

MATRIX SERVICE CO  
Form 10-Q  
February 06, 2015

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended December 31, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-15461

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

DELAWARE  
(State of incorporation) 73-1352174  
(I.R.S. Employer Identification No.)  
5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135  
(Address of principal executive offices and zip code)  
Registrant's telephone number, including area code: (918) 838-8822  
Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Inter Active 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of January 30, 2015 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,710,693 shares outstanding.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Matrix Service Company

## Condensed Consolidated Statements of Income

(In thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Revenues	\$342,880	\$ 310,998	\$664,563	\$ 537,215
Cost of revenues	326,925	276,848	620,229	477,589
Gross profit	15,955	34,150	44,334	59,626
Selling, general and administrative expenses	19,626	19,333	39,458	34,047
Operating income	(3,671	) 14,817	4,876	25,579
Other income (expense):				
Interest expense	(300	) (351	) (652	) (574
Interest income	308	8	350	13
Other	(28	) (68	) 29	(156
Income (loss) before income tax expense	(3,691	) 14,406	4,603	24,862
Provision for federal, state and foreign income taxes	1,155	4,095	4,779	7,999
Net income (loss)	(4,846	) 10,311	(176	) 16,863
Less: Net income (loss) attributable to noncontrolling interest	(8,132	) 5	(9,376	) 5
Net income attributable to Matrix Service Company	\$3,286	\$ 10,306	\$9,200	\$ 16,858
Basic earnings per common share	\$0.12	\$ 0.39	\$0.35	\$ 0.64
Diluted earnings per common share	\$0.12	\$ 0.38	\$0.34	\$ 0.63
Weighted average common shares outstanding:				
Basic	26,600	26,245	26,535	26,180
Diluted	27,156	26,884	27,154	26,772

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
Net income (loss)	\$(4,846	) \$ 10,311	\$(176	) \$16,863
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1,501	) (477	) (3,271	) (175
Comprehensive income (loss)	(6,347	) 9,834	(3,447	) 16,688
Less: Comprehensive income (loss) attributable to noncontrolling interest	(8,132	) 5	(9,376	) 5
Comprehensive income attributable to Matrix Service Company	\$1,785	\$ 9,829	\$5,929	\$16,683

See accompanying notes.

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

	December 31, 2014	June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 68,568	\$ 77,115
Accounts receivable, less allowances (December 31, 2014— \$563 and June 30, 2014—\$204)	15,142	204,692
Costs and estimated earnings in excess of billings on uncompleted contracts	69,573	73,008
Deferred income taxes	6,262	5,994
Inventories	3,013	3,045
Income taxes receivable	6,165	2,797
Other current assets	7,321	8,897
Total current assets	376,044	375,548
Property, plant and equipment at cost:		
Land and buildings	31,783	31,737
Construction equipment	85,966	82,745
Transportation equipment	45,098	42,087
Office equipment and software	27,145	26,026
Construction in progress	7,077	9,892
	197,069	192,487
Accumulated depreciation	(109,844 )	(103,315 )
	87,225	89,172
Goodwill	72,212	69,837
Other intangible assets	26,797	28,676
Other assets	3,804	5,699
Total assets	\$ 566,082	\$ 568,932

See accompanying notes.

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

	December 31, 2014	June 30, 2014
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 93,154	\$ 111,863
Billings on uncompleted contracts in excess of costs and estimated earnings	127,614	108,440
Accrued wages and benefits	25,207	36,226
Accrued insurance	8,437	8,605
Income taxes payable	2,013	—
Other accrued expenses	9,334	4,727
Total current liabilities	265,759	269,861
Deferred income taxes	6,740	5,167
Borrowings under senior credit facility	11,789	11,621
Total liabilities	284,288	286,649
Commitments and contingencies		
Stockholders' equity:		
Matrix Service Company stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of December 31, 2014, and June 30, 2014	279	279
Additional paid-in capital	119,852	119,777
Retained earnings	186,437	177,237
Accumulated other comprehensive loss	(3,453)	(182)
	303,115	297,111
Less: Treasury stock, at cost— 1,193,039 shares as of December 31, 2014, and 1,453,770 shares as of June 30, 2014	(13,712)	(16,595)
Total Matrix Service Company stockholders' equity	289,403	280,516
Noncontrolling interest	(7,609)	1,767
Total stockholders' equity	281,794	282,283
Total liabilities and stockholders' equity	\$ 566,082	\$ 568,932

See accompanying notes.



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

	Six Months Ended	
	December 31, 2014	December 31, 2013
Operating activities:		
Net income (loss)	\$(176	) \$ 16,863
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	11,540	7,551
Deferred income tax	1,011	(2,102)
Gain on sale of property, plant and equipment	(120	) (57)
Provision for uncollectible accounts	451	(36)
Stock-based compensation expense	3,168	2,515
Excess tax benefit of exercised stock options and vesting of deferred shares	(1,731	) 1,069
Other	118	100
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:		
Accounts receivable	(9,243	) 11,665
Costs and estimated earnings in excess of billings on uncompleted contracts	3,435	(4,835)
Inventories	32	(159)
Other assets and liabilities	3,247	(123)
Accounts payable	(19,429	) 32,712
Billings on uncompleted contracts in excess of costs and estimated earnings	19,174	(9,525)
Accrued expenses	(6,099	) (5,174)
Net cash provided by operating activities	5,378	50,464
Investing activities:		
Acquisition of property, plant and equipment	(7,711	) (11,965)
Acquisition (Note 2)	(5,551	) (51,398)
Proceeds from asset sales	290	326
Net cash used by investing activities	\$(12,972	) \$(63,037)

See accompanying notes.



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

	Six Months Ended	
	December 31, 2014	December 31, 2013
Financing activities:		
Issuances of common stock	\$364	\$602
Excess tax benefit of exercised stock options and vesting of deferred shares	1,731	6
Advances under credit agreement	9,272	33,318
Repayments of advances under credit agreement	(9,104)	(10,127)
Proceeds received for treasury shares sold to Employee Stock Purchase Plan	134	38
Treasury shares purchased from employees to satisfy tax withholding obligations	(2,439)	(1,638)
Net cash provided (used) by financing activities	(42)	22,199
Effect of exchange rate changes on cash	(911)	(84)
Net increase (decrease) in cash and cash equivalents	(8,547)	9,542
Cash and cash equivalents, beginning of period	77,115	63,750
Cash and cash equivalents, end of period	\$68,568	\$73,292
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$5,905	\$6,812
Interest	\$748	\$462
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	\$185	\$1,079

See accompanying notes.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Non-Controlling Interest	Total
Balances, June 30, 2014	\$279	\$119,777	\$177,237	\$(16,595)	\$(182)	\$ 1,767	\$282,283
Net income (loss)	—	—	9,200	—	—	(9,376)	(176)
Other comprehensive loss	—	—	—	—	(3,271)	—	(3,271)
Exercise of stock options (42,450 shares)	—	(287)	—	651	—	—	364
Tax effect of exercised stock options and vesting of deferred shares	—	1,731	—	—	—	—	1,731
Issuance of deferred shares (314,003 shares)	—	(4,584)	—	4,584	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (4,972 shares)	—	47	—	87	—	—	134
Treasury shares purchased to satisfy tax withholding obligations (100,694 shares)	—	—	—	(2,439)	—	—	(2,439)
Stock-based compensation expense	—	3,168	—	—	—	—	3,168
Balances, December 31, 2014	\$279	\$119,852	\$186,437	\$(13,712)	\$(3,453)	\$(7,609)	\$281,794
Balances, June 30, 2013	\$279	\$118,190	\$141,427	\$(21,961)	\$ 227	\$ —	\$238,162
Net income	—	—	16,858	—	—	5	16,863
Other comprehensive loss	—	—	—	—	(175)	—	(175)
Consolidated joint venture included in acquisition (Note 2)	—	—	—	—	—	700	700
Exercise of stock options (55,600 shares)	—	(376)	—	978	—	—	602
Tax effect of exercised stock options and vesting of deferred shares	—	1,075	—	—	—	—	1,075
Issuance of deferred shares (247,856 shares)	—	(4,361)	—	4,361	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (2,152 shares)	—	—	—	38	—	—	38
Treasury shares purchased to satisfy tax withholding obligations (75,533 shares)	—	—	—	(1,638)	—	—	(1,638)

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Stock-based compensation expense	—	2,515	—	—	—	—	2,515
Balances, December 31, 2013	\$279	\$117,043	\$158,285	\$(18,222)	\$52	\$705	\$258,142
See accompanying notes.							

