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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2015

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

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**MATRIX SERVICE COMPANY**

(Exact name of registrant as specified in its charter)

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**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)

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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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="checkbox"/>

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 April 30, 2015 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,719,203 shares outstanding.

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## TABLE OF CONTENTS

	PAGE	
<b><u>PART I</u></b>		
	<b>FINANCIAL INFORMATION</b>	
Item 1.	<a href="#"><u>Financial Statements (Unaudited)</u></a>	
	<a href="#"><u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended March 31, 2015 and 2014</u></a>	<a href="#"><u>1</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended March 31, 2015 and 2014</u></a>	<a href="#"><u>2</u></a>
	<a href="#"><u>Condensed Consolidated Balance Sheets as of March 31, 2015 and June 30, 2014</u></a>	<a href="#"><u>3</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2015 and 2014</u></a>	<a href="#"><u>5</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended March 31, 2015 and 2014</u></a>	<a href="#"><u>7</u></a>
	<a href="#"><u>Notes to Condensed Consolidated Financial Statements</u></a>	<a href="#"><u>8</u></a>
Item 2.	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>19</u></a>
Item 3.	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>32</u></a>
Item 4.	<a href="#"><u>Controls and Procedures</u></a>	<a href="#"><u>32</u></a>
<b><u>PART II</u></b>		
	<b>OTHER INFORMATION</b>	
Item 1.	<a href="#"><u>Legal Proceedings</u></a>	<a href="#"><u>33</u></a>
Item 1A.	<a href="#"><u>Risk Factors</u></a>	<a href="#"><u>33</u></a>
Item 2.	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	<a href="#"><u>33</u></a>
Item 3.	<a href="#"><u>Defaults Upon Senior Securities</u></a>	<a href="#"><u>34</u></a>
Item 4.	<a href="#"><u>Mine Safety Disclosures</u></a>	<a href="#"><u>34</u></a>
Item 5.	<a href="#"><u>Other Information</u></a>	<a href="#"><u>34</u></a>
Item 6.	<a href="#"><u>Exhibits</u></a>	<a href="#"><u>34</u></a>
	<a href="#"><u>Signature</u></a>	<a href="#"><u>34</u></a>

**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		Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Revenues	\$ 314,155	\$ 381,516	\$ 978,718	\$ 918,731
Cost of revenues	311,523	341,572	931,752	819,161
Gross profit	2,632	39,944	46,966	99,570
Selling, general and administrative expenses	17,080	21,125	56,538	55,172
Operating income (loss)	(14,448)	18,819	(9,572)	44,398
Other income (expense):				
Interest expense	(294)	(324)	(946)	(898)
Interest income	40	44	390	57
Other	252	9	281	(147)
Income (loss) before income tax expense	(14,450)	18,548	(9,847)	43,410
Provision for federal, state and foreign income taxes	(1,508)	6,756	3,271	14,755
Net income (loss)	(12,942)	11,792	(13,118)	28,655
Less: Net income (loss) attributable to noncontrolling interest	(9,983)	396	(19,359)	401
Net income (loss) attributable to Matrix Service Company	<u>\$ (2,959)</u>	<u>\$ 11,396</u>	<u>\$ 6,241</u>	<u>\$ 28,254</u>
Basic earnings (loss) per common share	\$ (0.11)	\$ 0.43	\$ 0.23	\$ 1.08
Diluted earnings (loss) per common share	\$ (0.11)	\$ 0.42	\$ 0.23	\$ 1.05
Weighted average common shares outstanding:				
Basic	26,711	26,374	26,593	26,244
Diluted	26,711	27,040	27,175	26,898

*See accompanying notes.*

**Matrix Service Company**  
**Condensed Consolidated Statements of Comprehensive Income**

(In thousands)

(unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Net income (loss)	\$ (12,942)	\$ 11,792	\$ (13,118)	\$ 28,655
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2,725)	(1,765)	(5,996)	(1,940)
Comprehensive income (loss)	(15,667)	10,027	(19,114)	26,715
Less: Comprehensive income (loss) attributable to noncontrolling interest	(9,983)	396	(19,359)	401
Comprehensive income (loss) attributable to Matrix Service Company	<u>\$ (5,684)</u>	<u>\$ 9,631</u>	<u>\$ 245</u>	<u>\$ 26,314</u>

*See accompanying notes.*

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

	March 31, 2015	June 30, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 103,183	\$ 77,115
Accounts receivable, less allowances (March 31, 2015— \$492 and June 30, 2014—\$204)	188,579	204,692
Costs and estimated earnings in excess of billings on uncompleted contracts	77,340	73,008
Deferred income taxes	6,705	5,994
Inventories	2,875	3,045
Income taxes receivable	7,326	2,797
Other current assets	6,831	8,897
Total current assets	392,839	375,548
Property, plant and equipment at cost:		
Land and buildings	31,935	31,737
Construction equipment	86,304	82,745
Transportation equipment	46,524	42,087
Office equipment and software	26,968	26,026
Construction in progress	6,266	9,892
	197,997	192,487
Accumulated depreciation	(112,234)	(103,315)
	85,763	89,172
Goodwill	71,377	69,837
Other intangible assets	25,156	28,676
Other assets	3,871	5,699
Total assets	\$ 579,006	\$ 568,932

