents

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 2 - Acquisitions, 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 2019, we expect our effective income tax rate to decrease to 27.0%.

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.

Table of Contents**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.

Fiscal 2017 Versus Fiscal 2016**Consolidated**

Consolidated revenue was \$1.198 billion in fiscal 2017, a decrease of \$114.4 million, or 8.7% from consolidated revenue of \$1.312 billion in fiscal 2016. On a segment basis, consolidated revenue decreased in the Storage Solutions, Industrial and Oil Gas & Chemical segments by \$81.8 million, \$47.7 million, and \$9.3 million, respectively, which were partially offset by higher revenue in the Electrical Infrastructure segment of \$24.4 million.

Consolidated gross profit was \$81.0 million in fiscal 2017 compared to \$126.0 million in fiscal 2016. Gross margin decreased to 6.8% in fiscal 2017 compared to 9.6% in fiscal 2016. The reduction in gross margin in fiscal 2017 is primarily attributable to lower volumes, which led to increased under recovery of construction overhead costs, and the financial impact of an Electrical Infrastructure project (more fully discussed in Item 8. Financial Statements and Supplementary Data, Note 3 - Uncompleted Contracts).

Consolidated SG&A expenses were \$76.1 million in fiscal 2017 compared to \$85.1 million in the prior year. The decrease is primarily related to lower incentive compensation expense in fiscal 2017 and a bad debt charge of \$5.2 million from a client bankruptcy in fiscal 2016. Fiscal 2017 SG&A expense included \$1.1 million of acquisition and integration costs from the Houston Interests acquisition and fiscal 2016 SG&A expense included \$1.2 million of acquisition and integration costs from the Baillie Tank Equipment acquisition (See Item 8. Financial Statements and Supplementary Data, Note 2 - Acquisitions and Disposals).

Net interest expense was \$2.1 million in fiscal 2017, and \$0.7 million in the prior year. The higher interest expense in fiscal 2017 is primarily attributable to the higher average debt balance in fiscal 2017, which is largely attributable to the borrowings used to fund the Houston Interests acquisition, which was completed in the second quarter of fiscal 2017, and borrowings due to the timing of collections and disbursements on the previously announced Electrical Infrastructure project.

Our effective tax rate for fiscal 2017 was 94.4% compared to 35.6% in the same period a year earlier. Our effective tax rate for fiscal 2017 was 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. At the same time, the Company

earned most of its taxable income domestically, which was taxed at a much 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.

Net loss attributable to Matrix Service Company and the related fully diluted loss per share were \$0.2 million and \$0.01, respectively, in fiscal 2017 compared to net income and fully diluted earnings per share of \$28.9 million and \$1.07, respectively, in fiscal 2016.

Table of Contents

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment increased \$24.4 million to \$373.4 million in fiscal 2017 compared to \$349.0 million in fiscal 2016. The increase in revenue was primarily a result of higher volumes on a significant power generation project, partially offset by lower volumes in transmission and distribution work. The fiscal 2017 gross margin was 1.9% compared to 8.4% in fiscal 2016. The lower fiscal 2017 gross margin was primarily attributable to the financial impact of the project referenced in the discussion of consolidated results above (more fully discussed in Item 8. Financial Statements and Supplementary Data, Note 3 - Uncompleted Contracts). Fiscal 2016 gross margin was negatively impacted by charges recorded in connection with an acquired EPC joint venture project.

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was \$240.5 million in fiscal 2017 compared to \$249.8 million in fiscal 2016. The decrease in revenue is related to lower volume across the business as refiners continue to limit spending as the result of continued volatility in commodity prices and market uncertainty, partially offset by incremental revenues associated with Houston Interests, which was acquired in December 2016 (See Item 8. Financial Statements and Supplementary Data, Note 2 - Acquisitions). The gross margin was 5.3% in fiscal 2017 compared to 7.4% in fiscal 2016. The gross margin for fiscal 2017 was affected by lower volume, which led to increased under recovery of overhead costs.

