

MATRIX SERVICE CO
Form 10-Q
May 09, 2014

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 March 31, 2014

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

For the transition period from _____ to _____

Commission File No. 1-15461

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of April 30, 2014 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,413,166 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		Nine Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2014	2013	2014	2013
Revenues	\$381,516	\$225,970	\$918,731	\$657,014
Cost of revenues	341,572	202,844	819,161	589,311
Gross profit	39,944	23,126	99,570	67,703
Selling, general and administrative expenses	21,125	14,695	55,172	42,576
Operating income	18,819	8,431	44,398	25,127
Other income (expense):				
Interest expense	(324	) (205	) (898	) (605
Interest income	44	5	57	25
Other	9	43	(147	) 93
Income before income tax expense	18,548	8,274	43,410	24,640
Provision for federal, state and foreign income taxes	6,756	1,753	14,755	7,999
Net income	11,792	6,521	28,655	16,641
Less: Net income attributable to noncontrolling interest	396	—	401	—
Net income attributable to Matrix Service Company	\$11,396	\$6,521	\$28,254	\$16,641
Basic earnings per common share	\$0.43	\$0.25	\$1.08	\$0.64
Diluted earnings per common share	\$0.42	\$0.25	\$1.05	\$0.63
Weighted average common shares outstanding:				
Basic	26,374	26,039	26,244	25,921
Diluted	27,040	26,411	26,898	26,269
See accompanying notes.				

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

	Three Months Ended		Nine Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2014	2013	2014	2013
Net income	\$11,792	\$6,521	\$28,655	\$16,641
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(1,765)	(377)	(1,940)	(62)
Comprehensive income	10,027	6,144	26,715	16,579
Less: Comprehensive income attributable to noncontrolling interest	396	—	401	—
Comprehensive income attributable to Matrix Service Company	\$9,631	\$6,144	\$26,314	\$16,579
See accompanying notes.				

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

	March 31, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$59,758	\$63,750
Accounts receivable, less allowances (March 31, 2014— \$126 and June 30, 2013—\$795)	32,167	140,840
Costs and estimated earnings in excess of billings on uncompleted contracts	98,278	73,773
Deferred income taxes	8,898	5,657
Inventories	3,143	2,988
Income taxes receivable	—	3,032
Other current assets	5,007	6,234
Total current assets	407,251	296,274
Property, plant and equipment at cost:		
Land and buildings	31,195	29,649
Construction equipment	80,247	69,998
Transportation equipment	41,008	34,366
Office equipment and software	21,392	18,426
Construction in progress	13,939	9,080
	187,781	161,519
Accumulated depreciation	(99,684	) (90,218
	88,097	71,301
Goodwill	66,589	30,836
Other intangible assets	29,705	7,551
Other assets	6,173	4,016
Total assets	\$597,815	\$409,978

See accompanying notes.

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

	March 31, 2014	June 30, 2013
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 121,802	\$ 68,961
Billings on uncompleted contracts in excess of costs and estimated earnings	100,614	62,848
Accrued wages and benefits	39,671	21,919
Accrued insurance	8,595	7,599
Income taxes payable	1,471	—
Other accrued expenses	3,641	3,039
Total current liabilities	275,794	164,366
Deferred income taxes	6,365	7,450
Borrowings under senior credit facility	45,103	—
Total liabilities	327,262	171,816
Commitments and contingencies		
Stockholders' equity:		
Matrix Service Company stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued, as of March 31, 2014, and June 30, 2013	279	279
Additional paid-in capital	118,164	118,190
Retained earnings	169,681	141,427
Accumulated other comprehensive income (loss)	(1,713)	) 227
	286,411	260,123
Less: Treasury stock, at cost— 1,476,765 shares as of March 31, 2014, and 1,779,593 shares as of June 30, 2013	(16,959)	) (21,961)
Total Matrix Service Company stockholders' equity	269,452	238,162
Noncontrolling interest	1,101	—
Total stockholders' equity	270,553	238,162
Total liabilities and stockholders' equity	\$ 597,815	\$ 409,978

See accompanying notes.

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

	Nine Months Ended	
	March 31, 2014	March 31, 2013
Operating activities:		
Net income	\$28,655	\$16,641
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	12,945	9,211
Deferred income tax	(4,501)	) 208
Gain on sale of property, plant and equipment	(39)	) (9)
Allowance for uncollectible accounts	(81)	) 662
Stock-based compensation expense	3,905	2,830
Other	150	97
Changes in operating assets and liabilities increasing (decreasing) cash:		
Accounts receivable	(58,955)	) (23,194)
Costs and estimated earnings in excess of billings on uncompleted contracts	(10,901)	) (1,997)
Inventories	(109)	) (1,311)
Other assets	5,738	(2,942)
Accounts payable	38,734	10,153
Billings on uncompleted contracts in excess of costs and estimated earnings	(4,684)	) 19,500
Accrued expenses	9,298	7,492
Net cash provided by operating activities	20,155	37,341
Investing activities:		
Acquisition of property, plant and equipment	(17,834)	) (16,640)
Acquisitions, net of cash acquired (Note 2)	(51,398)	) (9,394)
Proceeds from asset sales	327	171
Net cash used by investing activities	\$(68,905)	) \$(25,863)

See accompanying notes.