*See accompanying notes.*

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

	March 31, 2015	June 30, 2014
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 90,478	\$ 111,863
Billings on uncompleted contracts in excess of costs and estimated earnings	139,446	108,440
Accrued wages and benefits	32,067	36,226
Accrued insurance	8,946	8,605
Income taxes payable	1,955	—
Other accrued expenses	14,995	4,727
<b>Total current liabilities</b>	<b>287,887</b>	<b>269,861</b>
Deferred income taxes	5,484	5,167
Borrowings under senior credit facility	9,934	11,621
<b>Total liabilities</b>	<b>303,305</b>	<b>286,649</b>
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 March 31, 2015, and June 30, 2014	279	279
Additional paid-in capital	121,462	119,777
Retained earnings	183,478	177,237
Accumulated other comprehensive loss	(6,178)	(182)
	299,041	297,111
Less: Treasury stock, at cost— 1,173,656 shares as of March 31, 2015, and 1,453,770 shares as of June 30, 2014	(13,550)	(16,595)
<b>Total Matrix Service Company stockholders' equity</b>	<b>285,491</b>	<b>280,516</b>
Noncontrolling interest	(9,790)	1,767
<b>Total stockholders' equity</b>	<b>275,701</b>	<b>282,283</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 579,006</b>	<b>\$ 568,932</b>

*See accompanying notes.*

**Matrix Service Company**  
**Condensed Consolidated Statements of Cash Flows**

(In thousands)

(unaudited)

	Nine Months Ended	
	March 31, 2015	March 31, 2014
<b>Operating activities:</b>		
Net income (loss)	\$ (13,118)	\$ 28,655
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	17,332	12,945
Deferred income tax	(1,026)	(4,501)
Gain on sale of property, plant and equipment	(305)	(39)
Provision for uncollectible accounts	419	(81)
Stock-based compensation expense	4,730	3,905
Excess tax benefit of exercised stock options and vesting of deferred shares	(1,764)	(1,597)
Other	178	150
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:		
Accounts receivable	17,353	(58,955)
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,332)	(10,901)
Inventories	170	(109)
Other assets and liabilities	2,425	7,335
Accounts payable	(23,025)	38,734
Billings on uncompleted contracts in excess of costs and estimated earnings	31,006	(4,684)
Accrued expenses	6,932	9,298
Net cash provided by operating activities	36,975	20,155
<b>Investing activities:</b>		
Acquisition of property, plant and equipment	(11,075)	(17,834)
Acquisition (Note 2)	(5,551)	(51,398)
Proceeds from asset sales	653	327
Net cash used by investing activities	\$ (15,973)	\$ (68,905)

*See accompanying notes.*

**Matrix Service Company**  
**Condensed Consolidated Statements of Cash Flows**

(In thousands)

(unaudited)

	Nine Months Ended	
	March 31, 2015	March 31, 2014
<b>Financing activities:</b>		
Capital contributions from noncontrolling interest	\$ 7,802	\$ —
Issuances of common stock	493	1,076
Excess tax benefit of exercised stock options and vesting of deferred shares	1,764	1,597
Payment of debt amendment fees	—	(507)
Advances under credit agreement	8,289	68,970
Repayments of advances under credit agreement	(9,976)	(23,867)
Proceeds from issuance of common stock under employee stock purchase plan	215	76
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(2,472)	(1,678)
Net cash provided (used) by financing activities	6,115	45,667
Effect of exchange rate changes on cash	(1,049)	(909)
Net increase (decrease) in cash and cash equivalents	26,068	(3,992)
Cash and cash equivalents, beginning of period	77,115	63,750
Cash and cash equivalents, end of period	<u>\$ 103,183</u>	<u>\$ 59,758</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Income taxes	\$ 6,700	\$ 11,445
Interest	\$ 1,019	\$ 579
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	<u>\$ 1,104</u>	<u>\$ 965</u>