Storage Solutions

Revenue for the Storage Solutions segment was \$481.7 million in fiscal 2017 compared to \$563.5 million in the prior year. The decrease is primarily attributable to reduced activity during the second half of fiscal 2017 in connection with work on the construction of a significant crude gathering terminals project and lower volumes in our domestic storage business. Gross margin was 11.6% in fiscal 2017 as a result of strong project execution, partially offset by increased under recovery of overhead costs due to lower volumes. Gross margin in fiscal 2016 was 12.0% as a result of effective project execution.

Industrial

Revenue for the Industrial segment was \$101.9 million in fiscal 2017 compared to \$149.6 million in fiscal 2016. The decline in revenue is primarily attributable to lower business volumes in the iron and steel and mining markets as a result of depressed commodity prices, and lower revenue recognized on a large fertilizer project. The gross margin was 5.4% in fiscal 2017 compared to 6.9% in the prior year. The fiscal 2017 gross margin was negatively impacted by the under recovery of construction overhead costs due to reduced volume.

Impact of Commodity Price Volatility

A significant decline in crude oil prices beginning in late 2014 caused a period of uncertainty in the energy industry. Although the price of West Texas Intermediate Crude Oil has increased significantly during fiscal 2018, the level uncertainty that existed prior to fiscal 2018 resulted in the delay of significant project awards during the fiscal years prior to fiscal 2018. These delays in project awards negatively impacted our operating results in fiscal 2018, particularly in the Storage Solutions segment. However, with the increasing price of crude oil, we have seen some significant near-term positive developments in our Storage Solutions segment, especially in the second half of fiscal 2018. For the fiscal year, we received \$786.5 million of project awards and achieved a book-to-bill ratio of 2.5.

In the Industrial segment, our iron and steel customers have increased maintenance spending and resumed major capital projects in response to improving business conditions led by a stronger U.S. economy and a weaker U.S. Dollar. In the mining and minerals markets, copper prices have increased since fiscal 2017. As a result, we are seeing increased bidding activity, but we have not yet seen a corresponding increase in project awards.

We do not expect fluctuation in commodity prices to have a significant impact on the Electrical Infrastructure segment.

Table of Contents

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, 2018	June 30, 2017	June 30, 2016
	(in thousands)		
Net income (loss) attributable to Matrix Service Company	\$(11,480)	\$(183)	\$28,863
Goodwill and other intangible asset impairment	17,998	—	—
Interest expense	2,600	2,211	852
Provision (benefit) for federal, state and foreign income taxes	(668)	2,308	14,116
Depreciation and amortization	20,347	21,602	21,441
Adjusted EBITDA	\$28,797	\$25,938	\$65,272

Table of Contents

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 2018 were cash on hand, capacity under our senior secured revolving credit facility and cash generated from operations. Cash on hand at June 30, 2018 totaled \$64.1 million and availability under the senior secured revolving credit facility totaled \$73.2 million, resulting in total liquidity of \$137.2 million. The United States Dollar equivalent of Canadian, South Korean and Australian deposits totaled \$5.2 million and is included in our consolidated cash balance. We expect to fund our operations for the next twelve months through the use of cash generated from operations, existing cash 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, 2018 (in thousands):

Liquidity as of June 30, 2017	\$ 122,206
Net increase in cash	20,252
Increase in credit facility capacity constraint	(20,649)
Net repayments on credit facility	44,931
Increase in letters of credit outstanding	(29,248)
Foreign currency translation of outstanding borrowings	(249)
Liquidity as of June 30, 2018	\$ 137,243

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 significant cash retentions or security in the form of letters of credit. The timing of collection of retentions is often uncertain.

- Other changes in working capital.

- Capital expenditures.

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

- Acquisitions and disposals of businesses.

- Strategic investments in new operations.

- Purchases of shares under our stock buyback program.

- Contract disputes which can be significant.

