

MATRIX SERVICE CO
Form 10-Q
February 05, 2016

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2015

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

For the transition period from _____ to _____

Commission File No. 1-15461

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Inter Active Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of January 29, 2016 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,923,728 shares outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Matrix Service Company

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Revenues	\$323,529	\$342,880	\$642,860	\$664,563
Cost of revenues	293,524	326,925	578,271	620,229
Gross profit	30,005	15,955	64,589	44,334
Selling, general and administrative expenses	25,070	19,626	44,553	39,458
Operating income (loss)	4,935	(3,671)	) 20,036	4,876
Other income (expense):				
Interest expense	(252)	) (300)	) (515)	) (652)
Interest income	60	308	91	350
Other	(148)	) (28)	) (202)	) 29
Income (loss) before income tax expense	4,595	(3,691)	) 19,410	4,603
Provision for federal, state and foreign income taxes	1,477	1,155	6,553	4,779
Net income (loss)	3,118	(4,846)	) 12,857	(176)
Less: Net loss attributable to noncontrolling interest	(2,313)	) (8,132)	) (2,515)	) (9,376)
Net income attributable to Matrix Service Company	\$5,431	\$3,286	\$15,372	\$9,200
Basic earnings per common share	\$0.20	\$0.12	\$0.58	\$0.35
Diluted earnings per common share	\$0.20	\$0.12	\$0.56	\$0.34
Weighted average common shares outstanding:				
Basic	26,721	26,600	26,598	26,535
Diluted	27,248	27,156	27,229	27,154
See accompanying notes.				

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

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2015	2014	2015	2014
Net income (loss)	\$3,118	\$(4,846)	) \$12,857	\$(176)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(1,366)	) (1,501)	) (3,815)	) (3,271)
Comprehensive income (loss)	1,752	(6,347)	) 9,042	(3,447)
Less: Comprehensive loss attributable to noncontrolling interest	(2,313)	) (8,132)	) (2,515)	) (9,376)
Comprehensive income attributable to Matrix Service Company	\$4,065	\$1,785	\$11,557	\$5,929

See accompanying notes.

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

	December 31, 2015	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 82,431	\$ 79,239
Accounts receivable, less allowances (December 31, 2015— \$6,105 and June 30, 2015—\$561)	207,425	199,149
Costs and estimated earnings in excess of billings on uncompleted contracts	81,743	86,071
Inventories	2,688	2,773
Income taxes receivable	5,123	579
Other current assets	7,236	5,660
Total current assets	386,646	373,471
Property, plant and equipment at cost:		
Land and buildings	32,712	32,746
Construction equipment	89,027	87,561
Transportation equipment	46,991	47,468
Office equipment and software	28,292	28,874
Construction in progress	9,235	5,196
Total property, plant and equipment - at cost	206,257	201,845
Accumulated depreciation	(123,416)	(116,782)
Property, plant and equipment - net	82,841	85,063
Goodwill	70,605	71,518
Other intangible assets	21,986	23,961
Deferred income taxes	3,467	3,729
Other assets	6,603	3,947
Total assets	\$ 572,148	\$ 561,689

See accompanying notes.

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

	December 31, 2015	June 30, 2015
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 109,336	\$ 125,792
Billings on uncompleted contracts in excess of costs and estimated earnings	114,140	96,704
Accrued wages and benefits	18,875	26,725
Accrued insurance	8,898	8,100
Income taxes payable	57	3,268
Other accrued expenses	6,710	6,498
Total current liabilities	258,016	267,087
Deferred income taxes	1,988	1,244
Borrowings under senior credit facility	7,226	8,804
Total liabilities	267,230	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 December 31, 2015, and June 30, 2015; 26,914,918 and 26,440,823 shares outstanding as of December 31, 2015 and June 30, 2015		279
Additional paid-in capital	124,168	123,038
Retained earnings	209,766	194,394
Accumulated other comprehensive loss	(9,741	) (5,926)
	324,472	311,785
Less: Treasury stock, at cost— 973,299 shares as of December 31, 2015, and 1,447,394 shares as of June 30, 2015	(16,730	) (18,489)
Total Matrix Service Company stockholders' equity	307,742	293,296
Noncontrolling interest	(2,824	) (8,742)
Total stockholders' equity	304,918	284,554
Total liabilities and stockholders' equity	\$ 572,148	\$ 561,689

See accompanying notes.

