
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2014

or

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

For the transition period from _____ to _____

Commission File No. 1-15461

MATRIX SERVICE COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

73-1352174
(I.R.S. Employer
Identification No.)

5100 E. Skelly Drive, Suite 700
Tulsa, Oklahoma
(Address of Principal Executive Offices)

74135
(Zip Code)

Registrant's telephone number, including area code: (918) 838-8822

Securities Registered Pursuant to Section 12(b) of the Act:

(Title of class)

Common Stock, par value \$0.01 per share

Securities Registered Pursuant to Section 12(g) of the Act: None

Name of each exchange on which registered: NASDAQ Global Select Market (common stock)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Interactive 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer", "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

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second quarter was approximately \$635 million.

The number of shares of the registrant's common stock outstanding as of September 3, 2014 was 26,376,223 shares.

Documents Incorporated by Reference

Certain sections of the registrant's definitive proxy statement relating to the registrant's 2014 annual meeting of stockholders, which definitive proxy statement will be filed within 120 days of the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report which address activities, events or developments, which we expect, believe or anticipate will or may occur in the future are forward-looking statements. The words “believes,” “intends,” “expects,” “anticipates,” “projects,” “estimates,” “predicts” and similar expressions are also intended to identify forward-looking statements.

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

- amounts and nature of future revenues and margins from each of our segments;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- expansion and other 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; 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 Item 1A of this Annual Report 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 and power 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 Annual Report 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.

BACKGROUND

The Company began operations in 1984 as an Oklahoma corporation under the name of Matrix Service. In 1989, we incorporated in the State of Delaware under the name of Matrix Service Company. We provide engineering, fabrication, infrastructure, construction, and maintenance services primarily to the oil, gas, power, petrochemical, industrial, mining and minerals markets. We maintain regional offices throughout the United States and Canada, and operate through union and merit subsidiaries.

The Company is licensed to operate in all 50 states and in four Canadian provinces. Our principal executive offices are located at 5100 E. Skelly Drive, Suite 700, Tulsa, Oklahoma 74135. Our telephone number is (918) 838-8822. Unless the context otherwise requires, all references herein to “Matrix Service Company”, “Matrix”, the “Company” or to “we”, “our”, and “us” are to Matrix Service Company and its subsidiaries.

WEBSITE ACCESS TO REPORTS

Our public website is matrixservicecompany.com. We make available free of charge through the "Investor Relations" section of our website our annual reports to stockholders, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Any materials we file with or furnish to the SEC is also maintained on the SEC website (sec.gov).

The information contained on our website, or available by hyperlink from our website, is not incorporated into this Form 10-K or other documents we file with, or furnish to, the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on our website in the "Investor Relations" section. We also intend to use social media channels as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. We encourage investors, the media, and others interested in Matrix to review the information posted on the company Facebook site (facebook.com/matrixservicecompany), the company linkedin account (linkedin.com/company/matrix-service-company) and the company twitter account (twitter.com/matrixserviceco). Investors, the media or other interested parties can subscribe to the twitter feed at the address listed above. Any updates to the list of social media channels Matrix will use to announce material information will be posted on the "Investor Relations" page of the company's website at matrixservicecompany.com. Accordingly, investors should monitor such portions of our website and social media channels, in addition to following our press releases, SEC filings and public conference calls and webcasts.

OPERATING SEGMENTS

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

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

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

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

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

PURCHASE OF KVAERNER NORTH AMERICAN CONSTRUCTION

Effective as of December 21, 2013, the Company acquired 100% of the stock 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 KNAC acquisition brought opportunities in additional geographical markets, the ability to execute additional and larger projects and expanded our relationship with some existing clients.

The Company purchased KNAC for \$51.6 million, net of cash acquired. The acquisition was funded through a combination of cash-on-hand and borrowings under our senior revolving credit facility.

OTHER BUSINESS MATTERS

Customers and Marketing

The Company provided services to approximately 560 customers in fiscal 2014. Two customers, TransCanada Corporation and Enbridge, accounted for \$218.6 million and \$160.5 million, or 17.3% and 12.7% of our consolidated revenue, respectively, all of which was in the Storage Solutions segment. The loss of these major customers or other significant customers could have a material adverse effect on the Company; however, we are not dependent on any single contract or customer on an on-going basis.

Matrix markets its services and products primarily through its marketing and business development personnel, senior professional staff and its operating management. We competitively bid most of our projects; however, we have a number of preferred provider relationships with customers who award us work through long-term agreements. Our projects have durations ranging from a few days to multiple years.

Segment Financial Information

Financial information for our operating segments is provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 13-Segment Information of the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Competition

Our industry is highly fragmented and intensely competitive. We compete with local, regional, national and international contractors and service providers. Competitors vary with the markets we serve with few competitors competing in all of the markets we serve or in all of the services we provide. Contracts are generally awarded based on quality, safety performance, price, schedule, and customer satisfaction.

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 amount.

For long-term maintenance contracts, we include only the amounts that we expect to recognize as 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 in fiscal 2014:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
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
Project awards	140,694	226,944	773,809	168,691	1,310,138
Revenue recognized	(205,570)	(239,690)	(610,896)	(206,933)	(1,263,089)
Backlog as of June 30, 2014	\$ 162,136	\$ 110,217	\$ 482,631	\$ 160,842	\$ 915,826

Seasonality

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.

Material Sources and Availability

Steel plate and steel pipe are key materials used by the Company. Supplies of these materials are available throughout the United States and globally from numerous sources. We anticipate that adequate amounts of these materials will be available in the foreseeable future. However, the price, quantity, and the delivery schedules of these materials could change rapidly due to various factors, including producer capacity, the level of imports, worldwide demand, tariffs on imported steel and other market conditions.

Insurance

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. 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. 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.

Employees

As of June 30, 2014, the Company had 4,491 employees of which 837 were employed in non-field positions and 3,654 were employed in field or shop positions. The number of employees varies significantly throughout the year because of the number, type and size of projects we have in progress at any particular time.

The Company's subsidiaries include both merit and union companies. The union businesses operate under collective bargaining agreements with various unions representing different groups of our employees. Union agreements provide union employees with benefits including health and welfare, pension, training programs and competitive compensation plans. We have not experienced any strikes or work stoppages in recent years. We maintain health and welfare, retirement and training programs for our merit employees and administrative personnel.

Patents and Proprietary Technology

Matrix Service Company's subsidiaries have several patents and patents pending, and continues to pursue new idea and innovations to better serve our customers in all areas of our business. The Flex-A-Span® and Flex-A-Seal® trademarks are utilized to market the Company's unique seals for floating roof tanks. The FastFroth® trademark is utilized to market the Company's unique industrial cleaning process. Our patented RS 1000 Tank Mixer controls sludge build-up in crude oil tanks through resuspension. The Flexible Fluid Containment System patent relates to a flexible fluid containment system that captures and contains flue leaking from pipe and valve connections. The Flex-A-Swivel patent refers to our unique pipe swivel joint assembly. Our patent for Spacerless or Geocomposite Double Bottom for Storage Tanks relates to a replacement bottom with leak detection and containment that allows for the retrofitting of an existing tank while minimizing the loss of capacity.

The patent for the Training Tank for Personnel Entry, Exit and Rescue relates to a training device that can be used to train personnel on equipment that is made to simulate confined space scenarios.

The Company also holds a perpetual license to use various patents and technologies related to LNG storage tanks, LIN/LOX storage tanks, LPG storage tanks and thermal vacuum chambers.

While the Company's intellectual property is not its main business, we believe that the ability to use these patents and technology enables us to expand our presence in the markets and minimizes the development costs typically associated with organic growth.

Regulation

Health and Safety Regulations

Our operations are subject to regulation by the United States Occupational Safety and Health Administration ("OSHA") and Mine Safety and Health Administration ("MSHA"), and to regulation under state laws and by the Canadian Workers' Compensation Board and its Workplace Health, Safety and Compensation Commission. Regulations promulgated by these agencies require employers and independent contractors to implement work practices, medical surveillance systems and personnel protection programs to protect employees from workplace hazards and exposure to hazardous chemicals and materials. In recognition of the potential for accidents within various scopes of work, these agencies have enacted strict and comprehensive safety regulations. The Company has established and consistently reinforces and monitors compliance with comprehensive programs intended to insure that it complies with all applicable health and safety regulations to protect the safety of its workers, subcontractors and customers. While the Company believes that it operates safely and prudently, there can be no assurance that accidents will not occur or that the Company will not incur substantial liability in connection with the operation of its businesses. In order to minimize the financial exposure resulting from potential accidents associated with the Company's work, the Company maintains liability insurance to limit losses that could result from our work.

Environmental

The Company's operations are subject to extensive and changing environmental laws and regulations. These laws and regulations relate primarily to air and water pollutants and the management and disposal of hazardous materials. The Company is exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or hazardous materials.

In order to limit costs incurred as a result of environmental exposure, the Company maintains contractor's pollution liability insurance that covers liability that may be incurred as a result of accidental releases of hazardous materials.

The Company believes that it is currently in compliance, in all material aspects, with all applicable environmental laws and regulations. The Company does not expect any material charges in subsequent periods relating to environmental conditions that currently exist and does not currently foresee any significant future capital spending relating to environmental matters.

Item 1A. Risk Factors

The following risk factors should be considered with the other information included in this Annual Report on Form 10-K. As we operate in a continuously changing environment, other risk factors may emerge which could have a material adverse effect on our results of operations, financial condition and cash flow.

Risk Factors Related to Our Business

Unsatisfactory safety performance may subject us to penalties, affect customer relationships, result in higher operating costs, negatively impact employee morale and result in higher employee turnover.

Our projects are conducted at a variety of sites including construction sites and industrial facilities. With each location, hazards are part of the day to day exposures that we must manage on a continuous basis to ensure our employees return home from work the same way they arrived. We understand that everyone plays a role with safety and everyone can make a difference with their active participation. With our proactive approach, our strategy is to identify the exposures and correct them before they manifest into an incident whether that involves an injury, damage or destruction of property, plant and equipment or environmental impact. We are intensely focused on maintaining a strong safety culture and continue our journey to zero incidents.

Although we have taken what we believe are appropriate precautions to adequately train and equip our employees, we have experienced serious accidents, including fatalities, in the past and may experience additional accidents in the future.

Serious accidents may subject us to penalties, civil litigation or criminal prosecution. Claims for damages to persons, including claims for bodily injury or loss of life, could result in costs and liabilities, which could materially and adversely affect our financial condition, results of operations or cash flows. Poor safety performance could also jeopardize our relationships with our customers.

Demand for our products and services is cyclical and is vulnerable to the level of capital and maintenance spending of our customers and to downturns in the industries and markets we serve, as well as conditions in the general economy.

The demand for our products and services depends upon the existence of construction and maintenance projects in the downstream petroleum, power and other heavy industries in the United States and Canada. Therefore, it is likely that our business will continue to be cyclical in nature and vulnerable to general downturns in the United States, Canadian and world economies and changes in commodity prices, which could adversely affect the demand for our products and services.

The availability of engineering and construction projects is dependent upon economic conditions in the oil, gas, and power industries, specifically, the level of capital expenditures on energy infrastructure. A prolonged period of sluggish economic conditions in North America has had and may continue to have an adverse impact on the level of capital expenditures of our customers and/or their ability to finance these expenditures. Our failure to obtain projects, the delay of project awards, the cancellation of projects or delays in the execution of contracts may result in under-utilization of our resources, which could adversely impact our revenue, operating results and cash flow. There are numerous factors beyond our control that influence the level of maintenance and capital expenditures of our customers, including:

- current or projected commodity prices, including oil, gas, power and mineral prices;
- refining margins;
- the demand for oil, gas and electricity;
- the ability of oil, gas and power companies to generate, access and deploy capital;
- exploration, production and transportation costs;
- tax incentives, including those for alternative energy projects;
- regulatory restraints on the rates that power companies may charge their customers; and
- local, national and international political and economic conditions.

Our results of operations depend upon the award of new contracts and the timing of those awards.

Our revenues are derived primarily from contracts awarded on a project-by-project basis. Generally, it is difficult to predict whether and when we will be awarded a new contract due to lengthy and complex bidding and selection processes, changes in existing or forecasted market conditions, access to financing, governmental regulations, permitting and environmental matters. Because our revenues are derived from contract awards, our results of operations and cash flows can fluctuate materially from period to period.

The uncertainty associated with the timing of contract awards may reduce our short-term profitability as we balance our current capacity with expectations of future contract awards. If an expected contract award is delayed or not received, we could incur costs to maintain an idle workforce that may have a material adverse effect on our results of operations. Alternatively, we may decide that our long-term interests are best served by reducing our workforce and incurring increased costs associated with severance and termination benefits, which also could have a material adverse effect on our results of operations in the period incurred. Reducing our workforce could also impact our results of operations if we are unable to adequately staff projects that are awarded subsequent to a workforce reduction.

Acquisitions may result in significant transaction expenses, and unidentified liabilities and risks associated with entering new markets. We may also be unable to profitably integrate and operate these businesses.

We may lack sufficient management, financial and other resources to successfully integrate future acquisitions, including acquisitions in markets where we have not previously operated. Any future acquisitions may result in significant transaction expenses, unexpected liabilities and other risks in addition to the integration and consolidation risks.

If we make any future acquisitions, we will likely assume liabilities of the acquired business or have exposure to contingent liabilities that may not be adequately covered by insurance or indemnification, if any, from the former owners of the acquired business. These potential liabilities could have a material adverse effect on our business.

We may need to raise additional capital in the future for working capital, capital expenditures and/or acquisitions, and we may not be able to do so on favorable terms or at all, which would impair our ability to operate our business or achieve our strategic plan.

To the extent that cash flow from operations, together with available borrowings under our credit facility, are insufficient to make future investments, acquisitions or provide needed working capital, we may require additional financing from other sources. Our ability to obtain such additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us. If adequate funds are not available, or are not available on acceptable terms, we may not be able to make future investments, take advantage of acquisitions or other opportunities, or respond to competitive challenges.

We face substantial competition in each of our business segments, which may have a material adverse effect on our business.

We face competition in all areas of our business from regional, national and international competitors. Our competitors range from small, family-owned businesses to well-established, well-financed entities, both privately and publicly held, including many major equipment manufacturers, large engineering and construction companies and specialty contractors. We compete primarily on the basis of price, customer satisfaction, safety performance and programs, quality of our products and services, and schedule. As a result, an increase in the level of competition in one or more markets may result in lower operating margins than we have recently experienced.

Our backlog is subject to unexpected fluctuations, adjustments and cancellations and does not include the full value of our long-term maintenance contracts, and therefore, may not be a reliable indicator of our future earnings.