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

	Nine Months Ended	
	March 31, 2014	March 31, 2013
Financing activities:		
Issuances of common stock	\$ 1,076	\$ 558
Capital lease payments	—	(39)
Excess tax benefit of exercised stock options and vesting of deferred shares	1,597	42
Advances under credit agreement	68,970	25,565
Repayments of advances under credit agreement	(23,867)	(25,565)
Payment of debt amendment fees	(507)	—
Treasury shares purchased by Employee Stock Purchase Plan	76	35
Other treasury share purchases	(1,678)	(1,082)
Net cash provided (used) by financing activities	45,667	(486)
Effect of exchange rate changes on cash	(909)	(43)
Net increase (decrease) in cash and cash equivalents	(3,992)	10,949
Cash and cash equivalents, beginning of period	63,750	39,726
Cash and cash equivalents, end of period	\$ 59,758	\$ 50,675
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 11,445	\$ 7,404
Interest	\$ 579	\$ 457
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	\$ 965	\$ 748

See accompanying notes.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Non-Controlling Interest	Total
Balances, June 30, 2013	\$279	\$118,190	\$141,427	\$(21,961)	\$227	\$—	\$238,162
Net income	—	—	28,254	—	—	401	28,655
Other comprehensive loss	—	—	—	—	(1,940)	—	(1,940)
Purchase of consolidated joint venture (Note 2)	—	—	—	—	—	700	700
Exercise of stock options (121,250 shares)	—	(1,057)	—	2,133	—	—	1,076
Tax effect of exercised stock options and vesting of deferred shares	—	1,597	—	—	—	—	1,597
Issuance of deferred shares (254,720 shares)	—	(4,482)	—	4,482	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (3,726 shares)	—	11	—	65	—	—	76
Other treasury share purchases (76,868 shares)	—	—	—	(1,678)	—	—	(1,678)
Stock-based compensation expense	—	3,905	—	—	—	—	3,905
Balances, March 31, 2014	\$279	\$118,164	\$169,681	\$(16,959)	\$(1,713)	\$1,101	\$270,553
Balances, June 30, 2012	\$279	\$116,693	\$117,419	\$(24,065)	\$771	\$—	\$211,097
Net income	—	—	16,641	—	—	—	16,641
Other comprehensive loss	—	—	—	—	(62)	—	(62)
Exercise of stock options (66,040 shares)	—	(420)	—	978	—	—	558
Tax effect of exercised stock options and vesting of deferred shares	—	(8)	—	—	—	—	(8)
Issuance of deferred shares (353,118 shares)	—	(1,415)	—	1,415	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (3,179 shares)	—	(4)	—	39	—	—	35
Other treasury share purchases (102,376 shares)	—	—	—	(1,082)	—	—	(1,082)
Stock-based compensation expense	—	2,830	—	—	—	—	2,830
Balances, March 31, 2013	\$279	\$117,676	\$134,060	\$(22,715)	\$709	\$—	\$230,009

See accompanying notes.

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Matrix Service Company

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1 – Basis of Presentation

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, 2013, included in the Company’s Annual Report on Form 10-K for the year then ended. The Company’s business is cyclical due to the scope and timing of projects released by our customers. Therefore, results from year to year can vary. Turnarounds and planned outages at customer facilities are typically scheduled in the spring and the fall when the demand is lower. 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. As a result, quarterly operating results can exhibit seasonal fluctuations, especially in our Oil Gas & Chemical segment. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

Note 2 – Acquisitions

Purchase of Kvaerner North American Construction

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

The Company purchased KNAC for \$88.1 million. The acquisition was funded through a combination of cash-on-hand and borrowings under our senior revolving credit facility. The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The following table summarizes the preliminary purchase price allocation (in thousands):

Current assets	\$84,404
Property, plant and equipment	11,377
Goodwill	36,176
Other intangible assets	24,009
Total assets acquired	155,966
Current liabilities	66,790
Deferred income taxes	423
Noncontrolling interest of consolidated joint venture	700
Net assets acquired	88,053
Cash acquired	36,655
Net purchase price	\$51,398

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets. This acquisition generated \$36.2 million of goodwill, of which \$28.5 million is tax deductible.

The equity in consolidated joint venture represents the acquired equity in KVPB Power Partners. KV Power Partners was subsequently renamed to MXPB Power Partners (the "Joint Venture"). The Joint Venture was formed by Kvaerner North American Construction Inc. and an engineering firm to engineer and construct a combined cycle power plant in Dover, Delaware. The Company now holds a 65% voting and economic interest in the Joint Venture. The total acquired equity of the Joint Venture was \$2.0 million of which the Company's portion is approximately \$1.3 million and the other party owns a non-controlling interest of \$0.7 million. At March 31, 2014, the noncontrolling interest holder's share of the equity of the Joint Venture totaled \$1.1 million.

For the nine months ended March 31, 2014 Matrix NAC revenues of \$69.4 million and operating income of \$0.4 million are included in the Company's results. For the three months ended March 31, 2014 Martrix NAC revenues of \$64.0 million and operating income of \$0.4 million are included in the Company's results. In addition, the Company incurred approximately \$2.0 million of expenses related to the acquisition in the second quarter of fiscal 2014; therefore, such expenses are included in our results as selling, general and administrative costs for the nine months ended March 31, 2014.

The unaudited financial information in the table below summarizes the combined results of operations of Matrix Service Company and Matrix NAC for the three and nine months ended March 31, 2014 and March 31, 2013, on a pro forma basis, as though the companies had been combined as of July 1, 2012. The pro forma earnings for the three months ended March 31, 2013 were adjusted to include amortization expense of \$1.0 million and depreciation expense of \$0.6 million. The pro forma earnings for the nine months ended March 31, 2014 and 2013 were adjusted to include incremental intangible amortization expense of \$2.1 million and \$3.1 million, respectively and depreciation expenses of \$1.2 million and \$1.7 million, respectively. Additionally, \$0.6 million of income from a one-time KNAC tax settlement and \$2.0 million of acquisition-related expenses were removed from the nine month period ending March 31, 2014. The \$2.0 million of acquisition-related expenses were included in the nine month period ending March 31, 2013 as if the acquisition occurred at July 1, 2012. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at July 1, 2012 nor should it be taken as indicative of our future consolidated results of operations.

