MATRIX SERVICE CO
Form 10-Q
May 05, 2016

Table of Contents

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

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2016

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

For the transition period from to

Commission File No. 1-15461

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

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

5100 East Skelly Drive, Suite 500, Tulsa, Oklahoma 74135
(Address of principal executive offices and zip code)
Registrant’s telephone number, including area code: (918) 838-8822
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer ý

Non-accelerated filer o Smaller reporting company ¨

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

As of April 29, 2016 there were 27,888,217 shares of the Company's common stock, $0.01 par value per share, issued and 26,615,091 shares outstanding.

Table of Contents

TABLE OF CONTENTS

		PAGE
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Statements of Income for the Three and Nine Months Ended March 31, 2016 and 2015	1
	Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended March 31, 2016 and 2015	2
	Condensed Consolidated Balance Sheets as of March 31, 2016 and June 30, 2015	3
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2016 and 2015	5
	Condensed Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended March 31, 2016 and 2015	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	33
Item 4.	Controls and Procedures	33
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3.	Defaults Upon Senior Securities	35
Item 4.	Mine Safety Disclosures	35
Item 5.	Other Information	35
Item 6.	Exhibits	35
Signature		35

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Matrix Service Company
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Revenues	$309,422	$314,155	$952,282	$978,718
Cost of revenues	282,119	311,523	860,390	931,752
Gross profit	27,303	2,632	91,892	46,966
Selling, general and administrative expenses	20,956	17,080	65,509	56,538
Operating income (loss)	6,347	(14,448)	26,383	(9,572)
Other income (expense):				
Interest expense	(241)	(294)	(756)	(946)
Interest income	56	40	147	390
Other	(109)	252	(311)	281
Income (loss) before income tax expense	6,053	(14,450)	25,463	(9,847)
Provision for federal, state and foreign income taxes	2,507	(1,508)	9,060	3,271
Net income (loss)	3,546	(12,942)	16,403	(13,118)
Less: Net loss attributable to noncontrolling interest	(811)	(9,983)	(3,326)	(19,359)
Net income (loss) attributable to Matrix Service Company	$4,357	$(2,959)	$19,729	$6,241
Basic earnings (loss) per common share	$0.16	$(0.11)	$0.74	$0.23
Diluted earnings (loss) per common share	$0.16	$(0.11)	$0.73	$0.23
Weighted average common shares outstanding:				
Basic	26,758	26,711	26,651	26,593
Diluted	27,054	26,711	27,191	27,175

See accompanying notes.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Net income (loss)	$3,546	$(12,942)	$16,403	$(13,118)
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	2,754	(2,725)	(1,061)	(5,996)
Comprehensive income (loss)	6,300	(15,667)	15,342	(19,114)
Less: Comprehensive loss attributable to noncontrolling interest	(811)	(9,983)	(3,326)	(19,359)
Comprehensive income (loss) attributable to Matrix Service Company	$7,111	$(5,684)	$18,668	$245

See accompanying notes.

Table of Contents

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

	March 31, 2016	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$73,403	$79,239
Accounts receivable, less allowances (March 31, 2016— $6,246 and June 30, 2015—$561)	170,713	199,149
Costs and estimated earnings in excess of billings on uncompleted contracts	92,646	86,071
Inventories	3,464	2,773
Income taxes receivable	2,870	579
Other current assets	8,004	5,660
Total current assets	351,100	373,471
Property, plant and equipment at cost:		
Land and buildings	38,645	32,746
Construction equipment	89,046	87,561
Transportation equipment	48,187	47,468
Office equipment and software	29,168	28,874
Construction in progress	9,826	5,196
Total property, plant and equipment - at cost	214,872	201,845
Accumulated depreciation	(127,527)	(116,782)
Property, plant and equipment - net	87,345	85,063
Goodwill	78,845	71,518
Other intangible assets	21,936	23,961
Deferred income taxes	3,569	3,729
Other assets	6,847	3,947
Total assets	$549,642	$561,689

See accompanying notes.

Table of Contents

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

	March 31, 2016	June 30, 2015
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$122,941	$125,792
Billings on uncompleted contracts in excess of costs and estimated earnings	66,809	96,704
Accrued wages and benefits	28,944	26,725
Accrued insurance	8,542	8,100
Income taxes payable	473	3,268
Other accrued expenses	5,393	6,498
Total current liabilities	233,102	267,087
Deferred income taxes	2,620	1,244
Borrowings under senior credit facility	3,845	8,804
Other liabilities	203	—
Total liabilities	239,770	277,135
Commitments and contingencies		
Stockholders’ equity:		
Matrix Service Company stockholders' equity:		
Common stock—$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of March 31, 2016, and June 30, 2015; 26,606,490 and 26,440,823 shares outstanding as of March 31, 2016 and June 30, 2015	279	279
Additional paid-in capital	125,655	123,038
Retained earnings	214,123	194,394
Accumulated other comprehensive loss	(6,987)	(5,926)
	333,070	311,785
Less: Treasury stock, at cost— 1,281,727 shares as of March 31, 2016, and 1,447,394 shares as of June 30, 2015	(22,022)	(18,489)
Total Matrix Service Company stockholders’ equity	311,048	293,296
Noncontrolling interest	(1,176)	(8,742)
Total stockholders' equity	309,872	284,554
Total liabilities and stockholders’ equity	$549,642	$561,689

See accompanying notes.

Table of Contents

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

	Nine Months Ended	
	March 31, 2016	March 31, 2015
Operating activities:		
Net income (loss)	$16,403	$(13,118)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,139	17,332
Deferred income tax	1,413	(1,026)
Gain on sale of property, plant and equipment	(111)	(305)
Provision for uncollectible accounts	5,684	419
Stock-based compensation expense	5,023	4,730
Excess tax benefit of exercised stock options and vesting of deferred shares	(3,222)	(1,764)
Other	179	178
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:		
Accounts receivable	23,684	17,353
Costs and estimated earnings in excess of billings on uncompleted contracts	(6,575)	(4,332)
Inventories	568	170
Other assets and liabilities	(5,461)	2,425
Accounts payable	(3,492)	(23,025)
Billings on uncompleted contracts in excess of costs and estimated earnings	(29,895)	31,006
Accrued expenses	983	6,932
Net cash provided by operating activities	21,320	36,975
Investing activities:		
Acquisition of property, plant and equipment	(11,746)	(11,075)
Acquisitions (Note 2)	(13,049)	(5,551)
Proceeds from asset sales	258	653
Net cash used by investing activities	$(24,537)	$(15,973)

See accompanying notes.