Backlog may not be a reliable indicator of our future performance. We cannot guarantee that the revenue projected in our backlog will be realized or profitable. Projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts included in our backlog that could reduce the dollar amount of our backlog and the revenue and profits that we actually earn. Many of our contracts have termination rights. Therefore, project adjustments may occur from time to time to contracts in our backlog.

The loss of one or more of our significant customers could adversely affect us.

One or more customers have in the past and may in the future contribute a material portion of our revenues in any one year. Because these significant customers generally contract with us for specific projects or for specific periods of time, we may lose these customers from year to year as the projects or maintenance contracts are completed. The loss of business from any one of these customers could have a material adverse effect on our business or results of operations.

The terms of our contracts could expose us to unforeseen costs and costs not within our control, which may not be recoverable and could adversely affect our results of operations and financial condition.

A significant amount of our work is performed under fixed price contracts. Under fixed-price contracts, we agree to perform the contract for a fixed-price and, as a result, can improve our expected profit by superior execution, productivity, workplace safety and other factors resulting in cost savings. However, we could incur cost overruns above the approved contract price, which may not be recoverable. Under certain incentive fixed-price contracts, we may agree to share with a customer a portion of any savings we generate while the customer agrees to bear a portion of any increased costs we may incur up to a negotiated ceiling. To the extent costs exceed the negotiated ceiling price, we may be required to absorb some or all of the cost overruns.

Fixed-price contract prices are established based largely upon estimates and assumptions relating to project scope and specifications, personnel and productivity, material needs, and site conditions. These estimates and assumptions may prove inaccurate or conditions may change due to factors out of our control, resulting in cost overruns, which we may be required to absorb and which could have a material adverse effect on our business, financial condition and results of operations. In addition, our profits from these contracts could decrease or we could experience losses if we incur difficulties in performing the contracts or are unable to secure fixed-pricing commitments from our manufacturers, suppliers and subcontractors at the time we enter into fixed-price contracts with our customers.

Under cost-plus and time-and-material contracts, we perform our services in return for payment of our agreed upon reimbursable costs plus a profit. The profit component is typically expressed in the contract either as a percentage of the reimbursable costs we actually incur or is factored into the rates we charge for labor or for the cost of equipment and materials, if any, we are required to provide. Our profit could be negatively impacted if our actual costs exceed the estimated costs utilized to establish the billing rates included in the contracts.

We may incur significant costs in providing services in excess of original project scope without having an approved change order.

After commencement of a contract, we may perform, without the benefit of an approved change order from the customer, additional services requested by the customer that were not contemplated in our contract price for various reasons, including customer changes or incomplete or inaccurate engineering, changes in project specifications and other similar information provided to us by the customer. Our construction contracts generally require the customer to compensate us for additional work or expenses incurred under these circumstances.

A failure to obtain adequate compensation for these matters could require us to record in the current period an adjustment to revenue and profit recognized in prior periods under the percentage-of-completion accounting method. Any such adjustments, if substantial, could have a material adverse effect on our results of operations and financial condition, particularly for the period in which such adjustments are made. We can provide no assurance that we will be successful in obtaining, through negotiation, arbitration, litigation or otherwise, approved change orders in an amount adequate to compensate us for our additional work or expenses.

Our profitability could be negatively impacted if we are not able to maintain appropriate utilization of our workforce.

The extent to which we utilize our workforce affects our profitability. If we under utilize our workforce, our project gross margins and overall profitability suffer in the short-term. If we over utilize our workforce, we may negatively impact safety, employee satisfaction and project execution, which could result in a decline of future project awards. The utilization of our workforce is impacted by numerous factors including:

- our estimate of the headcount requirements for various operating units based upon our forecast of the demand for our products and services;
- our ability to maintain our talent base and manage attrition;
- productivity;
- our ability to schedule our portfolio of projects to efficiently utilize our employees and minimize downtime between project assignments; and
- our need to invest time and resources into functions such as training, business development, employee recruiting, and sales that are not chargeable to customer projects.

Our use of percentage-of-completion accounting for fixed-price contracts and our reporting of profits for cost-plus contracts prior to contract completion could result in a reduction or elimination of previously reported profits.

Our revenues are recognized using the percentage-of-completion method of accounting. Under percentage-of-completion accounting, contract revenues and earnings are recognized ratably over the contract term based on the proportion of actual costs incurred to total estimated costs. In addition, some contracts contain penalty provisions for failure to achieve certain milestones, schedules or performance standards. We review our estimates of contract revenues, costs and profitability on a monthly basis. As a result, we may adjust our estimates on one or more occasions as a result of changes in cost estimates, change orders to the original contract, or claims against the customer for increased costs incurred by us due to customer-induced delays and other factors.

If estimates of costs to complete fixed price contracts indicate a loss, a provision is made through a contract write-down for the total loss anticipated in the period the loss is determined. Contract profit estimates are also adjusted, on a percentage of completion basis, in the fiscal period in which it is determined that an adjustment is required. No restatements are made to prior periods. Further, a number of our contracts contain various cost and performance incentives and penalties that impact the earnings we realize from our contracts, and adjustments related to these incentives and penalties are recorded on a percentage of completion basis in the period when estimable and probable.

As a result of the requirements of the percentage-of-completion method of accounting, the possibility exists that we could have estimated and reported a profit on a contract over several prior periods and later determine that all or a portion of such previously estimated and reported profits were overstated. If this occurs, the full aggregate amount of the overstatement will be reported for the period in which such determination is made.

We are exposed to credit risk from customers. If we experience delays and/or defaults in customer payments, we could suffer liquidity problems or we could be unable to recover amounts owed to us.

Under the terms of our contracts, at times we commit resources to customer projects prior to receiving payments from customers in amounts sufficient to cover expenditures on these projects as they are incurred. Many of our fixed-price or cost-plus contracts require us to satisfy specified progress milestones or performance standards in order to receive a payment. Under these types of arrangements, we may incur significant costs for labor, equipment and supplies prior to receipt of payment. If the customer fails or refuses to pay us for any reason, there is no assurance we will be able to collect amounts due to us for costs previously incurred. In some cases, we may find it necessary to terminate subcontracts with suppliers engaged by us to assist in performing a contract, and we may incur costs or penalties for canceling our commitments to them. Delays in customer payments require an investment in working capital. If we are unable to collect amounts owed to us under our contracts, we may be required to record a charge against previously recognized earnings related to the project, and our liquidity, financial condition and results of operations could be adversely affected.

Actual results could differ from the estimates and assumptions that we use to prepare our financial statements.

To prepare financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions, as of the date of the financial statements, which affect the reported values of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Areas requiring significant estimation by our management include:

- contract costs and application of percentage-of-completion accounting;
- provisions for uncollectible receivables from customers for invoiced amounts;
- the amount and collectability of unapproved change orders and claims against customers;
- provisions for income taxes and related valuation allowances;
- recoverability of goodwill and intangible assets;
- valuation of assets acquired and liabilities assumed in connection with business combinations; and
- accruals for estimated liabilities, including litigation and insurance reserves.

Our actual results could materially differ from these estimates.

An inability to attract and retain qualified personnel, and in particular, engineers, project managers, and skilled craft workers, could impact our ability to perform on our contracts, which could harm our business and impair our future revenues and profitability.

Our ability to attract and retain qualified engineers, project managers, skilled craftsmen and other experienced professionals in accordance with our needs is an important factor in our ability to maintain profitability and grow our business. The market for these professionals is competitive, particularly during periods of economic growth when the supply is limited. We cannot provide any assurance that we will be successful in our efforts to retain or attract qualified personnel when needed. Therefore, when we anticipate or experience growing demand for our services, we may incur additional cost to maintain a professional staff in excess of our current contract needs in an effort to have sufficient qualified personnel available to address this anticipated demand. If we do incur additional compensation and benefit costs, our customer contracts may not allow us to pass through these costs.

Competent and experienced engineers, project managers, and craft workers are especially critical to the profitable performance of our contracts, particularly on our fixed-price contracts where superior design and execution of the project can result in profits greater than originally estimated or where inferior design and project execution can reduce or eliminate estimated profits or even result in a loss.

Our project managers are involved in most aspects of contracting and contract execution including:

- supervising the bidding process, including providing estimates of significant cost components, such as material and equipment needs, and the size, productivity and composition of the workforce;
- negotiating contracts;
- supervising project performance, including performance by our employees, subcontractors and other third-party suppliers and vendors;
- estimating costs for completion of contracts that is used to estimate amounts that can be reported as revenues and earnings on the contract under the percentage-of-completion method of accounting;
- negotiating requests for change orders and the final terms of approved change orders; and
- determining and documenting claims by us for increased costs incurred due to the failure of customers, subcontractors and other third-party suppliers of equipment and materials to perform on a timely basis and in accordance with contract terms.

Work stoppages and other labor problems could adversely affect us.

Some of our employees are represented by labor unions. The Company has in excess of 50 collective bargaining agreements with various labor unions. The most significant agreements include the following:

<u>Trade</u>	<u>Local #</u>	<u>Location</u>	<u>Expires</u>
Boilermaker	28	Bayonne, N.J.	12/31/2015
Boilermaker	13	Philadelphia, PA.	12/31/2015
Electrician	351	Hammonton, N.J.	09/27/2016
Electrician	102	Parsippany, N.J.	05/31/2015
Electrician	164	Paramus, N.J.	05/31/2017
Laborers	81	Gary, IN.	05/31/2017
Iron Workers	395	Gary, IN	05/31/2015

The Company is also working under a number of other collective bargaining agreements that cover a smaller number of employees. These agreements expire within the next five years. For those agreements with upcoming expiration dates, the Company is currently negotiating renewals and expects that the renewals will be successfully completed. To date, the Company has not experienced any work stoppages or other significant labor problems in connection with its collective bargaining agreements. A lengthy strike or other work stoppage on any of our projects could have a material adverse effect on our business and results of operations due to an inability to complete contracted projects in a timely manner.

We contribute to multiemployer plans that could result in liabilities to us if those plans are terminated or if we withdraw from those plans.

We contribute to several multiemployer pension plans for employees covered by collective bargaining agreements. These plans are not administered by us and contributions are determined in accordance with provisions of negotiated labor contracts. The Employee Retirement Income Security Act of 1974, as amended by the Multiemployer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multiemployer plan in the event of the employer's withdrawal from, or upon termination of, such plan. If we terminate or withdraw from a multiemployer pension plan, we could be required to make significant cash contributions to fund that plan's unfunded vested benefit, which could materially and adversely affect our financial condition and results of operations; however, we are not currently able to determine the net assets and actuarial present value of the multiemployer pension plans' unfunded vested benefits allocable to us, if any, and we are not presently aware of the amounts, if any, for which we may be contingently liable if we were to withdraw from any of these plans. In addition, if the funding level of any of these multiemployer plans becomes classified as "critical status" under the Pension Protection Act of 2006, we could be required to make significant additional contributions to those plans.

Future events, including those associated with our strategic plan, could negatively affect our liquidity position.

We can provide no assurance that we will have sufficient cash from operations or the credit capacity to meet all of our future cash needs should we encounter significant working capital requirements or incur significant acquisition costs. Insufficient cash from operations, significant working capital requirements, and contract disputes have in the past, and could in the future, reduce availability under our credit facility.

We are involved, and are likely to continue to be involved in legal proceedings, which will increase our costs and, if adversely determined, could have a material effect on our financial condition, results of operations, cash flows and liquidity.

We are currently a defendant in legal proceedings arising from the operation of our business, and it is reasonable to expect that we would be named in future actions. Many of the actions against us arise out of the normal course of performing services on project sites, and include workers' compensation claims, personal injury claims and contract disputes with our customers. From time to time, we are also named as a defendant for actions involving the violation of federal and state labor laws related to employment practices, wages and benefits. We may also be a plaintiff in legal proceedings against customers seeking to recover payment of contractual amounts due to us as well as claims for increased costs incurred by us resulting from, among other things, services performed by us at the request of a customer that are in excess of original project scope that are later disputed by the customer and customer-caused delays in our contract performance.

We maintain insurance against operating hazards in amounts that we believe are customary in our industry. However, our insurance policies include deductibles and certain coverage exclusions, so we cannot provide assurance that we are adequately insured against all of the risks associated with the conduct of our business. A successful claim brought against us in excess of, or outside of, our insurance coverage could have a material adverse effect on our financial condition, results of operations, cash flows and liquidity.

Litigation, regardless of its outcome, is expensive, typically diverts the efforts of our management away from operations for varying periods of time, and can disrupt or otherwise adversely impact our relationships with current or potential customers, subcontractors and suppliers. Payment and claim disputes with customers may also cause us to incur increased interest costs resulting from incurring indebtedness under our revolving line of credit or receiving less interest income resulting from fewer funds invested due to the failure to receive payment for disputed claims and accounts.

Our projects expose us to potential professional liability, product liability, warranty and other claims, which could be expensive, damage our reputation and harm our business. We may not be able to obtain or maintain adequate insurance to cover these claims.

We perform construction and maintenance services at large industrial facilities where accidents or system failures can be disastrous and costly. Any catastrophic occurrence in excess of our insurance limits at locations engineered or constructed by us or where our products are installed or services performed could result in significant professional liability, product liability, warranty and other claims against us by our customers, including claims for cost overruns and the failure of the project to meet contractually specified milestones or performance standards. Further, the rendering of our services on these projects could expose us to risks and claims by third parties and governmental agencies for personal injuries, property damage and environmental matters, among others. Any claim, regardless of its merit or eventual outcome, could result in substantial costs, divert management's attention and create negative publicity, particularly for claims relating to environmental matters where the amount of the claim could be extremely large. We may not be able to or may choose not to obtain or maintain insurance coverage for the types of claims described above. If we are unable to obtain insurance at an acceptable cost or otherwise protect against the claims described above, we will be exposed to significant liabilities, which may materially and adversely affect our financial condition and results of operations.

Employee, subcontractor or partner misconduct or our overall failure to comply with laws or regulations could harm our reputation, damage our relationships with customers, reduce our revenues and profits, and subject us to criminal and civil enforcement actions.

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of our employees, subcontractors or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with safety standards, laws and regulations, customer requirements, regulations pertaining to the internal controls over financial reporting, environmental laws and any other applicable laws or regulations. The precautions we take to prevent and detect these activities may not be effective, since our internal controls are subject to inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, and fraud.

Our failure to comply with applicable laws or regulations or acts of misconduct could subject us to fines and penalties, harm our reputation, damage our relationships with customers, reduce our revenues and profits and subject us to criminal and civil enforcement actions.

We rely on internally and externally developed software applications and systems to support critical functions including project management, estimating, scheduling, human resources, accounting, and financial reporting. Any sudden loss, disruption or unexpected costs to maintain these systems could significantly increase our operational expense as well as disrupt the management of our business operations.