- Collection issues, including those caused by weak commodity prices or other factors which can lead to credit deterioration of our customers

- Capacity constraints under our senior secured revolving credit facility and remaining in compliance with all covenants contained in the Credit Agreement

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

Table of Contents**Cash Flows Provided by Operating Activities**

Cash flows provided by operating activities for the fiscal year ended June 30, 2018 totaled \$74.7 million. Major components of cash flows from operating activities for the year ending June 30, 2018 are as follows:

Net Cash Provided by Operating Activities

(In thousands)

Net income	\$(11,480)
Goodwill and other intangible asset impairment	17,998
Non-cash expenses	28,410
Deferred income tax	(1,186)
Cash effect of changes in working capital, net of acquisitions	40,532
Other	397
Net cash provided by operating activities	\$74,671

Working capital changes, net of effects from acquisitions, at June 30, 2018 in comparison to June 30, 2017 include the following:

Accounts receivable, net of bad debt expense recognized during the period and the settlement of \$2.0 million of accounts receivable in exchange for backlog (see Item 1. Financial Statements and Supplementary Data, Note 4 - Intangible Assets Including Goodwill), decreased by \$5.5 million during fiscal 2018, which increased cash flows from operating activities. The variance is primarily attributable to the timing of billing and collections and a decline in business volumes compared to the prior year.

Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") decreased \$14.5 million while billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") increased \$45.6 million, both of which increased cash flows from operating activities. The changes were due to the timing of invoice billings and collections. CIE and BIE balances can experience significant day-to-day fluctuations based on contract terms, the timing of when job costs are incurred, the invoicing of those job costs to the customer and subsequent cash collection, and other factors.

Accounts payable decreased by \$25.9 million, which reduced cash flows from operating activities. The decrease was primarily due to the timing of payments and lower volumes of work in fiscal 2018 compared to the prior year.

Cash Flows Used for Investing Activities

Investing activities used \$9.3 million of cash during the fiscal year ended June 30, 2018 due to capital expenditures of \$8.7 million and a \$1.7 million working capital payment in connection with the Houston Interests acquisition, partially offset by proceeds from asset dispositions of \$1.1 million. Capital expenditures included \$3.2 million for office equipment and software, \$2.2 million for the purchase of construction equipment, fabrication equipment and small tools, \$1.8 million for transportation equipment, and \$1.5 million for land and buildings. The Company expects to spend approximately \$28.3 million on capital expenditures in fiscal 2019. The increase in planned capital expenditures in fiscal 2019 is in connection with funding anticipated growth and expanding the Company's project opportunities.

Cash Flows Used by Financing Activities

Financing activities used \$45.3 million of cash during the fiscal year ended June 30, 2018 primarily due to net repayments under our senior secured revolving credit facility of \$44.9 million, the repurchase of \$0.6 million of Company stock for payment of withholding taxes due on equity-based compensation, and the payment of \$0.4 million for debt amendment fees, partially offset by \$0.3 million of proceeds from the exercise of stock options and \$0.3 million of proceeds from the issuance of common stock under the employee stock purchase plan.

Table of Contents

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 denominated in Australian Dollars, Canadian Dollars, Euros and Pounds Sterling in an aggregate amount not to exceed the U.S. Dollar equivalent of \$75.0 million and a \$200.0 million sublimit for letters of credit.

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

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

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

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

The Credit Agreement includes a Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended June 30, 2018, Consolidated EBITDA, as defined in the Credit Agreement, was \$36.8 million. Consolidated Funded Indebtedness, as defined in the Credit Agreement, at June 30, 2018 was \$37.1 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.

Table of Contents

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

	June 30, 2018	June 30, 2017
	(In thousands)	
Senior secured revolving credit facility	\$300,000	\$300,000
Capacity constraint due to the Leverage Ratio	189,741	169,092
Capacity under the senior secured revolving credit facility	110,259	130,908
Borrowings outstanding	—	44,682
Letters of credit	37,073	7,825
Availability under the senior secured revolving credit facility	\$73,186	\$78,401

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

At June 30, 2018, 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 December 12, 2016, the Board of Directors approved a new stock buyback program (the "December 2016 Program"), which replaced the previous program that had been in place since November 2014. Under the December 2016 Program, the Company may repurchase common stock of the Company in any calendar year commencing with calendar year 2016 and continuing through calendar year 2018, up to a maximum of \$25.0 million per calendar year. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. The December 2016 Program will continue through December 31, 2018 unless and until it is modified or revoked by the Board of Directors. No shares have been repurchased under the December 2016 Program as of June 30, 2018.