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Matrix Service Company

Notes to Condensed Consolidated Financial Statements  
(unaudited)

Note 1 – Basis of Presentation and Accounting Policies

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all adjustments, consisting of normal recurring adjustments and other adjustments described herein, that are, in the opinion of management, necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2014, included in the Company’s Annual Report on Form 10-K for the year then ended.

Quarterly 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. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

Recently Issued Accounting Standards

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

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers.” 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.” In applying the revenue model to contracts within its scope, an entity:

- Identifies the contract(s) with a customer (step 1).
- Identifies the performance obligations in the contract (step 2).
- Determines the transaction price (step 3).
- Allocates the transaction price to the performance obligations in the contract (step 4).
- Recognizes revenue when (or as) the entity satisfies a performance obligation (step 5).

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”). For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. We expect to adopt this standard in fiscal 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2014-08 (Topics 205 and 360), Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

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On April 10, 2014, the FASB issued ASU 2014-08, " Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The FASB issued the ASU to provide additional information and to make it more difficult for a disposal transaction to qualify as a discontinued operation (since the FASB believes that too many disposal transactions were qualifying as discontinued operations under the old definition). Under the previous guidance in ASC 205-20-45-1, the results of operations of a component of an entity were classified as a discontinued operation if all of the following conditions were met:

- "The component "has been disposed of or is classified as held for sale."
- "The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction."
- "The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction."

The new guidance eliminates the second and third criteria above and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale. The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The Company adopted this standard as of January 1, 2015. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2014-15 (Subtopic 205-40)—Presentation of Financial Statements—Going Concern : Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The FASB believes that requiring management to perform the assessment will enhance the timeliness, clarity, and consistency of related disclosures and improve convergence with international financial reporting standards ("IFRSs") (which emphasize management's responsibility for performing the going-concern assessment). However, the time horizon for the assessment (look-forward period) and the disclosure thresholds under U.S. GAAP and IFRSs will continue to differ. The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. We expect to adopt this standard in fiscal 2017.

#### Note 2 – Acquisitions

##### Purchase of HDB Ltd. Limited Partnership

On August 22, 2014 the Company purchased substantially all of the assets of HDB Ltd. Limited Partnership ("HDB"). HDB, headquartered in Bakersfield, California provides construction, fabrication and turnaround services to energy companies throughout California's central valley. The acquisition advances a strategic goal of the Company to expand into the upstream energy market. The acquisition purchase price was \$5.6 million and was funded with cash on hand. Commencing on August 22, 2014, HDB's operating results are included in the Oil Gas & Chemical Segment. The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The following table summarizes the preliminary purchase price allocation (in thousands):

Current assets	\$1,658
Property, plant and equipment	1,001
Tax deductible goodwill	3,054
Other intangible assets	900
Total assets acquired	6,613



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Current liabilities	1,062
Net assets acquired	\$5,551

All of the recorded goodwill from the HDB acquisition is tax deductible. The operating data related to this acquisition was not material.

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### Purchase of Kvaerner North American Construction

Effective as of December 21, 2013, the Company acquired 100% of the stock and voting rights of Kvaerner North American Construction Ltd. and substantially all of the assets of Kvaerner North American Construction Inc., together referenced as "KNAC". The businesses are now known as Matrix North American Construction Ltd. and Matrix North American Construction, Inc., together referenced as "Matrix NAC". Matrix NAC is a premier provider of maintenance and capital construction services to power generation, integrated iron and steel, and industrial process facilities. The acquisition significantly expanded the Company's presence in the Electrical Infrastructure and Industrial Segments, and to a lesser extent, the Oil Gas & Chemical segment.

The Company purchased KNAC for \$88.3 million. The acquisition was funded through a combination of cash-on-hand and borrowings under our senior revolving credit facility. The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The following table summarizes the purchase price allocation (in thousands):

Current assets	\$83,575
Property, plant and equipment	11,377
Goodwill	39,295
Other intangible assets	24,009
Total assets acquired	158,256
Current liabilities	68,115
Deferred income taxes	1,179
Noncontrolling interest of consolidated joint venture	700
Net assets acquired	88,262
Cash acquired	36,655
Net purchase price	\$51,607

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets. This acquisition generated \$39.3 million of goodwill, of which \$28.5 million is tax deductible.

The equity in consolidated joint venture represents the acquired equity in KVPB Power Partners. KVPB Power Partners was subsequently renamed to MXPB Power Partners (the "Joint Venture"). The Joint Venture was formed by Kvaerner North American Construction Inc. and an engineering firm to engineer and construct a combined cycle power plant in Dover, Delaware. The Company holds a 65% voting and economic interest in the Joint Venture. The total acquired equity of the Joint Venture was \$2.0 million of which the Company's portion was approximately \$1.3 million and the other party owns a non-controlling interest of \$0.7 million. At December 31, 2014, the noncontrolling interest holder's share of the equity of the Joint Venture was a negative \$7.6 million. The Company's share at December 31, 2014 was a negative \$14.1 million.

The unaudited financial information in the table below for the three and six months ended December 30, 2013 is presented on a pro forma basis, as though Matrix Service Company and Matrix NAC had been combined as of July 1, 2012. The pro forma earnings for the three and six months ended December 31, 2013 were adjusted to include incremental amortization expense of \$1.1 million and \$2.1 million, respectively, and depreciation expense of \$0.6 million and \$1.2 million, respectively.

	Three Months Ended December 31, 2013 (pro forma) (In thousands, except per share data)	Six Months Ended December 31, 2013
Revenues	\$395,600	\$671,832
Net income attributable to Matrix Service Company	\$12,422	\$19,834
Basic earnings per common share	\$0.47	\$0.76
Diluted earnings per common share	\$0.46	\$0.74



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Notes to Condensed Consolidated Financial Statements  
(unaudited)

## Note 3 – Uncompleted Contracts

Contract terms of the Company's construction contracts generally provide for progress billings based on project milestones. The excess of costs incurred and estimated earnings over amounts billed on uncompleted contracts is reported as a current asset. The excess of amounts billed over costs incurred and estimated earnings recognized on uncompleted contracts is reported as a current liability. Gross and net amounts on uncompleted contracts are as follows:

	December 31, 2014	June 30, 2014
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$1,649,633	\$1,435,242
Billings on uncompleted contracts	1,707,674	1,470,674
	\$(58,041 )	\$(35,432 )
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$69,573	\$73,008
Billings on uncompleted contracts in excess of costs and estimated earnings	127,614	108,440
	\$(58,041 )	\$(35,432 )

Progress billings in accounts receivable at December 31, 2014 and June 30, 2014 included retentions to be collected within one year of \$28.2 million and \$30.0 million, respectively. Contract retentions collectible beyond one year are included in Other Assets on the Condensed Consolidated Balance Sheet and totaled \$2.5 million at December 31, 2014 and \$4.3 million at June 30, 2014.