We rely on various software systems to conduct our critical operating and administrative functions. We depend on our software vendors to provide long-term software maintenance support for our information systems. Software vendors may decide to discontinue further development, integration or long-term software maintenance support for our information systems, in which case we may need to abandon one or more of our current information systems and migrate some or all of our project management, human resources, estimating, scheduling, accounting and financial information to other systems, thus increasing our operational expense as well as disrupting the management of our business operations.

Our business may be affected by difficult work sites and environments, which may adversely affect our overall business.

We perform our work under a variety of conditions, including, but not limited to, difficult terrain, difficult site conditions and busy urban centers where delivery of materials and availability of labor may be impacted. Performing work under these conditions can slow our progress, potentially causing us to incur contractual liability to our customers. These difficult conditions may also cause us to incur additional, unanticipated costs that we might not be able to pass on to our customers.

We are susceptible to adverse weather conditions, which may harm our business and financial results.

Our business may be adversely affected by severe weather in areas where we have significant operations. Repercussions of severe weather conditions may include:

- curtailment of services;
- suspension of operations;
- inability to meet performance schedules in accordance with contracts;
- weather related damage to our facilities;
- disruption of information systems;
- inability to receive machinery, equipment and materials at jobsites; and
- loss of productivity.

Environmental factors and changes in laws and regulations could increase our costs and liabilities.

Our operations are subject to environmental laws and regulations, including those concerning emissions into the air; discharges into waterways; generation, storage, handling, treatment and disposal of hazardous material and wastes; and health and safety.

Our projects often involve highly regulated materials, including hazardous wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require us to obtain permits and comply with various other requirements. The improper characterization, handling, or disposal of regulated materials or any other failure by us to comply with federal, state and local environmental laws and regulations or associated environmental permits could subject us to the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, or the issuance of injunctions that could restrict or prevent our ability to operate our business and complete contracted projects.

In addition, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”), and comparable state laws, we may be required to investigate and remediate regulated materials. CERCLA and the comparable state laws typically impose liability without regard to whether a company knew of or caused the release, and liability for the entire cost of clean-up can be imposed upon any responsible party.

We are subject to numerous other laws and regulations including those related to business registrations and licenses, environment, workplace, employment, health and safety. These laws and regulations are complex, change frequently and could become more stringent in the future. It is impossible to predict the effect on us of any future changes to these laws and regulations. We can provide no absolute assurance that our operations will continue to comply with future laws and regulations or that the costs to comply with these laws and regulations and/or a failure to comply with these laws will not significantly adversely affect our business, financial condition and results of operations.

We recorded an intangible asset impairment charge of \$0.3 million in fiscal 2013 related to an acquisition. Earnings for future periods may be affected by additional impairment charges.

Because we have grown in part through acquisitions, goodwill and other acquired intangible assets represent a substantial portion of our assets. We perform annual goodwill and intangible asset impairment reviews in the fourth quarter of every fiscal year. In addition, we perform an impairment review whenever events or changes in circumstances indicate the carrying value of goodwill or an intangible or fixed asset may not be recoverable. At some future date, we may determine that significant impairment has occurred, which could require us to write off an additional portion of our assets and could adversely affect our financial condition or results of operations. As of June 30, 2014 the Company had \$27.2 million of amortizing intangible assets and \$71.3 million of non amortizing intangibles including goodwill representing 4.8% and 12.5% of the Company's total assets, respectively.

Our credit facility imposes restrictions that may limit business alternatives.

Our credit facility contains covenants that restrict or limit our ability to incur additional debt, acquire or dispose of assets, repurchase equity, or make certain distributions, including dividends. In addition, our credit facility requires that we comply with a number of financial covenants. These covenants and restrictions may impact our ability to effectively execute operating and strategic plans and our operating performance may not be sufficient to comply with the required covenants.

Our failure to comply with one or more of the covenants in our credit facility could result in an event of default. We can provide no assurance that a default could be remedied, or that our creditors would grant a waiver or amend the terms of the credit facility. If an event of default occurs, our lenders could elect to declare all amounts outstanding under the facility to be immediately due and payable, terminate all commitments, refuse to extend further credit, and require us to provide cash to collateralize any outstanding letters of credit. If an event of default occurs and the lenders under the credit facility accelerate the maturity of any loans or other debt outstanding, we may not have sufficient liquidity to repay amounts outstanding under the existing agreement.

Risk Factors Related To The Acquisition of Kvaerner North American Construction ("KNAC")

We may not be able to successfully integrate our acquisition of KNAC, which could cause our business to suffer.

We may not be able to successfully complete integration of the operations, personnel and technology of KNAC. Because of the size and complexity of KNAC's business, if the remaining integration is not managed successfully, we may experience interruptions in our business activities, a decrease in the quality of our services, a deterioration in our employee and customer relationships, increased costs of integration and harm to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations. The integration of KNAC with our operations will require significant attention from management, which may decrease the time that management will have to serve existing customers, attract new customers and develop new services and strategies. We may also experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The continuing integration of KNAC may also impose substantial demands on our operations or other projects. We will have to actively strive to demonstrate to our existing customers that the acquisition has not resulted in adverse changes in our standards or business focus. The integration of KNAC will also involve a significant capital commitment, and the return that we achieve on any capital invested may be less than the return achieved on our other projects or investments. There will be challenges in consolidating and rationalizing information technology platforms and administrative infrastructures. In addition, any delays or increased costs of integrating the companies could adversely affect our operations, financial results and liquidity.

We may not realize the growth opportunities, operating margins and synergies that are anticipated from our acquisition of KNAC.

The benefits we expect to achieve as a result of our acquisition of KNAC will depend, in part, on our ability to realize the anticipated growth opportunities, operating margins and synergies. Our success in realizing these growth opportunities, operating margins and synergies, and the timing of this realization, depends on the successful integration of KNAC's business and operations with our business and operations. Even if we are able to integrate our business with KNAC's business successfully, this integration may not result in the realization of the full benefits of the growth opportunities, operating margins and synergies we currently expect from this integration within the anticipated time frame or at all. Accordingly, the benefits from the acquisition may be offset by costs incurred or delays in integrating the companies, which could cause our revenue assumptions and operating margin to be inaccurate.

The acquisition may expose us to unidentified liabilities.

As a result of the acquisition, we acquired KNAC subject to certain of its liabilities. If there are unknown KNAC obligations, our business could be materially and adversely affected. We may learn additional information about KNAC's business that adversely affects us, such as unknown liabilities, issues that could affect our ability to comply with the Sarbanes-Oxley Act or issues that could affect our ability to comply with other applicable laws. As a result, we cannot assure that the acquisition of KNAC will be successful or will not, in fact, harm our business. Among other things, if KNAC's liabilities are greater than expected, or if there are material obligations of which we were not aware our business could be materially and adversely affected. If we become responsible for liabilities not covered by indemnification rights or substantially in excess of amounts covered through any indemnification rights, we could suffer severe consequences that would substantially reduce our revenues, earnings and cash flows.

The steel industry is cyclical and sensitive to general economic conditions, which could have a material adverse effect on our operating results and financial condition.

A significant percentage of KNAC's revenues are derived from the steel industry. Demand for steel products is cyclical in nature and sensitive to general economic conditions. The timing and magnitude of the cycles in the markets in which our customers' products are used, including automobiles and residential construction, are difficult to predict. The cyclical nature of our customers' operations tends to reflect and be amplified by changes in economic conditions, both domestically and internationally, supply/demand imbalances and foreign currency exchange fluctuations. Economic downturns or a prolonged period of slow growth in the U.S. and foreign markets or any of the industries in which our steel industry customers operate could have a material adverse effect on our results of operations, financial condition and cash flows.

Increases in imports of foreign steel into the U.S. may reduce our customers' profitability and capital spending plans.

Economic expansion in China and other countries has affected the supply and price of steel products. Expansions and contractions in these economies can significantly affect the price of steel and of finished steel products. Additionally, in a number of foreign countries, such as China, steel producers are generally government-owned and may therefore make production decisions based on political or other factors that do not reflect market conditions. Disruptions in foreign markets from excess steel production may encourage importers to target the U.S. with excess capacity at aggressive prices, and existing trade laws and regulations may be inadequate to prevent unfair trade practices, which could have a material adverse effect on our steel industry customers. Although trade regulations restrict the importation of certain products, if foreign steel production significantly exceeds consumption in those countries, imports of steel products into the U.S. could increase, resulting in lower volumes and selling prices for our customers' steel products, which could result in a decline in the maintenance and construction work we provide to these customers.

Risk Factors Related to Our Common Stock

Our common stock, which is listed on the NASDAQ Global Select Market, has experienced significant price and volume fluctuations. These fluctuations could continue in the future, and our stockholders may not be able to resell their shares of common stock at or above the purchase price paid.

The market price of our common stock may change significantly in response to various factors and events beyond our control, including the following:

- the risk factors described in this Item 1A;
- general conditions in our customers' industries;
- general conditions in the security markets.
- the significant concentration of ownership of our common stock in the hands of a small number of institutional investors;
- a shortfall in operating revenue or net income from that expected by securities analysts and investors; and
- changes in securities analysts' estimates of our financial performance or the financial performance of our competitors or companies in our industry.

Some companies that have volatile market prices for their securities have been subject to security class action suits filed against them. If a suit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion

of our management's attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

Future sales of our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock in the public market or otherwise, either by us, a member of management or a major stockholder, or the perception that these sales could occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

We may issue additional equity securities, which could lead to dilution of our issued and outstanding stock.

The issuance of additional common stock, restricted stock units or securities convertible into our common stock could result in dilution of the ownership interest held by existing stockholders. We are authorized to issue, without stockholder approval 5,000,000 shares of preferred stock, par value \$0.01 per share, in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. In addition, we are authorized to issue, without stockholder approval, a significant number of additional shares of our common stock and securities convertible into either common stock or preferred stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The principal properties of Matrix Service Company are as follows:

Location	Description of Facility	Segment	Interest
Tulsa, Oklahoma	Corporate headquarters and regional office	Corporate, Storage Solutions	Leased
Alton, Illinois	Regional office	Oil Gas & Chemical	Leased
Bellingham, Washington	Regional office, fabrication facility and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Owned
Canonsburg, Pennsylvania	Regional office	Electrical Infrastructure, Oil Gas & Chemical, Industrial	Leased
Catoosa, Oklahoma	Fabrication facility, regional offices and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Owned ⁽¹⁾
Eddystone, Pennsylvania	Regional office, fabrication facility and warehouse	Electrical Infrastructure, Oil Gas & Chemical, Storage Solutions, Industrial	Leased
Hammond, Indiana	Regional office, fabrication facility, and warehouse	Electrical Infrastructure, Oil Gas & Chemical, Industrial	Leased
Houston, Texas	Regional offices and warehouse	Oil Gas & Chemical, Storage Solutions	Leased & Owned
Orange, California	Fabrication facility, regional office and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Owned
Parsippany, New Jersey	Regional office	Industrial	Leased
Rahway, New Jersey	Regional office and warehouse	Electrical Infrastructure, Oil Gas & Chemical, Storage Solutions, Industrial	Leased
Reserve, Louisiana	Regional office and warehouse	Oil Gas & Chemical	Leased
Sandy, Utah	Regional office and warehouse	Industrial	Leased
Sewickley, Pennsylvania	Regional office	Oil Gas & Chemical, Storage Solutions, Industrial	Leased
Temperance, Michigan	Regional office and warehouse	Storage Solutions	Owned
Tucson, Arizona	Regional office and warehouse	Industrial	Leased
Burlington, Ontario, Canada	Regional office	Electrical Infrastructure, Industrial	Owned
Edmonton, Alberta, Canada	Regional office	Storage Solutions	Leased
Leduc, Alberta, Canada	Regional office and warehouse	Storage Solutions	Leased
Saint John, New Brunswick, Canada	Regional office	Storage Solutions	Leased
Sarnia, Ontario, Canada	Regional office and warehouse	Storage Solutions	Owned

(1) Facilities were constructed by the Company on land acquired through a ground lease with renewal options extending until 2042.

In addition to the locations listed above, Matrix has temporary office facilities at numerous customer locations throughout the United States and Canada.

Item 3. 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 4. Mine Safety Disclosures

Section 1503 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 owner of any mines, but as a result of our performing services or construction at mine sites as an independent contractor, we may be 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 annual report under Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Our common stock trades on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbol “MTRX”. The following table sets forth the high and low sale prices for our common stock as reported by NASDAQ for the periods indicated:

	Fiscal Year 2014		Fiscal Year 2013	
	High	Low	High	Low
First quarter	\$ 19.62	\$ 15.50	\$ 11.88	\$ 10.10
Second quarter	24.43	18.76	11.74	10.09
Third quarter	34.41	24.10	17.00	11.64
Fourth quarter	37.21	28.35	17.62	14.01

As of August 29, 2014, there were 25 holders of record of our common stock. The number of beneficial owners of our common stock is substantially greater than the number of holders of record.

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.

Issuer Purchases of Equity Securities

Our Credit Agreement limits the Company's purchases of its equity securities to \$25 million in any calendar year. The table below sets forth the information with respect to purchases made by the Company of its common stock during the fourth quarter of the fiscal year ended June 30, 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
April 1 to April 30, 2014				
Share Repurchase Program ^(A)	—	—	—	2,113,497
Employee Transactions ^(B)	—	—	—	
May 1 to May 31, 2014				
Share Repurchase Program ^(A)	—	—	—	2,113,497
Employee Transactions ^(B)	3,228	\$30.41	—	
June 1 to June 30, 2014				
Share Repurchase Program ^(A)	—	—	—	2,113,497
Employee Transactions ^(B)	—	—	—	

(A) Represents shares purchased under our stock buyback program approved by the Company's Board of Directors on November 6, 2012. The plan expires on December 31, 2014.

(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.

Item 6. Selected Financial Data**Selected Financial Data**
(In thousands, except percentages and per share data)

	Twelve Months Ended				
	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Revenues	\$ 1,263,089	\$ 892,574	\$ 739,046	\$ 627,052	\$ 550,814
Gross profit	136,473	94,702	79,618	74,914	52,922
Gross margin %	10.8%	10.6%	10.8%	11.9%	9.6%
Selling, general and administrative expenses	77,866	57,988	47,983	44,014	45,169
Selling, general and administrative %	6.2%	6.5%	6.5%	7.0%	8.2%
Operating income	58,607	36,714	31,635	30,900	7,753
Net income	36,877	24,008	17,188	18,982	4,876
Earnings per share - basic	1.36	0.92	0.66	0.72	0.19
Earnings per share-diluted	1.33	0.91	0.65	0.71	0.18
Working capital	105,687	131,908	124,553	115,374	95,740
Total assets	568,932	409,978	323,135	306,436	284,808
Long-term debt	11,621	—	—	—	259
Capital expenditures	23,589	23,231	13,534	10,416	5,302
Cash flows provided by operations	76,988	57,084	2,941	22,749	4,399
Backlog	915,826	626,737	497,452	405,118	353,216

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). GAAP represents a comprehensive set of accounting and disclosure rules and requirements, the application of which requires management judgments and estimates including, in certain circumstances, choices between acceptable GAAP alternatives. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. Note 1- Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Part II, Item 8 - Financial Statements and Supplementary Data in this Annual Report on Form 10-K, contains a comprehensive summary of our significant accounting policies. The following is a discussion of our most critical accounting policies, estimates, judgments and uncertainties that are inherent in our application of GAAP.