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

	Six Months Ended	
	December 31, 2015	December 31, 2014
Operating activities:		
Net income (loss)	\$12,857	\$ (176)
Adjustments to reconcile net income to net cash provided provided by operating activities:		
Depreciation and amortization	10,720	11,540
Deferred income tax	1,390	1,011
Gain on sale of property, plant and equipment	(37)	(120)
Provision for uncollectible accounts	5,544	451
Stock-based compensation expense	3,509	3,168
Excess tax benefit of exercised stock options and vesting of deferred shares	(3,245)	(1,731)
Other	119	118
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:		
Accounts receivable	(13,820)	(9,243)
Costs and estimated earnings in excess of billings on uncompleted contracts	4,328	3,435
Inventories	85	32
Other assets and liabilities	(8,861)	3,247
Accounts payable	(16,743)	(19,429)
Billings on uncompleted contracts in excess of costs and estimated earnings	17,436	19,174
Accrued expenses	(6,840)	(6,099)
Net cash provided by operating activities	6,442	5,378
Investing activities:		
Acquisition of property, plant and equipment	(7,516)	(7,711)
Acquisition (Note 2)	—	(5,551)
Proceeds from asset sales	145	290
Net cash used by investing activities	\$(7,371)	\$(12,972)

See accompanying notes.

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

	Six Months Ended	
	December 31, 2015	December 31, 2014
Financing activities:		
Capital contributions from noncontrolling interest	\$8,433	\$ —
Issuances of common stock	457	364
Excess tax benefit of exercised stock options and vesting of deferred shares	3,245	1,731
Advances under credit agreement	2,753	9,272
Repayments of advances under credit agreement	(4,331)	(9,104)
Proceeds from issuance of common stock under employee stock purchase plan	166	134
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(4,488)	(2,439)
Net cash provided (used) by financing activities	6,235	(42)
Effect of exchange rate changes on cash and cash equivalents	(2,114)	(911)
Increase (decrease) in cash and cash equivalents	3,192	(8,547)
Cash and cash equivalents, beginning of period	79,239	77,115
Cash and cash equivalents, end of period	\$82,431	\$ 68,568
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$9,112	\$ 5,905
Interest	\$521	\$ 748
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	\$726	\$ 185

See accompanying notes.

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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 non-controlling interest	—	—	—	—	—	8,433	8,433
Net income (loss)	—	—	15,372	—	—	(2,515)	12,857
Other comprehensive loss	—	—	—	—	(3,815)	—	(3,815)
Exercise of stock options (50,337 shares)	—	(7)	—	464	—	—	457
Tax effect of exercised stock options and vesting of deferred shares	—	3,245	—	—	—	—	3,245
Issuance of deferred shares (615,395 shares)	—	(5,706)	—	5,706	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (8,382 shares)	—	89	—	77	—	—	166
Treasury shares purchased to satisfy tax withholding obligations (200,019 shares)	—	—	—	(4,488)	—	—	(4,488)
Stock-based compensation expense	—	3,509	—	—	—	—	3,509
Balances, December 31, 2015	\$279	\$124,168	\$209,766	\$(16,730)	\$ (9,741)	\$ (2,824)	\$304,918
Balances, July 1, 2014	\$279	\$119,777	\$177,237	\$(16,595)	\$ (182)	\$ 1,767	\$282,283
Net income (loss)	—	—	9,200	—	—	(9,376)	(176)
Other comprehensive loss	—	—	—	—	(3,271)	—	(3,271)
Exercise of stock options (42,450 shares)	—	(287)	—	651	—	—	364
Tax effect of exercised stock options and vesting of deferred shares	—	1,731	—	—	—	—	1,731
Issuance of deferred shares (314,003 shares)	—	(4,584)	—	4,584	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (4,972 shares)	—	47	—	87	—	—	134
	—	—	—	(2,439)	—	—	(2,439)

Treasury shares purchased to satisfy tax withholding obligations (100,694 shares)

Stock-based compensation expense	—	3,168	—	—	—	—	3,168
Balances, December 31, 2014	\$279	\$119,852	\$186,437	\$(13,712)	\$(3,453)	\$(7,609)	\$281,794

See accompanying notes.