## Other

In the three month and six months ended December 31, 2014, our results of operations were materially impacted by charges resulting from a change in estimate related to an acquired EPC joint venture project in the Electrical Infrastructure segment, as described in Note 2 - Acquisitions. The charges resulted in a reduction to operating income of \$22.9 million and \$26.2 million and an after-tax reduction of \$7.9 million and \$9.0 million to net income attributable to Matrix Service Company for the three and six months ended December 31, 2014, respectively. At December 31, 2014, the project was approximately 74% complete. The Company expects the project to be completed by the end of the current fiscal year. The change in estimate was driven primarily by delays, technical impacts, and additional work that has compressed the Company's delivery schedule obligations. The charges reflect management's best estimate of the total contract revenues to be recognized and total costs at completion.

During the second quarter of fiscal 2014, our results of operations were materially impacted by a charge resulting from a change in estimate on an aboveground storage tank project. The charge resulted in a \$4.4 million and \$4.0 million decrease in operating income for the three and six months ended December 31, 2013, respectively.

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Notes to Condensed Consolidated Financial Statements  
(unaudited)

## Note 4 – Intangible Assets Including Goodwill

## Goodwill

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

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Goodwill	\$60,896	\$13,943	\$10,949	\$9,049	\$94,837
Cumulative impairment loss (1)	(17,653 )	(3,000 )	(922 )	(3,425 )	(25,000 )
Net balance at June 30, 2014	43,243	10,943	10,027	5,624	69,837
Acquisition related adjustment	164	—	—	55	219
Acquisition of HDB (2)	—	3,054	—	—	3,054
Translation adjustment (3)	(521 )	—	(203 )	(174 )	(898 )
Net balance at December 31, 2014	\$42,886	\$13,997	\$9,824	\$5,505	\$72,212

(1) A \$25.0 million impairment charge was recorded in February 2005 as a result of the Company's operating performance in fiscal 2005.

(2) Amount represents goodwill in connection with the Company's acquisition of HDB. The acquisition is discussed further in Note 2 - Acquisitions.

(3) The translation adjustments relate to the periodic translation of Canadian Dollar denominated goodwill recorded as a part of a prior Canadian acquisition as well as the periodic translation of the Canadian entity acquired with the purchase of KNAC. The acquisition of KNAC is discussed further in Note 2 - Acquisitions.

## Other Intangible Assets

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

	Useful Life (Years)	At December 31, 2014		
		Gross Carrying Amount (In thousands)	Accumulated Amortization	Net Carrying Amount
Intellectual property	6 to 15	\$2,460	\$(1,003 )	\$1,457
Customer based	1.5 to 15	28,168	(5,090 )	23,078
Non-compete agreements	3 to 5	1,353	(657 )	696
Trade names	3 to 5	1,615	(49 )	1,566
Total amortizing intangible assets		33,596	(6,799 )	26,797

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	Useful Life (Years)	At June 30, 2014		
		Gross Carrying Amount (In thousands)	Accumulated Amortization	Net Carrying Amount
Intellectual property	6 to 15	\$2,460	\$(920)	) \$1,540
Customer based	1.5 to 15	27,662	(2,949)	) 24,713
Non-compete agreements	3 to 5	1,312	(471)	) 841
Trade name	5	165	(33)	) 132
Total amortizing intangibles		31,599	(4,373)	) 27,226
Trade name	Indefinite	1,450	—	) 1,450
Total intangible assets		\$33,049	\$(4,373)	) \$28,676

The increase in the gross carrying amount of other intangible assets at December 31, 2014 compared to June 30, 2014 is due to the August 22, 2014 acquisition of HDB. The HDB intangible asset consists of amortizing customer-based intangibles with a fair value of \$0.9 million and useful life of 10 years. Please refer to Note 2 - Acquisitions for additional information.

Effective December 31, 2014, the Company redesignated a trade name with a value of \$1.4 million from an indefinite lived to a definite lived intangible asset and assigned a useful life of three years. The change in designation was an impairment indicator. The Company conducted an impairment analysis and concluded that no impairment existed. Amortization expense totaled \$2.4 million in the six months ended December 31, 2014 and \$0.5 million in the six months ended December 31, 2013. We estimate that the remaining amortization expense at 12/31/2014 will be as follows (in thousands):

Period ending:

Remainder of Fiscal 2015	\$2,584
Fiscal 2016	3,375
Fiscal 2017	3,291
Fiscal 2018	2,950
Fiscal 2019	2,583
Thereafter	12,014
Total estimated remaining amortization expense at 12/31/2014	26,797

## Note 5 – Debt

The Company has a five-year \$200.0 million senior secured revolving credit facility under a credit agreement (the "Credit Agreement") that expires March 13, 2019. Advances under 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 Senior Leverage Ratio, as defined in the agreement, may not exceed 2.50 to 1.00, determined as of the end of each fiscal quarter.

• We are required to maintain a Fixed Charge Coverage Ratio, as defined in the agreement, greater than or equal to 1.25 to 1.00, determined as of the end of each fiscal quarter.

• Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to \$20.0 million per 12-month period.

Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The additional margin on Alternate Base Rate and LIBOR-based loans ranges between 0.25% and 1.0% and between 1.25% and 2.0%, respectively.



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The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. \$40.0 million. Amounts borrowed in Canadian dollars will bear interest either at the CDOR Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.25% to 2.0%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.75% to 2.5%. The CDOR Rate is equal to the sum of the annual rate of interest, which is the rate determined as being the arithmetic average of the quotations of all institutions listed in respect of the relevant CDOR interest period for Canadian Dollar denominated bankers' acceptances, plus 0.1%. The Canadian Prime Rate is equal to the greater of (i) the rate of interest per annum most recently announced or established by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect on such day for determining interest rates for Canadian Dollar denominated commercial loans in Canada and (ii) the CDOR Rate plus 1.0%. The Unused Credit Facility Fee is between 0.20% and 0.35% based on the Senior Leverage Ratio.

The Credit Agreement includes a Senior Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended December 31, 2014, Consolidated EBITDA, as defined in the Credit Agreement, was \$75.3 million. Accordingly, at December 31, 2014, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at December 31, 2014 was \$34.2 million.

Availability under the senior credit facility was as follows:

	December 31, 2014	June 30, 2014
	(In thousands)	
Senior credit facility	\$200,000	\$200,000
Capacity constraint due to the Senior Leverage Ratio	11,818	—
Capacity under the credit facility	188,182	200,000
Borrowings outstanding	11,789	11,621
Letters of credit	30,526	23,017
Availability under the senior credit facility	\$145,867	\$165,362

Outstanding borrowings at December 31, 2014 under our Credit Agreement were used primarily for Canadian dollar advances required for short term working capital, including cross-border purchases of materials and services.