CRITICAL ACCOUNTING ESTIMATES

Revenue Recognition

Matrix records profits on fixed-price contracts on a percentage-of-completion basis, primarily based on costs incurred to date compared to the total estimated cost. The Company records revenue on cost-plus and time-and-material contracts on a proportional performance basis as costs are incurred. Contracts in process are valued at cost plus accrued profits less billings on uncompleted contracts. Contracts are generally considered substantially complete when field construction is completed. The elapsed time from award of a contract to completion of performance may be in excess of one year. Matrix includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix determines that it is responsible for the procurement and management of such cost components.

Matrix has numerous contracts that are in various stages of completion, which require estimates to determine the appropriate cost and revenue recognition. The Company has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs, and accordingly, does not believe significant fluctuations are likely to materialize. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete fixed-price contracts indicate a loss, a provision is made through a contract write-down for the total loss anticipated. A number of our contracts contain various cost and performance incentives and penalties that impact the earnings we realize from our contracts. Adjustments related to these incentives and penalties are recorded in the period on a percentage of completion basis when estimable and probable.

Indirect costs, such as salaries and benefits, supplies and tools, equipment costs and insurance costs, are charged to projects based upon direct labor hours and overhead allocation rates per direct labor hour or a percentage of cost incurred. Warranty costs are normally incurred prior to project completion and are charged to project costs as they are incurred. Warranty costs incurred subsequent to project completion were not material for the periods presented. Overhead allocation rates are established annually during the budgeting process and evaluated for accuracy throughout the year based upon actual direct labor hours and actual costs incurred.

Change Orders and Claims

Change orders are modifications of an original contract that effectively change the existing provisions of the contract. Change orders may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Matrix or our clients may initiate change orders. The client's agreement to the terms of change orders is, in many cases, reached prior to work commencing; however, sometimes circumstances require that work progress prior to obtaining client agreement. Costs related to change orders are recognized as incurred. Revenues attributable to change orders that are unapproved as to price or scope are recognized to the extent that costs have been incurred if the amounts can be reliably estimated and their realization is probable. Revenues in excess of the costs attributable to change orders that are unapproved as to price or scope are recognized only when realization is assured beyond a reasonable doubt. Change orders that are unapproved as to both price and scope are evaluated as claims.

Claims are amounts in excess of the agreed contract price that we seek to collect from customers or others for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price or

other causes of anticipated additional costs incurred by us. Recognition of amounts as additional contract revenue related to claims is appropriate only if it is probable that the claims will result in additional contract revenue and if the amount can be reliably estimated. We must determine if:

- there is a legal basis for the claim;
- the additional costs were caused by circumstances that were unforeseen by the Company and are not the result of deficiencies in our performance;
- the costs are identifiable or determinable and are reasonable in view of the work performed; and
- the evidence supporting the claim is objective and verifiable.

If all of the these requirements are met, revenue from a claim is recorded only to the extent that we have incurred costs relating to the claim.

As of June 30, 2014 and June 30, 2013, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$13.1 million and \$9.1 million, respectively. Historically, our collections for unapproved change orders and claims have approximated the amount of revenue recognized.

Loss Contingencies

Various legal actions, claims, and other contingencies arise in the normal course of our business. Contingencies are recorded in the consolidated financial statements, or are otherwise disclosed, in accordance with ASC 450-20, "Loss Contingencies". Specific reserves are provided for loss contingencies to the extent we conclude that a loss is both probable and estimable. We use a case-by-case evaluation of the underlying data and update our evaluation as further information becomes known. We believe that any amounts exceeding our recorded accruals should not materially affect our financial position, results of operations or liquidity. However, the results of litigation are inherently unpredictable and the possibility exists that the ultimate resolution of one or more of these matters could result in a material effect on our financial position, results of operations or liquidity.

Legal costs are expensed as incurred.

Insurance Reserves

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, coverage limits and self-insured retentions. 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 or losses that could be significant. A hypothetical ten percent unfavorable change in our claim reserves at June 30, 2014 would have reduced fiscal 2014 pretax income by \$0.6 million.

Goodwill

Goodwill represents the excess of the purchase price of acquisitions over the acquisition date fair value of the net identifiable tangible and intangible assets acquired. In accordance with current accounting guidance, goodwill is not amortized and is tested at least annually for impairment at the reporting unit level.

We perform our annual analysis during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional analysis. Goodwill impairment reviews involve a two step process. Goodwill is first evaluated for impairment by comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill.

Management utilizes a discounted cash flow analysis, referred to as an income approach, to determine the estimated fair value of our reporting units. Significant judgments and assumptions including the discount rate, anticipated revenue growth rate and gross margins, estimated operating and interest expense, and capital expenditures are inherent in these fair value estimates, which are based on our operating and capital budgets and on our strategic plan. As a result, actual results may differ from the estimates utilized in our income approach. The use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and could result in the recognition of an impairment charge in the financial statements. As a result of these uncertainties, we utilize multiple scenarios and assign probabilities to each of the scenarios in the income approach.

We also consider market-based approaches to assess the fair value of our reporting units. We compare market multiples from our public peer companies in the engineering and construction industry, as well as the combined carrying values of our reporting units with market capitalization.

If the carrying value of our reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill calculated in the same manner as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill is less than its carrying value, we would record an impairment charge for the difference.

Although we do not anticipate a future impairment charge, certain events could occur that would adversely affect the reported value of goodwill. Such events could include, but are not limited to, a change in economic or competitive conditions, a significant change in the project plans of our customers, a deterioration in the economic condition of the customers and industries we serve, and a material negative change in the relationships with one or more of our significant customers. If our judgments and assumptions change as a result of the occurrence of any of these events or other events that we do not currently anticipate, our expectations as to future results and our estimate of the implied value of one or more of our reporting units also may change.

We performed our annual impairment test in the fourth quarter to determine whether an impairment existed and to determine the amount of headroom. We define "headroom" as the percentage difference between the fair value of a reporting unit and its carrying value. The amount of headroom varies by reporting unit. Approximately 62% of our goodwill balance is attributable to one reporting unit. This unit had headroom of 94%. We have four additional reporting units with goodwill representing 13%, 8%, 6% and 6% of the total goodwill balance with headroom of 182%, 165%, 193% and 137%, respectively.

Our significant assumptions, including revenue growth rates, gross margins, unanticipated operating and interest expense and other factors may change in light of changes in the economic and competitive environment in which we operate. Assuming that all other components of our fair value estimate remain unchanged, a change in the following assumptions would have the following effect on headroom:

- if the growth rate of estimated revenue decreases by one percentage point, the headroom of the reporting units referenced above would be reduced from 94%, 182%, 165%, 193% and 137% to 87%, 172%, 157%, 185% and 129%, respectively;
- if our estimate of gross margins decreases one percentage point, the headroom of the reporting units referenced above would be reduced from 94%, 182%, 165%, 193% and 137% to 69%, 146%, 131%, 161% and 108%, respectively; and
- if the applicable discount rate increases one percentage point, the headroom of the reporting units referenced above would be reduced from 94%, 182%, 165%, 193% and 137% to 79%, 166%, 145%, 172% and 119%, respectively.

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. Each reporting period, 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. In fiscal 2013, we reclassified an intangible asset from an indefinite-lived intangible to a finite-lived intangible resulting in an impairment charge of \$0.3 million.

Recently Issued Accounting Standards

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

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the revenue model to contracts within its scope, an entity:

- Identifies the contract(s) with a customer (step 1).
- Identifies the performance obligations in the contract (step 2).
- Determines the transaction price (step 3).
- Allocates the transaction price to the performance obligations in the contract (step 4).

- Recognizes revenue when (or as) the entity satisfies a performance obligation (step 5).

The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. We expect to adopt this standard in fiscal 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2014- 12 (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force "EITF")

On June 19, 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)" in response to the EITF consensus on Issue 13-D. The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. The ASU does not contain any new disclosure requirements. For all entities, this standard is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. We expect to adopt this standard in fiscal 2016 and do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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

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

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

The new guidance eliminates the second and third criteria above and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale. The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption is permitted. We expect to adopt this standard in fiscal 2015 and 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 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 ASTs, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including LNG, liquid nitrogen/liquid oxygen LIN/LOX, LPG tanks and other specialty vessels including spheres. We also offer aboveground storage tank products including floating roof seals. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

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

The majority of the work for all segments is performed in the United States, with 9.0% of revenues generated in Canada during fiscal 2014, 8.7% in fiscal 2013 and 8.5% in fiscal 2012. Significant period to period changes in revenues, gross profits and operating results are discussed below on a consolidated basis and for each segment.

Matrix Service Company
Results of Operations
(In thousands)

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
Fiscal Year 2014					
Consolidated revenues	\$ 205,570	\$ 239,690	\$ 610,896	\$ 206,933	\$ 1,263,089
Gross profit	20,629	26,912	68,448	20,484	136,473
Selling, general and administrative expenses	12,926	16,973	34,138	13,829	77,866
Operating income	7,703	9,939	34,310	6,655	58,607
Fiscal Year 2013					
Consolidated revenues	\$ 171,204	\$ 273,848	\$ 393,201	\$ 54,321	\$ 892,574
Gross profit	21,754	32,879	37,455	2,614	94,702
Selling, general and administrative expenses	10,569	17,464	25,551	4,404	57,988
Operating income (loss)	11,185	15,415	11,904	(1,790)	36,714
Fiscal Year 2012					
Consolidated revenues	\$ 135,086	\$ 205,823	\$ 378,154	\$ 19,983	\$ 739,046
Gross profit	16,676	20,070	42,393	479	79,618
Selling, general and administrative expenses	9,067	11,936	24,900	2,080	47,983
Operating income (loss)	7,609	8,134	17,493	(1,601)	31,635
Variances Fiscal Year 2014 to Fiscal Year 2013					
Increase/(Decrease)					
Consolidated revenues	\$ 34,366	\$ (34,158)	\$ 217,695	\$ 152,612	\$ 370,515
Gross profit	(1,125)	(5,967)	30,993	17,870	41,771
Selling, general and administrative expenses	2,357	(491)	8,587	9,425	19,878
Operating income	(3,482)	(5,476)	22,406	8,445	21,893
Variances Fiscal Year 2013 to Fiscal Year 2012					
Increase/(Decrease)					
Consolidated revenues	\$ 36,118	\$ 68,025	\$ 15,047	\$ 34,338	\$ 153,528
Gross profit	5,078	12,809	(4,938)	2,135	15,084
Selling, general and administrative expenses	1,502	5,528	651	2,324	10,005
Operating income	3,576	7,281	(5,589)	(189)	5,079

Fiscal 2014 Versus Fiscal 2013

Consolidated

Consolidated revenues were \$1.263 billion in fiscal 2014, an increase of \$370.6 million, or 41.5%, from consolidated revenues of \$892.6 million in fiscal 2013. As discussed in Note 2 - Acquisitions, the Company acquired Kvaerner North American Construction, which we refer to as Matrix NAC, near the end of second quarter of fiscal 2014. Matrix NAC revenues totaled \$154.8 million in fiscal 2014. The remaining revenue increase of \$215.8 million was attributable to our existing business. Consolidated revenues on a segment basis increased in the Storage Solutions, Industrial and Electrical Infrastructure segments by \$217.7 million, \$152.6 million and \$34.4 million respectively, partially offset by a decrease in the Oil Gas & Chemical segment of \$34.1 million.

Consolidated gross profit increased to \$136.5 million in fiscal 2014 from \$94.7 million in fiscal 2013. The increase of \$41.8 million, or 44.1%, was due to higher revenues and higher gross margins which increased to 10.8% in fiscal 2014 compared to 10.6% a year earlier.

Consolidated SG&A expenses were \$77.9 million in fiscal 2014 compared to \$58.0 million in the same period a year earlier. As discussed in Note 2 - Acquisitions, the Company acquired Matrix NAC near the end of the second quarter of fiscal 2014. Therefore, SG&A includes two full quarters of Matrix NAC operational expenses and \$2.0 million of acquisition related fees. These expenses, along with higher incentive compensation costs and increased support costs related to higher business volumes caused SG&A expense to increase by \$19.9 million, or 34.3%. SG&A expense as a percentage of revenue was 6.2% in fiscal 2014 compared to 6.5% in the prior year.

Net interest expense was \$1.4 million in fiscal 2014 and \$0.8 million in fiscal 2013.

Other expense was \$0.5 million in fiscal 2014 compared to less than \$0.1 million in fiscal 2013.

The effective tax rates for fiscal 2014 and fiscal 2013 were 35.1% and 33.2%, respectively. 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 the second quarter of fiscal 2014. In addition, we increased our estimate of the fiscal 2014 R&D credit resulting in an additional benefit of approximately \$0.7 million. The prior year 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 an available tax credit.

Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased \$34.4 million, or 20.1%, to \$205.6 million in fiscal 2014 compared to \$171.2 million in the same period a year earlier. The increased revenue volume in fiscal 2014 was primarily due to the inclusion of six months of 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 fiscal 2014 compared to 12.7% 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 to \$239.7 million in fiscal 2014 compared to \$273.8 million in the same period a year earlier. The decrease of \$34.1 million, or 12.5%, was primarily due to a lower level of capital construction projects and turnaround work, partially offset by higher industrial cleaning work. Gross margins were 11.2% in fiscal 2014 compared to 12.0% in fiscal 2013.

Storage Solutions

Revenues for the Storage Solutions segment increased to \$610.9 million in fiscal 2014 compared to \$393.2 million in the same period a year earlier. The increase of \$217.7 million, or 55.4%, was primarily due to higher levels of work in our domestic and Canada aboveground storage tank business and significant terminal balance of plant work. Fiscal 2014 gross margins were reduced by 1.6% to 11.2% due to a loss of \$8.4 million on one project. The fiscal 2013 margins of 9.5% included a project charge of \$3.7 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 totaled \$206.9 million in fiscal 2014 compared to \$54.3 million in the same period a year earlier. The increase of \$152.6 million was primarily due to the inclusion of six months of 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 9.9% in fiscal 2014 compared to 4.8% 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 in the legacy business, partially offset by lower margins on low risk time and materials iron and steel work.