	Three Months Ended		Nine Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2014	2013	2014	2013
	(In thousands, except per share data)			
Revenues	n/a ⁽¹⁾	\$268,711	\$1,053,348	\$807,288
Net income attributable to Matrix Service Company	n/a ⁽¹⁾	\$7,911	\$31,230	\$17,192
Basic earnings per common share	n/a ⁽¹⁾	\$0.30	\$1.19	\$0.66
Diluted earnings per common share	n/a ⁽¹⁾	\$0.30	\$1.16	\$0.65

(1) These amounts are presented in the unaudited Condensed Consolidated Statement of Income for the quarter ended March 31, 2014

Purchase of Pelichem Industrial Cleaning Services, LLC

On December 31, 2012, the Company acquired substantially all of the assets of Pelichem Industrial Cleaning Services, LLC ("Pelichem"). Pelichem is an industrial cleaning company based in Reserve, Louisiana that performs hydroblasting, vacuum services, chemical cleaning and industrial services. Pelichem's operating results are included in the Oil Gas & Chemical Segment.

The previously issued March 31, 2013 financial statements contained certain provisional amounts that were recorded on the preliminary information that was available at the time they were issued. The provisional amounts have been retroactively adjusted in the March 31, 2013 financial statements contained in this Quarterly Report on Form 10-Q. As a result, certain reclassification adjustments to the nine months ended March 31, 2013 Condensed Consolidated Statement of Cash Flows were recorded.

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 final purchase price allocation:

Current assets	\$1,112
Property, plant and equipment	4,299
Tax deductible goodwill	2,247
Other intangible assets	1,853
Total assets acquired	9,511
Current liabilities	117
Net assets acquired	\$9,394

The operating data related to this acquisition was not material. The acquisition was funded with cash on hand.

Note 3 – Uncompleted Contracts

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

	March 31, 2014	June 30, 2013
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$1,347,946	\$802,588
Billings on uncompleted contracts	1,350,282	791,663
	\$(2,336	) \$10,925
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$98,278	\$73,773
Billings on uncompleted contracts in excess of costs and estimated earnings	100,614	62,848
	\$(2,336	) \$10,925

Progress billings in accounts receivable at March 31, 2014 and June 30, 2013 included retentions to be collected within one year of \$27.4 million and \$19.9 million, respectively. Contract retentions collectible beyond one year totaled \$4.9 million at March 31, 2014 and \$3.1 million at June 30, 2013.

SME Receivables

The Company continues to pursue collection of a certain receivable acquired in connection with the purchase of S.M. Electric Company, Inc. in February 2009. The recorded values at March 31, 2014 include \$0.7 million in claim receivables, which represents the Company's best estimate of the amount to be collected under a claim, and an additional \$2.9 million for amounts due under the related contract. Recovering the remaining receivables will require mediation or litigation and the ultimate amount realized may be significantly different than the recorded amounts, which could result in a material adjustment to future earnings.

Other

In the nine months ended March 31, 2014, our results of operations were materially impacted by a charge resulting from a change in estimate on an aboveground storage tank project. The charge resulted in a \$5.4 million decrease in operating income for the nine months ended March 31, 2014. The project is a loss project; therefore, the entire projected loss has been recorded. The charge reflects management's best estimate of the total contract revenues to be recognized and total costs at completion. In the nine months ended March 31, 2013, we recognized a project charge on a separate aboveground storage tank project due to a change in estimate that resulted in a \$3.1 million decrease in operating income.

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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	Unallocated	Total
	(In thousands)					
Goodwill	\$29,666	\$8,088	\$10,985	\$7,097	\$—	\$55,836
Cumulative impairment loss (A)	(17,653)	(3,000)	(922)	(3,425)	—	(25,000)
Net balance at June 30, 2013	12,013	5,088	10,063	3,672	—	30,836
Acquisition of Matrix NAC (B)	—	—	—	—	36,176	36,176
Translation adjustment (C)	—	—	(123)	—	(300)	(423)
Net balance at March 31, 2014	\$12,013	\$5,088	\$9,940	\$3,672	\$35,876	\$66,589

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

(B) The unallocated portion of goodwill relates to the acquisition of Matrix NAC. We are currently assessing the impact of the acquisition on our reporting units and expect to have the analysis complete in the fourth quarter of fiscal 2014. The acquisition is discussed further in Note 2 - Acquisitions.

(C) The translation adjustment relates to the periodic translation of Canadian Dollar denominated goodwill recorded as a part of prior Canadian acquisitions. The acquisition that created the goodwill attributable to the Storage Solutions segment occurred in a prior fiscal year. The purchase of Matrix NAC as discussed in Note 2 - Acquisitions, created the goodwill that has not been allocated to the operating segments.

Other Intangible Assets

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

	Useful Life (Years)	At March 31, 2014		
		Gross Carrying Amount (In thousands)	Accumulated Amortization	Net Carrying Amount
Intellectual property	6 to 15	\$2,460	\$(879)	\$1,581
Customer based	1 to 15	27,513	(1,893)	25,620
Non-compete agreements	3 to 5	1,353	(439)	914
Trade Name	5	165	(25)	140
Total amortizing intangibles		31,491	(3,236)	28,255
Trade name	Indefinite	1,450	—	1,450
Total intangible assets		\$32,941	\$(3,236)	\$29,705

Table of ContentsMatrix Service Company
Notes to Condensed Consolidated Financial Statements
(unaudited)

	Useful Life	At June 30, 2013		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)	(In thousands)		
Intellectual property	6 to 15	\$2,460	\$(753)	) \$1,707
Customer based	1 to 15	4,250	(542)	) 3,708
Non-compete agreements	3 to 5	808	(287)	) 521
Trade Name	5	165	—	165
Total amortizing intangibles		7,683	(1,582)	) 6,101
Trade name	Indefinite	1,450	—	1,450
Total intangible assets		\$9,133	\$(1,582)	) \$7,551

The increase in other intangible assets at March 31, 2014 compared to June 30, 2013 is due to the acquisition of Matrix NAC. The Matrix NAC intangible assets consist of amortizing intangible assets including customer-based intangibles with a fair value of \$23.5 million and useful life ranging from 1.5 to 15 years and a non-compete agreement with a fair value of \$0.5 million and a useful life of 4 years. Please refer to Note 2 - Acquisitions for additional information.