- 5-

Table of Contents

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

	Nine Months Ended	
	March 31, 2016	March 31, 2015
Financing activities:		
Capital contributions from noncontrolling interest	$10,892	$7,802
Issuances of common stock	578	493
Excess tax benefit of exercised stock options and vesting of deferred shares	3,222	1,764
Advances under credit agreement	2,753	8,289
Repayments of advances under credit agreement	(7,712)	(9,976)
Repayment of acquired long-term debt	(1,858)	—
Proceeds from issuance of common stock under employee stock purchase plan	261	215
Open market purchase of treasury shares	(5,460)	—
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(4,540)	(2,472)
Net cash provided (used) by financing activities	(1,864)	6,115
Effect of exchange rate changes on cash and cash equivalents	(755)	(1,049)
Increase (decrease) in cash and cash equivalents	(5,836)	26,068
Cash and cash equivalents, beginning of period	79,239	77,115
Cash and cash equivalents, end of period	$73,403	$103,183
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$9,192	$6,700
Interest	$789	$1,019
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	$401	$1,104
Acquisition of long-term debt	$1,858	$—

See accompanying notes.

Table of Contents

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, July 1, 2015	$ 279	$123,038	$194,394	$(18,489)	$ (5,926)	$ (8,742)	$284,554
Capital contributions from noncontrolling interest	—	—	—	—	—	10,892	10,892
Net income (loss)	—	—	19,729	—	—	(3,326)	16,403
Other comprehensive loss	—	—	—	—	(1,061)	—	(1,061)
Exercise of stock options (62,137 shares)	—	7	—	571	—	—	578
Tax effect of exercised stock options and vesting of deferred shares	—	3,222	—	—	—	—	3,222
Issuance of deferred shares (623,443 shares)	—	(5,777)	—	5,777	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (13,003 shares)	—	142	—	119	—	—	261
Open market purchases of treasury shares (330,000 shares)	—	—	—	(5,460)	—	—	(5,460)
Treasury shares purchased to satisfy tax withholding obligations (202,916 shares)	—	—	—	(4,540)	—	—	(4,540)
Stock-based compensation expense	—	5,023	—	—	—	—	5,023
Balances, March 31, 2016	$ 279	$125,655	$214,123	$(22,022)	$ (6,987)	$ (1,176)	$309,872
Balances, July 1, 2014	$ 279	$119,777	$177,237	$(16,595)	$ (182)	$ 1,767	$282,283
Capital contributions from noncontrolling 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	—	—	—
	—	94	—	121	—	—	215

Treasury shares sold to Employee Stock Purchase Plan (8,601 shares)							
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	$ 279	$121,462	$183,478	$(13,550)	$ (6,178)	$ (9,790)	$275,701

See accompanying notes.

Table of Contents

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. 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, 2015, included in the Company’s Annual Report on Form 10-K for the year then ended. The results of operations for the nine month period ended March 31, 2016 may not necessarily be indicative of the results of operations for the full year ending June 30, 2016.

Recently Issued Accounting Standards

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

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC").

In July 2015, the FASB deferred the effective date of ASU 2014-09 by one year. With the deferral, this ASU is now effective for annual reporting periods beginning after December 15, 2017, with early adoption now permitted on a limited basis. Upon adoption, the Company may elect one of two application methods, a full retrospective application or a modified retrospective application. We expect to adopt this standard on July 1, 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

On September 25, 2015, the FASB issued ASU 2015-16 to simplify the accounting for measurement-period adjustments. The ASU was issued in response to stakeholder feedback that restatements of prior periods to reflect adjustments made to provisional amounts recognized in a business combination increase the cost and complexity of financial reporting but do not significantly improve the usefulness of the information. Under the ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the ASU is effective for fiscal years beginning

after December 15, 2015, including interim periods within those fiscal years. We expect to adopt this standard on July 1, 2016.

Table of Contents

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

Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes
On November 20, 2015, the FASB issued ASU 2015-17, which will require entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. The ASU simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet based on the classification of the related asset or liability. For public business entities, the ASU will be effective for annual periods beginning after December 15, 2016, and interim periods within those years with early adoption permitted. The Company has elected to retrospectively early adopt ASU 2015-17, effective for the quarter ended December 31, 2015. The quantitative effects of the change on the prior balance sheet presented, for the fiscal year ended June 30, 2015, resulted in a net reclassification of $6.6 million and $6.6 million from the "Deferred income taxes" current asset and liability financial statement line items, respectively, to the "Deferred income taxes" asset and liability financial statement line items included in the noncurrent asset and liability sections of the balance sheet.
Accounting Standards Update 2016-02, Leases (Topic 842)
On February 25, 2016, the FASB issued ASU 2016-02. The amendments in this update require, among other things, that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We expect to adopt this standard on July 1, 2019 and are currently evaluating its expected impact on our financial statements.
Accounting Standards Update 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting
On March 30, 2016, the FASB issued ASU 2016-09, which simplified several aspects of accounting for stock-based compensation transactions, including the accounting for income taxes and forfeitures and statutory tax withholding requirements. The ASU is effective for the Company on July 1, 2017 and early adoption is permitted. The Company is currently evaluating whether it will early adopt the ASU. The following is a description of the key provisions of the ASU, its transition requirements and its estimated impacts on the Company's financial statements:
Accounting for Income Taxes: The amendments require the Company to recognize excess tax benefits or tax deficiencies in its provision for income taxes in its consolidated statements of income during the period of vesting or exercise of its nonvested deferred share awards and stock options, respectively, for which it expects to receive an income tax deduction. Currently, the Company recognizes any excess tax benefits in additional paid-in capital ("APIC") in the balance sheet and any tax deficiencies are recognized as a reduction of APIC to the extent the Company has accumulated excess tax benefits. Any tax deficiencies in excess of accumulated excess tax benefits in APIC are recognized in the provision for income taxes. The amendments also require the Company to only present excess tax benefits and tax deficiencies in the operating section of its statements of cash flows. Currently, the Company is required to present such items in both the financing section and operating section of its statements of cash flows. Amendments to the presentation of excess tax benefits and tax deficiencies in the statements of cash flows may be applied retrospectively or prospectively. The Company has not yet determined how it will apply these amendments.

Table of Contents

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

Amendments requiring the recognition of excess tax benefits and tax deficiencies in income are to be applied prospectively. The Company cannot reasonably estimate the future impacts of these amendments to its financial statements since such impacts are primarily dependent on the Company's stock price on the dates of future vestings or exercises. The Company's stock price may vary significantly over time and such variability may result in material income tax impacts to income upon future vestings and exercises.
The Company is required to apply the amendments for accumulated excess tax benefits on a modified retrospective basis as a cumulative-effect adjustment to retained earnings as of the date of adoption. The balance of accumulated excess tax benefits included in APIC was $9.8 million as of March 31, 2016.
Accounting for Forfeitures: The Company currently recognizes expense on all stock-based awards over the requisite service period, net of estimated forfeitures. The amendments in this ASU allow the Company to elect, as a company-wide accounting policy, either to continue to estimate the amount of forfeitures to exclude from compensation expense or to exclude forfeitures from compensation expense when they occur. If the Company elects to account for forfeitures when they occur, it will apply the accounting change on a modified retrospective basis as a cumulative-effect adjustment to retained earnings as of the date of adoption. The Company does not expect these amendments to have a material impact to its financial statements if it does elect to account for forfeitures when they occur. The Company has not yet determined how it will account for forfeitures upon adoption of the ASU.
Statutory Tax Withholding Requirements: Currently, an entire award must be classified as a liability if the fair value of the shares withheld exceeds the Company's minimum statutory withholding obligation. Under the ASU, the Company will be allowed to withhold shares with a fair value up to the amount of tax owed using the maximum statutory tax rate in the employee's applicable jurisdictions. The Company will be allowed to determine one maximum rate for all employees in each jurisdiction, rather than a rate for each employee in the jurisdiction. Also, the ASU requires that cash outflows to reacquire shares withheld for taxes to be classified in the financing section of its statements of cash flows. Since the Company does not have any awards classified as liabilities due to statutory tax withholding requirements as of March 31, 2016, and since the Company already presents its cash outflows for reacquiring shares withheld for taxes as a financing activity in its statements of cash flows, the Company does not expect these amendments to have any impact on its financial statements.