Fiscal 2013 Versus Fiscal 2012

Consolidated

Consolidated revenues were \$892.6 million in fiscal 2013, an increase of \$153.6 million, or 20.8%, from consolidated revenues of \$739.0 million in fiscal 2012. The increase in consolidated revenues was a result of increases in all four segments: Oil Gas & Chemical, Electrical Infrastructure, Industrial and Storage Solutions which increased \$68.0 million, \$36.1 million, \$34.3 million and \$15.0 million, respectively.

Consolidated gross profit increased from \$79.6 million in fiscal 2012 to \$94.7 million in fiscal 2013. The increase of \$15.1 million, or 19.0%, was due to higher revenues, partially offset by lower gross margins which decreased to 10.6% in fiscal 2013 compared to 10.8% a year earlier.

Consolidated SG&A expenses were \$58.0 million in fiscal 2013 compared to \$48.0 million in the same period a year earlier. The increase of \$10.0 million, or 20.8%, was primarily related to our planned investments in the branding initiative, strategic growth areas and related support functions coupled with a higher business volume. The Company also incurred a bad debt charge of \$0.7 million in fiscal 2013. SG&A expense as a percentage of revenue was 6.5% in both fiscal 2013 and fiscal 2012.

Net interest expense was \$0.8 million in both fiscal 2013 and fiscal 2012.

The effective tax rates for fiscal 2013 and fiscal 2012 were 33.2% and 43.6%, respectively. The current year 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 an available tax credit. The fiscal 2012 effective tax rate was higher than the statutory rate due to cumulative non-deductible expenses totaling \$3.1 million related to deductibility limitations applying to certain items that had previously been fully deducted, of which \$2.1 million was related to prior fiscal years (fiscal 2009 to fiscal 2011). The fiscal 2012 effective tax rate was positively impacted by the release of a valuation allowance on foreign tax credit carryovers of \$0.5 million.

Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased \$36.1 million, or 26.7%, to \$171.2 million in fiscal 2013 compared to \$135.1 million in the same period a year earlier. The higher revenue was primarily due to an increase in high voltage work related primarily to storm restoration services and higher transmission and distribution work in the Northeast United States. Gross margins were 12.7% in fiscal 2013 compared to 12.3% in fiscal 2012. The improvement in gross margins in fiscal 2013 is due to higher margins related to storm restoration work and the improved recovery of overhead costs caused by a higher business volume, partially offset by lower direct margins related to other electrical work.

Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment increased to \$273.8 million in fiscal 2013 compared to \$205.8 million in the same period a year earlier. The increase of \$68.0 million, or 33.0%, was primarily due to a higher level of turnaround work, geographic expansion of turnaround services, and capital construction projects. Gross margins were 12.0% in fiscal 2013 compared to 9.8% in fiscal 2012. The improvement in gross margins is primarily due to the favorable effect of the improved recovery of overhead costs caused by a higher business volume and improved project execution.

Storage Solutions

Revenues for the Storage Solutions segment increased to \$393.2 million in fiscal 2013 compared to \$378.2 million in the same period a year earlier. The increase of \$15.0 million, or 4.0%, was primarily due to higher levels of work in Canada in our aboveground storage tank business. Gross margins decreased from 11.2% in fiscal 2012 to 9.5% in the same period in the

current year. The lower margins in fiscal 2013 was primarily due to unrecovered overhead costs, a legal charge of \$1.0 million and lower direct margins caused primarily by a \$3.7 million charge on one project.

Industrial

Revenues for the Industrial segment totaled \$54.3 million in fiscal 2013 compared to \$20.0 million in the same period a year earlier. The increase of \$34.3 million, or 172.0%, was primarily due to higher revenues in our mining and minerals business. Gross margins were 4.8% in fiscal 2013 compared to 2.4% in fiscal 2012. Although negatively impacted by lower than anticipated business ramp up, gross margins improved throughout fiscal 2013 as the volume of business increased. We also incurred a \$0.4 million project charge in fiscal 2013 for this segment. Fiscal 2012 and fiscal 2013 margins were negatively impacted by startup costs related to entry into the bulk material handling and mining and minerals markets.

Non-GAAP Financial Measure

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

- It does not include interest expense. Because we have borrowed money to finance our operations, pay commitment fees to maintain our credit facility, and incur fees to issue letters of credit under the credit facility, interest expense is a necessary and ongoing part of our costs and has assisted us in generating revenue. Therefore, any measure that excludes interest expense has material limitations.
- It does not include income taxes. Because the payment of income taxes is a necessary and ongoing part of our operations, any measure that excludes income taxes has material limitations.
- It does not include depreciation or amortization expense. Because we use capital and intangible assets to generate revenue, depreciation and amortization expense is a necessary element of our cost structure. Therefore, any measure that excludes depreciation or amortization expense has material limitations.

A reconciliation of EBITDA to net income follows:

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
	(in thousands)		
Net income	\$ 36,877	\$ 24,008	\$ 17,188
Interest expense	1,436	800	814
Provision for income taxes	19,934	11,908	13,302
Depreciation and amortization	18,518	12,782	11,485
EBITDA	<u>\$ 76,765</u>	<u>\$ 49,498</u>	<u>\$ 42,789</u>

FINANCIAL CONDITION AND LIQUIDITY

Overview

We define liquidity as the ability to pay our liabilities as they become due, fund business operations and meet all contractual or financial obligations. Our primary sources of liquidity in fiscal 2014 were cash on hand at the beginning of the year, capacity under our credit facility, and cash generated from operations. Cash on hand at June 30, 2014 totaled \$77.1 million and availability under the credit facility totaled \$165.4 million, resulting in total liquidity of \$242.5 million. The United States dollar equivalent of Canadian deposits totaled \$12.6 million and is included in our consolidated cash balance. We expect to fund our operations for the next twelve months through the use of cash generated from operations, existing cash balances and borrowings under our credit facility, as necessary.

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

- Changes in costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs due to contract terms that determine the timing of billings to customers and the collection of those billings
 - Some cost plus and fixed price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collections from our customers.
 - Time and material contracts are normally billed in arrears. Therefore, we are routinely required to carry these costs until they can be billed and collected.
 - Some of our large construction projects may require significant retentions or security in the form of letters of credit.
- Other changes in working capital
- Capital expenditures

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

- Acquisitions of new businesses
- Strategic investments in new operations
- Purchases of shares under our stock buyback program
- Contract disputes or collection issues
- Capacity constraints under our credit facility and remaining in compliance with all covenants contained in the credit agreement

The acquisition discussed in Note 2 of the Notes to Consolidated Financial Statements included in Part 2, Item 8 of this Annual Report on Form 10-K was funded with cash on hand and \$15.0 million of borrowings under the senior credit facility which was repaid in fiscal 2014. 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-K, 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 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 further expand the size of our credit facility.

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities for the twelve months ended June 30, 2014 totaled \$77.0 million. Major components of cash flows from operating activities for the year ending June 30, 2014 are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net income	\$	36,877
Non-cash expenses		24,156
Deferred income tax		(3,852)
Cash effect of changes in operating assets and liabilities		19,599
Other		208
Net cash provided by operating activities	\$	<u>76,988</u>

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

- Accounts receivable increased by \$31.4 million. The accounts receivable increase is due to higher business volume and the timing of billings particularly in the Electrical Infrastructure, Storage Solutions and Industrial segments. The receivable aging categories have not deteriorated and we do not anticipate any unusual collection difficulties.
- The net change in the combined balances of costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings caused an increase to cash of \$16.7 million in the twelve months ended June 30, 2014. This change was primarily attributable to improved working capital management and our project portfolio permitting a higher degree of advanced billings.
- Accounts payable increased by \$29.2 million primarily due to an increase in business activity.

Cash Flows Used for Investing Activities

Investing activities used \$74.6 million of cash in the twelve months ended June 30, 2014 due to capital expenditures of \$23.6 million and the net purchase price of \$51.6 million for the acquisition of KNAC as discussed in Note 2 - Acquisitions, partially offset by proceeds from asset dispositions of \$0.6 million. Capital expenditures included \$11.7 million for the purchase of construction equipment, \$5.2 million for transportation equipment, \$3.4 million for office equipment and software, \$1.0 million for land and buildings, and \$2.3 million for fabrication equipment and small tools. The Company's known and expected future purchase obligations relating to capital expenditures is approximately \$7.3 million.

Cash Flows Used for Financing Activities

Financing activities provided \$12.2 million of cash in the twelve months ended June 30, 2014 primarily due to borrowings under our Credit Agreement of \$87.8 million offset by borrowing payments of \$76.2 million. The exercise of stock options provided \$1.2 million of cash. The excess tax benefit of exercised stock options and vesting of deferred shares provided \$1.7 million of cash. Other treasury share purchases used \$1.8 million of cash.

Borrowings during fiscal 2014 under our Credit Agreement were used to fund a portion of the KNAC acquisition as discussed in Note 2 - Acquisitions, for Canadian dollar advances required for short term working capital, including cross-border purchases of materials and services.

Senior Revolving Credit Facility

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

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 Revolving 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 may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended June 30, 2014, Consolidated EBITDA, as defined in the Credit Agreement, was \$87.8 million. Accordingly, at June 30, 2014, the Company had full availability of the \$200.0 million credit facility. Consolidated Funded Indebtedness at June 30, 2014 was \$29.8 million.

Availability under the credit facility is as follows:

	June 30, 2014	June 30, 2013
	(In thousands)	
Credit facility availability	\$ 200,000	\$ 125,000
Borrowings outstanding	11,621	—
Letters of credit	23,017	13,372
Availability under the credit facility	\$ 165,362	\$ 111,628

On September 2, 2014, the Company received a waiver relating to a non-financial technical covenant violation of the Credit Agreement. The violation relates to a program, which the Company has terminated, that permitted the Company to monetize certain trade receivables. The Company is in compliance with all other affirmative, negative, and financial covenants under the Credit Agreement.

At June 30, 2014, the Company was at the lowest margin tier for the LIBOR, Alternate Base Rate, CDOR and Canadian Prime Rate loans and the lowest tier for the Unused Revolving Credit Facility Fee.

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.

Treasury Shares

On November 6, 2012, our Board of Directors approved an extension of a stock buyback program that 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 through the end of calendar year 2014 if sufficient liquidity exists and we believe that it is in the best interest of the stockholders. The Company may elect to purchase shares 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 80,096 shares during fiscal 2014 to satisfy these obligations. These shares were returned to the Company's pool of treasury shares.

The Company has 1,453,770 treasury shares as of June 30, 2014 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.

Commitments and Off-Balance Sheet Arrangements

As of June 30, 2014, the following commitments and off-balance sheet arrangements were in place to support our ordinary course obligations:

	Commitments by Expiration Period				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands)				
Letters of credit ⁽¹⁾	\$ 7,481	\$ 7,585	\$ 7,951	\$ —	\$ 23,017
Surety bonds	18,680	139,353	5	—	158,038
Total	\$ 26,161	\$ 146,938	\$ 7,956	\$ —	\$ 181,055

(1) All letters of credit issued under our credit facility are in support of our workers' compensation insurance programs or certain construction contracts. The letters of credit that support our workers' compensation programs are expected to renew annually through the term of our Credit Facility. The letters of credit that support construction contracts will expire when the related work is completed and the warranty period has passed; therefore, these letters of credit are reported in the period that we expect the warranty period to end.

Contractual obligations at June 30, 2014 are summarized below:

	Contractual Obligations by Expiration Period				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands)				
Operating leases	\$ 4,862	\$ 4,795	\$ 260	\$ —	\$ 9,917
Purchase obligations	1,105	1,169	—	—	2,274
Total contractual obligations	\$ 5,967	\$ 5,964	\$ 260	\$ —	\$ 12,191

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our interest rate risk results primarily from our variable rate indebtedness under our credit facility, which is influenced by movements in short-term rates. Borrowings under our \$200.0 million revolving credit facility are based on an Alternate Base Rate, LIBOR, CDOR or Canadian Prime Rate as elected by the Company plus an additional margin based on our Senior Leverage Ratio.

Financial instruments with interest rate risk at June 30, 2014 were as follows:

	Maturity by Fiscal Year						Fair Value as of June 30, 2014
	2015	2016	2017	2018	2019	Total	
	(In thousands)						
Long-term debt:							
Variable rate debt ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ 11,621	\$ 11,621	\$ 11,621

(1) 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% on LIBOR-based loans. 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.

Financial instruments with interest rate risk at June 30, 2013 were as follows:

	Maturity by Fiscal Year						Fair Value as of June 30, 2013
	2014	2015	2016	2017	2018	Total	
	(In thousands)						
Long-term debt:							
Variable rate debt ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(1) There were no outstanding borrowings under our credit facility at June 30, 2013.

Foreign Currency Risk

Matrix Service Company has subsidiaries with operations in Canada with the Canadian dollar as their functional currency. Historically, movements in the foreign currency exchange rate have not significantly impacted results. However, further growth in our Canadian operations and significant fluctuations in the Canadian Dollar/U.S. Dollar exchange rate could impact the Company's financial results in the future. Management has not entered into derivative instruments to hedge foreign currency risk, but periodically evaluates the materiality of our foreign currency exposure. To mitigate our risk, on occasion we borrow Canadian dollars under our credit facility to settle U.S. dollar account balances. A 10% unfavorable change in the Canadian dollar against the U. S. dollar would not have had a material impact on the financial results of the Company for the fiscal year ended June 30, 2014.

Commodity Price Risk

The Company has no direct commodity exposure, but we do have exposure to materials derived from certain commodities including steel plate, steel pipe, and copper which are key materials used by the Company. Supplies of these materials are available throughout the United States and worldwide. We anticipate that adequate amounts of these materials will be available in the foreseeable future. However, the price, quantity, and delivery schedules of these materials could change rapidly due to various factors, including producer capacity, the level of foreign imports, worldwide demand, the imposition or removal of tariffs on imported steel and other market conditions. We mitigate these risks primarily by procuring materials upon contract execution to ensure that our purchase price approximates the costs included in the project estimate.

Item 8. Financial Statements and Supplementary Data

Financial Statements of the Company

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Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II – Valuation and Qualifying Accounts for the three fiscal years ended June 30, 2014, June 30, 2013 and June 30, 2012 immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Matrix Service Company (the "Company") and its wholly-owned subsidiaries are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations and cannot provide absolute assurance that all objectives will be met. Internal control over financial reporting is a process that involves diligence and is subject to lapses in judgment and human error. Internal control over financial reporting can also be circumvented by collusion or management override of controls. Because of these limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2014. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework.

During fiscal year 2014, the Company acquired 100% of the stock 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". Refer to Note 2 of Notes to the Consolidated Financial Statements for additional information regarding this event. Management has excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of June 30, 2014. The revenues attributable to this business represented approximately 12 percent of the Company's consolidated revenues for the year ended June 30, 2014 and its aggregate total assets represented approximately 25 percent of the Company's consolidated total assets as of June 30, 2014.