Amortization expense totaled \$1.7 million in the nine months ended March 31, 2014 and \$0.4 million in the nine months ended March 31, 2013. Amortization expense is expected to be \$2.7 million in fiscal year 2014, \$4.3 million in fiscal year 2015, \$3.3 million in fiscal year 2016, \$2.7 million in fiscal 2017 and \$2.6 million in fiscal year 2018.

Note 5 – Debt

On March 13, 2014, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement (the "Amendment"), by and among the Company and certain of its Canadian subsidiaries party thereto, as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other Lenders party to the Credit Agreement and the Amendment, which amends the Third Amended and Restated Credit Agreement dated as of November 7, 2011 (the "Credit Agreement"). The Amendment provides for a five-year, \$200.0 million senior secured revolving credit facility that expires March 13, 2019. Advances may be used for working capital, acquisitions, capital expenditures, and other lawful corporate 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%.

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

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, determined as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended March 31, 2014, Consolidated EBITDA, as defined in the Credit Agreement, was \$87.4 million. Accordingly, at March 31, 2014, there were no restrictions on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at March 31, 2014 was \$55.3 million.

Availability under the senior credit facility was as follows:

	March 31, 2014	June 30, 2013
	(In thousands)	
Senior credit facility	\$200,000	\$125,000
Borrowings outstanding	45,103	—
Letters of credit	16,950	13,372
Availability under the senior credit facility	\$137,947	\$111,628

Outstanding borrowings at March 31, 2014 included advances used to assist in the funding of a recent business acquisition, Canadian dollar advances to fund our Canadian operations including amounts to settle intercompany cross currency billings and other borrowings to finance our short-term working capital requirements. The acquisition is discussed further in Note 2 - Acquisitions.

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

Note 6 – Income Taxes

The Company complies with ASC 740, “Income Taxes”. Deferred income taxes are computed using the liability method whereby deferred tax assets and liabilities are recognized based on temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates. Valuation allowances are established against deferred tax assets to the extent management believes that it is not probable the assets will be recovered.

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.

Note 7 – Commitments and Contingencies

Insurance Reserves

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

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

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

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

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 \$11.0 million at March 31, 2014 and \$9.1 million at June 30, 2013. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, since customers may not pay these amounts until final resolution of related claims, collection of these amounts may extend beyond one year.

Other

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

Note 8 – Earnings per Common Share

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

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

	Three Months Ended		Nine Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2014	2013	2014	2013
	(In thousands, except per share data)			
Basic EPS:				
Net income attributable to Matrix Service Company	\$ 11,396	\$ 6,521	\$ 28,254	\$ 16,641
Weighted average shares outstanding	26,374	26,039	26,244	25,921
Basic EPS	\$0.43	\$0.25	\$1.08	\$0.64
Diluted EPS:				
Weighted average shares outstanding – basic	26,374	26,039	26,244	25,921
Dilutive stock options	187	112	176	71
Dilutive nonvested deferred shares	479	260	478	277
Diluted weighted average shares	27,040	26,411	26,898	26,269
Diluted EPS	\$0.42	\$0.25	\$1.05	\$0.63

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

	Three Months Ended		Nine Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2014	2013	2014	2013
	(In thousands)			
Stock options	—	—	—	307
Nonvested deferred shares	—	—	15	1
Total antidilutive securities	—	—	15	308

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

Note 9 – Segment Information

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

The Electrical Infrastructure segment primarily encompasses 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. We also provide construction and maintenance services to a variety of power generation facilities, such as combined cycle plants, gas fired power stations, and renewable energy installations.

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 industrial and 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, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including liquefied natural gas (“LNG”), liquid nitrogen/liquid oxygen (“LIN/LOX”), liquid petroleum (“LPG”) tanks and other specialty vessels including spheres. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

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

The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Intersegment sales and transfers are recorded at cost; therefore, no intercompany profit or loss is recognized.

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

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Notes to Condensed Consolidated Financial Statements
(unaudited)Results of Operations
(In thousands)

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Gross revenues				
Electrical Infrastructure	\$62,144	\$41,709	\$132,201	\$125,102
Oil Gas & Chemical	63,112	73,638	188,025	207,370
Storage Solutions	182,129	95,200	471,330	298,801
Industrial	74,577	15,841	128,398	27,849
Total gross revenues	\$381,962	\$226,388	\$919,954	\$659,122
Less: Inter-segment revenues				
Electrical Infrastructure	\$—	\$—	\$—	\$—
Oil Gas & Chemical	118	44	425	44
Storage Solutions	328	374	798	2,064
Industrial	—	—	—	—
Total inter-segment revenues	\$446	\$418	\$1,223	\$2,108
Consolidated revenues				
Electrical Infrastructure	\$62,144	\$41,709	\$132,201	\$125,102
Oil Gas & Chemical	62,994	73,594	187,600	207,326
Storage Solutions	181,801	94,826	470,532	296,737
Industrial	74,577	15,841	128,398	27,849
Total consolidated revenues	\$381,516	\$225,970	\$918,731	\$657,014
Gross profit				
Electrical Infrastructure	\$5,971	\$4,994	\$13,155	\$16,329
Oil Gas & Chemical	7,397	8,016	21,614	23,928
Storage Solutions	19,269	8,828	51,894	26,545
Industrial	7,307	1,288	12,907	901
Total gross profit	\$39,944	\$23,126	\$99,570	\$67,703
Operating income (loss)				
Electrical Infrastructure	\$2,498	\$2,424	\$4,658	\$8,439
Oil Gas & Chemical	3,252	3,285	8,922	10,987
Storage Solutions	10,084	2,447	26,676	7,446
Industrial	2,985	275	4,142	(1,745)
Total operating income	\$18,819	\$8,431	\$44,398	\$25,127
Segment assets (A)				
Electrical Infrastructure	\$98,502	\$58,640	\$98,502	\$58,640
Oil Gas & Chemical	83,505	84,499	83,505	84,499
Storage Solutions	220,155	155,739	220,155	155,739
Industrial	122,013	23,683	122,013	23,683
Unallocated assets	73,640	56,614	73,640	56,614
Total segment assets	\$597,815	\$379,175	\$597,815	\$379,175