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Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Accounting Policies

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all adjustments, consisting of normal recurring adjustments and other adjustments described herein, that are, in the opinion of management, necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2015, included in the Company’s Annual Report on Form 10-K for the year then ended.

Recently Issued Accounting Standards

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

On November 20, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 2014-09 (Topic 606), Revenue from Contracts with Customers

On May 28, 2014, the FASB issued 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 2014-15 (Subtopic 205-40)—Presentation of Financial Statements—Going Concern :
Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

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

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(unaudited)

will continue to differ. The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. We expect to adopt this standard on July 1, 2016.

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.

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.

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

Note 3 – Uncompleted Contracts

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

	December 31, 2015	June 30, 2015
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$1,937,286	\$1,633,780
Billings on uncompleted contracts	1,969,683	1,644,413
	\$(32,397)	\$(10,633)
Shown in balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$81,743	\$86,071
Billings on uncompleted contracts in excess of costs and estimated earnings	114,140	96,704
	\$(32,397)	\$(10,633)

Progress billings in accounts receivable at December 31, 2015 and June 30, 2015 included retentions to be collected within one year of \$25.3 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 December 31, 2015 and \$2.8 million at June 30, 2015.

Other

In the three and six months ended December 31, 2014 our results of operations were materially impacted by charges resulting from a change in estimate related to an acquired EPC joint venture project in the Electrical Infrastructure segment. The charges resulted in a reduction to operating income of \$22.9 million and \$26.2 million and an after-tax reduction of \$7.9 million and \$9.0 million to net income attributable to Matrix Service Company, respectively. The Company recorded an additional charge on this project in the second quarter of fiscal 2016. The charge resulted in a reduction of operating income in the Electrical Infrastructure segment of \$5.4 million and \$5.5 million and a reduction of \$2.0 million in net income attributable to Matrix Service Company in the three and six months ended December 31, 2015, respectively.

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

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Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 4 – Intangible Assets Including Goodwill

Goodwill

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

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Goodwill	\$60,027	\$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
Translation adjustment (2)	(595)	—	(206)	(112)	(913)
Net balance at December 31, 2015	\$41,779	\$14,008	\$9,458	\$5,360	\$70,605

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

(2) The translation adjustments relate to the periodic translation of Canadian Dollar denominated goodwill recorded as a part of prior Canadian acquisitions.

Other Intangible Assets

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

	Useful Life (Years)	At December 31, 2015		
		Gross Carrying Amount (In thousands)	Accumulated Amortization	Net Carrying Amount
Intellectual property	6 to 15	\$2,460	\$(1,170)	\$1,290
Customer based	1.5 to 15	27,408	(8,169)	19,239
Non-compete agreements	4 to 5	1,354	(947)	407
Trade names	3 to 5	1,615	(565)	1,050
Total amortizing intangible assets		\$32,837	\$(10,851)	\$21,986

	Useful Life (Years)	At June 30, 2015		
		Gross Carrying Amount (In thousands)	Accumulated Amortization	Net Carrying Amount
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

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Notes to Condensed Consolidated Financial Statements
(unaudited)

Amortization expense totaled \$1.6 million in the six months ended December 31, 2015 and \$2.4 million in the six months ended December 31, 2014. We estimate that the remaining amortization expense at December 31, 2015 will be as follows (in thousands):

Period ending:	
Remainder of Fiscal 2016	\$1,632
Fiscal 2017	3,197
Fiscal 2018	2,856
Fiscal 2019	2,490
Fiscal 2020	2,490
Fiscal 2021	2,486
Thereafter	6,835
Total estimated remaining amortization expense at December 31, 2015	\$21,986

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

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

The Credit Agreement includes a Senior Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended December 31, 2015, Consolidated EBITDA, as defined in the Credit Agreement, was \$65.4 million. Accordingly, at December 31, 2015, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at December 31, 2015 was \$22.3 million.