At December 31, 2014, the Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

#### Note 6 – Income Taxes

Deferred income taxes are computed using the liability method whereby deferred tax assets and liabilities are recognized based on temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates. Deferred tax assets are reduced by a valuation allowance when a determination is made that it is more likely than not that some, or all, of the deferred tax assets will not be realized based on the weight of all available evidence. Evidence which is objectively verifiable carries a higher weight in the analysis. The ultimate realization of deferred tax assets is dependent upon the existence of sufficient taxable income of the appropriate character within the carryback and carryforward period available under the tax law. Sources of taxable income include future reversals of existing taxable temporary differences, future earnings and available tax planning strategies. The Company provides for income taxes regardless of whether it has received a tax assessment. Taxes are provided when it is considered probable that additional taxes will be due in excess of amounts included in the tax return. The Company regularly reviews exposure to additional income taxes due, and as further information is known or events occur, adjustments may be recorded.



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The effective tax rate was (31.3)% and 103.8% for the three and six months ended December 31, 2014, respectively. The primary reason for the significant variation between the Company's effective tax rate and the statutory tax rate is due to charges the Company took in connection with an acquired EPC joint venture project, as described in Note 3 - Uncompleted Contracts.

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The Company consolidates the joint venture and reports a noncontrolling interest. Accordingly, the Company does not receive a tax benefit for the noncontrolling interest holder's share of the project loss.

## Note 7 – Commitments and Contingencies

## Insurance Reserves

The Company maintains insurance coverage for various aspects of its operations. However, exposure to potential losses is retained through the use of deductibles, self-insured retentions and coverage limits.

Typically our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide warranties for materials and workmanship. The Company may also be required to name the customer as an additional insured up to the limits of insurance available, or we may be required to purchase special insurance policies or surety bonds for specific customers or provide letters of credit in lieu of bonds to satisfy performance and financial guarantees on some projects. Matrix maintains a performance and payment bonding line sufficient to support the business. The Company generally requires its subcontractors to indemnify the Company and the Company's customer and name the Company as an additional insured for activities arising out of the subcontractors' work. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of the Company, to secure the subcontractors' work or as required by the subcontract.

There can be no assurance that our insurance and the additional insurance coverage provided by our subcontractors will fully protect us against a valid claim or loss under the contracts with our customers.

## Unapproved Change Orders and Claims

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$9.6 million at December 31, 2014 and \$13.1 million at June 30, 2014. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, since customers may not pay these amounts until final resolution of related claims, collection of these amounts may extend beyond one year.

## Other

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

## Note 8 – Earnings per Common Share

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

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

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
	(In thousands, except per share data)			
Basic EPS:				
Net income attributable to Matrix Service Company	\$3,286	\$ 10,306	\$9,200	\$ 16,858
Weighted average shares outstanding	26,600	26,245	26,535	26,180
Basic EPS	\$0.12	\$ 0.39	\$0.35	\$ 0.64
Diluted EPS:				
Weighted average shares outstanding – basic	26,600	26,245	26,535	26,180
Dilutive stock options	115	168	131	157
Dilutive nonvested deferred shares	441	471	488	435

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Diluted weighted average shares	27,156	26,884	27,154	26,772
Diluted EPS	\$0.12	\$ 0.38	\$0.34	\$ 0.63

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

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
	(In thousands)			
Nonvested deferred shares	123	4	227	2

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Note 9 – Segment Information

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

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

The Oil Gas & Chemical segment includes our traditional turnaround activities, plant maintenance services and construction in the downstream petroleum industry. Another key offering is industrial cleaning services, which include hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the petrochemical, natural gas, gas processing and compression, and upstream petroleum markets.

The Storage Solutions segment includes new construction of crude and refined products aboveground storage tanks (“ASTs”), as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks, including liquefied natural gas (“LNG”), liquid nitrogen/liquid oxygen (“LIN/LOX”), liquid petroleum (“LPG”) tanks and other specialty vessels, including spheres. We also offer AST products including floating roof seals. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

The Industrial segment includes construction and maintenance work in the iron and steel and mining and minerals industries, bulk material handling and fertilizer production facilities, as well as work for clients in other industrial markets.

The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies footnote included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2014. Intersegment sales and transfers are recorded at cost; therefore, no intercompany profit or loss recognized.

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

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(unaudited)Results of Operations  
(In thousands)

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
Gross revenues				
Electrical Infrastructure	\$ 58,533	\$ 37,180	\$ 114,206	\$ 70,057
Oil Gas & Chemical	76,419	62,121	130,618	124,913
Storage Solutions	129,987	180,655	263,337	289,201
Industrial	79,972	31,130	159,332	53,821
Total gross revenues	\$ 344,911	\$ 311,086	\$ 667,493	\$ 537,992
Less: Inter-segment revenues				
Electrical Infrastructure	\$ —	\$ —	\$ —	\$ —
Oil Gas & Chemical	962	10	1,802	307
Storage Solutions	182	78	241	470
Industrial	887	—	887	—
Total inter-segment revenues	\$ 2,031	\$ 88	\$ 2,930	\$ 777
Consolidated revenues				
Electrical Infrastructure	\$ 58,533	\$ 37,180	\$ 114,206	\$ 70,057
Oil Gas & Chemical	75,457	62,111	128,816	124,606
Storage Solutions	129,805	180,577	263,096	288,731
Industrial	79,085	31,130	158,445	53,821
Total consolidated revenues	\$ 342,880	\$ 310,998	\$ 664,563	\$ 537,215
Gross profit (loss)				
Electrical Infrastructure	\$ (16,058 )	\$ 3,854	\$ (16,547 )	\$ 7,184
Oil Gas & Chemical	7,352	6,686	11,738	14,217
Storage Solutions	14,231	19,788	28,749	32,625
Industrial	10,430	3,822	20,394	5,600
Total gross profit	\$ 15,955	\$ 34,150	\$ 44,334	\$ 59,626
Operating income (loss)				
Electrical Infrastructure	\$ (18,522 )	\$ 860	\$ (22,178 )	\$ 2,160
Oil Gas & Chemical	2,682	2,407	3,260	5,670
Storage Solutions	6,627	10,760	13,730	16,592
Industrial	5,542	790	10,064	1,157
Total operating income	\$ (3,671 )	\$ 14,817	\$ 4,876	\$ 25,579

Total assets by segment were as follows:

	December 31,	June 30,
	2014	2014
Electrical Infrastructure	\$ 113,071	\$ 120,264
Oil Gas & Chemical	79,843	72,406
Storage Solutions	200,391	200,493
Industrial	99,084	105,049
Unallocated assets	73,693	70,720
Total segment assets	\$ 566,082	\$ 568,932



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

### CRITICAL ACCOUNTING ESTIMATES

There have been no material changes in our critical accounting policies from those reported in our fiscal 2014 Annual Report on Form 10-K filed with the SEC. For more information on our critical accounting policies, see Part II, Item 7 of our fiscal 2014 Annual Report on Form 10-K. The following section provides certain information with respect to our critical accounting estimates as of the close of our most recent quarterly period.

#### Goodwill

The Company has five significant reporting units with goodwill representing 59%, 12%, 8%, 8% and 6% of the total goodwill balance. Our most recent annual goodwill impairment test, performed in the fourth quarter of fiscal 2014, indicated that the fair value of these reporting units exceeded their respective carrying values by 94%, 182%, 124%, 165% and 193%, respectively. The remaining 6% of total goodwill is spread between two other reporting units. Based on the excess of estimated fair value over carrying value and the absence of any indicators of impairment at December 31, 2014, the Company does not currently anticipate recording a goodwill impairment charge for any of its operating units.