(A) March 31, 2014 balances include the assets of Matrix NAC and are allocated to the Electrical Infrastructure, Oil Gas & Chemical, and Industrial segments in the amounts of \$34.8 million, \$2.8 million and \$78.9 million, respectively. Unallocated assets includes \$35.9 million of Goodwill related to the acquisition. As previously noted,

we are currently assessing the impact of the acquisition on our reporting units and expect to complete the Goodwill analysis in the fourth quarter of fiscal 2014.

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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 2013 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 2013 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 39%, 19%, 13%, 10% and 10% of the total goodwill balance. Our most recent annual goodwill impairment test, performed in the fourth quarter of fiscal 2013, indicated that the fair value of these reporting units exceeded their respective carrying values by 64%, 224%, 144%, 149% and 123%. The remaining 9% of total goodwill is spread between two other reporting units. Based on the excess of estimated fair value over carrying value and the absence of any indicators of impairment at March 31, 2014, the Company does not currently anticipate recording a goodwill impairment charge for any of its operating units. The Company is currently assessing the impact of the KNAC acquisition on its reporting units and expects to complete the analysis in the fourth quarter of fiscal 2014.

Other Intangible Assets

Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives ranging from 1 to 15 years. Intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment. Annually, we evaluate the remaining useful lives of intangible assets not being amortized to determine whether facts and circumstances continue to support an indefinite useful life and review both amortizing and non-amortizing intangible assets for impairment indicators. Based on these reviews, the Company has determined that the indefinite lives assigned to its indefinite lived intangible assets are appropriate and no impairment indicators exist at March 31, 2014.

Unapproved Change Orders and Claims

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$11.0 million at March 31, 2014 and \$9.1 million at June 30, 2013. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings.

SME Receivables

The Company continues to pursue collection of certain receivables acquired in connection with the purchase of S.M. Electric Company, Inc. in February 2009. The recorded values at March 31, 2014 include \$0.7 million in claim receivables, which represents the Company's best estimate of the amount to be collected under a claim, and an additional \$2.9 million for amounts due under the related contract. Recovering the remaining receivables will require mediation or litigation and the ultimate amount realized may be significantly different than the recorded amounts, which could result in an 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 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

In February 2013, the FASB issued Accounting Standards Update No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" (ASU 2013-04). ASU 2013-04 addresses the recognition, measurement and disclosure of obligations when multiple parties incur joint liabilities where the total amount of the obligation is fixed at the financial reporting

date. This standard requires the recognition of the total amount of the liability that the parties are obligated to pay under an arrangement, along

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with any additional amount the company might expect to pay on behalf of other parties to the liability. ASU 2013-04 is effective for periods beginning after December 15, 2013. We currently do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

RESULTS OF OPERATIONS

Overview

We operate our business through the following four segments:

The Electrical Infrastructure segment primarily encompasses 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. We also provide construction and maintenance services to a variety of power generation facilities, such as combined cycle plants, coal fired power stations, and renewable energy installations.

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 includes hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the industrial and 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, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including liquefied natural gas ("LNG"), liquid nitrogen/liquid oxygen ("LIN/LOX"), liquid petroleum ("LPG") tanks and other specialty vessels including spheres. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

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

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

Consolidated

Consolidated revenues were \$381.5 million for the three months ended March 31, 2014, an increase of \$155.5 million, or 68.8%, from consolidated revenues of \$226.0 million in the same period in the prior fiscal year. As discussed in Note 2 - Acquisitions, the Company acquired Kvaerner North American Construction, which we refer to as Matrix NAC, in the second quarter of fiscal 2014. Accordingly, third quarter results include three full months, or \$64.0 million, of Matrix NAC revenues. The remaining revenue increase of \$91.5 million was attributable to our existing business. On a segment basis, consolidated revenues increased in the Storage Solutions, Industrial and Electrical Infrastructure segments by \$87.0 million, \$58.7 million and \$20.4 million respectively, partially offset by a decrease in the Oil Gas & Chemical segment of \$10.6 million.

Consolidated gross profit increased from \$23.1 million in the three months ended March 31, 2013 to \$39.9 million in the three months ended March 31, 2014. The increase of \$16.8 million was due to both higher revenues and higher gross margins which increased to 10.5% in fiscal 2014 compared to 10.2% a year earlier.

Consolidated SG&A expenses were \$21.1 million in the three months ended March 31, 2014 compared to \$14.7 million in the same period a year earlier, an increase of \$6.4 million, or 43.5%. The increase is attributable to the inclusion of a full quarter of Matrix NAC expenses along with higher incentive compensation costs and increased support costs related to higher business volumes. SG&A expense as a percentage of revenue decreased to 5.5% in the

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three months ended March 31, 2014 compared to 6.5% for the three months ended March 31, 2013.

Net interest expense was \$0.3 million in the three months ended March 31, 2014 and \$0.2 million in the same period a year earlier.

The effective tax rate was 36.4% for the three months ended March 31, 2014 and 21.2% for the three months ended March 31, 2013. The fiscal 2013 tax rate was positively impacted by the effect of retroactive tax legislation enacted in the third quarter of fiscal 2013 and a change in estimate related to a certain available tax credit.