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Availability under the senior credit facility was as follows:

	December 31, 2015	June 30, 2015
	(In thousands)	
Senior credit facility	\$200,000	\$200,000
Capacity constraint due to the Senior Leverage Ratio	36,433	54,968
Capacity under the credit facility	163,567	145,032
Borrowings outstanding	7,226	8,804
Letters of credit	23,168	40,587
Availability under the senior credit facility	\$133,173	\$95,641

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

At December 31, 2015, the Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

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 December 31, 2015 was 32.1% compared to (31.3)% in the same period a year earlier. Our effective tax rate for the six months ended December 31, 2015 was 33.8% compared to 103.8% in the same period a year earlier. Our effective tax rates for the three and six months ended December 31, 2015 and 2014, in comparison to our statutory rate, 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 a discrete benefit of \$0.9 million in the three months ended December 31, 2015, primarily relating to the retroactive application of the R&D tax credit. In addition, the Company recorded discrete benefits of \$1.4 million in the six months ended December 31, 2015 primarily relating to the retroactive application of the R&D tax credit and a foreign currency item.

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. 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

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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 \$11.3 million at December 31, 2015 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		Six Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	(In thousands, except per share data)			
Basic EPS:				
Net income attributable to Matrix Service Company	\$5,431	\$3,286	\$15,372	\$9,200
Weighted average shares outstanding	26,721	26,600	26,598	26,535
Basic EPS	\$0.20	\$0.12	\$0.58	\$0.35
Diluted EPS:				
Weighted average shares outstanding – basic	26,721	26,600	26,598	26,535
Dilutive stock options	76	115	81	131
Dilutive nonvested deferred shares	451	441	550	488
Diluted weighted average shares	27,248	27,156	27,229	27,154
Diluted EPS	\$0.20	\$0.12	\$0.56	\$0.34

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

	Three Months Ended		Six Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014

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	(In thousands)			
Nonvested deferred shares	86	123	105	227

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Note 9 – Segment Information

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

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

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

The Storage Solutions segment includes new construction of crude and refined products aboveground storage tanks (“ASTs”), as well as planned and emergency maintenance services. 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 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.

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(unaudited)Results of Operations
(In thousands)

	Three Months Ended		Six Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Gross revenues				
Electrical Infrastructure	\$91,398	\$58,533	\$157,023	\$114,206
Oil Gas & Chemical	63,472	76,419	132,431	130,618
Storage Solutions	122,647	129,987	267,217	263,337
Industrial	48,390	79,972	89,725	159,332
Total gross revenues	\$325,907	\$344,911	\$646,396	\$667,493
Less: Inter-segment revenues				
Electrical Infrastructure	\$—	\$—	\$—	\$—
Oil Gas & Chemical	1,932	962	2,580	1,802
Storage Solutions	478	182	812	241
Industrial	(32	) 887	144	887
Total inter-segment revenues	\$2,378	\$2,031	\$3,536	\$2,930
Consolidated revenues				
Electrical Infrastructure	\$91,398	\$58,533	\$157,023	\$114,206
Oil Gas & Chemical	61,540	75,457	129,851	128,816
Storage Solutions	122,169	129,805	266,405	263,096
Industrial	48,422	79,085	89,581	158,445
Total consolidated revenues	\$323,529	\$342,880	\$642,860	\$664,563
Gross profit (loss)				
Electrical Infrastructure	\$4,021	\$(16,058	) \$8,729	\$(16,547
Oil Gas & Chemical	5,971	7,352	11,654	11,738
Storage Solutions	14,426	14,231	34,658	28,749
Industrial	5,587	10,430	9,548	20,394
Total gross profit	\$30,005	\$15,955	\$64,589	\$44,334
Operating income (loss)				
Electrical Infrastructure	\$(723	) \$(18,522	) \$477	\$(22,178
Oil Gas & Chemical	(3,029	) 2,682	(1,613	) 3,260
Storage Solutions	6,374	6,627	17,923	13,730
Industrial	2,313	5,542	3,249	10,064
Total operating income	\$4,935	\$(3,671	) \$20,036	\$4,876

Total assets by segment were as follows:

	December 31, 2015	June 30, 2015
Electrical Infrastructure	\$148,447	\$129,725
Oil Gas & Chemical	93,098	108,960
Storage Solutions	182,587	172,857
Industrial	77,287	102,761
Unallocated assets	70,729	47,386

Total segment assets	\$572,148	\$561,689
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Note 10 – Subsequent Event

On February 1, 2016, the Company completed the acquisition of Baillie Tank Equipment (“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 acquisition was funded with cash on-hand of \$15.4 million. The Company is currently working through a preliminary purchase price allocation. Going forward, the business will be known as Matrix Applied Technologies and reported in the Storage Solutions segment.