*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
Capital contributions from non-controlling interest	—	—	—	—	—	7,802	7,802
Net income (loss)	—	—	6,241	—	—	(19,359)	(13,118)
Other comprehensive loss	—	—	—	—	(5,996)	—	(5,996)
Exercise of stock options (55,200 shares)	—	(275)	—	768	—	—	493
Tax effect of exercised stock options and vesting of deferred shares	—	1,764	—	—	—	—	1,764
Issuance of deferred shares (318,763 shares)	—	(4,628)	—	4,628	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (8,601 shares)	—	94	—	121	—	—	215
Treasury shares purchased to satisfy tax withholding obligations (102,450 shares)	—	—	—	(2,472)	—	—	(2,472)
Stock-based compensation expense	—	4,730	—	—	—	—	4,730
Balances, March 31, 2015	<u>\$ 279</u>	<u>\$ 121,462</u>	<u>\$ 183,478</u>	<u>\$ (13,550)</u>	<u>\$ (6,178)</u>	<u>\$ (9,790)</u>	<u>\$ 275,701</u>
Balances, June 30, 2013	\$ 279	\$ 118,190	\$ 141,427	\$ (21,961)	\$ 227	\$ —	\$ 238,162
Net income	—	—	28,254	—	—	401	28,655
Other comprehensive loss	—	—	—	—	(1,940)	—	(1,940)
Consolidated joint venture included in acquisition (Note 2)	—	—	—	—	—	700	700
Exercise of stock options (121,250 shares)	—	(1,057)	—	2,133	—	—	1,076
Tax effect of exercised stock options and vesting of deferred shares	—	1,597	—	—	—	—	1,597
Issuance of deferred shares (254,720 shares)	—	(4,482)	—	4,482	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (3,726 shares)	—	11	—	65	—	—	76
Treasury shares purchased to satisfy tax withholding obligations (78,868 shares)	—	—	—	(1,678)	—	—	(1,678)
Stock-based compensation expense	—	3,905	—	—	—	—	3,905
Balances, March 31, 2014	<u>\$ 279</u>	<u>\$ 118,164</u>	<u>\$ 169,681</u>	<u>\$ (16,959)</u>	<u>\$ (1,713)</u>	<u>\$ 1,101</u>	<u>\$ 270,553</u>

*See accompanying notes.*

**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.

**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. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU’s disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification (“ASC”).

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. At its April 1, 2015, meeting, the FASB tentatively decided to defer for one year the effective date of the new revenue standard. If the FASB does in fact vote to pass the one year deferral, the Company would adopt this standard in fiscal 2019.

*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, 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 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
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.

### *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.

The unaudited financial information in the table below for the nine months ended March 31, 2014 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 nine months ended March 31, 2014 were adjusted to include incremental amortization and depreciation expense of \$2.1 million and \$1.2 million, respectively.

	<b>Nine Months Ended</b>
	<b>March 31,</b>
	<b>2014</b>
	(In thousands, except per share data)
Revenues	\$ 1,053,348
Net income attributable to Matrix Service Company	\$ 31,230
Basic earnings per common share	\$ 1.19
Diluted earnings per common share	\$ 1.16

**Matrix Service Company**  
**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:

	March 31, 2015	June 30, 2014
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$ 1,689,803	\$ 1,435,242
Billings on uncompleted contracts	1,751,909	1,470,674
	<u>\$ (62,106)</u>	<u>\$ (35,432)</u>
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 77,340	\$ 73,008
Billings on uncompleted contracts in excess of costs and estimated earnings	139,446	108,440
	<u>\$ (62,106)</u>	<u>\$ (35,432)</u>

Progress billings in accounts receivable at March 31, 2015 and June 30, 2014 included retentions to be collected within one year of \$32.1 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 \$2.7 million at March 31, 2015 and \$4.3 million at June 30, 2014.

*Other*

In the three month and nine months ended March 31, 2015, 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 \$28.5 million and \$54.7 million and an after-tax reduction of \$9.7 million and \$18.7 million to net income attributable to Matrix Service Company for the three and nine months ended March 31, 2015, respectively. The charge was a result of labor compression and productivity losses, as well as technical issues that have created continued rework, installation and commissioning complexity, all of which has pushed the completion date beyond the previous forecast. The Company expects the project to be substantially completed by the end of the current fiscal year.

In the nine months ended March 31, 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 \$5.4 million decrease in operating income for the nine months ended March 31, 2014.

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

**Note 4 – Intangible Assets Including Goodwill***Goodwill*

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

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
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	175	—	—	44	219
Acquisition of HDB (2)	—	3,054	—	—	3,054
Translation adjustment (3)	(1,072)	—	(395)	(266)	(1,733)
Net balance at March 31, 2015	<u>\$ 42,346</u>	<u>\$ 13,997</u>	<u>\$ 9,632</u>	<u>\$ 5,402</u>	<u>\$ 71,377</u>

- (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 March 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Intellectual property	6 to 15	\$ 2,460	\$ (1,045)	\$ 1,415
Customer based	1.5 to 15	27,771	(6,091)	21,680
Non-compete agreements	3 to 5	1,354	(730)	624
Trade names	3 to 5	1,615	(178)	1,437
Total amortizing intangible assets		<u>33,200</u>	<u>(8,044)</u>	<u>25,156</u>

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

	Useful Life	At June 30, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(Years)	(In thousands)	
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 March 31, 2015 compared to June 30, 2014 is due primarily 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 \$3.7 million in the nine months ended March 31, 2015 and \$1.7 million in the nine months ended March 31, 2014. We estimate that the remaining amortization expense at March 31, 2015 will be as follows (in thousands):

Period ending:	
Remainder of Fiscal 2015	\$ 1,245
Fiscal 2016	3,326
Fiscal 2017	3,242
Fiscal 2018	2,901
Fiscal 2019	2,534
Fiscal 2020	2,534
Thereafter	9,374
Total estimated remaining amortization expense at March 31, 2015	25,156

#### 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.

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

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 March 31, 2015, Consolidated EBITDA, as defined in the Credit Agreement, was \$53.0 million. Accordingly, at March 31, 2015, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at March 31, 2015 was \$34.5 million.