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For the three months ended March 31, 2014, net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$11.4 million and \$0.42 compared to \$6.5 million and \$0.25 in the same period a year earlier.

Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased \$20.4 million to \$62.1 million in the three months ended March 31, 2014 compared to \$41.7 million in the same period a year earlier. The increased revenue volume in fiscal 2014 was primarily due to the inclusion of a full quarter's activity related to Matrix NAC. Gross margins were 9.6% in the three months ended March 31, 2014 compared to 12.0% in the same period a year earlier. Fiscal 2014 margins were negatively affected by the mix of work leading to lower direct margins and lower recovery of overhead costs.

Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment decreased to \$63.0 million in the three months ended March 31, 2014 compared to \$73.6 million in the same period a year earlier. The decrease of \$10.6 million, or 14.4%, was primarily due to lower levels of work across most of the business. Gross margins increased from 10.9% in fiscal 2013 to 11.7% in the three months ended March 31, 2014 primarily due to higher margins in both the turnaround and capital construction businesses partially offset by a lower absorption of construction overhead costs.

Storage Solutions

Revenues for the Storage Solutions segment increased to \$181.8 million in the three months ended March 31, 2014 compared to \$94.8 million in the same period a year earlier. The increase of \$87.0 million, or 91.8%, was primarily due to higher levels of work in our domestic and Canada aboveground storage tank business in addition to significant terminal balance of plant work. The fiscal 2014 gross margin increased to 10.6% compared to 9.3% in the same period in the prior year. The fiscal 2014 gross margin was negatively impacted by a project charge of \$1.4 million. The fiscal 2013 gross margin was negatively impacted by a legal charge of \$1.0 million.

Industrial

Revenues for the Industrial segment increased to \$74.6 million in the three months ended March 31, 2014 compared to \$15.8 million in the same period a year earlier. The increase of \$58.8 million was primarily due to the inclusion of a full quarter's activity related to Matrix NAC, a higher level of mining work and ongoing work on a previously announced project for the engineering, procurement and construction of specialty tanks in a nitrogen fertilizer complex. Gross margins were 9.8% in the three months ended March 31, 2014 compared to 8.1% in the same period a year earlier. The improvement in gross margins is due to improved execution and higher recovery of construction overhead costs, partially offset by mix of work which led to lower direct margins.

Nine Months Ended March 31, 2014 Compared to the Nine Months Ended March 31, 2013

Consolidated

Consolidated revenues were \$918.7 million for the nine months ended March 31, 2014, an increase of \$261.7 million, or 39.8%, from consolidated revenues of \$657.0 million in the same period in the prior fiscal year. Organic revenues increased \$192.3 million and MNAC revenues totaled \$69.4 million in fiscal 2014. On a segment basis, consolidated revenues increased in the Storage Solutions, Industrial and Electrical Infrastructure segments by \$173.8 million, \$100.5 million and \$7.1 million respectively, partially offset by a decrease in the Oil Gas & Chemical segment of

\$19.7 million.

Consolidated gross profit increased from \$67.7 million in the nine months ended March 31, 2013 to \$99.6 million in the nine months ended March 31, 2014. The increase of \$31.9 million was due to both higher revenues and higher gross margins which increased to 10.8% in fiscal 2014 compared to 10.3% a year earlier.

Consolidated SG&A expenses were \$55.2 million in the nine months ended March 31, 2014 compared to \$42.6 million in the same period a year earlier. As discussed in Note 2 - Acquisitions, the Company acquired Matrix NAC in the second quarter of fiscal 2014. Therefore, SG&A includes a full quarter of Matrix NAC operational expenses and \$2.0 million of acquisition related fees. These expenses, along with higher incentive compensation costs, increased tax related professional fees and increased support costs related to higher business volumes caused SG&A expense to increase by \$12.6 million, or 29.6%.

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SG&A expense as a percentage of revenue decreased to 6.0% in the nine months ended March 31, 2014 compared to 6.5% in the same period a year earlier.

Net interest expense was \$0.8 million in the nine months ended March 31, 2014 and \$0.6 million in the same period a year earlier.

Other expense in the nine months ended March 31, 2014 was \$0.1 million. Other income in the nine months ended March 31, 2013 was \$0.1 million.

The effective tax rate was 34.0% for the nine months ended March 31, 2014 and 32.5% for the nine months ended March 31, 2013. We completed a fiscal 2013 R&D study in the second quarter of fiscal 2014 resulting in a significantly higher credit than previously estimated, therefore, we recorded a discrete positive adjustment of approximately \$1.0 million. In addition, we increased our estimate of the fiscal 2014 R&D credit resulting in an additional benefit of approximately \$0.7 million. The fiscal 2013 effective tax rate was positively impacted by the effect of retroactive tax legislation enacted in the third quarter of fiscal 2013 and a change in estimate related to a certain available tax credit.

For the nine months ended March 31, 2014, net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$28.3 million and \$1.05 compared to \$16.6 million and \$0.63 in the same period a year earlier.

Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased \$7.1 million to \$132.2 million in the nine months ended March 31, 2014 compared to \$125.1 million in the same period a year earlier. The increased revenue volume in fiscal 2014 was primarily due to the inclusion of post acquisition Matrix NAC activity partially offset by lower business volume in our existing business. The lower business volumes were due to lack of storm restoration services and lower high voltage work due to delays in customer spending. Gross margins were 10.0% in the nine months ended March 31, 2014 compared to 13.1% in the same period a year earlier. Fiscal 2014 margins were negatively affected by the mix of work leading to lower direct margins and higher unrecovered overhead costs. Fiscal 2013 margins were positively affected by storm restoration work.

Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment decreased \$19.7 million to \$187.6 million in the nine months ended March 31, 2014 compared to \$207.3 million in the same period a year earlier. The decrease of \$19.7 million, or 9.5%, was primarily due to a lower level of capital construction projects partially offset by higher turnaround and industrial cleaning work. Gross margins were 11.5% in the nine months ended March 31, 2014 and 2013.

Storage Solutions

Revenues for the Storage Solutions segment increased to \$470.5 million in the nine months ended March 31, 2014 compared to \$296.7 million in the same period a year earlier. The increase of \$173.8 million, or 58.6%, was primarily due to higher levels of work in our domestic and Canada aboveground storage tank business and significant terminal balance of plant work. The fiscal 2014 gross margin of 11.0% was reduced by a project charge of \$5.4 million. Gross margins of 8.9% in fiscal 2013 were reduced due to a project charge of \$3.1 million. The overall improvement in gross margins was due to strong project execution in fiscal 2014, particularly on certain key strategic projects.

Industrial

Revenues for the Industrial segment increased to \$128.4 million in the nine months ended March 31, 2014 compared to \$27.8 million in the same period a year earlier. The increase of \$100.5 million was primarily due to the inclusion of post acquisition Matrix NAC activity, a higher level of mining and material handling work and ongoing work on a previously announced project for the engineering, procurement and construction of specialty tanks in a nitrogen fertilizer complex. Gross margins were 10.1% in the nine months ended March 31, 2014 compared to 3.2% in the same period a year earlier. The improvement in gross margins is due to improved execution and a higher recovery of construction overhead costs, partially offset by mix of work with lower direct margins.

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Backlog

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

• fixed-price awards;

• minimum customer commitments on cost plus arrangements; and

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

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

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

	Electrical Infrastructure (In thousands)	Oil Gas & Chemical	Storage Solutions	Industrial	Total
Backlog as of December 31, 2013	\$212,495	\$142,363	\$353,480	\$174,292	\$882,630
Net awards	46,070	49,484	242,199	66,204	403,957
Revenue recognized	(62,144)	(62,994)	(181,801)	(74,577)	(381,516)
Backlog as of March 31, 2014	\$196,421	\$128,853	\$413,878	\$165,919	\$905,071

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

	Electrical Infrastructure (In thousands)	Oil Gas & Chemical	Storage Solutions	Industrial	Total
Backlog as of June 30, 2013	\$103,520	\$120,138	\$319,718	\$83,361	\$626,737
Backlog acquired	123,492	2,825	—	115,723	242,040
Net awards	101,610	193,490	564,692	95,233	955,025
Revenue recognized	(132,201)	(187,600)	(470,532)	(128,398)	(918,731)
Backlog as of March 31, 2014	\$196,421	\$128,853	\$413,878	\$165,919	\$905,071

Non-GAAP Financial Measure

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

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

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

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

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

A reconciliation of EBITDA to net income follows:

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
	(In thousands)			
Net income	\$ 11,792	\$ 6,521	\$ 28,655	\$ 16,641
Interest expense	324	205	898	605
Provision for income taxes	6,756	1,753	14,755	7,999
Depreciation and amortization	5,394	3,415	12,945	9,211
EBITDA	\$ 24,266	\$ 11,894	\$ 57,253	\$ 34,456

FINANCIAL CONDITION AND LIQUIDITY

Overview

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity for the nine months ended March 31, 2014 were cash on hand at the beginning of the fiscal year, capacity under our senior revolving credit facility and cash generated from operations. Cash on hand at March 31, 2014 totaled \$59.8 million and availability under the senior revolving credit facility totaled \$137.9 million resulting in available liquidity of \$197.7 million.

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

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

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

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

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

- Other changes in working capital

- Capital expenditures

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

- Acquisitions of new businesses

- Strategic investments in new operations

Purchases of shares under our stock buyback program

Contract disputes or collection issues

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

The acquisition discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q was funded with cash on hand and \$15.0 million of borrowings under the senior credit facility. Although the acquisition did result in a reduction to our liquidity, the Company believes that the remaining availability under the expanded 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.

We have an effective shelf registration statement on file with the SEC under which we may issue, from time to time, up to \$400 million of senior debt securities, subordinated debt securities, common stock, preferred stock and warrants. This shelf registration statement gives us additional flexibility, when capital market conditions are favorable, to grow our business, finance acquisitions or to optimize our balance sheet in order to improve or maintain our financial flexibility. We may also elect to issue term debt or access the accordion feature to increase our borrowing capacity under our revolving credit facility.

Cash Flow for the Nine Months Ended March 31, 2014

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities for the nine months ended March 31, 2014 totaled \$20.2 million. The various components of cash flows from operating activities are as follows:

Net Cash Provided by Operating Activities

(In thousands)

Net income	\$28,655
Non-cash expenses	16,730
Deferred income tax	(4,501)
Cash effect of changes in operating assets and liabilities	(20,879)
Other	150
Net cash provided by operating activities	\$20,155

The cash effect of significant changes in operating assets and liabilities include the following:

The change in accounts receivable caused a decrease in cash of \$59.0 million. The negative variance is primarily due to higher business volumes and the timing of project billings, particularly in the Storage Solutions and Industrial segments.

The net change in the combined balance of costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings caused a decrease to cash of \$15.6 million at March 31, 2014. The unfavorable variance is primarily attributable to higher business volumes and an increase in costs and estimated earnings in excess of billings due to significant cost plus and time and material projects that are billed in arrears.

- The change in accounts payable resulted in a increase to cash of \$38.7 million. The favorable variance is primarily due to higher business volumes and the timing of vendor payments.

The change in accrued liabilities resulted in an increase to cash of \$9.3 million. The favorable variance is primarily attributable to higher short and long-term incentive accruals due to increased earnings and increased payroll and payroll related benefit accruals due to increased business volumes.