#### Other Intangible Assets

Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives ranging from 1.5 to 15 years. Intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment. Annually, we evaluate the remaining useful lives of intangible assets not being amortized to determine whether facts and circumstances continue to support an indefinite useful life and review both amortizing and non-amortizing intangible assets for impairment indicators. Based on these reviews, effective December 31, 2014 the Company redesignated a trade name with a value of \$1.4 million from an indefinite lived to a definite lived intangible asset and assigned a useful life of three years. The change in designation was an impairment indicator. The Company conducted an impairment analysis and concluded that no impairment existed. Excluding the redesignated trade name discussed above, the Company determined that no other impairment indicators existed at December 31, 2014.

#### Unapproved Change Orders and Claims

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$9.6 million at December 31, 2014 and \$13.1 million at June 30, 2014. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings.

#### Insurance Reserves

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, self-insured retentions and coverage limits. We establish reserves for claims using a combination of actuarially determined estimates and management judgment on a case-by-case basis and update our evaluations as further information becomes known. Judgments and assumptions, including the assumed losses for claims incurred but not reported, 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 gains and losses that could be significant.

#### Recently Issued Accounting Standards

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

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." 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." In applying the revenue model to contracts within its scope, an entity:

- Identifies the contract(s) with a customer (step 1).
- Identifies the performance obligations in the contract (step 2).



- Determines the transaction price (step 3).

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- Allocates the transaction price to the performance obligations in the contract (step 4).
- Recognizes revenue when (or as) the entity satisfies a performance obligation (step 5).

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"). For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. We expect to adopt this standard in fiscal 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2014-08 (Topics 205 and 360), Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

On April 10, 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The FASB issued the ASU to provide additional information and to make it more difficult for a disposal transaction to qualify as a discontinued operation (since the FASB believes that too many disposal transactions were qualifying as discontinued operations under the old definition). Under the previous guidance in ASC 205-20-45-1, the results of operations of a component of an entity were classified as a discontinued operation if all of the following conditions were met:

- "The component "has been disposed of or is classified as held for sale."
- "The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction."
- "The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction."

The new guidance eliminates the second and third criteria above and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale. The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The Company adopted this standard as of January 1, 2015. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2014-15 (Subtopic 205-40)—Presentation of Financial Statements—Going Concern : Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statement. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The FASB believes that requiring management to perform the assessment will enhance the timeliness, clarity, and consistency of related disclosures and improve convergence with international financial reporting standards ("IFRSs") (which emphasize management's responsibility for performing the going-concern assessment). However, the time horizon for the assessment (look-forward period) and the disclosure thresholds under U.S. GAAP and IFRSs will continue to differ. The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. We expect to adopt this standard in fiscal 2017.

## RESULTS OF OPERATIONS

Overview

We operate our business through the following four segments:

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

The Oil Gas & Chemical segment includes our traditional turnaround activities, plant maintenance services and construction in the downstream petroleum industry. Another key offering is industrial cleaning services, which include hydroblasting,

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hydroexcavating, chemical cleaning and vacuum services. We also perform work in the petrochemical, natural gas, gas processing and compression, and upstream petroleum markets.

The Storage Solutions segment includes new construction of crude and refined products ASTs, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including LNG, LIN/LOX, LPG tanks and other specialty vessels including spheres. We also offer AST products including floating roof seals. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

The Industrial segment includes construction and maintenance work in the iron and steel and mining and minerals industries, bulk material handling and fertilizer production facilities, as well as work for clients in other industrial markets.

Three Months Ended December 31, 2014 Compared to the Three Months Ended December 31, 2013

Consolidated

Consolidated revenues were \$342.9 million for the three months ended December 31, 2014, an increase of \$31.9 million, or 10.3%, from consolidated revenues of \$311.0 million in the same period in the prior fiscal year. As discussed in Note 2 - Acquisitions, the Company acquired Kvaerner North American Construction, which we refer to as Matrix NAC, late in the second quarter of fiscal 2014. Therefore, the impact to fiscal 2014 revenue was not significant. The revenue increase is primarily attributable to the inclusion of a full quarter of Matrix NAC revenue in fiscal 2015. On a segment basis, consolidated revenues increased in the Industrial, Electrical Infrastructure and Oil Gas & Chemical segments by \$48.0 million, \$21.3 million and \$13.4 million respectively, partially offset by a decrease in the Storage Solutions segment of \$50.8 million.

Consolidated gross profit was \$16.0 million in the three months ended December 31, 2014 compared to \$34.2 million in the three months ended December 31, 2013. Fiscal 2015 gross margins were reduced 6.7% to 4.7% due to an acquired EPC joint venture project charge of \$22.9 million, as described in Note 3 - Uncompleted Contracts. Fiscal 2014 gross margins were 11.0%.

Consolidated SG&A expenses were \$19.6 million in the three months ended December 31, 2014 compared to \$19.3 million in the same period a year earlier. SG&A expense as a percentage of revenue decreased to 5.7% in the three months ended December 31, 2014 compared to 6.2% for the three months ended December 31, 2013.

Interest expense was \$0.3 million in the three months ended December 31, 2014, and \$0.4 million in the three months ended December 31, 2013. Fiscal 2015 results include \$0.3 million of interest income attributable to an award received due to the settlement of a customer dispute.

The Company consolidates the joint venture described in Note 2 - Acquisitions, and reports a noncontrolling interest. Accordingly, the Company's operating income includes the noncontrolling interest holder's share of the acquired EPC project loss for which the Company does not receive a tax benefit.

The table below reflects the Company's effective tax rate exclusive of the noncontrolling interest for the three months ended December 31, 2014 and December 31, 2013:

	Three Months Ended	
	December 31, 2014	December 31, 2013
	(In thousands)	
Income (loss) before income tax expense	\$(3,691	) \$14,406
Less: Loss attributable to the noncontrolling interest	8,132	—

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Pretax income attributable to Matrix Service Company	\$4,441	\$14,406		
Provision for federal, state and foreign income taxes	\$1,155	\$4,095		
Effective tax rate exclusive of noncontrolling interest	26.0	% 28.4		%

The fiscal 2015 effective tax rate includes an additional tax benefit of \$0.8 million from the reinstatement of the R&D tax credit through calendar year 2014. For the three months ended December 31, 2013, the Company received a tax benefit of \$1.7 million as the result of an increase in the estimated R&D tax credit.

For the three months ended December 31, 2014, net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$3.3 million and \$0.12 compared to \$10.3 million and \$0.38 in the same period a year earlier.

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### Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased \$21.3 million to \$58.5 million in the three months ended December 31, 2014 compared to \$37.2 million in the same period a year earlier. The increased revenue volume in the three months ended December 31, 2014 was due to the inclusion of a full quarter of Matrix NAC activity and favorable volumes in our legacy transmission and distribution business. The acquired EPC joint venture project charge reduced gross margins by 39.3% to (27.4%) in the three months ended December 31, 2014. Gross margins were 10.4% in the same period a year earlier. The acquired EPC joint venture project is a loss project which requires recognition of the entire estimated loss. Therefore, all future revenues associated with this project will be recognized with zero margin that will negatively impact margins in this segment until project completion, which is expected to occur in late fiscal 2015.

### Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment increased to \$75.5 million in the three months ended December 31, 2014 compared to \$62.1 million in the same period a year earlier. The increase of \$13.4 million, or 21.6%, was primarily due to higher levels of maintenance and routine capital work. Gross margins decreased to 9.7% in fiscal 2015 from 10.8% in the three months ended December 31, 2013. Project execution remained strong in the second quarter of fiscal 2015. Although improved from the first quarter, the under recovery of construction overhead costs continued to negatively impact margins in this segment. We expect higher margins in this segment for the remainder of fiscal 2015 as work volumes increase leading to a more efficient utilization of construction overhead costs.

### Storage Solutions

Revenues for the Storage Solutions segment decreased to \$129.8 million in the three months ended December 31, 2014 compared to \$180.6 million in the same period a year earlier. The revenue attributable to aboveground storage tank work is consistent with prior year volumes. The decline is primarily due to a significant spike in terminal balance of plant work in the prior period. Gross margins were 11.0% for fiscal 2015 and fiscal 2014. The prior year gross margins were reduced by 2.6% due to a project charge of \$4.4 million.

### Industrial

Revenues for the Industrial segment increased to \$79.1 million in the three months ended December 31, 2014 compared to \$31.1 million in the same period a year earlier. The increase of \$48.0 million was primarily due to the inclusion of a full quarter of Matrix NAC activity. Gross margins were 13.2% in the three months ended December 31, 2014 compared to 12.3% in the same period a year earlier. Fiscal 2015 gross margins were positively impacted by a favorable settlement with a customer.

### Six Months Ended December 31, 2014 Compared to the Six Months Ended December 31, 2013 Consolidated

Consolidated revenues were \$664.6 million for the six months ended December 31, 2014, an increase of \$127.4 million, or 23.7%, from consolidated revenues of \$537.2 million in the same period in the prior fiscal year. As discussed in Note 2 - Acquisitions, the Company acquired Kvaerner North American Construction, which we refer to as Matrix NAC, late in the second quarter of fiscal 2014. Therefore, the impact to fiscal 2014 revenue was not significant. The revenue increase is primarily attributable to the inclusion of six months of Matrix NAC revenue in fiscal 2015. On a segment basis, consolidated revenues increased in the Industrial, Electrical Infrastructure and Oil Gas & Chemical segments by \$104.7 million, \$44.1 million and \$4.2 million respectively, partially offset by a

decrease in the Storage Solutions segment of \$25.6 million.

Consolidated gross profit was \$44.3 million in the six months ended December 31, 2014 compared to \$59.6 million in the six months ended December 31, 2013. Fiscal 2015 gross margins were reduced by 4.4% to 6.7% related to an acquired EPC joint venture project charge of \$26.2 million. Fiscal 2014 gross margins were 11.1%.

Consolidated SG&A expenses were \$39.5 million in the six months ended December 31, 2014 compared to \$34.0 million in the same period a year earlier. The increase of \$5.5 million, or 16.2%, is primarily attributable to increased business volumes. SG&A expense as a percentage of revenue was 5.9% in the six months ended December 31, 2014 compared to 6.3% in the same period a year earlier.

Interest expense was \$0.7 million in the six months ended December 31, 2014, and \$0.6 million in the six months ended December 31, 2013. Fiscal 2015 results include \$0.3 million of interest income attributable to an award received due to the settlement of a customer dispute.

The Company consolidates the joint venture described in Note 2 - Acquisitions, and reports a noncontrolling interest. Accordingly, the Company's operating income includes the noncontrolling interest holder's share of the acquired EPC project loss for which the Company does not receive a tax benefit.

The table below reflects the Company's effective tax rate exclusive of the noncontrolling interest for the six months ended December 31, 2014 and December 31, 2013:

	Six Months Ended	
	December 31, 2014	December 31, 2013
	(In thousands)	
Income before income tax expense	\$4,603	\$24,862
Less: Loss attributable to the noncontrolling interest	9,376	—
Pretax income attributable to Matrix Service Company	\$13,979	\$24,862
Provision for federal, state and foreign income taxes	\$4,779	\$7,999
Effective tax rate exclusive of noncontrolling interest	34.2	% 32.2 %

The fiscal 2015 effective tax rate includes an additional tax benefit of \$0.8 million from the reinstatement of the R&D tax credit through calendar year 2014. For the six months ended December 31, 2013, the Company received a tax benefit of \$1.7 million as the result of an increase in the estimated R&D tax credit.

For the six months ended December 31, 2014, net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$9.2 million and \$0.34 compared to \$16.9 million and \$0.63 in the same period a year earlier.

#### Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased \$44.1 million to \$114.2 million in the six months ended December 31, 2014 compared to \$70.1 million in the same period a year earlier. The increased revenue volume in the six months ended December 31, 2014 was primarily due to the inclusion of Matrix NAC activity and favorable volumes in our legacy transmission and distribution business. The acquired EPC joint venture project charge reduced gross margins by 25.1% to (14.5%) in the six months ended December 31, 2014. Gross margins were 10.3% in the same period a year earlier. The acquired EPC joint venture project is a loss project which requires recognition of the entire estimated loss. Therefore, all future revenues associated with this project will be recognized with zero margin that will negatively impact margins in this segment until project completion, which is expected to occur in late fiscal 2015.

#### Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment increased to \$128.8 million in the six months ended December 31, 2014 compared to \$124.6 million in the same period a year earlier. The increase of \$4.2 million was primarily due to higher levels of maintenance and routine capital work. Gross margins were 9.1% in the six months ended December 31, 2014 compared to 11.4% a year earlier. Project execution remained strong in fiscal 2015. Although the recovery of overhead improved in the second quarter, year to date results were negatively affected by under recovered construction overhead costs. We expect higher margins in this segment for the remainder of fiscal 2015 as work



volumes increase leading to a more efficient utilization of construction overhead costs.

#### Storage Solutions

Revenues for the Storage Solutions segment decreased to \$263.1 million in the six months ended December 31, 2014 compared to \$288.7 million in the same period a year earlier. The decline is primarily due to a significant spike in terminal balance of plant work in the prior period, partially offset by higher revenue attributable to aboveground storage tank work in the current

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period, which has increased across the business. Fiscal 2015 gross margins were 10.9% compared to 11.3% in the same period in the prior year. The fiscal 2014 gross margins were reduced by 1.7% to 11.3% due to a project charge of \$4.0 million.

#### Industrial

Revenues for the Industrial segment increased to \$158.5 million in the six months ended December 31, 2014 compared to \$53.8 million in the same period a year earlier. The increase of \$104.7 million was primarily due to the inclusion of Matrix NAC activity for the full six-month period. Gross margins were 12.9% in the six months ended December 31, 2014 compared to 10.4% in the same period a year earlier. The gross margins were higher than expected and primarily due to profit recognized on favorable project completions and a favorable settlement with a customer.

#### Backlog

We define backlog as the total dollar amount of revenues that we expect to recognize as a result of performing work that has been awarded to us through a signed contract, notice to proceed or other type of assurance that we consider firm. The following arrangements are considered firm:

fixed-price awards;

minimum customer commitments on cost plus arrangements; and

certain time and material arrangements in which the estimated value is firm or can be estimated with a reasonable amount of certainty in both timing and amounts.

For long-term maintenance contracts and other established customer arrangements, we include only the amounts that we expect to recognize into revenue over the next 12 months. For all other arrangements, we calculate backlog as the estimated contract amount less revenues recognized as of the reporting date.