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. Matrix withheld 52,950 and 134,535 shares of common stock during fiscal 2018 and 2017, respectively, to satisfy these obligations. These shares were returned to the Company's pool of treasury shares. The Company has 1,034,394 treasury shares as of June 30, 2018 and intends to utilize these treasury shares in connection with equity awards under the Company's stock incentive plans and for sales to the Employee Stock Purchase Plan.

Off-Balance Sheet Arrangements

As of June 30, 2018, the following off-balance sheet arrangements were in place to support our ordinary course obligations:

	Expiration Period				
	Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years	Total
	(In thousands)				
Letters of credit ⁽¹⁾	\$28,474	\$15,734	\$—	\$—	—\$44,208
Surety bonds	268,384	18,190	1,538	—	288,112
Total	\$296,858	\$33,924	\$1,538	\$—	—\$332,320

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 will expire within a year. Our Credit Agreement allows exclusion of letters of credit that support our workers' compensation programs when calculating availability under the credit facility.

Table of Contents

Contractual Obligations

Contractual obligations at June 30, 2018 are summarized below:

	Contractual Obligations by Expiration Period				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands)				
Operating leases	\$7,541	\$12,143	\$7,218	\$6,201	\$33,103
Purchase obligations	1,495	1,975	—	—	3,470
Total contractual obligations	\$9,036	\$14,118	\$7,218	\$6,201	\$36,573

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%.

The Company had no financial instruments with interest rate risk at June 30, 2018.

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. The Company's operations in South Korea and Australia were acquired in the Baillie Tank Equipment, Ltd. acquisition, which is disclosed in detail in Note 2 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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, 2018.

Table of Contents

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.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Financial Statements of the Company

<u>Management’s Report on Internal Control Over Financial Reporting</u>	<u>42</u>
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<u>Reports of Independent Registered Public Accounting Firm</u>	<u>43</u>
---	-----------

<u>Consolidated Statements of Income for the Fiscal Years Ended June 30, 2018, June 30, 2017, and June 30, 2016</u>	<u>45</u>
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<u>Consolidated Statements of Comprehensive Income for the Fiscal Years Ended June 30, 2018, June 30, 2017, and June 30, 2016</u>	<u>46</u>
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<u>Consolidated Balance Sheets as of June 30, 2018 and June 30, 2017</u>	<u>47</u>
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<u>Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2018, June 30, 2017, and June 30, 2016</u>	<u>49</u>
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<u>Consolidated Statements of Changes in Stockholders’ Equity for the Fiscal Years Ended June 30, 2018, June 30, 2017, and June 30, 2016</u>	<u>51</u>
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<u>Notes to Consolidated Financial Statements</u>	<u>52</u>
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<u>Quarterly Financial Data (Unaudited)</u>	<u>78</u>
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<u>Schedule II—Valuation and Qualifying Accounts</u>	<u>79</u>
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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, 2018, June 30, 2017 and June 30, 2016 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.

Table of Contents

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, 2018. 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, 2018 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, 2018. Deloitte & Touche LLP’s report on the Company’s internal control over financial reporting is included herein.

/S/ John R. Hewitt
John R. Hewitt
President and Chief Executive Officer
September 12, 2018

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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders 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, 2018, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018 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 fiscal year ended June 30, 2018 of the Company and our report dated September 12, 2018, expressed an unqualified opinion on those financial statements.

Basis of 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.

/S/ DELOITTE & TOUCHE LLP

Tulsa, Oklahoma

September 12, 2018

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders 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, 2018 and 2017, 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, 2018 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, 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, 2018, 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 12, 2018 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis of 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.