Cash Flows Used for Investing Activities

Investing activities used \$68.9 million of cash in the first nine months of fiscal 2014. This was primarily due to the purchase of Kvaerner North American Construction in the amount of \$51.4 million, net of cash acquired. The acquisition is discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q. Capital expenditures used \$17.8 million of cash and proceeds from asset dispositions generated cash of \$0.3

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million. Capital expenditures consisted of \$11.1 million for the purchase of construction equipment, \$4.2 million for transportation equipment, \$1.9 million for office equipment and software and \$0.6 million for land and buildings.

Cash Flows Provided by Financing Activities

Financing activities provided \$45.7 million of cash in the first nine months of fiscal 2014 primarily due to net cash borrowings of \$45.1 million, excess tax benefit from the exercise of stock options and vesting of deferred shares of \$1.6 million, and stock issuances of \$1.1 million, partially offset by treasury share purchases of \$1.7 million and the payment of debt amendment fees of \$0.5 million. Cash borrowings included a \$15.0 million borrowing used to assist in the funding of a recent business acquisition, 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 acquisition is discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Senior Revolving Credit Facility

On March 13, 2014, in order to facilitate the growth of the Company and to provide additional financial flexibility, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement (the "Amendment"), by and among the Company and certain of its Canadian subsidiaries party thereto, as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other Lenders party to the Credit Agreement and the Amendment, which amends the Third Amended and Restated Credit Agreement dated as of November 7, 2011 (the "Credit Agreement"). The Amendment provides for a five-year, \$200.0 million senior secured revolving credit facility that expires March 13, 2019. Advances may be used for working capital, acquisitions, capital expenditures, and other lawful corporate 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.

As noted previously, the Credit Agreement includes a Senior Leverage Ratio covenant which provides that Consolidated Funded Indebtedness may not exceed 2.5 times Consolidated EBITDA, as defined in the agreement, over the previous four quarters. For the four quarters ended March 31, 2014, Consolidated EBITDA was \$87.4 million. Accordingly, at March 31, 2014, there were no restrictions on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at March 31, 2014 was \$55.3 million.

Availability under the senior credit facility at March 31, 2014 and June 30, 2013 was as follows:

	March 31, 2014	June 30, 2013
	(In thousands)	
Senior credit facility	\$200,000	\$125,000
Borrowings outstanding	45,103	—
Letters of credit	16,950	13,372
Availability under the senior credit facility	\$137,947	\$111,628

Outstanding borrowings at March 31, 2014 included advances used to assist in the funding of a recent business acquisition, Canadian dollar advances to fund our existing Canadian operations including amounts to settle intercompany cross currency billings and other borrowings to finance our short-term working capital requirements. The Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

Dividend Policy

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

Stock Repurchase Program and Treasury Shares

Treasury Shares

On November 6, 2012, our Board of Directors approved an extension of a stock buyback program through calendar year 2014. The program allows the Company to purchase up to 2,113,497 shares provided that such purchases do not exceed \$25.0 million in any calendar year if sufficient liquidity exists and we believe that it is in the best interest of the stockholders. The Company has not purchased any shares under this program since the Board of Directors approved the extension.

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 76,868 shares in the first nine months of fiscal 2014 to satisfy these obligations. These shares were returned to the Company's pool of treasury shares.

The Company has 1,476,765 treasury shares as of March 31, 2014 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.

FORWARD-LOOKING STATEMENTS

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

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

- amounts and nature of future revenues and margins from each of our segments;
- our ability to generate sufficient cash from operations or to raise cash in order to meet our short and long-term capital requirements;
- the likely impact of new or existing regulations or market forces on the demand for our services;

• expansion and other trends of the industries we serve;

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our expectations with respect to the likelihood of a future impairment; and

our ability to comply with the covenants in our credit agreement.

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

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

the risk factors discussed in our Form 10-K for the fiscal year ended June 30, 2013 and listed from time to time in our filings with the Securities and Exchange Commission;

the inherently uncertain outcome of current and future litigation;

the adequacy of our reserves for contingencies;

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

changes in laws or regulations; and

other factors, many of which are beyond our control.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2013 Annual Report on Form 10-K.

Item 4. Controls and Procedures

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

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

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

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes in our Risk Factors from those reported in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, except for those previously described in Item 1A of Part II in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2013.

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

Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by the Company of its common stock during the third quarter of fiscal year 2014.

	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
January 1 to January 31, 2014				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	464	\$26.24	—	
February 1 to February 28, 2014				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	871	\$31.89	—	
March 1 to March 31, 2014				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	—	—	—	

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

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

Dividend Policy

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

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

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

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

Item 5. Other Information

None

Item 6. Exhibits:

- Exhibit 10: First Amendment, effective as of March 31, 2014, to the Third Amended and Restated Credit Agreement by and among Matrix Service Company and certain of its Canadian subsidiaries party thereto, as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the lenders party to the credit agreement and the amendment (Exhibit 10 to the Company's Current Report on Form 8-K (File No. 1-15461) filed on March 19, 2014 is hereby incorporated by reference).
- Exhibit 31.1: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
- Exhibit 31.2: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
- Exhibit 32.1: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
- Exhibit 32.2: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
- Exhibit 95: Mine Safety Disclosure.
- Exhibit 101.INS: XBRL Instance Document.
- Exhibit 101.SCH: XBRL Taxonomy Schema Document.
- Exhibit 101.CAL: XBRL Taxonomy Extension Calculation Linkbase Document.
- Exhibit 101.DEF: XBRL Taxonomy Extension Definition Linkbase Document.
- Exhibit 101.LAB: XBRL Taxonomy Extension Labels Linkbase Document.
- Exhibit 101.PRE: XBRL Taxonomy Extension Presentation Linkbase Document.

Signature

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

MATRIX SERVICE COMPANY

Date: May 9, 2014

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

financial officer

EXHIBIT INDEX

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