Availability under the senior credit facility was as follows:

	March 31, 2015	June 30, 2014
	(In thousands)	
Senior credit facility	\$ 200,000	\$ 200,000
Capacity constraint due to the Senior Leverage Ratio	67,528	—
Capacity under the credit facility	132,472	200,000
Borrowings outstanding	9,934	11,621
Letters of credit	32,654	23,017
Availability under the senior credit facility	\$ 89,884	\$ 165,362

Outstanding borrowings at March 31, 2015 under our Credit Agreement were used for Canadian dollar advances required for short term working capital, including cross-border purchases of materials and services.

At March 31, 2015, 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.



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

For the three and nine month periods ending March 31, 2015, the Company's effective tax rates vary significantly from the statutory rates. 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. 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 \$12.8 million at March 31, 2015 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.

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

**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:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>
	(In thousands, except per share data)			
<b>Basic EPS:</b>				
Net income (loss) attributable to Matrix Service Company	\$ (2,959)	\$ 11,396	\$ 6,241	\$ 28,254
Weighted average shares outstanding	26,711	26,374	26,593	26,244
Basic EPS	\$ (0.11)	\$ 0.43	\$ 0.23	\$ 1.08
<b>Diluted EPS:</b>				
Weighted average shares outstanding – basic	26,711	26,374	26,593	26,244
Dilutive stock options	—	187	117	176
Dilutive nonvested deferred shares	—	479	465	478
Diluted weighted average shares	26,711	27,040	27,175	26,898
Diluted EPS	\$ (0.11)	\$ 0.42	\$ 0.23	\$ 1.05

Since the net income attributable to Matrix Service Company was negative, neither the options or nonvested deferred shares are dilutive, accordingly, are excluded from the earnings per share calculations for the three months ended March 31, 2015,

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>
	(In thousands)			
Nonvested deferred shares	268	—	139	15

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

**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 is recognized.

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

**Matrix Service Company**  
**Notes to Condensed Consolidated Financial Statements**  
(Inaudited)

**Results of Operations**  
(In thousands)

	Three Months Ended		Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
<b>Gross revenues</b>				
Electrical Infrastructure	\$ 48,228	\$ 62,144	\$ 162,434	\$ 132,201
Oil Gas & Chemical	97,612	63,112	228,230	188,025
Storage Solutions	107,640	182,129	370,977	471,330
Industrial	64,841	74,577	224,173	128,398
Total gross revenues	<u>\$ 318,321</u>	<u>\$ 381,962</u>	<u>\$ 985,814</u>	<u>\$ 919,954</u>
<b>Less: Inter-segment revenues</b>				
Electrical Infrastructure	\$ —	\$ —	\$ —	\$ —
Oil Gas & Chemical	1,854	118	3,656	425
Storage Solutions	477	328	718	798
Industrial	1,835	—	2,722	—
Total inter-segment revenues	<u>\$ 4,166</u>	<u>\$ 446</u>	<u>\$ 7,096</u>	<u>\$ 1,223</u>
<b>Consolidated revenues</b>				
Electrical Infrastructure	\$ 48,228	\$ 62,144	\$ 162,434	\$ 132,201
Oil Gas & Chemical	95,758	62,994	224,574	187,600
Storage Solutions	107,163	181,801	370,259	470,532
Industrial	63,006	74,577	221,451	128,398
Total consolidated revenues	<u>\$ 314,155</u>	<u>\$ 381,516</u>	<u>\$ 978,718</u>	<u>\$ 918,731</u>
<b>Gross profit (loss)</b>				
Electrical Infrastructure	\$ (22,429)	\$ 5,971	\$ (38,976)	\$ 13,155
Oil Gas & Chemical	7,261	7,397	18,999	21,614
Storage Solutions	11,247	19,269	39,996	51,894
Industrial	6,553	7,307	26,947	12,907
Total gross profit	<u>\$ 2,632</u>	<u>\$ 39,944</u>	<u>\$ 46,966</u>	<u>\$ 99,570</u>
<b>Operating income (loss)</b>				
Electrical Infrastructure	\$ (24,306)	\$ 2,498	\$ (46,484)	\$ 4,658
Oil Gas & Chemical	2,563	3,252	5,823	8,922
Storage Solutions	5,055	10,084	18,785	26,676
Industrial	2,240	2,985	12,304	4,142
Total operating income	<u>\$ (14,448)</u>	<u>\$ 18,819</u>	<u>\$ (9,572)</u>	<u>\$ 44,398</u>

Total assets by segment were as follows:

	March 31, 2015	June 30, 2014
Electrical Infrastructure	\$ 112,685	\$ 120,264
Oil Gas & Chemical	106,346	72,406
Storage Solutions	156,367	200,493
Industrial	109,056	105,049
Unallocated assets	94,552	70,720
Total segment assets	<u>\$ 579,006</u>	<u>\$ 568,932</u>

## 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%, 9%, 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 March 31, 2015, 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 life to a definite life 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 March 31, 2015.