/S/ DELOITTE & TOUCHE LLP

Tulsa, Oklahoma

September 12, 2018

We have served as the Company auditor since 2006.

Table of Contents

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

	Fiscal Years Ended		
	June 30, 2018	June 30, 2017	June 30, 2016
Revenues	\$1,091,553	\$1,197,509	\$1,311,917
Cost of revenues	999,617	1,116,506	1,185,926
Gross profit	91,936	81,003	125,991
Selling, general and administrative expenses	84,417	76,144	85,109
Goodwill and other intangible asset impairment	17,998	—	—
Operating income (loss)	(10,479	) 4,859	40,882
Other income (expense):			
Interest expense	(2,600	) (2,211	) (852
Interest income	381	132	190
Other	550	(334	) (567
Income (loss) before income tax expense	(12,148	) 2,446	39,653
Provision (benefit) for federal, state and foreign income taxes	(668	) 2,308	14,116
Net income (loss)	(11,480	) 138	25,537
Less: Net income (loss) attributable to noncontrolling interest	—	321	(3,326
Net income (loss) attributable to Matrix Service Company	\$(11,480	) \$(183	) \$28,863
Basic earnings (loss) per common share	\$(0.43	) \$(0.01	) \$1.09
Diluted earnings (loss) per common share	\$(0.43	) \$(0.01	) \$1.07
Weighted average common shares outstanding:			
Basic	26,769	26,533	26,597
Diluted	26,769	26,533	27,100

See accompanying notes

45

Table of Contents

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

	Fiscal Years Ended		
	June 30, 2018	June 30, 2017	June 30, 2016
Net income (loss)	\$(11,480)	\$ 138	\$25,537
Other comprehensive loss, net of tax:			
Foreign currency translation loss (net of tax expense (benefit) of (\$24), \$180 and \$236 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively)	(87)	(479)	(919)
Comprehensive income (loss)	(11,567)	(341)	24,618
Less: Comprehensive income (loss) attributable to noncontrolling interest	—	321	(3,326)
Comprehensive income (loss) attributable to Matrix Service Company	\$(11,567)	\$(662)	\$27,944

See accompanying notes

46

Table of ContentsMatrix Service Company
Consolidated Balance Sheets
(In thousands)

	June 30, 2018	June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$64,057	\$43,805
Accounts receivable, less allowances (2018 - \$6,327; 2017 - \$9,887)	203,388	210,953
Costs and estimated earnings in excess of billings on uncompleted contracts	76,632	91,180
Inventories	5,152	3,737
Income taxes receivable	3,359	4,042
Other current assets	4,458	4,913
Total current assets	357,046	358,630
Property, plant and equipment, at cost:		
Land and buildings	40,424	38,916
Construction equipment	89,036	94,298
Transportation equipment	48,339	48,574
Office equipment and software	41,236	36,556
Construction in progress	1,353	5,952
Total property, plant and equipment - at cost	220,388	224,296
Accumulated depreciation	(147,743)	(144,022)
Property, plant and equipment - net	72,645	80,274
Goodwill	96,162	113,501
Other intangible assets	22,814	26,296
Deferred income taxes	4,848	3,385
Other assets	4,518	3,944
Total assets	\$558,033	\$586,030

See accompanying notes

47

Table of Contents

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

	June 30, 2018	June 30, 2017
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$79,439	\$105,649
Billings on uncompleted contracts in excess of costs and estimated earnings	120,740	75,127
Accrued wages and benefits	24,375	20,992
Accrued insurance	9,080	9,340
Income taxes payable	7	169
Other accrued expenses	4,824	7,699
Total current liabilities	238,465	218,976
Deferred income taxes	429	128
Borrowings under senior secured revolving credit facility	—	44,682
Other liabilities	296	435
Total liabilities	239,190	264,221
Commitments and contingencies		
Stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of June 30, 2018 and June 30, 2017; 26,853,823 and 26,600,562 shares outstanding as of June 30, 2018 and June 30, 2017	279	279
Additional paid-in capital	132,198	128,419
Retained earnings	211,494	222,974
Accumulated other comprehensive loss	(7,411)	(7,324)
	336,560	344,348
Less treasury stock, at cost — 1,034,394 and 1,287,655 shares as of June 30, 2018 and June 30, 2017	(17,717)	(22,539)
Total stockholders' equity	318,843	321,809
Total liabilities and stockholders' equity	\$558,033	\$586,030