The following table provides a summary of changes in our backlog for the three months ended December 31, 2014:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of September 30, 2014	\$ 150,023	\$ 145,499	\$ 538,038	\$ 151,100	\$ 984,660
Project awards	32,668	77,665	38,644	48,214	197,191
Revenue recognized	(58,533 )	(75,457 )	(129,805 )	(79,085 )	(342,880 )
Backlog as of December 31, 2014	\$ 124,158	\$ 147,707	\$ 446,877	\$ 120,229	\$ 838,971

The following table provides a summary of changes in our backlog for the six months ended December 31, 2014:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of June 30, 2014	\$162,136	\$110,217	\$482,631	\$160,842	915,826
Project awards	76,228	166,306	227,342	117,832	587,708
Revenue recognized	(114,206 )	(128,816 )	(263,096 )	(158,445 )	(664,563 )
Backlog as of December 31, 2014	\$124,158	\$147,707	\$446,877	\$120,229	\$838,971

Project awards in all segments are cyclical and are typically the result of a sales process that can take several months to complete. Backlog in the Storage Solutions and Electrical Infrastructure segments typically have the greatest volatility because the project awards can be less frequent and more significant. The second quarter project awards in all segments were generally in line with the Company's expectations. In particular, the Company saw no unusual project award delays or cancellations that were the result of the recent decline in crude oil prices.

#### Backlog Subsequent Event

In January of 2015, the Company received a project award of approximately \$450.0 million. The award is for the construction of a combined cycle power generation station in Canada. The project award will be recorded as an increase to the Electrical Infrastructure segment backlog in the third quarter of fiscal 2015.

#### Impact of Crude Oil Prices

The effect of declining crude prices on our results for the three and six months ended December 31, 2014 was not significant, and there has been no reduction to our backlog as a result of project cancellations. In addition, we expect that any future impact to the Electrical Infrastructure and Industrial segments will be minimal as these segments have limited exposure to the price of crude.

In our Storage Solutions segment, our customers continue to take a long-term view of the crude market but are becoming more cautious short-term. If the prices continue at current levels or decline further into fiscal 2016, we would expect to see some reduction in customer spending. Although we do not expect the impact to future earnings to be significant, we cannot predict the direction of crude oil prices or our customers' ultimate reaction to the market. In the mid and downstream portions of the Oil Gas & Chemical segment we expect minimal impact to our revenue volume attributable to maintenance work. However, since some of our customers are integrated oil companies with exposure to the price of crude, if the prices continue at current levels or decline further into fiscal 2016, spending levels may be reduced. Our exposure to upstream clients in the Oil Gas & Chemical segment, who have direct exposure to the price of crude, is limited to the operations from our recent acquisition of substantially all of the assets of HDB Ltd. Limited Partnership which conducts most of its business with upstream exploration companies. Although we expect this customer base to reduce spending, our exposure to upstream clients is not currently significant.

#### Non-GAAP Financial Measure

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

It does not include interest expense. Because we have borrowed money to finance our operations, pay commitment fees to maintain our credit facility, and incur fees to issue letters of credit under the credit facility, interest expense is a

necessary and ongoing part of our costs and has assisted us in generating revenue. Therefore, any measure that excludes interest expense has material limitations.

It does not include income taxes. Because the payment of income taxes is a necessary and ongoing part of our operations, any measure that excludes income taxes has material limitations.

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It does not include depreciation or amortization expense. Because we use capital and intangible assets to generate revenue, depreciation and amortization expense is a necessary element of our cost structure. Therefore, any measure that excludes depreciation or amortization expense has material limitations.

A reconciliation of EBITDA to net income follows:

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
	(In thousands)			
Net income attributable to Matrix Service Company	3,286	10,306	9,200	16,858
Interest expense	300	351	652	574
Provision for income taxes	1,155	4,095	4,779	7,999
Depreciation and amortization	5,769	3,831	11,540	7,551
EBITDA	\$10,510	\$18,583	\$26,171	\$32,982

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity for the six months ended December 31, 2014 were cash on hand at the beginning of the fiscal year, capacity under our senior revolving credit facility and cash generated from operations. Cash on hand at December 31, 2014 totaled \$68.6 million and availability under the senior revolving credit facility totaled \$145.9 million resulting in available liquidity of \$214.4 million.

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

- Changes in costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs due to contract terms that determine the timing of billings to customers and the collection of those billings

- Some cost plus and fixed price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collections from our customers.

- Time and material contracts are normally billed in arrears. Therefore, we are routinely required to carry these costs until they can be billed and collected.

- Some of our large construction projects may require significant retentions or security in the form of letters of credit.

- Other changes in working capital

- Capital expenditures

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

- Acquisitions of new businesses

- Strategic investments in new operations

- Purchases of shares under our stock buyback program

Contract disputes or collection issues

Capacity constraints under our senior revolving credit facility and remaining in compliance with all covenants contained in the credit agreement

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The HDB acquisition discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q was funded with cash on hand. The Company believes that the remaining availability under our credit facility, as discussed under the caption "Senior Revolving Credit Facility" included in this Financial Condition and Liquidity section of the Form 10-Q, along with cash on hand and cash generated from operations will provide sufficient liquidity to achieve both our short and long-term business objectives.

Cash Flow for the Six Months Ended December 31, 2014

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities for the six months ended December 31, 2014 totaled \$5.4 million. The various components of cash flows from operating activities are as follows:

Net Cash Provided by Operating Activities

(In thousands)

Net income (loss)	\$(176	)
Non-cash expenses	13,308	
Deferred income tax	1,011	
Cash effect of changes in operating assets and liabilities	(8,883	)
Other	118	
Net cash provided by operating activities	\$5,378	

The cash effect of significant changes in operating assets and liabilities net of the effects from acquisitions include the following:

The change in accounts receivable caused a decrease in cash of \$9.2 million. The negative variance is primarily due to the timing of project billings and collections.

The net change in the combined balance of costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings caused an increase to cash of \$22.6 million at December 31, 2014. The favorable variance is attributable to a decrease in costs and estimated earnings in excess of billings of \$3.4 million and a \$19.2 million increase in billings on uncompleted contracts in excess of costs and estimated earnings both of which were driven by project billings milestones and collections.

The change in accounts payable resulted in a decrease to cash of \$19.4 million. The unfavorable variance is primarily due to the timing of vendor payments.

The net change in accrued wages and benefits and other accrued expenses resulted in a decrease to cash of \$6.4 million. The unfavorable variance is primarily attributable to the payment of short term incentives accrued at June 30, 2014 but paid out during the first quarter of the current fiscal year and the remaining accrued project charge from our joint venture as described in Note 3.

Cash Flows Used for Investing Activities

Investing activities used \$13.0 million of cash in the first six months of fiscal 2015 primarily due to the purchase of HDB in the amount of \$5.6 million and capital expenditures of \$7.7 million. The HDB acquisition is discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q. Capital expenditures consisted primarily of \$2.4 million for the purchase of construction equipment, \$1.8 million for transportation and fabrication equipment, \$3.1 million for office equipment, \$0.2 million for land and buildings, and \$0.2 million for small tools.

Cash Flows Provided by Financing Activities

Financing activities used less than \$0.1 million of cash in the first six months of fiscal 2015 primarily due to net borrowings of \$0.2 million under our credit facility and treasury share purchases of \$2.4 million, partially offset with \$0.4 million of cash received for issuance of stock options and \$0.1 million in cash received from employees participating in the Company's employee stock purchase program. The excess tax benefit of exercised stock options and vesting of deferred shares provided

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\$1.7 million of cash. Cash borrowings and repayments for the first six months of fiscal 2015 were \$9.3 million and \$9.1 million, respectively. Cash borrowings were used for Canadian dollar advances to fund our existing Canadian operations including amounts to settle intercompany cross currency billings and other borrowings to finance our short-term working capital requirements.