#### *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 \$12.8 million at March 31, 2015 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. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue

standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC").

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. At its April 1, 2015, meeting, the FASB tentatively decided to defer for one year the effective date of the new revenue standard. If the FASB does in fact vote to pass the one year deferral, the Company would adopt this standard in fiscal 2019.

*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, 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 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.

## **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, 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 March 31, 2015 Compared to the Three Months Ended March 31, 2014**

## Consolidated

Consolidated revenue was \$314.2 million for the three months ended March 31, 2015, compared to consolidated revenue of \$381.5 million in the same period in the prior fiscal year. On a segment basis, consolidated revenue decreased in the Storage Solutions, Electrical Infrastructure and Industrial segments by \$74.6 million, \$13.9 million and \$11.6 million, respectively. These reductions were partially offset by an increase in the Oil Gas & Chemical segment of \$32.8 million.

Consolidated gross profit was \$2.6 million in the three months ended March 31, 2015 compared to \$39.9 million in the three months ended March 31, 2014. Fiscal 2015 gross margins were reduced 8.9% to 0.8% related to an acquired EPC joint venture project charge of \$28.5 million, as described in Note 3 - Uncompleted Contracts. Fiscal 2014 gross margins were 10.5%.

Consolidated SG&A expenses were \$17.1 million in the three months ended March 31, 2015 compared to \$21.1 million in the same period a year earlier. The reduction is attributable to lower levels of incentive compensation due to lower profitability. SG&A expense as a percentage of revenue was 5.4% in the three months ended March 31, 2015 compared to 5.5% for the three months ended March 31, 2014.

Net interest expense was \$0.3 million in the three months ended March 31, 2015, and the three months ended March 31, 2014.

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 including the noncontrolling interest for the three months ended March 31, 2015 and March 31, 2014:

	Three Months Ended	
	March 31, 2015	March 31, 2014
	(In thousands)	
Income (loss) before income tax expense	\$ (14,450)	\$ 18,548
Provision for federal, state and foreign income taxes	(1,508)	6,756
Effective tax rate including noncontrolling interest	10.4%	36.4%

The table below reflects the Company's effective tax rate exclusive of the noncontrolling interest for the three months ended March 31, 2015 and March 31, 2014:

	Three Months Ended	
	March 31, 2015	March 31, 2014
	(In thousands)	
Income (loss) before income tax expense	\$ (14,450)	\$ 18,548
Less: Income (loss) attributable to the noncontrolling interest	(9,983)	396
Pretax income (loss) attributable to Matrix Service Company	\$ (4,467)	\$ 18,152
Provision for federal, state and foreign income taxes	\$ (1,508)	\$ 6,756
Effective tax rate exclusive of noncontrolling interest	33.8%	37.2%

The Company received a tax benefit of \$1.1 million and \$1.7 million for fiscal year 2015 and 2014, respectively, as the result of an increase in the estimated R&D tax credit.

For the three months ended March 31, 2015, net loss attributable to Matrix Service Company and the related fully diluted loss per share were \$3.0 million and \$0.11 compared to net income attributable to Matrix Service Company of \$11.4 million and \$0.42 in the same period a year earlier.

## Electrical Infrastructure

Revenue for the Electrical Infrastructure segment decreased \$13.9 million to \$48.2 million in the three months ended March 31, 2015 compared to \$62.1 million in the same period a year earlier. The acquired EPC joint venture project charge reduced gross

margins by 57.7% to (46.5%) and was a significant contributor to the revenue decline in the three months ended March 31, 2015. Gross margins were 9.6% 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 revenue associated with this project will be recognized with zero margin which will negatively impact margins in this segment until project completion, which is expected to occur in late fiscal 2015.

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

Revenue for the Oil Gas & Chemical segment increased to \$95.8 million in the three months ended March 31, 2015 compared to \$63.0 million in the same period a year earlier. The increase of \$32.8 million, or 52.0%, was primarily due to higher levels of maintenance and turnaround work. Gross margins decreased to 7.6% in fiscal 2015 from 11.7% in the three months ended March 31, 2014. The lower margins are primarily attributable to lower than expected profitability on a significant turnaround.

### ***Storage Solutions***

Revenue for the Storage Solutions segment decreased to \$107.2 million in the three months ended March 31, 2015 compared to \$181.8 million in the same period a year earlier. The decrease is primarily attributable to significant balance of plant work performed in the prior fiscal year. Overall, aboveground storage tank work is consistent with the prior year. Specifically, revenue in the domestic business was higher due to increased demand in both new construction and maintenance work while revenue in the Canadian business was down due to a project delay with a large customer. Gross margins were 10.5% for both fiscal 2015 and fiscal 2014. Fiscal 2015 gross margin was negatively affected by the under recovery of construction overhead costs due to lower revenue.