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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 with goodwill representing 59%, 12%, 9%, 8% and 6% of the total goodwill balance. Our most recent annual goodwill impairment test, performed in the fourth quarter of fiscal 2015, indicated that the fair value of these reporting units exceeded their respective carrying values by 347%, 142%, 134%, 586% and 144%, respectively. 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 December 31, 2015. 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 1.5 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 six months ended December 31, 2015 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 \$11.3 million at December 31, 2015 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.

Recently Issued Accounting Standards

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

On November 20, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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,

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

On May 28, 2014, the FASB issued 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 2014-15 (Subtopic 205-40)—Presentation of Financial Statements—Going Concern : Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The FASB believes that requiring management to perform the assessment will enhance the timeliness, clarity, and consistency of related disclosures and improve convergence with international financial reporting standards ("IFRSs") (which emphasize management's responsibility for performing the going-concern assessment). However, the time horizon for the assessment (look-forward period) and the disclosure thresholds under U.S. GAAP and IFRSs will continue to differ. The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. We expect to adopt this standard on July 1, 2016.

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.

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.

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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 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 December 31, 2015 Compared to the Three Months Ended December 31, 2014

Consolidated

Consolidated revenue was \$323.5 million for the three months ended December 31, 2015, compared to consolidated revenue of \$342.9 million in the same period in the prior fiscal year. On a segment basis, consolidated revenue increased in the Electrical Infrastructure segment by \$32.9 million. This increase was offset by decreased revenue in the Industrial, Oil Gas & Chemical and Storage Solutions segments of \$30.7 million, \$14.0 million and \$7.6 million, respectively.

Consolidated gross profit increased from \$16.0 million in the three months ended December 31, 2014 to \$30.0 million in the three months ended December 31, 2015. The Company recorded project charges of \$5.4 million and \$22.9 million on an acquired EPC joint venture project in fiscal 2016 and fiscal 2015. The charges are discussed in Note 3- Uncompleted Contracts. These charges reduced fiscal 2016 gross margins by 1.6% to 9.3% and reduced fiscal 2015 gross margins by 6.7% to 4.7% in the same period in the prior fiscal year.

Consolidated SG&A expenses were \$25.1 million in the three months ended December 31, 2015 compared to \$19.6 million in the same period a year earlier. The increase in fiscal 2016 is primarily related to a non-routine bad debt charge of \$5.2 million from an unexpected client bankruptcy.

Net interest expense was \$0.2 million in the three months ended December 31, 2015. Interest expense was \$0.3 million in the three months ended December 31, 2014. Fiscal 2015 results include \$0.3 million of interest income attributable to an award received due to the settlement of a customer dispute.

Our effective tax rate for the three months ended December 31, 2015 was 32.1% compared to (31.3%) 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. In addition, the Company recorded a discrete benefit of \$0.9 million in the three months ended December 31, 2015, primarily relating to the retroactive application of the R&D tax credit. The fiscal 2015 effective tax rate included an additional tax benefit of \$0.8 million from the reinstatement of the R&D tax credit through calendar year 2014.

For the three months ended December 31, 2015, net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$5.4 million and \$0.20 compared to net income attributable to Matrix Service

Company of \$3.3 million and fully diluted earnings per share of \$0.12 in the same period a year earlier.

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment increased \$32.9 million to \$91.4 million in the three months ended December 31, 2015 compared to \$58.5 million in the same period a year earlier as a result of volume increases in both power delivery and power generation. The Company recorded project charges of \$5.4 million and \$22.9 million on the acquired EPC joint venture project in fiscal 2016 and fiscal 2015. The charges are discussed in Note 3- Uncompleted Contracts. These charges reduced fiscal 2016 gross margins for this segment by 5.8% to 4.4% and reduced fiscal 2015 gross margins by 39.3% to (27.4%).

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Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was \$61.5 million in the three months ended December 31, 2015 compared to \$75.5 million in the same period a year earlier. The decrease of \$14.0 million, or 18.5%, was due to lower levels of capital and maintenance work. Gross margins were 9.7% for the three months ended December 31, 2015 and December 31, 2014, respectively. Gross margins for fiscal 2016 and fiscal 2015 were negatively impacted by the under recovery of construction overhead costs.