Table of Contents

Note 2 – Acquisition

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 purchase price allocation (in thousands):

Current assets	$1,645
Property, plant and equipment	1,001
Tax deductible goodwill	3,065
Other intangible assets	900
Total assets acquired	6,611
Current liabilities	1,060
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 Baillie Tank Equipment, Ltd.

On February 1, 2016, the Company completed the acquisition of all outstanding stock of Baillie Tank Equipment, Ltd. (“BTE”), an internationally-based company with nearly 20 years of experience in the design and manufacture of products for use on aboveground storage tanks. Founded in 1998, BTE is a provider of tank products including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems, and seals. BTE is headquartered in Sydney, Australia with a manufacturing facility in Seoul, South Korea. The Company acquired BTE to expand its service offerings of certain technical solutions for aboveground storage tanks. The business is now known as Matrix Applied Technologies, and its operating results are included in the Storage Solutions segment.

The Company purchased BTE with cash on-hand for a net purchase price of $13.0 million. The Company paid $15.4 million when including the subsequent repayment of long-term debt acquired and the settlement of certain other liabilities acquired, and excluding the cash acquired and certain amounts owed to the former owners for working capital adjustments. The net purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date.

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

Current assets	$4,526
Property, plant and equipment	4,347
Goodwill	7,618
Other intangible assets	720
Other assets	84
Total assets acquired	17,295
Current liabilities	1,048
Deferred income taxes	341
Long-term debt	1,858
Other liabilities	407
Net assets acquired	13,641
Cash acquired	592
Net purchase price	$13,049

- 11-

Table of Contents

The goodwill recognized from the acquisition is attributable to the synergies of combining our operations and the technical expertise of the acquired workforce. None of the goodwill recognized is expected to be deductible for income tax purposes. The fair value of the net assets acquired is preliminary pending the final valuation of those assets. As a result, goodwill is also preliminary since it has been recorded as the excess of the purchase price over the estimated fair value of the net assets acquired.

The Company incurred $0.8 million and $0.9 million of expenses related to the acquisition for the three and nine months ended March 31, 2016, which are included within selling, general and administrative expenses in the consolidated statements of income. The acquired business contributed revenues of $3.5 million and operating income of $0.7 million for the period from February 1, 2016 to March 31, 2016.

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, 2016	June 30, 2015
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	$1,759,416	$1,633,780
Billings on uncompleted contracts	1,733,579	1,644,413
	$25,837	$(10,633)
Shown in balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$92,646	$86,071
Billings on uncompleted contracts in excess of costs and estimated earnings	66,809	96,704
	$25,837	$(10,633)

Progress billings in accounts receivable at March 31, 2016 and June 30, 2015 included retentions to be collected within one year of $24.4 million and $25.2 million, respectively. Contract retentions collectible beyond one year are included in other assets in the condensed consolidated balance sheet and totaled $5.6 million at March 31, 2016 and $2.8 million at June 30, 2015.

Other

In the three 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. 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, respectively. The Company recorded additional charges on this project during the three and nine months ended March 31, 2016, which resulted in a reduction to operating income of $1.6 million and $7.1 million and an after-tax reduction to net income attributable to Matrix Service Company of $0.5 million and $2.5 million, respectively.

The fiscal 2016 project charges are attributable to higher than expected project closeout costs. The Company reached substantial completion on the project in the fourth quarter of fiscal 2015.

Table of Contents

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	$60,027	$17,008	$10,586	$8,897	$96,518
Cumulative impairment loss (1)	(17,653)	(3,000)	(922)	(3,425)	(25,000)
Net balance at June 30, 2015	42,374	14,008	9,664	5,472	71,518
Purchase of BTE (Note 2)	—	—	7,618	—	7,618
Translation adjustment (2)	(240)	—	(6)	(45)	(291)
Net balance at March 31, 2016	$42,134	$14,008	$17,276	$5,427	$78,845

(1) A $25.0 million impairment charge was recorded in February 2005.

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

Other Intangible Assets

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

	At March 31, 2016			
	Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Intellectual property	6 to 15	$2,579	$ (1,202)	$ 1,377
Customer-based	0.3 to 15	28,154	(8,945)	19,209
Non-compete agreements	4 to 5	1,453	(1,023)	430
Trade names	3 to 5	1,615	(695)	920
Total amortizing intangible assets		$33,801	$ (11,865)	$ 21,936

	At June 30, 2015			
	Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Intellectual property	6 to 15	$2,460	$ (1,086)	$ 1,374
Customer-based	1.5 to 15	27,837	(7,109)	20,728
Non-compete agreements	4 to 5	1,354	(802)	552
Trade names	3 to 5	1,615	(308)	1,307
Total amortizing intangible assets		$33,266	$ (9,305)	$ 23,961

The increase in the gross carrying amount of other intangible assets at March 31, 2016 compared to June 30, 2015 is due primarily to the February 1, 2016 acquisition of BTE (Note 2). The BTE intangible assets consist of the following amortizing assets:

- customer-based intangibles with a fair value of $0.5 million and useful life of between 4 months and 10 years;

- intellectual property intangibles with a fair value of $0.1 million and useful life of 10 years; and
- non-compete agreement intangibles with a fair value of $0.1 million and useful life of 4 years.

Table of Contents

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

Amortization expense totaled $2.6 million in the nine months ended March 31, 2016 and $3.7 million in the nine months ended March 31, 2015. We estimate that the remaining amortization expense at March 31, 2016 will be as follows (in thousands):

Period ending:	
Remainder of Fiscal 2016	$937
Fiscal 2017	3,294
Fiscal 2018	2,954
Fiscal 2019	2,587
Fiscal 2020	2,577
Fiscal 2021	2,559
Thereafter	7,028
Total estimated remaining amortization expense at March 31, 2016	$21,936

Note 5 – Debt

The Company has a five-year $200.0 million senior secured revolving credit facility under a credit agreement (the "Credit Agreement") that expires March 13, 2019. Advances under the credit facility may be used for working capital, acquisitions, capital expenditures, issuances of letters of credit and other lawful purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

- Our Senior Leverage Ratio, as defined in the agreement, may not exceed 2.50 to 1.00, determined as of the end of each fiscal quarter.
- We are required to maintain a Fixed Charge Coverage Ratio, as defined in the agreement, greater than or equal to 1.25 to 1.00, determined as of the end of each fiscal quarter.
- Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to $20.0 million per 12-month period.