### ***Industrial***

Revenue for the Industrial segment decreased to \$63.0 million in the three months ended March 31, 2015 compared to \$74.6 million in the same period a year earlier. The decline in revenue is primarily attributable to a significant mining project in the prior year. Gross margins were 10.4% in the three months ended March 31, 2015 compared to 9.8% in the same period a year earlier. The improvement in gross margin is primarily due to profit recognized on favorable project completions, partially offset by lower construction overhead cost recovery due to lower volumes.

## **Nine Months Ended March 31, 2015 Compared to the Nine Months Ended March 31, 2014**

### ***Consolidated***

Consolidated revenue was \$978.7 million for the nine months ended March 31, 2015, an increase of \$60.0 million, or 6.5%, from consolidated revenue of \$918.7 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. The revenue increase is primarily attributable to the inclusion of nine months of Matrix NAC revenue in fiscal 2015 compared to less than four months in fiscal 2014. On a segment basis, consolidated revenue increased in the Industrial, Oil Gas & Chemical and Electrical Infrastructure segments by \$93.0 million, \$37.0 million and \$30.2 million respectively, partially offset by a decrease in the Storage Solutions segment of \$100.2 million.

Consolidated gross profit was \$47.0 million in the nine months ended March 31, 2015 compared to \$99.6 million in the nine months ended March 31, 2014. Fiscal 2015 gross margins were reduced 5.8% to 4.8% related to an acquired EPC joint venture project charge of \$54.7 million, as described in Note 3 - Uncompleted Contracts. Fiscal 2014 gross margins were 10.8%.

Consolidated SG&A expenses were \$56.5 million in the nine months ended March 31, 2015 compared to \$55.2 million in the same period a year earlier. The increase of \$1.3 million is primarily attributable to a full period of Matrix NAC costs in the current year compared to approximately three months in the prior year and Matrix NAC acquisition related costs in the prior year. These increases were largely offset by lower incentive compensation costs in the current year due to reduced profitability. SG&A expense as a percentage of revenue was 5.8% in the nine months ended March 31, 2015 compared to 6.0% in the same period a year earlier.

Net interest expense was \$0.6 million in the nine months ended March 31, 2015, and \$0.8 million in the nine months ended March 31, 2014. 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 including the noncontrolling interest for the nine months ended March 31, 2015 and March 31, 2014:

	Nine Months Ended	
	March 31, 2015	March 31, 2014
	(In thousands)	
Income (loss) before income tax expense	\$ (9,847)	\$ 43,410
Provision for federal, state and foreign income taxes	3,271	14,755
Effective tax rate including noncontrolling interest	(33.2)%	34.0%

The table below reflects the Company's effective tax rate exclusive of the noncontrolling interest for the nine months ended March 31, 2015 and March 31, 2014:

	Nine Months Ended	
	March 31, 2015	March 31, 2014
	(In thousands)	
Income (loss) before income tax expense	\$ (9,847)	\$ 43,410
Less: Income (loss) attributable to the noncontrolling interest	(19,359)	401
Pretax income attributable to Matrix Service Company	\$ 9,512	\$ 43,009
Provision for federal, state and foreign income taxes	\$ 3,271	\$ 14,755
Effective tax rate exclusive of noncontrolling interest	34.4%	34.3%

The fiscal 2015 effective tax rate includes an additional tax benefit of \$1.1 million from the reinstatement of the R&D tax credit through calendar year 2014. For the nine months ended March 31, 2014, 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 nine months ended March 31, 2015, net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$6.2 million and \$0.23, compared to \$28.3 million and \$1.05 in the same period a year earlier.

### ***Electrical Infrastructure***

Revenue for the Electrical Infrastructure segment increased \$30.2 million to \$162.4 million in the nine months ended March 31, 2015 compared to \$132.2 million in the same period a year earlier. The increased revenue volume in the nine months ended March 31, 2015 was primarily due to the inclusion of Matrix NAC activity. The acquired EPC joint venture project charge reduced gross margins 35.1% to (24.0%) in the nine months ended March 31, 2015. Gross margins were 10.0% 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 revenue associated with this project will be recognized with zero margin, which will negatively impact margins in this segment until project completion, which is expected to occur in late fiscal 2015.

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

Revenue for the Oil Gas & Chemical segment increased \$37.0 million to \$224.6 million in the nine months ended March 31, 2015 compared to \$187.6 million in the same period a year earlier. The increased revenue was primarily due to higher levels of maintenance and capital work. Gross margins were 8.5% in the nine months ended March 31, 2015 compared to 11.5% a year earlier. Although the recovery of overhead continued to improve in the third fiscal quarter, year-to-date results were negatively affected by under recovered construction overhead costs. In addition, gross margins were negatively affected by lower than expected profitability on a significant turnaround completed in the third quarter.