Storage Solutions

Revenue for the Storage Solutions segment was \$122.2 million in the three months ended December 31, 2015 compared to \$129.8 million in the same period a year earlier, a decrease of 5.9%. The decrease is primarily attributable to lower revenue volume in our Canadian operations partially offset by higher domestic levels of balance of plant work. Gross margins were 11.8% for the three months ended December 31, 2015 compared to 11.0% in the same period a year earlier.

Industrial

Revenue for the Industrial segment decreased \$30.7 million to \$48.4 million in the three months ended December 31, 2015 compared to \$79.1 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 11.5% in the three months ended December 31, 2015 compared to 13.2% in the same period a year earlier. Fiscal 2016 margins were positively impacted by the mix of work and strong project execution. Fiscal 2015 margins were positively impacted by a favorable settlement with a customer.

Six Months Ended December 31, 2015 Compared to the Six Months Ended December 31, 2014

Consolidated revenue was \$642.9 million for the six months ended December 31, 2015, a decrease of \$21.7 million, or 3.3%, from consolidated revenue of \$664.6 million in the same period in the prior fiscal year. On a segment basis, consolidated revenue increased in the Electrical Infrastructure, Storage Solutions and Oil Gas & Chemical segments by \$42.8 million, \$3.3 million and \$1.1 million respectively, offset by a decrease in the Industrial segment of \$68.9 million.

Consolidated gross profit was \$64.6 million in the six months ended December 31, 2015 compared to \$44.3 million in the six months ended December 31, 2014. The Company recorded project charges of \$5.5 million and \$26.2 million on the acquired EPC joint venture project in fiscal 2016 and fiscal 2015. The charges are discussed in Note 3- Uncompleted Contracts. These charges reduced fiscal 2016 gross margins by 1.1% to 10.0% and reduced fiscal 2015 gross margins by 4.4% to 6.7%.

Consolidated SG&A expenses were \$44.6 million in the six months ended December 31, 2015 compared to \$39.5 million in the same period a year earlier. The increase in fiscal 2016 is primarily related to a non-routine bad debt charge of \$5.2 million from an unexpected client bankruptcy.

Net interest expense was \$0.4 million in the six months ended December 31, 2015, and \$0.3 million in the six months ended December 31, 2014. Fiscal 2015 results include \$0.3 million of interest income attributable to an award

received due to the settlement of a customer dispute.

Our effective tax rate for the six months ended December 31, 2015 was 33.8% compared to 103.8% 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. In addition, the Company recorded discrete benefits of \$1.4 million in the six months ended December 31, 2015 primarily relating to the retroactive application of the R&D tax credit and a foreign currency item. The fiscal 2015 effective tax rate included an additional tax benefit of \$0.8 million from the reinstatement of the R&D tax credit through calendar year 2014.

For the six months ended December 31, 2015, net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$15.4 million and \$0.56 compared to \$9.2 million and \$0.34 in the same period a year earlier.

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment increased \$42.8 million to \$157.0 million in the six months ended December 31, 2015 compared to \$114.2 million in the same period a year earlier. The increased revenue volume was primarily due to volume increases in both power delivery and power generation. The Company recorded project charges of \$5.5 million and

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\$26.2 million on the acquired EPC joint venture project in fiscal 2016 and fiscal 2015. The charges are discussed in Note 3- Uncompleted Contracts. These charges reduced fiscal 2016 gross margins by 4.0% to 5.6% and reduced fiscal 2015 gross margins for this segment by 25.1% to (14.5%).

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was \$129.9 million in the six months ended December 31, 2015 compared to \$128.8 million in the same period a year earlier. Revenue volumes were flat across most of the segment. Gross margins were 9.0% in the six months ended December 31, 2015 compared to 9.1% a year earlier. Gross margins for fiscal 2016 were negatively impacted by lower direct margins partially offset by the improvement in absorption of overhead costs.

Storage Solutions

Revenue for the Storage Solutions segment increased to \$266.4 million in the six months ended December 31, 2015 compared to \$263.1 million in the same period a year earlier. The increase is primarily attributable to higher domestic levels of balance of plant work largely offset by lower revenue in our Canadian operations. Gross margins were 13.0% for the six months ended December 31, 2015 compared to 10.9% 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 \$68.9 million to \$89.6 million in the six months ended December 31, 2015 compared to \$158.5 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 10.7% in the six months ended December 31, 2015 compared to 12.9% in the same period a year earlier. Gross margins for both periods were positively impacted by strong project execution. In addition, fiscal 2015 gross margins included 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.