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

The Credit Agreement also permits us to borrow in Canadian dollars with a sub-limit 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, 2016, Consolidated EBITDA, as defined in the Credit Agreement, was $76.4 million. Accordingly, at March 31, 2016, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at March 31, 2016 was $16.8 million.

- 14-

Table of Contents

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

Availability under the senior credit facility was as follows:

	March 31, 2016	June 30, 2015
	(In thousands)	
Senior credit facility	$200,000	$200,000
Capacity constraint due to the Senior Leverage Ratio	9,013	54,968
Capacity under the credit facility	190,987	145,032
Borrowings outstanding	3,845	8,804
Letters of credit	20,612	40,587
Availability under the senior credit facility	$166,530	$95,641

Outstanding borrowings at March 31, 2016 under our Credit Agreement were used for Canadian dollar advances required for short term working capital, including cross-border purchases of materials and services.
The Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.
The Company acquired $1.9 million of long-term debt as part of the BTE acquisition, which was subsequently repaid in March 2016.

Note 6 – Income Taxes

We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances based on our judgments and estimates are established when necessary to reduce deferred tax assets to the amount expected to be realized in future operating results. Company management believes that realization of deferred tax assets in excess of the valuation allowance is more likely than not. Our estimates are based on facts and circumstances in existence as well as interpretations of existing tax regulations and laws applied to the facts and circumstances.
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.
Our effective tax rate for the three months ended March 31, 2016 was 41.4% compared to 10.4% in the same period a year earlier. Our effective tax rate for the nine months ended March 31, 2016 was 35.6% compared to (33.2)% in the same period a year earlier. Our effective tax rates for the three and nine months ended March 31, 2016 and 2015 were impacted in part by the acquired EPC joint venture project charges in which the Company has a 65% interest and does not receive a tax benefit. The Company recorded discrete expenses of $0.1 million during the three months ended March 31, 2016 and recorded $1.3 million of discrete benefits during the nine months ended March 31, 2016. The discrete benefits primarily relate to the retroactive application of the R&D tax credit and other tax credits.
As stated in Note 1, the Company has elected to retrospectively early adopt ASU 2015-17, effective for the quarter ended December 31, 2015. The quantitative effects of the change on the prior balance sheet presented, for the fiscal year ended June 30, 2015, resulted in a reclassification of $6.6 million and $6.6 million from the "Deferred income taxes" current asset and liability financial statement line items, respectively, to the "Deferred income taxes" asset and liability financial statement line items included in the noncurrent asset and liability sections of the balance sheet.

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.

Table of Contents

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

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 $11.1 million at March 31, 2016 and $12.7 million at June 30, 2015. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, since customers may not pay these amounts until final resolution of related claims, collection of these amounts may extend beyond one year.

Other

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

Note 8 – Earnings per Common Share

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

	Three Months Ended		Nine Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
	(In thousands, except per share data)			
Basic EPS:				
Net income (loss) attributable to Matrix Service Company	$4,357	$(2,959)	$19,729	$ 6,241
Weighted average shares outstanding	26,758	26,711	26,651	26,593
Basic earnings (loss) per share	$0.16	$(0.11)	$0.74	$ 0.23
Diluted EPS:				
Weighted average shares outstanding – basic	26,758	26,711	26,651	26,593
Dilutive stock options	57	—	73	117
Dilutive nonvested deferred shares	239	—	467	465
Diluted weighted average shares	27,054	26,711	27,191	27,175
Diluted earnings (loss) per share	$0.16	$(0.11)	$0.73	$ 0.23

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

	Three Months Ended		Nine Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
	(In thousands)			
Nonvested deferred shares	269	268	113	139

- 16-

Table of Contents

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. The Storage Solutions segment also includes balance of plant work in storage terminals and tank farms. 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. Finally, we offer AST products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems, and floating roof seals.

The Industrial segment includes construction and maintenance work in the iron and steel and mining and minerals industries, bulk material handling and fertilizer production facilities, thermal vacuum chambers, 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, 2015. Intersegment sales and transfers are recorded at cost; therefore, no intersegment profit or loss is recognized.

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

Table of Contents

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

Results of Operations
(In thousands)

	Three Months Ended		Nine Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Gross revenues				
Electrical Infrastructure	$94,414	$48,228	$251,437	$162,434
Oil Gas & Chemical	56,251	97,612	188,682	228,230
Storage Solutions	132,857	107,640	400,074	370,977
Industrial	26,650	64,841	116,375	224,173
Total gross revenues	$310,172	$318,321	$956,568	$985,814
Less: Inter-segment revenues				
Electrical Infrastructure	$—	$—	$—	$—
Oil Gas & Chemical	522	1,854	3,102	3,656
Storage Solutions	228	477	1,040	718
Industrial	—	1,835	144	2,722
Total inter-segment revenues	$750	$4,166	$4,286	$7,096
Consolidated revenues				
Electrical Infrastructure	$94,414	$48,228	$251,437	$162,434
Oil Gas & Chemical	55,729	95,758	185,580	224,574
Storage Solutions	132,629	107,163	399,034	370,259
Industrial	26,650	63,006	116,231	221,451
Total consolidated revenues	$309,422	$314,155	$952,282	$978,718
Gross profit (loss)				
Electrical Infrastructure	$10,407	$(22,429)	$19,136	$(38,976)
Oil Gas & Chemical	2,616	7,261	14,270	18,999
Storage Solutions	15,108	11,247	49,766	39,996
Industrial	(828)	6,553	8,720	26,947
Total gross profit	$27,303	$2,632	$91,892	$46,966
Operating income (loss)				
Electrical Infrastructure	$4,948	$(24,306)	$5,425	$(46,484)
Oil Gas & Chemical	(1,964)	2,563	(3,577)	5,823
Storage Solutions	6,382	5,055	24,305	18,785
Industrial	(3,019)	2,240	230	12,304
Total operating income (loss)	$6,347	$(14,448)	$26,383	$(9,572)

Total assets by segment were as follows:

	March 31, 2016	June 30, 2015
Electrical Infrastructure	$135,305	$129,725
Oil Gas & Chemical	99,007	108,960
Storage Solutions	193,218	172,857
Industrial	56,183	102,761
Unallocated assets	65,929	47,386
Total segment assets	$549,642	$561,689

Table of Contents

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 2015 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 2015 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, and, prior to the additional goodwill recognized on the BTE acquisition, these reporting units represented 59%, 12%, 9%, 8% and 6% of the total goodwill balance. All of the goodwill attributable to BTE is included in the reporting unit that comprised 8% of the total goodwill balance prior to the BTE acquisition. Our most recent annual goodwill impairment test, performed in the fourth quarter of fiscal 2015, indicated that the fair value of these reporting units exceeded their respective carrying values by 347%, 142%, 134%, 586% and 144%, respectively. The goodwill recognized from the BTE acquisition is attributable to the reporting unit with the fair value that exceeded 586% of its carrying value. The remaining 6% of total goodwill is spread between two other reporting units. The Company has considered the current economic environment and concluded that no impairment indicators existed at March 31, 2016. The Company will continue to closely monitor economic conditions.