See accompanying notes

48

Table of Contents

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

	Fiscal Years Ended		
	June 30, 2018	June 30, 2017	June 30, 2016
Operating activities:			
Net income (loss)	\$(11,480)	\$138	\$25,537
Adjustments to reconcile net income to net cash provided (used) by operating activities, net of effects of acquisitions:			
Depreciation and amortization	20,347	21,602	21,441
Goodwill and other intangible asset impairment	17,998	—	—
Deferred income tax	(1,186)	(2,556)	1,871
Gain on sale of property, plant and equipment	(662)	(142)	(39)
Provision for uncollectible accounts	107	1,748	6,034
Stock-based compensation expense	8,618	7,461	6,317
Other	397	289	240
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:			
Accounts receivable	5,504	(11,932)	4,152
Costs and estimated earnings in excess of billings on uncompleted contracts	14,548	13,567	(17,930)
Inventories	(1,415)	198	606
Other assets and liabilities	369	(7,641)	7,380
Accounts payable	(25,883)	(37,047)	14,698
Billings on uncompleted contracts in excess of costs and estimated earnings	45,613	5,212	(38,377)
Accrued expenses	1,796	(9,643)	1,657
Net cash provided (used) by operating activities	74,671	(18,746)	33,587
Investing activities:			
Acquisitions, net of cash acquired (Note 2)	(1,687)	(40,819)	(13,049)
Acquisition of property, plant and equipment	(8,711)	(11,908)	(13,939)
Proceeds from asset sales	1,062	1,308	422
Net cash used by investing activities	\$(9,336)	\$(51,419)	\$(26,566)

See accompanying notes

49

Table of Contents

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

	Fiscal Years Ended		
	June 30, 2018	June 30, 2017	June 30, 2016
Financing activities:			
Advances under senior secured revolving credit facility	\$85,317	\$126,933	\$10,213
Repayments of advances under senior secured revolving credit facility	(130,248)	(82,251)	(19,017)
Payment of debt amendment fees	(364)	(1,073)	—
Open market purchase of treasury shares	—	—	(10,461)
Issuances of common stock	317	253	638
Proceeds from issuance of common stock under employee stock purchase plan	293	305	335
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(627)	(2,290)	(4,588)
Capital contributions from noncontrolling interest	—	855	10,892
Repayment of acquired long-term debt	—	—	(1,858)
Net cash provided (used) by financing activities	(45,312)	42,732	(13,846)
Effect of exchange rate changes on cash	229	(418)	(758)
Net increase (decrease) in cash and cash equivalents	20,252	(27,851)	(7,583)
Cash and cash equivalents, beginning of period	43,805	71,656	79,239
Cash and cash equivalents, end of period	\$64,057	\$43,805	\$71,656
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	\$1,410	\$11,968	\$9,365
Interest	\$2,719	\$1,788	\$881
Non-cash investing and financing activities:			
Accrued acquisition working capital adjustment (Note 2)	\$—	\$1,687	\$—
Purchases of property, plant and equipment on account	\$156	\$483	\$193
Assumption of debt from acquisition (Note 2)	\$—	\$—	\$1,858