Management's assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, overall control environment and information systems control environment. Based on this assessment, the Company's management has concluded that the Company's internal control over financial reporting as of June 30, 2014 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of June 30, 2014. Deloitte & Touche LLP's report on the Company's internal control over financial reporting is included herein.

/S/ John R. Hewitt

John R. Hewitt

President and Chief Executive Officer

/S/ Kevin S. Cavanah

Kevin S. Cavanah

Vice President and Chief Financial Officer

September 8, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Matrix Service Company:

We have audited the internal control over financial reporting of Matrix Service Company and subsidiaries (“the Company”) as of June 30, 2014 based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Matrix North American Construction Ltd. And Matrix North American Construction, Inc., which were acquired during the year ended 2014 and whose financial statements reflect total assets and revenues constituting 25% and 12% respectively, of the related consolidated financial statement amounts as of and for the year ended June 30, 2014. Accordingly, our audit did not include the internal control over financial reporting of these acquired entities. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended June 30, 2014 of the Company and our report dated September 8, 2014 expressed an unqualified opinion on those financial statements and financial statement schedule.

/S/ DELOITTE & TOUCHE LLP
Tulsa, Oklahoma
September 8, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Matrix Service Company:

We have audited the accompanying consolidated balance sheets of Matrix Service Company and subsidiaries (the “Company”) as of June 30, 2014 and June 30, 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended June 30, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Matrix Service Company and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2014, based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 8, 2014 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

**Tulsa, Oklahoma
September 8, 2014**

Matrix Service Company
Consolidated Statements of Income
(In thousands, except per share data)

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Revenues	\$ 1,263,089	\$ 892,574	\$ 739,046
Cost of revenues	1,126,616	797,872	659,428
Gross profit	136,473	94,702	79,618
Selling, general and administrative expenses	77,866	57,988	47,983
Operating income	58,607	36,714	31,635
Other income (expense):			
Interest expense	(1,436)	(800)	(814)
Interest income	112	32	26
Other	(472)	(30)	(357)
Income before income tax expense	56,811	35,916	30,490
Provision for federal, state and foreign income taxes	19,934	11,908	13,302
Net income	\$ 36,877	\$ 24,008	\$ 17,188
Less: Net income attributable to noncontrolling interest	1,067	—	—
Net income attributable to Matrix Service Company	\$ 35,810	\$ 24,008	\$ 17,188
Basic earnings per common share	\$ 1.36	\$ 0.92	\$ 0.66
Diluted earnings per common share	\$ 1.33	\$ 0.91	\$ 0.65
Weighted average common shares outstanding:			
Basic	26,288	25,962	25,921
Diluted	26,976	26,358	26,298

See accompanying notes

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

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Net income	\$ 36,877	\$ 24,008	\$ 17,188
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments (net of tax of \$116, \$190 and \$214)	(409)	(544)	(665)
Comprehensive income	36,468	23,464	16,523
Less: Comprehensive income attributable to noncontrolling interest	1,067	—	—
Comprehensive income attributable to Matrix Service Company	\$ 35,401	\$ 23,464	\$ 16,523

See accompanying notes

Matrix Service Company
Consolidated Balance Sheets
(In thousands)

	June 30, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 77,115	\$ 63,750
Accounts receivable, less allowances (2014—\$204; 2013—\$795)	204,692	140,840
Costs and estimated earnings in excess of billings on uncompleted contracts	73,008	73,773
Inventories	3,045	2,988
Income taxes receivable	2,797	3,032
Deferred income taxes	5,994	5,657
Other current assets	8,897	6,234
Total current assets	375,548	296,274
Property, plant and equipment, at cost:		
Land and buildings	31,737	29,649
Construction equipment	82,745	69,998
Transportation equipment	42,087	34,366
Office equipment and software	26,026	18,426
Construction in progress	9,892	9,080
	192,487	161,519
Accumulated depreciation	(103,315)	(90,218)
	89,172	71,301
Goodwill	69,837	30,836
Other intangible assets	28,676	7,551
Other assets	5,699	4,016
Total assets	\$ 568,932	\$ 409,978

See accompanying notes

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

	June 30, 2014	June 30, 2013
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 111,863	\$ 68,961
Billings on uncompleted contracts in excess of costs and estimated earnings	108,440	62,848
Accrued wages and benefits	36,226	21,919
Accrued insurance	8,605	7,599
Other accrued expenses	4,727	3,039
Total current liabilities	269,861	164,366
Deferred income taxes	5,167	7,450
Borrowings under senior credit facility	11,621	—
Total liabilities	286,649	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 June 30, 2014 and June 30, 2013	279	279
Additional paid-in capital	119,777	118,190
Retained earnings	177,237	141,427
Accumulated other comprehensive income (loss)	(182)	227
	297,111	260,123
Less treasury stock, at cost— 1,453,770 and 1,779,593 shares as of June 30, 2014 and June 30, 2013	(16,595)	(21,961)
Total Matrix Service Company stockholders' equity	280,516	238,162
Noncontrolling interest	1,767	—
Total stockholders' equity	282,283	238,162
Total liabilities and stockholders' equity	\$ 568,932	\$ 409,978

See accompanying notes

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

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Operating activities:			
Net income	\$ 36,877	\$ 24,008	\$ 17,188
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of acquisitions:			
Depreciation and amortization	18,518	12,782	11,485
Stock-based compensation expense	5,688	3,831	3,504
Deferred income taxes	(3,852)	1,932	83
Allowance for uncollectible accounts	(159)	714	24
Impairment of intangible asset	—	255	—
(Gain) loss on sale of property, plant and equipment	109	(1)	(158)
Other	208	163	65
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:			
Accounts receivable	(31,395)	(32,408)	(4,575)
Costs and estimated earnings in excess of billings on uncompleted contracts	13,540	(5,211)	(28,506)
Inventories	(11)	(1,394)	(233)
Other assets	(1,379)	(2,194)	(1,888)
Accounts payable	29,234	19,256	12,862
Billings on uncompleted contracts in excess of costs and estimated earnings	3,142	32,555	(5,192)
Accrued expenses	6,468	2,796	(1,718)
Net cash provided by operating activities	76,988	57,084	2,941
Investing activities:			
Acquisition of property, plant and equipment	(23,589)	(23,231)	(13,534)
Acquisitions, net of cash acquired (Note 2)	(51,607)	(9,394)	—
Acquisition related adjustment	—	—	241
Proceeds from asset sales	553	186	598
Net cash used for investing activities	\$ (74,643)	\$ (32,439)	\$ (12,695)

See accompanying notes

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

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Financing activities:			
Exercise of stock options	\$ 1,175	\$ 875	\$ 167
Capital lease payments	—	(42)	(258)
Excess tax benefit of exercised stock options and vesting of deferred shares	1,730	37	—
Advances under credit agreement	87,826	25,565	9,105
Repayments of advances under credit agreement	(76,205)	(25,565)	(9,105)
Payment of debt amendment fees	(657)	—	(643)
Treasury shares sold to Employee Stock Purchase Plan	136	54	47
Open market purchase of treasury shares	—	—	(8,126)
Other treasury share purchases	(1,776)	(1,162)	(537)
Net cash provided (used) for financing activities	12,229	(238)	(9,350)
Effect of exchange rate changes on cash	(1,209)	(383)	(527)
Net increase (decrease) in cash and cash equivalents	13,365	24,024	(19,631)
Cash and cash equivalents, beginning of period	63,750	39,726	59,357
Cash and cash equivalents, end of period	<u>\$ 77,115</u>	<u>\$ 63,750</u>	<u>\$ 39,726</u>
Other cash flow information:			
Cash paid during the period for:			
Income taxes	<u>\$ 19,160</u>	<u>\$ 12,242</u>	<u>\$ 12,016</u>
Interest	<u>\$ 1,224</u>	<u>\$ 610</u>	<u>\$ 478</u>
Non-cash investing:			
Purchases of property, plant and equipment on account	<u>\$ 527</u>	<u>\$ 1,146</u>	<u>\$ 457</u>

See accompanying notes

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Non- Controlling Interest	Total
Balances, June 30, 2011	\$ 279	\$ 113,686	\$ 100,231	\$ (15,961)	\$ 1,436	\$ —	\$ 199,671
Net income	—	—	17,188	—	—	—	17,188
Other comprehensive loss	—	—	—	—	(665)	—	(665)
Exercise of stock options (26,500 shares)	—	98	—	69	—	—	167
Tax effect of exercised stock options and vesting of deferred shares	—	(152)	—	—	—	—	(152)
Issuance of deferred shares (184,149 shares)	—	(479)	—	479	—	—	—
Treasury Shares sold to Employee Stock Purchase Plan (4,395 shares) (Note 12)	—	36	—	11	—	—	47
Open market purchase of treasury shares (886,503 shares)	—	—	—	(8,126)	—	—	(8,126)
Other treasury share purchases (52,992 shares)	—	—	—	(537)	—	—	(537)
Stock-based compensation expense	—	3,504	—	—	—	—	3,504
Balances, June 30, 2012	279	116,693	117,419	(24,065)	771	—	211,097
Net income	—	—	24,008	—	—	—	24,008
Other comprehensive loss	—	—	—	—	(544)	—	(544)
Exercise of stock options (97,840 shares)	—	(662)	—	1,537	—	—	875
Tax effect of exercised stock options and vesting of deferred shares	—	3	—	—	—	—	3
Issuance of deferred shares (367,449 shares)	—	(1,667)	—	1,667	—	—	—
Treasury Shares sold to Employee Stock Purchase Plan (4,452 shares) (Note 12)	—	(8)	—	62	—	—	54
Other treasury share purchases (107,344 shares)	—	—	—	(1,162)	—	—	(1,162)
Stock-based compensation expense	—	3,831	—	—	—	—	3,831
Balances, June 30, 2013	279	118,190	141,427	(21,961)	227	—	238,162
Net income	—	—	35,810	—	—	1,067	36,877
Other comprehensive loss	—	—	—	—	(409)	—	(409)
Consolidated joint venture included in acquisition (Note 2)	—	—	—	—	—	700	700
Exercise of stock options (134,450 shares)	—	(1,190)	—	2,365	—	—	1,175
Tax effect of exercised stock options and vesting of deferred shares	—	1,730	—	—	—	—	1,730
Issuance of deferred shares (266,209 shares)	—	(4,680)	—	4,680	—	—	—
Treasury Shares Sold to Employee Stock Purchase Plan (5,440 shares) (Note 12)	—	39	—	97	—	—	136
Other treasury share purchases (80,096 shares)	—	—	—	(1,776)	—	—	(1,776)
Stock-based compensation expense	—	5,688	—	—	—	—	5,688
Balances, June 30, 2014	\$ 279	\$ 119,777	\$ 177,237	\$ (16,595)	\$ (182)	\$ 1,767	\$ 282,283

See accompanying notes

Matrix Service Company
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Organization and Basis of Presentation

The consolidated financial statements include the accounts of Matrix Service Company (“Matrix” or the “Company”) and its subsidiaries, all of which are wholly owned. Intercompany transactions and balances have been eliminated in consolidation.

The Company operates in the United States and Canada. The Company’s reportable segments are Electrical Infrastructure, Oil Gas & Chemical, Storage Solutions and Industrial.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We believe the most significant estimates and judgments are associated with revenue recognition, the recoverability tests that must be periodically performed with respect to our goodwill and other intangible assets, valuation reserves on our accounts receivable and deferred tax assets, and the estimation of loss contingencies, including liabilities associated with litigation and with the self insured retentions on our insurance programs. Actual results could materially differ from those estimates.

Revenue Recognition

Matrix records profits on fixed-price contracts on a percentage-of-completion basis, primarily based on costs incurred to date compared to the total estimated contract cost. The Company records revenue on reimbursable and time and material contracts on a proportional performance basis as costs are incurred. Contracts in process are valued at cost plus accrued profits less billings on uncompleted contracts. Contracts are generally considered substantially complete when field construction is completed. The elapsed time from award of a contract to completion of performance may be in excess of one year. Matrix includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix determines that it is responsible for the procurement and management of such cost components.

Matrix has numerous contracts that are in various stages of completion which require estimates to determine the appropriate cost and revenue recognition. The Company has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs, and accordingly, does not believe significant fluctuations are likely to materialize. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete fixed-price contracts indicate a loss, provision is made through a contract write-down for the total loss anticipated. A number of our contracts contain various cost and performance incentives and penalties that impact the earnings we realize from our contracts, and adjustments related to these incentives and penalties are recorded in the period, on a percentage-of-completion basis, when estimable and probable.

Indirect costs, such as salaries and benefits, supplies and tools, equipment costs and insurance costs, are charged to projects based upon direct labor hours and overhead allocation rates per direct labor hour. Warranty costs are normally incurred prior to project completion and are charged to project costs as they are incurred. Warranty costs incurred subsequent to project completion were not material for the periods presented. Overhead allocation rates are established annually during the budgeting process.

Precontract Costs

Precontract costs are expensed as incurred.

Change Orders and Claims Recognition

Change orders are modifications of an original contract that effectively change the existing provisions of the contract. Change orders may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Matrix or our clients may initiate change orders. The client’s agreement to the terms of change orders is, in many cases, reached prior to work commencing; however, sometimes circumstances require that work progress prior to obtaining client agreement. Costs related to change orders are recognized as incurred. Revenues attributable to change orders that are unapproved as to price or scope are recognized to the extent that costs have been incurred if the

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

amounts can be reliably estimated and their realization is probable. Revenues in excess of the costs attributable to change orders that are unapproved as to price or scope are recognized only when realization is assured beyond a reasonable doubt. Change orders that are unapproved as to both price and scope are evaluated as claims.

Claims are amounts in excess of the agreed contract price that we seek to collect from customers or others for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price or other causes of anticipated additional costs incurred by us. Recognition of amounts as additional contract revenue related to claims is appropriate only if it is probable that the claims will result in additional contract revenue and if the amount can be reliably estimated. We must determine if:

- there is a legal basis for the claim;
- the additional costs were caused by circumstances that were unforeseen by the Company and are not the result of deficiencies in our performance;
- the costs are identifiable or determinable and are reasonable in view of the work performed; and
- the evidence supporting the claim is objective and verifiable.

If all of these requirements are met, revenue from a claim is recorded only to the extent that we have incurred costs relating to the claim. Unapproved change orders and claims are more fully discussed in Note 7—Contingencies.

Cash Equivalents

The Company includes as cash equivalents all investments with original maturities of three months or less which are readily convertible into cash. The Company had approximately \$0.3 million of restricted cash related to a customer deposit at June 30, 2014 and \$0.3 million of restricted cash at June 30, 2013.