Other Intangible Assets

Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives ranging from 0.3 to 15 years. The Company evaluates intangible assets with finite lives for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. The Company did not observe any events or circumstances during the nine months ended March 31, 2016 that would indicate that the carrying value of its intangible assets may not be recoverable. The Company's evaluation included values assigned to customer relationships in the iron and steel industry which is currently experiencing short to medium term weakness. If the Company's view of this market adversely changes or if other factors develop which change our view of the value of these relationships, the Company will reevaluate this conclusion.

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 $11.1 million at March 31, 2016 and $12.7 million at June 30, 2015. 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.

Table of Contents

Recently Issued Accounting Standards

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

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC").

In July 2015, the FASB deferred the effective date of ASU 2014-09 by one year. With the deferral, this ASU is now effective for annual reporting periods beginning after December 15, 2017, with early adoption now permitted on a limited basis. Upon adoption, the Company may elect one of two application methods, a full retrospective application or a modified retrospective application. We expect to adopt this standard on July 1, 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

On September 25, 2015, the FASB issued ASU 2015-16 to simplify the accounting for measurement-period adjustments. The ASU was issued in response to stakeholder feedback that restatements of prior periods to reflect adjustments made to provisional amounts recognized in a business combination increase the cost and complexity of financial reporting but do not significantly improve the usefulness of the information. Under the ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. We expect to adopt this standard on July 1, 2016.

Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes

On November 20, 2015, the FASB issued ASU 2015-17, which will require entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. The ASU simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet based on the classification of the related asset or liability. For public business entities, the ASU will be effective for annual periods beginning after December 15, 2016, and interim periods within those years with early adoption permitted. The Company has elected to retrospectively early adopt ASU 2015-17, effective for the quarter ended December 31, 2015. The quantitative effects of the change on the prior balance sheet presented, for the fiscal year ended June 30, 2015, resulted in a net reclassification of $6.6 million and $6.6 million from the "Deferred income taxes" current asset and liability financial statement line items, respectively, to the "Deferred income taxes" asset and liability financial statement line items included in the noncurrent asset and liability sections of the balance sheet.

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

On February 25, 2016, the FASB issued ASU 2016-02. The amendments in this update require, among other things, that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date:

(1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We expect to adopt this standard on July 1, 2019 and are currently evaluating its expected impact on our financial statements.

Table of Contents

Accounting Standards Update 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

On March 30, 2016, the FASB issued ASU 2016-09, which simplified several aspects of accounting for stock-based compensation transactions, including the accounting for income taxes and forfeitures and statutory tax withholding requirements. The ASU is effective for the Company on July 1, 2017 and early adoption is permitted. The Company is currently evaluating whether it will early adopt the ASU. The following is a description of the key provisions of the ASU, its transition requirements and its estimated impacts on the Company's financial statements:

Accounting for Income Taxes: The amendments require the Company to recognize excess tax benefits or tax deficiencies in its provision for income taxes in its consolidated statements of income during the period of vesting or exercise of its nonvested deferred share awards and stock options, respectively, for which it expects to receive an income tax deduction. Currently, the Company recognizes any excess tax benefits in additional paid-in capital ("APIC") in the balance sheet and any tax deficiencies are recognized as a reduction of APIC to the extent the Company has accumulated excess tax benefits. Any tax deficiencies in excess of accumulated excess tax benefits in APIC are recognized in the provision for income taxes. The amendments also require the Company to only present excess tax benefits and tax deficiencies in the operating section of its statements of cash flows. Currently, the Company is required to present such items in both the financing section and operating section of its statements of cash flows. Amendments to the presentation of excess tax benefits and tax deficiencies in the statements of cash flows may be applied retrospectively or prospectively. The Company has not yet determined how it will apply these amendments. Amendments requiring the recognition of excess tax benefits and tax deficiencies in income are to be applied prospectively. The Company cannot reasonably estimate the future impacts of these amendments to its financial statements since such impacts are primarily dependent on the Company's stock price on the dates of future vestings or exercises. The Company's stock price may vary significantly over time and such variability may result in material income tax impacts to income upon future vestings and exercises.

The Company is required to apply the amendments for accumulated excess tax benefits on a modified retrospective basis as a cumulative-effect adjustment to retained earnings as of the date of adoption. The balance of accumulated excess tax benefits included in APIC was $9.8 million as of March 31, 2016.

Accounting for Forfeitures: The Company currently recognizes expense on all stock-based awards over the requisite service period, net of estimated forfeitures. The amendments in this ASU allow the Company to elect, as a company-wide accounting policy, either to continue to estimate the amount of forfeitures to exclude from compensation expense or to exclude forfeitures from compensation expense when they occur. If the Company elects to account for forfeitures when they occur, it will apply the accounting change on a modified retrospective basis as a cumulative-effect adjustment to retained earnings as of the date of adoption. The Company does not expect these amendments to have a material impact to its financial statements if it does elect to account for forfeitures when they occur. The Company has not yet determined how it will account for forfeitures upon adoption of the ASU.

Statutory Tax Withholding Requirements: Currently, an entire award must be classified as a liability if the fair value of the shares withheld exceeds the Company's minimum statutory withholding obligation. Under the ASU, the Company will be allowed to withhold shares with a fair value up to the amount of tax owed using the maximum statutory tax rate in the employee's applicable jurisdictions. The Company will be allowed to determine one maximum rate for all employees in each jurisdiction, rather than a rate for each employee in the jurisdiction. Also, the ASU requires that cash outflows to reacquire shares withheld for taxes to be classified in the financing section of its statements of cash flows. Since the Company does not have any awards classified as liabilities due to statutory tax withholding requirements as of March 31, 2016, and since the Company already presents its cash outflows for reacquiring shares withheld for taxes as a financing activity in its statements of cash flows, the Company does not expect these amendments to have any impact on its financial statements.

Table of Contents

RESULTS OF OPERATIONS

Overview

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

The Electrical Infrastructure segment 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. The Storage Solutions segment also includes balance of plant work in storage terminals and tank farms. 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. Finally, we offer AST products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems, and floating roof seals.

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

Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Consolidated

Consolidated revenue was $309.4 million for the three months ended March 31, 2016, compared to $314.2 million in the same period in the prior fiscal year. On a segment basis, consolidated revenue increased in the Electrical Infrastructure and Storage Solutions segments by $46.2 million and $25.4 million, respectively. This increase was offset by decreased revenue in the Oil Gas & Chemical and Industrial segments of $40.1 million and $36.3 million, respectively.