### ***Storage Solutions***

Revenue for the Storage Solutions segment decreased to \$370.3 million in the nine months ended March 31, 2015 compared to \$470.5 million in the same period a year earlier. Prior year results were positively affected by significant balance of plant work. In the current year, revenue in the domestic aboveground storage tank business has increased but was more than offset by lower revenue in our Canadian business due to a project delay with a large customer. Fiscal 2015 gross margins were 10.8% compared to 11.0% in the same period in the prior year. The fiscal 2015 gross margin was negatively affected by the under recovery of construction overhead costs due to lower revenue. The fiscal 2014 gross margin of 11.0% was reduced by a project charge of \$5.4 million.

### **Industrial**

Revenue for the Industrial segment increased to \$221.4 million in the nine months ended March 31, 2015 compared to \$128.4 million in the same period a year earlier. The increase of \$93.0 million was primarily due to the inclusion of Matrix NAC activity for the full nine-month period. Gross margins were 12.2% for the nine months ended March 31, 2015 compared to 10.1% 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, partially offset by lower construction overhead cost recovery.

### **Backlog**

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

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

For long-term maintenance contracts 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 revenue recognized as of the reporting date.

The following table provides a summary of changes in our backlog for the three months ended March 31, 2015:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of December 31, 2014	\$ 124,158	\$ 147,707	\$ 446,877	\$ 120,229	\$ 838,971
Project awards	477,138	81,665	68,588	87,028	714,419
Revenue recognized	(48,228)	(95,758)	(107,163)	(63,006)	(314,155)
Backlog as of March 31, 2015	<u>\$ 553,068</u>	<u>\$ 133,614</u>	<u>\$ 408,302</u>	<u>\$ 144,251</u>	<u>\$ 1,239,235</u>

The following table provides a summary of changes in our backlog for the nine months ended March 31, 2015:

	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	553,366	247,971	295,930	204,860	1,302,127
Revenue recognized	(162,434)	(224,574)	(370,259)	(221,451)	(978,718)
Backlog as of March 31, 2015	<u>\$ 553,068</u>	<u>\$ 133,614</u>	<u>\$ 408,302</u>	<u>\$ 144,251</u>	<u>\$ 1,239,235</u>

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 individual project awards can be less frequent and more significant.

In the third quarter, the Company was awarded a combined cycle gas-fueled power generation station valued at approximately \$450 million which is included in the Electrical Infrastructure segment. Project awards in all segments were generally in line with the Company's expectations. In particular, the Company saw no significant project award delays or cancellations that were the result of the recent volatility in crude oil prices.

The award mentioned above significantly increased the portion of the Company's backlog denominated in Canadian dollars. The recent weakening of the Canadian dollar along with the Company's increased exposure to Canadian dollar work resulted in a decrease to backlog of approximately \$30.0 million.

### Seasonality and Other Factors

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.

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

## Impact of Crude Oil Prices

The effect of declining crude prices on our results for the three and nine months ended March 31, 2015 was not significant, and there have been no significant reductions 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 mid and long term impact to our revenue volume attributable to maintenance work. However, the margins between crude and refined products is favorable which has temporarily delayed spending in some of our refining work locations. Additionally, some of our mid and downstream 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.
- 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		Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
	(In thousands)			
Net income attributable to Matrix Service Company	(2,959)	11,396	6,241	28,254
Interest expense	294	324	946	898
Provision for income taxes	(1,508)	6,756	3,271	14,755
Depreciation and amortization	5,792	5,394	17,332	12,945
EBITDA	<u>\$ 1,619</u>	<u>\$ 23,870</u>	<u>\$ 27,790</u>	<u>\$ 56,852</u>

## 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 nine months ended March 31, 2015 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 March 31, 2015 totaled \$103.2 million and availability under the senior revolving credit facility totaled \$89.9 million resulting in available liquidity of \$193.1 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
- Additional capacity constraints under our senior revolving credit facility and remaining in compliance with all covenants contained in the credit agreement.

The acquired EPC joint venture project charges have resulted in a significant short term capacity constraint on the Company's senior revolving credit facility. Although the constraint does reduce our liquidity, 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 Nine Months Ended March 31, 2015

### Cash Flows Provided by Operating Activities

Cash flows provided by operating activities for the nine months ended March 31, 2015 totaled \$37.0 million. The various components of cash flows from operating activities are as follows:

#### Net Cash Provided by Operating Activities (In thousands)

Net income	\$	(13,118)
Non-cash expenses		20,412
Deferred income tax		(1,026)
Cash effect of changes in operating assets and liabilities		30,529
Other		178
Net cash provided by operating activities	\$	<u>36,975</u>

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 an increase in cash of \$17.4 million. The positive 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 \$26.7 million at March 31, 2015. The favorable variance is attributable to an increase in costs and estimated earnings in excess of billings of \$4.3 million and a \$31.0 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 \$23.0 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 increase to cash of \$6.0 million. The favorable 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 offset by the remaining accrued project charge from our joint venture as described in Note 3.