Accounts Receivable

Accounts receivable are carried on a gross basis, less the allowance for uncollectible accounts. The Company's customers consist primarily of major integrated oil companies, independent refiners and marketers, power companies, petrochemical companies, pipeline companies, mining companies, contractors and engineering firms. The Company is exposed to the risk of individual customer defaults or depressed cycles in our customers' industries. To mitigate this risk many of our contracts require payment as projects progress or advance payment in some circumstances. In addition, in most cases the Company can place liens against the property, plant or equipment constructed or terminate the contract if a material contract default occurs. Management estimates the allowance for uncollectible accounts based on existing economic conditions, the financial condition of its customers and the amount and age of past due accounts. Accounts are written off against the allowance for uncollectible accounts only after all collection attempts have been exhausted.

Retentions

Accounts receivable at June 30, 2014 and June 30, 2013 included retentions to be collected within one year of \$30.0 million and \$19.9 million, respectively. Contract retentions collectible beyond one year are included in Other Assets on the Consolidated Balance Sheets and totaled \$4.3 million at June 30, 2014 and \$3.1 million at June 30, 2013. Accounts payable included retentions of \$10.4 million at June 30, 2014 and \$3.1 million at June 30, 2013.

Loss Contingencies

Various legal actions, claims and other contingencies arise in the normal course of our business. Contingencies are recorded in the consolidated financial statements, or are otherwise disclosed, in accordance with ASC 450-20, "Loss Contingencies". Specific reserves are provided for loss contingencies to the extent we conclude that a loss is both probable and estimable. We use a case-by-case evaluation of the underlying data and update our evaluation as further information becomes known. We believe that any amounts exceeding our recorded accruals should not materially affect our financial position, results of operations or liquidity. However, the results of litigation are inherently unpredictable and the possibility exists that the ultimate resolution of one or more of these matters could result in a material effect on our financial position, results of operations or liquidity.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Legal costs are expensed as incurred.

Inventories

Inventories consist primarily of steel plate and pipe and are stated at the lower of cost or net realizable value. Cost is determined primarily using the average cost method.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Depreciable lives are as follows: buildings—40 years, construction equipment—3 to 15 years, transportation equipment—3 to 5 years, and office equipment and software—3 to 10 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term.

Internal-Use Computer Software

We expense or capitalize costs associated with the development of internal-use software as follows:

Preliminary Project Stage: Both internal and external costs incurred during this stage are expensed as incurred.

Application Development Stage: Both internal and external costs incurred to purchase or develop computer software are capitalized after the preliminary project stage is completed and management authorizes the computer software project. However, training costs and data conversion costs, which includes purging or cleansing of existing data, reconciling or balancing of data, are expensed as incurred.

Post-Implementation/Operation Stage: All training costs and maintenance costs incurred during this stage are expensed as incurred.

Costs of upgrades and enhancements are capitalized if the expenditures will result in adding functionality to the software. Capitalized software costs are depreciated using the straight-line method over the estimated useful life of the related software, which may be up to ten years.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets used in operations may not be recoverable. The determination of whether an impairment has occurred is based on management's estimate of undiscounted future cash flows attributable to the assets as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and, to the extent the carrying value exceeds the fair value of the assets, recording a loss provision.

For assets identified to be disposed of in the future, the carrying value of the assets are compared to the estimated fair value less the cost of disposal to determine if an impairment has occurred. Until the assets are disposed of, an estimate of the fair value is redetermined when related events or circumstances change.

Goodwill

Goodwill represents the excess of the purchase price of acquisitions over the acquisition date fair value of the net identifiable tangible and intangible assets acquired. In accordance with current accounting guidance, goodwill is not amortized and is tested at least annually for impairment at the reporting unit level.

We perform our annual analysis during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional analysis. Goodwill impairment reviews involve a two-step process. Goodwill is first evaluated for impairment by comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill.

Management utilizes a discounted cash flow analysis, referred to as an income approach, to determine the estimated fair value of our reporting units. Significant judgments and assumptions including the discount rate, anticipated revenue growth rate

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

and gross margins, estimated operating and interest expense, and capital expenditures are inherent in these fair value estimates, which are based on our operating and capital budgets and on our strategic plan. As a result, actual results may differ from the estimates utilized in our income approach. The use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and could result in the recognition of an impairment charge in the financial statements. As a result of these uncertainties, we utilize multiple scenarios and assign probabilities to each of the scenarios in the income approach.

We also consider indications obtained from market-based approaches. We compare market multiples derived from market prices of stock of companies that are engaged in a similar line of business to the corresponding measures of the Company. We also consider the combined carrying values of our reporting units to our market capitalization.

If the carrying value of our reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill calculated in the same manner as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill is less than its carrying value, we would record an impairment charge for the difference.

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. Each reporting period, 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. Intangible assets are considered impaired if the fair value of the intangible asset is less than its net book value. If quoted market prices are not available, the fair values of the intangible assets are based on present values of expected future cash flows or royalties avoided using discount rates commensurate with the risks involved.

Insurance Reserves

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, coverage limits and self-insured retentions. We establish reserves for claims using a combination of actuarially determined estimates and case-by-case evaluations of the underlying claim data and update our evaluations as further information becomes known. Judgments and assumptions 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 future gains and losses that could be material.

Stock-Based Compensation

The Company has issued stock options and nonvested deferred share awards under its long-term incentive compensation plans. The fair value of these awards is calculated at grant date. The fair value of time-based, nonvested deferred shares is the value of the Company's common stock at the grant date. The fair value of market-based nonvested deferred shares is based on several factors, including the probability that the market condition specified in the grant will be achieved. The fair value of stock options is determined based on the Black-Scholes option pricing model. The detailed assumptions used in the model are included in Note 10—Stock Based Compensation.

For all stock-based awards, expense is recognized over the requisite service period, net of estimated forfeitures. The expense related to performance based shares is recognized only if management believes it is probable that the performance targets specified in the awards will be achieved.

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 statement 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 that the assets will be recovered.

The Company provides for income taxes regardless of whether it has received a tax assessment. Taxes are provided when we consider it probable that additional taxes will be due in excess of the amounts included in our tax returns. We continually

Notes to Consolidated Financial Statements (continued)

review our exposure to additional income taxes due, and as further information is known or events occur, adjustments may be recorded.

Foreign Currency

The functional currency of the Company's operations in Canada is the Canadian dollar. The assets and liabilities are translated at the year end exchange rate and the income statement accounts are translated at average exchange rates throughout the year. Translation gains and losses are reported in Accumulated Other Comprehensive Income (Loss) in the Consolidated Statements of Changes in Stockholders' Equity and in Other Comprehensive Income (Loss) in the Consolidated Statements of Comprehensive Income. Transaction gains and losses are reported as a component of Other income (expense) in the Consolidated Statements of Income.

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

In May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the revenue model to contracts within its scope, an entity:

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

The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. We expect to adopt this standard in fiscal 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2014- 12 (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force "EITF")

On June 19, 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)" in response to the EITF consensus on Issue 13-D. The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. The ASU does not contain any new disclosure requirements. For all entities, the ASU is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. We expect to adopt this standard in fiscal 2016 and do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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

On April 10, 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The FASB issued the ASU to provide more decision-useful information and to make it more difficult for a

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

disposal transaction to qualify as a discontinued operation (since the FASB believes that too many disposal transactions were qualifying as discontinued operations under the old definition). Under the previous guidance in ASC 205-20-45-1, the results of operations of a component of an entity were classified as a discontinued operation if all of the following conditions were met:

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

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

Note 2—Acquisitions

Purchase of Kvaerner North American Construction

Effective as of December 21, 2013, the Company acquired 100% of the stock 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 \$88.3 million. The acquisition was funded through a combination of cash-on-hand and borrowings under our senior revolving credit facility. The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The following table summarizes the preliminary purchase price allocation (in thousands):

Current assets	\$	83,575
Property, plant and equipment		11,377
Goodwill		39,076
Other intangible assets		24,009
Total assets acquired		158,037
Current liabilities		67,959
Deferred income taxes		1,116
Noncontrolling interest of consolidated joint venture		700
Net assets acquired		88,262
Cash acquired		36,655
Net purchase price	\$	51,607

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets. This acquisition generated \$39.1 million of goodwill, of which \$30.7 million is tax deductible.

The equity in consolidated joint venture represents the acquired equity in KVPB Power Partners. KVPB Power Partners was subsequently renamed 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

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Joint Venture was \$2.0 million of which the Company's portion was approximately \$1.3 million and the other party's non-controlling portion was approximately \$0.7 million. At June 30, 2014, the noncontrolling interest holder's share of the equity of the Joint Venture totaled \$1.8 million. The Company's share at June 30, 2014 was \$3.3 million.

For the twelve months ended June 30, 2014, Matrix NAC revenues of \$154.8 million and operating income of \$2.7 million are included in the Company's results. 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 year ended June 30, 2014.

The unaudited financial information in the table below summarizes the combined results of operations of Matrix Service Company and Matrix NAC for the for the twelve months ended June 30, 2014 and June 30, 2013, on a pro forma basis, as though the companies had been combined as of July 1, 2012. The pro forma earnings for the twelve months ended June 30, 2014 and June 30, 2013 were adjusted to include incremental intangible amortization expense of \$4.1 million, respectively and depreciation expenses of \$1.3 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 twelve months ended June 30, 2014. The \$2.0 million of acquisition-related expenses were included in the twelve months ended June 30, 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.

	June 30, 2014	June 30, 2013
	(In thousands, except per share data)	
Revenues	\$ 1,397,706	\$ 1,096,267
Net income attributable to Matrix Service Company	\$ 38,786	\$ 28,444
Basic earnings per common share	\$ 1.48	\$ 1.10
Diluted earnings per common share	\$ 1.44	\$ 1.08

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 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.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Note 3—Customer 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 on uncompleted contracts is reported as a current liability. Gross and net amounts on uncompleted contracts are as follows:

	June 30, 2014	June 30, 2013
	(In thousands)	
Costs and estimated earnings recognized on uncompleted contracts	\$ 1,435,242	\$ 802,588
Billings on uncompleted contracts	1,470,674	791,663
	<u>\$ (35,432)</u>	<u>\$ 10,925</u>
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 73,008	\$ 73,773
Billings on uncompleted contracts in excess of costs and estimated earnings	108,440	62,848
	<u>\$ (35,432)</u>	<u>\$ 10,925</u>

SME Receivables

The Company continues to pursue collection of a receivable acquired in connection with the purchase of S.M. Electric Company, Inc. in February 2009. The recorded values at June 30, 2014 and June 30, 2013 include \$0.7 million in claim receivables, which represents the Company's best estimate of the amount to be collected under the 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 twelve months ended June 30, 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 an \$8.4 million decrease in operating income for the twelve months ended June 30, 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 twelve months ended June 30, 2013, our gross profit was materially impacted by a \$3.7 million charge resulting from a change in estimate for a project to construct aboveground storage tanks. This project was completed in the fourth quarter of fiscal 2013.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Note 4—Goodwill and Other Intangible Assets
Goodwill

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

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Goodwill	\$ 29,666	\$ 5,841	\$ 11,071	\$ 7,097	\$ 53,675
Cumulative impairment loss	(17,653)	(3,000)	(922)	(3,425)	(25,000)
Net balance at June 30, 2012	12,013	2,841	10,149	3,672	28,675
Purchase of Pelichem (Note 2)	—	2,247	—	—	2,247
Translation adjustment	—	—	(86)	—	(86)
Net balance at June 30, 2013	12,013	5,088	10,063	3,672	30,836
Purchase of Kvaerner North American Construction (Note 2)	31,259	5,855	—	1,962	39,076
Translation adjustment	(29)	—	(36)	(10)	(75)
Net balance at June 30, 2014	<u>\$ 43,243</u>	<u>\$ 10,943</u>	<u>\$ 10,027</u>	<u>\$ 5,624</u>	<u>\$ 69,837</u>

The translation adjustments relate to the periodic translation of Canadian Dollar denominated goodwill recorded as a part of a prior Canadian acquisition as well as the periodic translation of the Canadian entity acquired with the purchase of Kvaerner North American Construction (Note 2) through June 30, 2014. The cumulative impairment loss shown in the table above occurred as a result of the Company's operating performance in fiscal 2005.

Other Intangible Assets

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

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

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

	Useful Life (Years)	At June 30, 2013		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Intellectual property	6 to 15	\$ 2,460	\$ (753)	\$ 1,707
Customer based	1.5 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 June 30, 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 \$23.4 million and useful lives 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.

Each reporting period, the Company evaluates the remaining useful lives of intangible assets not being amortized to determine whether facts and circumstances continue to support an indefinite useful life. Based on this analysis, for the twelve months ended June 30, 2013, Matrix revised its assumption of the useful life of the "EDC" trade name, which resulted in a reclassification of the asset from an indefinite-lived intangible to a finite-lived intangible with a five year useful life. This reclassification resulted in an impairment charge of \$0.3 million which was recorded as a selling, general and administrative cost in the Industrial segment.

Amortization expense totaled \$2.8 million, \$0.4 million, and \$0.5 million in fiscal 2014, 2013, and 2012, respectively. We estimate that future amortization of other intangible assets will be as follows (in thousands):

For year ending:

June 30, 2015	\$4,726
June 30, 2016	2,854
June 30, 2017	2,769
June 30, 2018	2,670
June 30, 2019	2,545
Thereafter	11,662
Total estimated amortization expense	<u>\$27,226</u>

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, issuance of letters of credit 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 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 as of the end of each fiscal quarter.
- Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to \$20.0 million per 12-month period.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

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% on LIBOR-based loans.

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 June 30, 2014, Consolidated EBITDA, as defined in the Credit Agreement, was \$87.8 million. Accordingly, at June 30, 2014, the Company had full availability of the \$200.0 million credit facility. Consolidated Funded Indebtedness at June 30, 2014 was \$29.8 million.

Availability under the credit facility is as follows:

	June 30, 2014	June 30, 2013
	(In thousands)	
Credit facility availability	\$ 200,000	\$ 125,000
Borrowings outstanding	11,621	—
Letters of credit	23,017	13,372
Availability under the credit facility	\$ 165,362	\$ 111,628

On September 2, 2014, the Company received a waiver relating to a non-financial technical covenant violation of the Credit Agreement. The violation relates to a program, which the Company has terminated, that permitted the Company to monetize certain trade receivables. The Company is in compliance with all other affirmative, negative, and financial covenants under the Credit Agreement.