Consolidated gross profit increased from $2.6 million in the three months ended March 31, 2015 to $27.3 million in the three months ended March 31, 2016. Fiscal 2015 gross profit was reduced due to a $28.5 million charge on an acquired EPC joint venture project which decreased fiscal 2015 gross margin by 8.9% to 0.8%. This charge is discussed in Note 3- Uncompleted Contracts. The fiscal 2016 gross margin was 8.8%.

Consolidated SG&A expenses were $21.0 million in the three months ended March 31, 2016 compared to $17.1 million in the same period a year earlier. The increase in SG&A in fiscal 2016 is attributable to higher incentive compensation expense recognized as a result of improved profitability, severance payments, and acquisition costs of $0.8 million described in Note 2.

Net interest expense was $0.2 million in the three months ended March 31, 2016 and $0.3 million in the three months ended March 31, 2015.

Our effective tax rate for the three months ended March 31, 2016 was 41.4% compared to 10.4% in the same period a year earlier. Our effective tax rates for fiscal 2016 and 2015 were impacted, in part, by the acquired EPC joint venture project charges in which the Company has a 65% interest and does not receive a tax benefit. The fiscal 2015 effective tax rate included a tax benefit of $1.1 million as the result of an increase in the R&D tax credit. We expect our annual effective tax rate for operations attributable only to Matrix Service Company to be 36.5%.

For the three months ended March 31, 2016, net income attributable to Matrix Service Company and the related fully diluted earnings per share were $4.4 million and $0.16 compared to a net loss attributable to Matrix Service Company of $3.0 million and fully diluted loss per share of $0.11 in the same period a year earlier.

Table of Contents

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment increased $46.2 million to $94.4 million in the three months ended March 31, 2016 compared to $48.2 million in the same period a year earlier as a result of volume increases in both power delivery and power generation. The Company recorded a project charge $28.5 million on the acquired EPC joint venture project in fiscal 2015 which reduced gross margin by 57.7% to (46.5%). The charge is discussed in Note 3- Uncompleted Contracts. Fiscal 2016 gross margin was 11.0%.

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was $55.7 million in the three months ended March 31, 2016 compared to $95.8 million in the same period a year earlier. The decrease of $40.1 million is largely related to a significant turnaround in fiscal 2015 and lower levels of capital work in fiscal 2016. Gross margins were 4.7% for the three months ended March 31, 2016 compared to 7.6% in the same period last year. Gross margins for fiscal 2016 were affected by lower volume, which led to the under recovery of overhead costs, and a project charge in our upstream business. Fiscal 2015 margins were impacted by lower than expected profitability on a significant turnaround.

Storage Solutions

Revenue for the Storage Solutions segment was $132.6 million in the three months ended March 31, 2016 compared to $107.2 million in the same period a year earlier, an increase of 23.7%. The increase is primarily attributable to increased activity on a previously announced project for the construction of crude gathering terminals feeding the Dakota Access Pipeline, partially offset by lower revenue volume in our Canadian operations. Gross margins improved from 10.5% in the three months ended March 31, 2015 to 11.4% in the three months ended March 31, 2016. The improvement in gross margins in fiscal 2016 was due to strong project execution and the improved absorption of overhead costs due to higher revenue volume.

Industrial

Revenue for the Industrial segment decreased $36.3 million to $26.7 million in the three months ended March 31, 2016 compared to $63.0 million in the same period a year earlier. The decline in revenue is primarily attributable to lower business volumes in the iron and steel and mining markets, and lower revenue recognized on a large fertilizer project that is nearing completion. Gross margins were (3.1%) in the three months ended March 31, 2016 compared to 10.4% in the same period a year earlier. Fiscal 2016 margins were negatively impacted by a forecasted unfavorable customer settlement and lower margins on iron and steel work due to lower volume.

Nine Months Ended March 31, 2016 Compared to the Nine Months Ended March 31, 2015

Consolidated revenue was $952.3 million for the nine months ended March 31, 2016, a decrease of $26.4 million, or 2.7%, from $978.7 million in the same period in the prior fiscal year. On a segment basis, consolidated revenue increased in the Electrical Infrastructure and Storage Solutions segments by $89.0 million and $28.8 million, respectively, offset by lower revenue in the Industrial and Oil Gas & Chemical segments of $105.2 million and $39.0 million, respectively.

Consolidated gross profit was $91.9 million in the nine months ended March 31, 2016 compared to $47.0 million in the nine months ended March 31, 2015. The Company recorded project charges of $7.1 million and $54.7 million on the acquired EPC joint venture project in fiscal 2016 and fiscal 2015, respectively. The charges, which are discussed in Note 3- Uncompleted Contracts, reduced fiscal 2016 gross margins by 0.9% to 9.6% and reduced fiscal 2015 gross margins by 5.8% to 4.8%.

Consolidated SG&A expenses were $65.5 million in the nine months ended March 31, 2016 compared to $56.5 million in the same period a year earlier. The increase in fiscal 2016 is primarily related to a bad debt charge of $5.2 million from an unexpected client bankruptcy, increased incentive expense related to higher profitability over the prior fiscal year, severance payments, and $0.9 million of costs related to the acquisition described in Note 2.

Net interest expense was $0.6 million in each of the nine months ended March 31, 2016 and 2015.

Our effective tax rate for the nine months ended March 31, 2016 was 35.6% compared to (33.2)% in the same period a year earlier. Our effective tax rate for fiscal 2016 and 2015 was impacted, in part, by the acquired EPC joint venture

project charges in which the Company has a 65% interest and does not receive a tax benefit. The fiscal 2016 and 2015 effective tax rates included tax benefits of $1.7 million and $1.1 million, respectively, as a result of increases in the R&D tax credit. We expect our annual effective tax rate for operations attributable only to Matrix Service Company to be 36.5%.

For the nine months ended March 31, 2016, net income attributable to Matrix Service Company and the related fully diluted earnings per share were $19.7 million and $0.73 compared to $6.2 million and $0.23 in the same period a year earlier.

Table of Contents

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment increased $89.0 million to $251.4 million in the nine months ended March 31, 2016 compared to $162.4 million in the same period a year earlier. The increased revenue was primarily due to volume increases in both power delivery and power generation. The Company recorded project charges of $7.1 million and $54.7 million on the acquired EPC joint venture project in fiscal 2016 and fiscal 2015. The charges, which are discussed in Note 3- Uncompleted Contracts, reduced fiscal 2016 gross margins by 3.2% to 7.6% and reduced fiscal 2015 gross margins for this segment by 35.1% to (24.0%).

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was $185.6 million in the nine months ended March 31, 2016 compared to $224.6 million in the same period a year earlier. The decrease of $39.0 million is largely related to a significant turnaround in fiscal 2015 and lower levels of capital work in fiscal 2016. Gross margins were 7.7% in the nine months ended March 31, 2016 compared to 8.5% a year earlier. Gross margins for fiscal 2016 were affected by lower volume, which lead to the under recovery of overhead costs, and a project charge in our upstream business. Fiscal 2015 margins were impacted by lower than expected profitability on a significant turnaround.