#### Senior Revolving Credit Facility

As noted previously in Note 5 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, the Company has a five-year \$200.0 million senior secured revolving credit facility under a credit agreement (the "Credit Agreement") that expires March 13, 2019.

The Credit Agreement includes the following covenants and borrowing limitations:

- Our Senior Leverage Ratio, as defined in the agreement, may not exceed 2.50 to 1.00, determined as of the end of each fiscal quarter.

- We are required to maintain a Fixed Charge Coverage Ratio, as defined in the agreement, greater than or equal to 1.25 to 1.00, determined as of the end of each fiscal quarter.

- Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to \$20.0 million per 12-month period.

Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The additional margin on Alternate Base Rate and LIBOR-based loans ranges between 0.25% and 1.0% and between 1.25% and 2.0%, respectively.

The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. \$40.0 million. Amounts borrowed in Canadian dollars will bear interest either at the CDOR Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.25% to 2.0%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.75% to 2.5%. The CDOR Rate is equal to the sum of the annual rate of interest, which is the rate determined as being the arithmetic average of the quotations of all institutions listed in respect of the relevant CDOR interest period for Canadian Dollar denominated bankers' acceptances, plus 0.1%. The Canadian Prime Rate is equal to the greater of (i) the rate of interest per annum most recently announced or established by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect on such day for determining interest rates for Canadian Dollar denominated commercial loans in Canada and (ii) the CDOR Rate plus 1.0%.

The Unused Credit Facility Fee is between 0.20% and 0.35% based on the Senior Leverage Ratio.

The Credit Agreement includes a Senior Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended December 31, 2014, Consolidated EBITDA, as defined in the Credit Agreement, was \$75.3 million. Accordingly, at December 31, 2014, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at December 31, 2014 was \$34.2 million.

Availability under the senior credit facility at December 31, 2014 and June 30, 2014 was as follows:

	December 31, 2014	June 30, 2014
	(In thousands)	
Senior credit facility	\$200,000	\$200,000
Capacity constraint due to the Senior Leverage Ratio	11,818	—
Capacity under the credit facility	188,182	200,000
Borrowings outstanding	11,789	11,621
Letters of credit	30,526	23,017
Availability under the senior credit facility	\$145,867	\$165,362

Outstanding borrowings at December 31, 2014 included Canadian dollar advances to fund our existing Canadian operations including amounts to settle intercompany cross currency billings and other borrowings to finance our short-term working capital requirements.

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



#### Dividend Policy

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

#### Stock Repurchase Program and Treasury Shares

##### Treasury Shares

On November 4, 2014 the Board of Directors approved a stock buyback program that replaced the program that had been in place since November 2012. The new program, which expires on December 31, 2016, allows the Company to purchase up to \$25.0 million of common stock annually if sufficient liquidity exists and management believes the purchase would be accretive to the Company's stockholders. The annual share limitation is applied on a calendar year basis. The cumulative number of shares repurchased cannot exceed 2,653,399, which represents 10% of the shares outstanding on the date the new repurchase program was approved.

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 100,694 shares in the first six months of fiscal 2015 to satisfy these obligations. These shares were returned to the Company's pool of treasury shares.

The Company has 1,193,039 treasury shares as of December 31, 2014 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.

#### FORWARD-LOOKING STATEMENTS

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

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

- amounts and nature of future revenues and margins from each of our segments;
- our ability to generate sufficient cash from operations or to raise cash in order to meet our short and long-term capital requirements;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- expansion and other trends of the industries we serve;
- our expectations with respect to the likelihood of a future impairment; and
- our ability to comply with the covenants in our credit agreement.

These statements are based on certain assumptions and analyses we made in light of our experience and our historical trends, current conditions and expected future developments as well as other factors we believe are appropriate. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including:

the risk factors discussed in our Form 10-K for the fiscal year ended June 30, 2014 and listed from time to time in our filings with the Securities and Exchange Commission;

the inherently uncertain outcome of current and future litigation;

the adequacy of our reserves for contingencies;

• economic, market or business conditions in general and in the oil, gas, power and mining and minerals industries in particular;

• changes in laws or regulations; and

• other factors, many of which are beyond our control.

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2014 Annual Report on Form 10-K.

Item 4. Controls and Procedures

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

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at December 31, 2014.

We completed the acquisition of Matrix NAC effective December 21, 2013. We are in the process of assessing and, to the extent necessary, making changes to the internal control over financial reporting of Matrix NAC to conform such internal control to that used on our other operations. However, we are not yet required to evaluate, and have not yet fully evaluated, changes in Matrix NAC's internal control over financial reporting. Subject to the foregoing, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended December 31, 2014.

## PART II

## OTHER INFORMATION

## Item 1. Legal Proceedings

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

## Item 1A. Risk Factors

There were no material changes in our Risk Factors from those reported in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

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

## Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by the Company of its common stock during the second quarter of fiscal year 2015.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (C)
October 1 to October 31, 2014				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	6,325	\$24.09	—	
November 1 to November 30, 2014				
Share Repurchase Program (A)	—	—	—	2,653,399
Employee Transactions (B)	41,776	\$27.42	—	
December 1 to December 31, 2014				
Share Repurchase Program (A)	—	—	—	2,653,399
Employee Transactions (B)	19,289	\$20.66	—	

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

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

(C) On November 4, 2014 the Board of Directors approved a stock buyback program that replaces the program that had been in place since November 2012. The new program, which expires on December 31, 2016, allows the Company to purchase up to \$25.0 million annually of common stock if sufficient liquidity exist and management believes the shares purchase would be accretive to the Company's stockholders. The annual share limitation is applied on a calendar year basis. The shares included in this column represent the maximum number of shares that were available to be purchased under the November 2012 plan, which was in effect for month ended October 2014, and the plan that was approved on November 4, 2014, which was in effect for the months ended November and December 2014.

## 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 dividends on our capital stock during any fiscal year up to an amount which, when added to all other dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to such date. While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.





Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

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

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

Item 5. Other Information

None

Item 6. Exhibits:

- Exhibit 10.1           Amendment Number 1 to Matrix Service Company 2012 Stock and Incentive Compensation Plan (filed as Exhibit A to the Company's Proxy Statement for Annual Meeting of Stockholders dated October 10, 2014, and incorporated by reference herein).
- Exhibit 31.1:       Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
- Exhibit 31.2:       Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
- Exhibit 32.1:       Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
- Exhibit 32.2:       Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
- Exhibit 95:         Mine Safety Disclosure.
- Exhibit 101.INS:    XBRL Instance Document.
- Exhibit 101.SCH:    XBRL Taxonomy Schema Document.
- Exhibit 101.CAL:    XBRL Taxonomy Extension Calculation Linkbase Document.
- Exhibit 101.DEF:    XBRL Taxonomy Extension Definition Linkbase Document.
- Exhibit 101.LAB:    XBRL Taxonomy Extension Labels Linkbase Document.
- Exhibit 101.PRE:    XBRL Taxonomy Extension Presentation Linkbase Document.

Signature

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

MATRIX SERVICE COMPANY

Date: February 6, 2015

By: /s/ Kevin S. Cavanah  
Kevin S. Cavanah Vice President and Chief Financial Officer  
signing on behalf of the registrant and as the registrant's principal  
financial officer



EXHIBIT INDEX

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