### Cash Flows Used for Investing Activities

Investing activities used \$16.0 million of cash in the first nine months of fiscal 2015 primarily due to the purchase of HDB in the amount of \$5.6 million and capital expenditures of \$11.1 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 \$3.1 million for the purchase of construction equipment, \$3.3 million for transportation and fabrication equipment, \$4.1 million for office equipment, \$0.3 million for land and buildings, and \$0.3 million for small tools.

### Cash Flows Provided by Financing Activities

Financing activities provided \$6.1 million of cash in the first nine months of fiscal 2015 primarily due to \$7.8 million in proceeds contributed from the noncontrolling interest partner in our acquired EPC joint venture project, net repayments of \$1.7 million under our credit facility, and treasury share purchases of \$2.5 million. Cash received for the issuance of stock options was \$0.5 million and \$0.2 million in cash was 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 \$1.7 million of cash. Cash borrowings and repayments for the first nine months of fiscal 2015 were \$8.3 million and \$10.0 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 March 31, 2015, Consolidated EBITDA, as defined in the Credit Agreement, was \$53.0 million. Accordingly, at March 31, 2015, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at March 31, 2015 was \$34.5 million.

Availability under the senior credit facility at March 31, 2015 and June 30, 2014 was as follows:

	March 31, 2015	June 30, 2014
	(In thousands)	
Senior credit facility	\$ 200,000	\$ 200,000
Capacity constraint due to the Senior Leverage Ratio	67,528	—
Capacity under the credit facility	132,472	200,000
Borrowings outstanding	9,934	11,621
Letters of credit	32,654	23,017
Availability under the senior credit facility	<u>\$ 89,884</u>	<u>\$ 165,362</u>

Outstanding borrowings at March 31, 2015 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 \$25.0 million 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 102,450 shares in the first nine months of fiscal 2015 to satisfy these obligations. These shares were returned to the Company's pool of treasury shares.

The Company has 1,173,656 treasury shares as of March 31, 2015 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;
- the impact to our business of crude oil and other commodity prices;
- 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.

### **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 March 31, 2015. 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 March 31, 2015.

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 March 31, 2015.

**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 third 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)
<b>January 1 to January 31, 2015</b>				
Share Repurchase Program (A)	—	—	—	2,653,399
Employee Transactions (B)	464	\$19.11	—	
<b>February 1 to February 28, 2015</b>				
Share Repurchase Program (A)	—	—	—	2,653,399
Employee Transactions (B)	1,292	\$18.86	—	
<b>March 1 to March 31, 2015</b>				
Share Repurchase Program (A)	—	—	—	2,653,399
Employee Transactions (B)	—	—	—	

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

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

(C) On 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 \$25.0 million 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 plan approved on November 4, 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 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: May 8, 2015

By: /s/ Kevin S. Cavanah

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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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**CERTIFICATIONS**

I, John R. Hewitt, certify that:

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

Date: May 8, 2015

/s/ John R. Hewitt

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John R. Hewitt

President and Chief Executive Officer

CERTIFICATIONS

I, Kevin S. Cavanah, certify that:

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

Date: May 8, 2015

/s/ Kevin S. Cavanah

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Kevin S. Cavanah

Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Hewitt, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2015

/s/ John R. Hewitt

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John R. Hewitt

President and Chief Executive Officer



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

In connection with the Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin S. Cavanah, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2015

/s/ Kevin S. Cavanah

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Kevin S. Cavanah

Vice President and Chief Financial Officer

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

The following table provides information for the three months ended March 31, 2015:

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations <sup>(1)</sup>	Section 104(b) Orders <sup>(2)</sup>	Section 104(d) Citations and Orders <sup>(3)</sup>	Section 110(b)(2) Violations <sup>(4)</sup>	Section 107(a) Orders <sup>(5)</sup>	Total Dollar Value of MSHA Assessments Proposed (\$)	Total Number of Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e) <sup>(6)</sup> (yes/no)	Received Notice of Potential to Have Pattern of Violations Under Section 104(e) <sup>(7)</sup> (yes/no)	Total Number of Legal Actions Pending as of Last Day of Period	Total Number of Legal Actions Initiated During Period	Total Number of Legal Actions Resolved During Period
Freeport McMoran Morenci Inc. 02-00024 5CP	0	0	0	0	0	0	0	No	No	8	1	0
Freeport-McMoran Safford Inc. 02-03131	0	0	0	0	0	0	0	No	No	2	0	0
Solvay Chemicals Inc. 48-01295	1	0	0	0	0	3913	0	No	No	2	2	0

- (1) The total number of citations issued under section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to a serious injury if left unabated.
- (2) The total number of orders issued under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA.
- (3) The total number of citations and orders issued by MSHA under section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.
- (4) The total number of flagrant violations identified under section 110(b)(2) of the Mine Act.
- (5) The total number of orders issued under section 107(a) of the Mine Act for situations in which MSHA determined an imminent danger existed.
- (6) A written notice from the MSHA regarding a pattern of violations under section 104(e) of the Mine Act.
- (7) A written notice from the MSHA regarding a potential to have a pattern of violations under section 104(e) of the Mine Act.