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

Electrical	Oil Gas &	Storage	Industrial	Total
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	Infrastructure	Chemical	Solutions		
	(In thousands)				
Backlog as of September 30, 2015	\$466,788	\$129,038	\$593,822	\$95,062	\$1,284,710
Project awards	51,392	48,813	56,419	21,242	177,866
Project delays and cancellations	—	—	(22,013)	—	(22,013)
Revenue recognized	(91,398)	(61,540)	(122,169)	(48,422)	(323,529)
Backlog as of December 31, 2015	\$426,782	\$116,311	\$506,059	\$67,882	\$1,117,034

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

	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	89,832	113,177	123,984	45,922	372,915
Project delays and cancellations	—	—	(22,013)	(11,606)	(33,619)
Revenue recognized	(157,023)	(129,851)	(266,405)	(89,581)	(642,860)
Backlog as of December 31, 2015	\$426,782	\$116,311	\$506,059	\$67,882	\$1,117,034

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.

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 industry. 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.

Backlog in the Storage Solutions segment was negatively impacted 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. In January 2016, the customer sued the United States government asserting the rejection of the pipeline violated the North American Free Trade Agreement. The customer was also considering deploying the storage tanks for another project that was indefinitely deferred due to the low price of crude oil. Given the uncertain outlook for crude prices and the duration of any litigation and regulatory approval process, the Company removed the remaining portion of the project from its backlog.

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 effect of declining crude prices on our income from operations for the three and six months ended December 31, 2015 was not significant. In addition, we expect that any future impact to the Electrical Infrastructure segment will be minimal as this segment has limited exposure to the price of crude.

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In the mid and downstream portions of the Oil Gas & Chemical segment, we expect minimal impact to our revenue volume attributable to routine maintenance and turnaround work. However, we are receiving mixed messages from our customers regarding the magnitude and timing of work and it is unclear, what, if any impact the price of crude oil will have. Additionally, some of our mid and downstream customers are integrated oil companies with exposure to the price of crude, if the prices continue at current levels or decline further during fiscal 2016, spending levels may be reduced. Our exposure to non-integrated upstream clients in the Oil Gas & Chemical segment, who have direct exposure to the price of crude, 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 do expect some reduction in customer spending. Although we do not expect the impact to future earnings to be significant, we cannot predict the direction of crude oil prices or our customers' ultimate reaction to the market.

In the 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. 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.

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

Six Months Ended

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	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	(In thousands)			
Net income attributable to Matrix Service Company	\$5,431	\$3,286	\$15,372	\$9,200
Interest expense	252	300	515	652
Provision for income taxes	1,477	1,155	6,553	4,779
Depreciation and amortization	5,291	5,769	10,720	11,540
EBITDA	\$12,451	\$10,510	\$33,160	\$26,171

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FINANCIAL CONDITION AND LIQUIDITY

Overview

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity for the six months ended December 31, 2015 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 December 31, 2015 totaled \$82.4 million and availability under the senior revolving credit facility totaled \$133.2 million resulting in available liquidity of \$215.6 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 overall economic conditions 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 and long-term business objectives.

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Cash Flow for the Six Months Ended December 31, 2015

Cash Flows Provided by Operating Activities

Cash provided by operating activities for the six months ended December 31, 2015 totaled \$6.4 million. The various components are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net income	\$12,857
Non-cash expenses	16,491
Deferred income tax	1,390
Cash effect of changes in operating assets and liabilities	(24,415)
Other	119
Net cash provided by operating activities	\$6,442

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

The change in accounts receivable caused a decrease in cash of \$13.8 million. The variance is primarily attributable to higher billings in the fiscal 2016 second quarter in connection for certain large construction projects in fiscal 2016.

Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") decreased \$4.3 million million while billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") increased \$17.4 million. The net change in CIE and BIE increased cash \$21.8 million for the six months ended December 31, 2015. 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. The overall net change change was primarily attributable to higher advanced billings for certain large construction projects in fiscal 2016.