See accompanying notes

50

Table of Contents

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, 2015	\$ 279	\$ 123,038	\$ 194,394	\$(18,489)	\$ (5,926)	\$ (8,742)	\$ 284,554
Capital contributions from noncontrolling interest	—	—	—	—	—	10,892	10,892
Net income (loss)	—	—	28,863	—	—	(3,326)	25,537
Other comprehensive loss	—	—	—	—	(919)	—	(919)
Treasury Shares sold to Employee Stock Purchase Plan (17,304 shares)	—	177	—	158	—	—	335
Exercise of stock options (68,037 shares)	—	14	—	624	—	—	638
Issuance of deferred shares (631,443 shares)	—	(5,849)	—	5,849	—	—	—
Treasury shares repurchased to satisfy tax withholding obligations (205,504 shares)	—	—	—	(4,588)	—	—	(4,588)
Tax effect of exercised stock options and vesting of deferred shares	—	3,261	—	—	—	—	3,261
Open market purchases of treasury shares (654,958 shares)	—	—	—	(10,461)	—	—	(10,461)
Stock-based compensation expense	—	6,317	—	—	—	—	6,317
Balances, June 30, 2016	279	126,958	223,257	(26,907)	(6,845)	(1,176)	315,566
Retrospective adjustment for change in accounting for stock-based compensation forfeitures upon adoption of ASU 2016-09	—	100	(100)	—	—	—	—
Balances, July 1, 2016, as adjusted	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	—	—	—	(2,290)	—	—	(2,290)

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(134,535 shares)							
Stock-based compensation expense	—	7,461	—	—	—	—	7,461
Balances, June 30, 2017	279	128,419	222,974	(22,539)	(7,324)	—	321,809
Net income (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

See accompanying notes

51

Table of Contents

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

Matrix records revenue on fixed-price contracts on a percentage-of-completion basis, primarily based on costs incurred to date compared to the total estimated contract cost. The Company records revenue on reimbursable and time and material contracts on a proportional performance basis as costs are incurred. Contracts in process are valued at cost plus accrued profits less billings on uncompleted contracts. Contracts are generally considered substantially complete when field construction is completed. The elapsed time from award of a contract to completion of performance may be in excess of one year. Matrix includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix determines that it is responsible for the procurement and management of such cost components.

Matrix has numerous contracts that are in various stages of completion which require estimates to determine the appropriate cost and revenue recognition. The Company has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs, and accordingly, does not believe significant fluctuations are likely to materialize. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete fixed-price contracts indicate a loss, provision is made through a contract write-down for the total loss anticipated. 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 in the period, on a percentage-of-completion basis, when estimable and probable. Indirect costs, such as salaries and benefits, supplies and tools, equipment costs and insurance costs, are charged to projects based upon direct labor hours and overhead allocation rates per direct labor hour. Warranty costs are normally incurred prior to project completion and are charged to project costs as they are incurred. Warranty costs incurred subsequent to project completion were not material for the periods presented. Overhead allocation rates are established annually during the budgeting process.

Precontract Costs

Precontract costs are costs incurred in anticipation of obtaining a contract that will result in no future benefit unless the contract is obtained. The Company generally expenses precontract costs to cost of revenue as incurred, but, in certain cases their recognition may be deferred if specific criteria are met. We had no deferred precontract costs at June 30, 2018 or 2017.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Change Orders and Claims Recognition

Change orders are modifications of an original contract that effectively change the existing provisions of the contract. Change orders may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Matrix or our clients may initiate change orders. The client's agreement to the terms of change orders is, in many cases, reached prior to work commencing; however, sometimes circumstances require that work progress prior to obtaining client agreement. Costs related to change orders are recognized as incurred. Revenues attributable to change orders that are unapproved as to price or scope are recognized to the extent that costs have been incurred if the amounts can be reliably estimated and their realization is probable. Revenues in excess of the costs attributable to change orders that are unapproved as to price or scope are recognized only when realization is assured beyond a reasonable doubt. Change orders that are unapproved as to both price and scope are evaluated as claims.