Storage Solutions

Revenue for the Storage Solutions segment increased to $399.1 million in the nine months ended March 31, 2016 compared to $370.3 million in the same period a year earlier. The increase of $28.8 million is primarily attributable to a previously announced project for the construction of crude gathering terminals feeding the Dakota Access Pipeline, partially offset by lower revenue volume in our Canadian operations. Gross margins were 12.5% for the nine months ended March 31, 2016 compared to 10.8% in the same period a year earlier. Fiscal 2016 margins were positively impacted by the improved recovery of construction overhead costs along with strong project execution.

Industrial

Revenue for the Industrial segment decreased $105.2 million to $116.2 million in the nine months ended March 31, 2016 compared to $221.4 million in the same period a year earlier. The decline in revenue is primarily attributable to lower business volumes in the iron and steel and mining markets, and lower revenue recognized on a large fertilizer project that is nearing completion. Gross margins were 7.5% in the nine months ended March 31, 2016 compared to 12.2% in the same period a year earlier. Fiscal 2016 margins were positively impacted by strong project execution partially offset by a forecasted unfavorable customer settlement recognized in the third quarter of fiscal 2016 and lower margins on iron and steel work due to lower volume. Fiscal 2015 gross margins were high primarily due to profit recognized on favorable project completions and a favorable settlement with a customer.

Backlog

We define backlog as the total dollar amount of 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.

- 24-

Table of Contents

The following table provides a summary of changes in our backlog for the three months ended March 31, 2016:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of December 31, 2015	$426,782	$116,311	$506,059	$67,882	$1,117,034
Project awards	51,561	40,465	109,437	23,398	224,861
Revenue recognized	(94,414)	(55,729)	(132,629)	(26,650)	(309,422)
Backlog as of March 31, 2016	$383,929	$101,047	$482,867	$64,630	$1,032,473

The following table provides a summary of changes in our backlog for the nine months ended March 31, 2016:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of June 30, 2015	$493,973	$132,985	$670,493	$123,147	1,420,598
Project awards	141,393	153,642	233,421	69,320	597,776
Project delays and cancellations	—	—	(22,013)	(11,606)	(33,619)
Revenue recognized	(251,437)	(185,580)	(399,034)	(116,231)	(952,282)
Backlog as of March 31, 2016	$383,929	$101,047	$482,867	$64,630	$1,032,473

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.

The decline in backlog in the Electrical Infrastructure segment is mainly attributable to the accelerating work related to the previously announced Napanee Power Generating Station project. Awards in power delivery continue to meet the Company's expectations.

Backlog in the Industrial segment was negatively impacted by a mining-related project cancellation of $11.6 million in the first quarter as well as a slowdown in the iron and steel and mining industries. The cancellation was not attributable to the Company's performance on the project. It is our belief that the cancellation was attributable to softness in commodity prices, including copper, to which the client is exposed.

The decline in backlog in the Storage Solutions Segment is attributable to the accelerating work related to the previously announced project for the construction of terminals supporting the Dakota Access Pipeline. In addition, a more cautious approach to decision-making on the part of clients, together with more conservative financial and regulatory requirements, is delaying the timing of some awards. Although we are seeing increased competition, awards for small and medium sized projects are generally meeting the Company's expectations.

Backlog in the Storage Solutions segment was negatively impacted in the second quarter by $22.0 million related to the indefinite delay of remaining work on a project for one of our Canadian customers for the construction of aboveground storage tanks at a storage terminal. At the onset of the project, the customer anticipated receiving the appropriate permitting approvals for the pipeline that would have run from the storage terminal to the Gulf Coast of the United States. In November of 2015, the President of the United States rejected approval of the pipeline. The customer was also considering deploying the storage tanks for another project that was indefinitely deferred due to the low price of crude oil.

Table of Contents

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 the Company's operating results.

Impact of Crude Oil and Other Commodity Price Declines

The prolonged decline in crude prices is beginning to impact our income from operations and project awards, particularly in the Oil Gas & Chemical and Storage Solutions segments. The Industrial segment continues to be negatively impacted by the low prices of other commodities, principally steel and copper. We do not expect the decline in commodity prices to have a significant impact to the Electrical Infrastructure segment.

In the mid and downstream portions of the Oil Gas & Chemical segment, we continue to perform work attributable to routine maintenance and required turnarounds but are seeing a general slowdown of capital work which will negatively affect income in the near term. Additionally, since some of our mid and downstream customers are integrated oil companies with exposure to the price of crude, if the prices remain at current levels or decline, spending levels may be reduced. Our exposure to non-integrated upstream clients in the Oil Gas & Chemical segment is not significant.

In our Storage Solutions segment, our customers continue to take a long-term view of the crude market and continue to be cautious short-term, particularly on larger projects. Based on the the current level and short-term outlook for crude oil prices, we are seeing a reduction in customer spending and some project award delays. We cannot predict the direction of crude oil prices or our customers' ultimate reaction to the market and therefore cannot predict the magnitude of the impact to our future earnings.

In the Industrial segment, our iron and steel customers face significant uncertainty related to the slowdown in the Chinese economy and the related impact on steel imports and steel prices, the strong United States dollar, the domestic demand for steel and the impact of anti-dumping duties on steel imports. This uncertainty has reduced the capital, expansion and elective maintenance spending of our customers. Although we are seeing some encouraging signs in the market, we do not expect higher levels of spending until the overall uncertainty in this market is reduced and economic conditions within the industry improve. In the mining and minerals markets, we continue to see lower spending due to the softness of other commodity prices, particularly copper, to which our clients are exposed.

Table of Contents

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 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, 2016	March 31, 2015	March 31, 2016	March 31, 2015
	(In thousands)			
Net income (loss) attributable to Matrix Service Company	$4,357	$(2,959)	$19,729	$6,241
Interest expense	241	294	756	946
Provision for income taxes	2,507	(1,508)	9,060	3,271
Depreciation and amortization	5,419	5,792	16,139	17,332
EBITDA	$12,524	$1,619	$45,684	$27,790

Table of Contents

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, 2016 were cash on hand, capacity under our senior revolving credit facility and cash generated from operations before consideration of changes in working capital. Cash on hand at March 31, 2016 totaled $73.4 million and availability under the senior revolving credit facility totaled $166.5 million resulting in available liquidity of $239.9 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 which can be significant
- Collection issues, including those caused by weak commodity prices or other factors which can lead to credit deterioration of our customers
- Capacity constraints under our credit facility and remaining in compliance with all covenants contained in the credit agreement
- A default by one of the major financial institutions for which our deposits exceed insured deposit limits
- Cash on hand outside of the United States that cannot be repatriated without incremental taxation.

As discussed under the caption "Senior Revolving Credit Facility" included in this Financial Condition and Liquidity section of the Form 10-Q, our 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. Consequently, project charges that the Company has recorded in connection with the acquired EPC joint venture have resulted in a short term capacity constraint on the Company's senior revolving credit facility Although the constraint reduces 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-term and long-term business objectives.