The change in accounts payable resulted in a decrease to cash of \$16.7 million. The variance is primarily due to decreased business activity for the fiscal 2016 second quarter in comparison to the fiscal 2015 fourth quarter along with timing of material procurement. Revenues in the fiscal 2015 fourth quarter were \$364.4 million in comparison to \$323.5 for the fiscal 2016 second quarter.

The change in accrued wages and benefits resulted in a decrease to cash of \$7.9 million driven primarily by payment of short term incentives accrued at June 30, 2015 but paid in the fiscal 2016 first quarter along with decreased business activity in the fiscal 2016 second quarter relative to the fiscal 2015 fourth quarter.

Cash Flows Used for Investing Activities

Investing activities used \$7.4 million of cash in the first six months of fiscal 2016 primarily due to capital expenditures of \$7.5 million. Capital expenditures consisted of \$2.2 million for the purchase of construction equipment, \$1.5 million for transportation and fabrication equipment, \$2.6 million for office equipment, and \$1.2 million for buildings. Proceeds from asset sales provided \$0.1 million of cash.

Cash Flows Provided by Financing Activities

Financing activities provided \$6.2 million of cash in the first six months of fiscal 2016 primarily due to \$8.4 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 \$0.5 million, \$0.2 million in

cash received from employees participating in the Company's employee stock purchase program, partially offset by treasury share purchases of \$4.5 million and repayments of borrowings of \$4.3 million. 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.

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Senior Revolving Credit Facility

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

The Credit Agreement includes the following covenants and borrowing limitations:

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

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

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

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

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

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

The Credit Agreement includes a Senior Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended December 31, 2015, Consolidated EBITDA, as defined in the Credit Agreement, was \$65.4 million. Accordingly, at December 31, 2015, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at December 31, 2015 was \$22.3 million.

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

	December 31, 2015	June 30, 2015
	(In thousands)	
Senior credit facility	\$200,000	\$200,000
Capacity constraint due to the Senior Leverage Ratio	36,433	54,968
Capacity under the credit facility	163,567	145,032
Borrowings outstanding	7,226	8,804
Letters of credit	23,168	40,587
Availability under the senior credit facility	\$133,173	\$95,641

Outstanding borrowings at December 31, 2015 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.

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

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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 December 31, 2015, the Company has purchased 283,772 shares under the program. No shares were purchased during fiscal 2016 under this program.

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 200,019 shares in the first six months of fiscal 2016 to satisfy these obligations. These shares were returned to the Company's pool of treasury shares.

The Company has 973,299 treasury shares as of December 31, 2015 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.

FORWARD-LOOKING STATEMENTS

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

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

- 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.

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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;

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economic, market or business conditions in general and in the oil, gas, power 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.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 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 December 31, 2015. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at December 31, 2015.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended December 31, 2015.

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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 second 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)
October 1 to October 31, 2015				
Share Repurchase Program (A)	—	—	—	2,369,627
Employee Transactions (B)	326	\$21.86	—	
November 1 to November 30, 2015				
Share Repurchase Program (A)	—	—	—	2,369,627
Employee Transactions (B)	159,945	\$22.90	—	
December 1 to December 31, 2015				
Share Repurchase Program (A)	—	—	—	2,369,627
Employee Transactions (B)	19,643	\$22.21	—	

(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. No shares were purchased during the second quarter of fiscal 2016 under this program.

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.

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Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

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

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

Item 5. Other Information

None

Item 6. Exhibits:

Exhibit 31.1: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.

Exhibit 31.2: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.

Exhibit 32.1: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.

Exhibit 32.2: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.

Exhibit 95: Mine Safety Disclosure.

Exhibit 101.INS: XBRL Instance Document.

Exhibit 101.SCH: XBRL Taxonomy Schema Document.

Exhibit 101.CAL: XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.DEF: XBRL Taxonomy Extension Definition Linkbase Document.

Exhibit 101.LAB: XBRL Taxonomy Extension Labels Linkbase Document.

Exhibit 101.PRE: XBRL Taxonomy Extension Presentation Linkbase Document.

Signature

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

MATRIX SERVICE COMPANY

Date: February 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

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- Exhibit 101.LAB: XBRL Taxonomy Extension Labels Linkbase Document.
- Exhibit 101.PRE: XBRL Taxonomy Extension Presentation Linkbase Document.