Claims are amounts in excess of the agreed contract price that we seek to collect from customers or others for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price or other causes of anticipated additional costs incurred by us. Recognition of amounts as additional contract revenue related to claims is appropriate only if it is probable that the claims will result in additional contract revenue and if the amount can be reliably estimated. We must determine if:

- there is a legal basis for the claim;
- the additional costs were caused by circumstances that were unforeseen by the Company and are not the result of deficiencies in our performance;
- the costs are identifiable or determinable and are reasonable in view of the work performed; and
- the evidence supporting the claim is objective and verifiable.

If all of these requirements are met, revenue from a claim is recorded only to the extent that we have incurred costs relating to the claim. Unapproved change orders and claims are more fully discussed in Note 7—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. The Company had approximately \$0.3 million of restricted cash related to a customer deposit at June 30, 2018 and 2017. We have cash on deposit at June 30, 2018 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 \$5.2 million as of June 30, 2018.

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 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 from the estimates utilized in our income approach. For the market approach, significant judgments and assumptions include the selection of guideline companies, forecasted guideline company EBITDA and our forecasted EBITDA.

The use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and could result in the recognition of an impairment charge in the financial statements. As a test for reasonableness, we also consider the combined carrying values of our reporting units to our market capitalization.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

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. For subsidiaries with operations using a foreign functional currency, assets and liabilities are translated at the year-end exchange rates and 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) in the Consolidated Statements of Changes in Stockholders' Equity and in Other Comprehensive Income (Loss) in the Consolidated Statements of Comprehensive Income. Transaction gains and losses are reported as a component of Other income (expense) in the Consolidated Statements of Income.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Recently Issued Accounting Standards

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. 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 ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

The Company adopted this standard on July 1, 2018 using 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 the 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 Company has completed the analysis of its contracts in progress and noted that the modified retrospective adjustment was immaterial. The Company does not expect the new standard to have a material impact to its financial statements going forward.

Accounting Standards Update 2016-02, Leases (Topic 842) and Accounting Standards Update No. 2018-11, Leases (Topic 842)

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

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

We are currently assessing the impact of the adoption of the amendments on the Company's results of operations, financial position and cash flows. As of June 30, 2018 the Company had \$33.1 million of future minimum lease payments under non-cancelable operating leases, primarily for facilities. See Note 8 - Operating Leases for more information about the timing and amount of future operating lease payments, which we believe is indicative of the materiality of adoption of these amendments to our financial statements.

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

On June 16, 2016, the FASB issued ASU 2016-13, which will change how the Company accounts for its allowance for uncollectible accounts. The amendments in this update require a financial asset (or a group of financial assets) to

be presented at the net amount expected to be collected. The income statement will reflect any increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

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

The amendments in this update broaden the information the Company may consider in developing its expected credit loss estimate to include forecasted information. The amendments in this update are effective for the Company on July 1, 2020 and the Company may early adopt on July 1, 2019. The Company must apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the Company does not expect this update to have a material impact to its estimate of the allowance for uncollectible accounts.

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

In May 2017, the FASB issued ASU 2017-09 which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted and prospective application is required. The adoption of ASU 2017-09 did not have a material impact on our financial position, results of operations or cash flows.

Note 2—Acquisitions and Disposals

Sale of Process Heating Business - Subsequent Event

In August 2018, the Company sold non-core assets associated with a business that marketed process heating equipment for \$3.7 million in cash, subject to customary final post-closing adjustments. The fiscal 2018 revenues and operating results of the business, which were included in the Oil Gas & Chemical segment, are 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	(10,331)
Net purchase price	\$42,506

The Company funded the equity interest portion of the consideration paid from borrowings under the Company's senior secured revolving credit facility (See Note 5). The purchase of working capital was paid with cash on hand. The net purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

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

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	454
Current assets	21,804
Property, plant and equipment	942
Goodwill	35,146
Other intangible assets	10,220
Total assets acquired	68,112
Accounts payable	962
Billings on uncompleted contracts in excess of costs and estimated earnings	11,648
Other accrued expenses	2,475
Current liabilities	15,085
Other liabilities	190
Net assets acquired	52,837
Less: cash acquired	10,331
Net purchase price	\$42,506

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 up to \$2.6 million 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 liabi