Table of Contents

Cash Flow for the Nine Months Ended March 31, 2016
Cash Flows Provided by Operating Activities
Cash provided by operating activities for the nine months ended March 31, 2016 totaled $21.3 million. The various components are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net income	$16,403
Non-cash expenses	23,513
Deferred income tax	1,413
Cash effect of changes in operating assets and liabilities	(20,188)
Other	179
Net cash provided by operating activities	$21,320

The cash effect of significant changes in operating assets and liabilities at March 31, 2016 in comparison to June 30, 2015 include the following:

- Accounts receivable, net of the impact of acquisitions, decreased by $23.7 million during nine months ended March 31, 2016. The variance is primarily attributable to lower revenues and billings in the fiscal 2016 third quarter compared to the prior year period fiscal third quarter.

- Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") increased $6.6 million million while billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") decreased $29.9 million. The net change in CIE and BIE decreased cash $36.5 million for the nine months ended March 31, 2016. CIE and BIE balances can experience significant day-to-day fluctuations based on the timing of when job costs are incurred, the invoicing of those job costs to the customer, and other working capital management factors.

Cash Flows Used for Investing Activities
Investing activities used $24.5 million of cash in the first nine months of fiscal 2016 primarily due to the purchase of BTE for $13.0 million and capital expenditures of $11.7 million. Capital expenditures primarily consisted of $3.1 million for the purchase of construction equipment, $2.1 million for transportation and fabrication equipment, $1.7 million for office equipment, and $1.4 million for buildings. Proceeds from asset sales provided $0.3 million of cash.
Cash Flows Used for Financing Activities
Financing activities used $1.9 million of cash in the first nine months of fiscal 2016 primarily due to treasury share purchases of $10.0 million, repayments of borrowings of $7.7 million and repayment of acquired long-term debt of $1.9 million, partially offset by $10.9 million in proceeds contributed from the noncontrolling interest partner in our acquired EPC joint venture project, borrowings of $2.8 million under our credit facility, cash received for the issuance of stock options of $0.6 million, and $0.3 million in cash received from employees participating in the Company's employee stock purchase program. The excess tax benefit of exercised stock options and vesting of deferred shares provided $3.2 million of cash. 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.

Table of Contents

- 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, 2016, Consolidated EBITDA, as defined in the Credit Agreement, was $76.4 million. Accordingly, at March 31, 2016, there was a restriction on our ability to access the full amount of the credit facility. Based on current projections, management believes that the constraint will exist at June 30, 2016. However, the constraint is not expected to impact our ability to operate the business. Consolidated Funded Indebtedness at March 31, 2016 was $16.8 million.

Availability under the senior credit facility at March 31, 2016 and June 30, 2015 was as follows:

	March 31, 2016	June 30, 2015
	(In thousands)	
Senior credit facility	$200,000	$200,000
Capacity constraint due to the Senior Leverage Ratio	9,013	54,968
Capacity under the credit facility	190,987	145,032
Borrowings outstanding	3,845	8,804
Letters of credit	20,612	40,587
Availability under the senior credit facility	$166,530	$95,641

Outstanding borrowings at March 31, 2016 consisted of 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.

Table of Contents

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 previously been in place. The 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 beneficial 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. As of March 31, 2016, the Company has purchased 613,772 shares under the program, of which 330,000 shares were purchased during the third quarter of fiscal 2016.

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 202,916 shares in the first nine months of fiscal 2016 to satisfy these obligations. These shares were returned to the Company’s pool of treasury shares.

The Company has 1,281,727 treasury shares as of March 31, 2016 and intends to utilize these treasury shares solely in connection with equity awards under the Company’s stock incentive plans.

Table of Contents

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:

- the impact to our business of crude oil and other commodity prices;
- amounts and nature of future revenues and margins from each of our segments;
- trends in the industries we serve;
- 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, 2015 and listed from time to time in our filings with the Securities and Exchange Commission;
- economic, market or business conditions in general and in the oil, gas, power, iron and steel and mining and minerals industries in particular;
- reduced creditworthiness of our customer base and the higher risk of non-payment of receivables due to low prevailing crude oil and other commodity prices;
- the inherently uncertain outcome of current and future litigation;
- the adequacy of our reserves for contingencies;
- 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.

Table of Contents

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, 2015, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2015 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, 2016. 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, 2016.

On February 1, 2016, we completed our acquisition of Baillie Tank Equipment, Ltd ("BTE"). Except for the BTE operations acquired, which we excluded from our assessment of the effectiveness of our internal controls over financial reporting for the third quarter of fiscal 2016, 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, 2016.

Table of Contents

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, 2015.
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 2016.

	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)
January 1 to January 31, 2016				
Share Repurchase Program (A)	—	—	—	2,369,627
Employee Transactions (B)	1,714	$ 17.90	—	
February 1 to February 29, 2016				
Share Repurchase Program (A)	330,000	$ 16.55	330,000	2,039,627
Employee Transactions (B)	752	$ 17.08	—	
March 1 to March 31, 2016				
Share Repurchase Program (A)	—	—	—	2,039,627
Employee Transactions (B)	431	$ 19.06	—	

(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. The 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 beneficial 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.

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 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.

Table of Contents

Item 3. Defaults Upon Senior Securities
None
Item 4. Mine Safety Disclosures
Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the "Mine Act") by the federal Mine Safety and Health Administration. We do not act as the owner of any mines, but as a result of our performing services or construction at mine sites as an independent contractor, we are considered an "operator" within the meaning of the Mine Act.
Information concerning mine safety violations or other regulatory matters required to be disclosed in this quarterly report under Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95.
Item 5. Other Information
None
Item 6. Exhibits:

Exhibit 3:	Amended and Restated Bylaws (as amended and restated effective as of February 2, 2016) (Exhibit 3 to the Company's Current Report on Form 8-K (File No. 1-15461) filed February 5, 2016, is hereby incorporated by reference).
Exhibit 10:	Second Amendment to Third Amended and Restated Credit Agreement dated as of May 3, 2016 among the Company, certain Canadian subsidiaries of the Company, the Lenders party thereto and JPMorgan Chase Bank, N.A. as Administrative Agent for the Lenders (Exhibit 10 to the Company's Current Report on Form 8-K (File No. 1-15461) filed May 5, 2016, is hereby incorporated by reference).
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 5, 2016	By: /s/ Kevin S. Cavanah
		Kevin S. Cavanah Vice President and Chief Financial Officer signing on behalf of the registrant and as the registrant's principal financial officer

Table of Contents

EXHIBIT INDEX

Exhibit 3:	Amended and Restated Bylaws (as amended and restated effective as of February 2, 2016) (Exhibit 3 to the Company's Current Report on Form 8-K (File No. 1-15461) filed February 5, 2016, is hereby incorporated by reference).
Exhibit 10:	Second Amendment to Third Amended and Restated Credit Agreement dated as of May 3, 2016 among the Company, certain Canadian subsidiaries of the Company, the Lenders party thereto and JPMorgan Chase Bank, N.A. as Administrative Agent for the Lenders (Exhibit 10 to the Company's Current Report on Form 8-K (File No. 1-15461) filed May 5, 2016, is hereby incorporated by reference).
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.