Note 6—Income Taxes

The sources of pretax income are as follows:

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
	(In thousands)		
Domestic	\$ 60,129	\$ 37,876	\$ 27,346
Foreign	(3,318)	(1,960)	3,144
Total	\$ 56,811	\$ 35,916	\$ 30,490

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

The components of the provision for income taxes are as follows:

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
(In thousands)			
Current:			
Federal	\$ 19,870	\$ 8,260	\$ 11,320
State	3,117	1,268	1,129
Foreign	613	449	762
	<u>23,600</u>	<u>9,977</u>	<u>13,211</u>
Deferred:			
Federal	(3,951)	1,801	(151)
State	(51)	126	283
Foreign	336	4	(41)
	<u>(3,666)</u>	<u>1,931</u>	<u>91</u>
	<u>\$ 19,934</u>	<u>\$ 11,908</u>	<u>\$ 13,302</u>

The difference between the expected income tax provision applying the domestic federal statutory tax rate and the reported income tax provision is as follows:

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
(In thousands)			
Expected provision for Federal income taxes at the statutory rate	\$ 19,887	\$ 12,570	\$ 10,670
State income taxes, net of Federal benefit	2,275	1,252	970
Charges without tax benefit	1,405	1,231	1,004
Change in valuation allowance	—	(140)	(544)
Cumulative non-deductible expenses	—	—	2,139
IRC S199 deduction	(1,546)	(844)	(687)
Research & Development Credit	(1,793)	(1,450)	—
Foreign tax differential	(182)	(160)	—
Other	(112)	(551)	(250)
Provision for income taxes	<u>\$ 19,934</u>	<u>\$ 11,908</u>	<u>\$ 13,302</u>

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Significant components of the Company's deferred tax assets and liabilities are as follows:

	June 30, 2014	June 30, 2013
(In thousands)		
Deferred tax assets:		
Warranty reserve	\$ 234	\$ —
Bad debt reserve	80	310
Paid-time-off accrual	712	602
Insurance reserve	2,519	2,227
Legal reserve	356	462
Net operating loss benefit and credit carryforwards	4,061	3,885
Valuation allowance	(90)	(90)
Accrued compensation and pension	2,187	850
Stock compensation expense on nonvested deferred shares	1,969	943
Accrued losses	1,488	232
Other—net	314	204
Total deferred tax assets	13,830	9,625
Deferred tax liabilities:		
Tax over book depreciation	8,537	9,064
Tax over book amortization	1,903	1,137
Prepaid insurance	2,104	1,217
Other—net	459	—
Total deferred tax liabilities	13,003	11,418
Net deferred tax asset (liability)	\$ 827	\$ (1,793)

As reported in the consolidated balance sheets:

	June 30, 2014	June 30, 2013
(In thousands)		
Current deferred tax assets	\$ 5,994	\$ 5,657
Non-current deferred tax liabilities	(5,167)	(7,450)
Net deferred tax asset (liability)	\$ 827	\$ (1,793)

The Company has state net operating loss carryforwards, state tax credit carryforwards, federal foreign tax credit carryforwards, foreign net operating loss carryforwards and foreign tax credit carryforwards. The valuation allowance at June 30, 2014 and June 30, 2013 reduces the recognized tax benefit of these carryforwards to an amount that is more likely than not to be realized. These carryforwards will generally expire as shown below:

Item	Expiration Period
State net operating losses	June 2023 to June 2030
State tax credits	No expiration
Federal foreign tax credits	June 2016 to June 2024
Foreign net operating losses	June 2027 to June 2034
Foreign tax credits	June 2033

In general, it is the practice and intention of the Company to reinvest the earnings of its Canadian subsidiaries in these operations. Such amounts become subject to United States taxation upon the remittance of dividends and under certain other

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

circumstances. As of June 30, 2014, unremitted earnings of foreign subsidiaries, which have been or are intended to be permanently invested, aggregated to approximately \$5.1 million. We anticipate that any deferred tax liability related to the investment in these foreign subsidiaries could be offset by foreign tax credits.

The Company files tax returns in several taxing jurisdictions in the United States and Canada. With few exceptions, the Company is no longer subject to examination by taxing authorities through fiscal 2008. At June 30, 2014, the Company updated its evaluation of its open tax years in all known jurisdictions. Based on this evaluation, the Company did not identify any material uncertain tax positions.

Note 7—Contingencies*Insurance Reserves*

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

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

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

Unapproved Change Orders and Claims

As of June 30, 2014 and June 30, 2013, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$13.1 million and \$9.1 million, respectively. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, customers may not pay these amounts until final resolution of related claims, and accordingly, 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—Operating Leases

The Company is the lessee under operating leases covering real estate and office equipment under non-cancelable operating lease agreements that expire at various times. Future minimum lease payments under non-cancelable operating leases that were in effect at June 30, 2014 total \$9.9 million and are payable as follows: fiscal 2015—\$4.9 million; fiscal 2016—\$3.0 million; fiscal 2017—\$1.4 million; fiscal 2018—\$0.5 million; fiscal 2019—\$0.3 million and thereafter—\$0.0 million. Operating lease expense was \$5.3 million, \$4.5 million and \$4.1 million for the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012, respectively.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Note 9—Stockholders' Equity*Preferred Stock*

The Company has 5.0 million shares of preferred stock authorized, none of which was issued or outstanding at June 30, 2014 or June 30, 2013.

Treasury Shares

On November 6, 2012 the 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 of common stock 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 80,096 and 107,344 shares of common stock during fiscal 2014 and fiscal 2013, respectively, to satisfy these obligations. These shares were returned to the Company's pool of treasury shares. The Company has 1,453,770 treasury shares as of June 30, 2014 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.

Note 10—Stock-Based Compensation

Total stock-based compensation expense for the twelve months ended June 30, 2014, June 30, 2013, and June 30, 2012 was \$5.7 million, \$3.8 million and \$3.5 million, respectively. Measured but unrecognized stock-based compensation expense at June 30, 2014 was \$9.7 million, of which \$9.5 million related to nonvested deferred shares and \$0.2 million related to stock options. These amounts are expected to be recognized as expense over a weighted average period of 1.8 years. The recognized tax benefit related to the stock-based compensation expense for the 12 months ended June 30, 2014, June 30, 2013 and June 30, 2012 totaled \$2.8 million, \$1.6 million and \$1.3 million, respectively.

Plan Information

Matrix Service Company's 2012 Stock and Incentive Compensation Plan ("2012 Plan") provides stock-based and cash-based incentives for officers, other key employees and directors. Stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares and cash-based awards can be issued under this plan. All future grants of stock and cash-based awards will be made through the 2012 Plan. Upon approval of the 2012 Plan by the Company's stockholders, the 2004 Stock Incentive Plan ("2004 Plan") was frozen with the exception of normal vesting, forfeiture and other activity associated with awards previously granted under the 2004 Plan. Awards totaling 2,300,000 shares and 1,300,000 shares have been authorized under the 2004 and 2012 Plans, respectively. At June 30, 2014 there were 713,223 shares available for grant under the 2012 Plan.

Stock Options

Stock options are granted at the market value of the Company's common stock on the grant date and expire after 10 years. The Company's policy is to issue shares upon the exercise of stock options from its treasury shares, if available. The Company did not award any new stock options in fiscal years 2013 or 2014.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Stock option activity and related information for the year ended June 30, 2014 is as follows:

	Number of Options	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2013	392,000	5.5	\$ 9.38	
Granted	—		\$ —	
Exercised	(134,450)		\$ 8.78	\$ 2,394
Cancelled	(12,250)		\$ 10.19	
Outstanding at June 30, 2014	245,300	6.4	\$ 9.68	\$ 5,669
Vested or expected to vest at June 30, 2014	243,477	6.4	\$ 9.68	\$ 5,627
Exercisable at June 30, 2014	37,000	1.0	\$ 6.84	\$ 960

The Company uses the Black-Scholes option pricing model to estimate grant date fair value for each stock option granted. Expected volatility is based on the historic volatility of the Company's stock. The risk-free rate is based on the applicable United States Treasury Note rate. The expected life of the option is based on historical and expected future exercise behavior.

Assumptions used to calculate the fiscal 2012 grant date fair value and the fair value calculated was as follows:

	2012
Grant date fair value	\$5.61
Risk-free interest rate	0.88%
Expected volatility	66.19%
Expected life in years	5.00
Expected dividend yield	—

The total intrinsic value of stock options exercised during fiscal 2014, 2013, and 2012 was \$2.4 million, \$0.6 million and \$0.1 million, respectively.

The following table summarizes information about stock options at June 30, 2014:

<u>Range of Exercise Price</u>	Stock Options Outstanding			Stock Options Exercisable		
	Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (Years)	Options Exercisable	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (Years)
	\$4.60 – \$ 5.49	20,500	\$ 5.16	1	20,500	\$ 5.16
8.93 – 12.20	224,800	10.10	6.9	16,500	8.93	1.3
\$4.60 – \$12.20	245,300	\$ 9.68	6.4	37,000	\$ 6.84	1.0

Nonvested Deferred Shares

The Company has issued nonvested deferred shares under the following types of arrangements:

- Time-based awards—Employee awards generally vest in four or five equal annual installments beginning one year after the grant date. Director awards cliff vest on the earlier of three years or upon retirement from the Board.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

- Market-based awards—These awards are in the form of performance units which vest 3 years after the grant date only if the Company's common stock achieves certain levels when compared to the total shareholder return of a peer group of companies as selected by the Compensation Committee of the Board of Directors. The payout is pro-rated and can range from zero to 200% of the original award. These awards are settled entirely in stock. As of June 30, 2014, there are approximately 218,000 and 154,000 performance units that are scheduled to vest in fiscal 2016 and fiscal 2017, respectively.

All awards vest upon the death or disability of the participant or upon a change of control of the Company.

The grant date fair value of the time-based awards is determined by the market value of the Company's common stock on the grant date. The grant date fair value of the market-based awards is calculated using a Monte Carlo model. For the fiscal 2014 grant, the model estimated the fair value of the award based on approximately 100,000 simulations of the future prices of the Company's common stock compared to the future prices of the common stock of its peer companies based on historical volatilities. The model also took into account the expected dividends over the performance period.

Nonvested deferred share activity for the twelve months ended June 30, 2014 is as follows:

	Shares	Weighted Average Grant Date Fair Value per Share
Nonvested shares at June 30, 2013	1,030,660	\$ 10.71
Shares granted	381,038	\$ 18.01
Shares vested and released	(266,029)	\$ 10.41
Shares cancelled	(39,968)	\$ 11.87
Nonvested shares at June 30, 2014	<u>1,105,701</u>	<u>\$ 13.22</u>

There were 503,268 and 364,600 deferred shares granted in fiscal 2013 and 2012 with average grant date fair values of \$10.96 and \$9.99, respectively. There were 266,029, 367,449 and 184,149 deferred shares that vested and were released in fiscal 2014, 2013 and 2012 with weighted average fair values of \$22.38, \$10.69 and \$10.23 per share, respectively.

Note 11—Earnings per Common Share

Basic earnings per share ("EPS") is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share includes the dilutive effect of employee and director stock options and nonvested deferred shares. Stock options are considered dilutive whenever the exercise price is less than the average market price of the stock during the period and antidilutive whenever the exercise price exceeds the average market price of the common stock during the period. Nonvested deferred shares are considered dilutive (antidilutive) whenever the average market value of the shares during the period exceeds (is less than) the sum or the related average unamortized compensation expense during the period plus the related hypothetical estimated excess tax benefit that will be realized when the shares vest. Stock options and nonvested deferred shares are considered antidilutive in the event we report a net loss.

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

The computation of basic and diluted EPS is as follows:

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
(In thousands, except per share data)			
Basic EPS:			
Net income attributable to Matrix Service Company	\$ 35,810	\$ 24,008	\$ 17,188
Weighted average shares outstanding	26,288	25,962	25,921
Basic EPS	\$ 1.36	\$ 0.92	\$ 0.66
Diluted EPS:			
Weighted average shares outstanding—basic	26,288	25,962	25,921
Dilutive stock options	180	81	79
Dilutive nonvested deferred shares	508	315	298
Diluted weighted average shares	26,976	26,358	26,298
Diluted EPS	\$ 1.33	\$ 0.91	\$ 0.65

The following securities are considered antidilutive and have been excluded from the calculation of diluted earnings per share:

	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
(In thousands)			
Stock options	—	193	267
Nonvested deferred shares	—	2	3
Total antidilutive securities	—	195	270

Note 12—Employee Benefit Plans

Defined Contribution Plans

The Company sponsors defined contribution savings plans for all eligible employees meeting length of service requirements. Under the primary plan, participants may contribute an amount up to 25% of pretax annual compensation subject to certain limitations. The Company matches 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions. The Company matching contributions vest immediately.

The Company's matching contributions were \$4.1 million, \$3.4 million and \$3.3 million for the twelve months ended June 30, 2014, 2013, and 2012, respectively.

Multiemployer Pension Plans

The Company contributes to various union sponsored multiemployer benefit plans in the U.S. and Canada. Benefits under these plans are generally based on compensation levels and years of service.

For the Company, the financial risks of participating in multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer discontinues contributions to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

- If a participating employer chooses to stop participating in a plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

Under federal legislation regarding multiemployer pension plans, in the event of a withdrawal from a plan or plan termination, companies are required to continue funding their proportionate share of such plan’s unfunded vested benefits. We are a participant in multiple union sponsored multiemployer plans, and, as a plan participant, our potential obligation could be significant. The amount of the potential obligation is not currently ascertainable because the information required to determine such amount is not identifiable or readily available.

Our participation in significant plans for the fiscal year ended June 30, 2014 is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employer Identification Number (“EIN”) and the three digit plan number. The zone status is based on the latest information that the Company received from the plan and is certified by the plan’s actuary. Plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are generally less than 80 percent funded, and plans in the green zone are generally at least 80 percent funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented. The “Surcharge Imposed” column includes plans in a red zone status that require a payment of a surcharge in excess of regular contributions. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending or Implemented	Company Contributions Fiscal Year			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2014	2013		2014	2013	2012		
(In thousands)									
Joint Pension Fund Local Union 164 IBEW (1)	22-6031199/001	Yellow	Yellow	Yes	\$ 2,955	\$ 3,943	\$ 1,538	No	5/31/2017
Boilermaker-Blacksmith National Pension Trust	48-6168020/001	Yellow	Yellow	Yes	3,271	2,882	2,845	No	Described below (2)
Joint Pension Fund of Local Union No 102	22-1615726/001	Green	Green	Yes	2,381	2,387	1,608	No	5/31/2015
IBEW Local 456 Pension Plan	22-6238995/001	Yellow	Yellow	Yes	940	2,384	977	No	5/31/2017
Local 351 IBEW Pension Plan	22-3417366/001	Described below (3)	Yellow	Yes	2,218	2,281	1,140	No	9/27/2016
Steamfitters Local Union No 420 Pension Plan	23-2004424/001	Red	Red	Yes	1,677	1,622	813	Yes	4/30/2017
Indiana Laborers Pension Fund	35-6027150/001	Yellow	Yellow	Yes	1,268	—	—	No	5/31/2017
Iron Workers Mid-America Pension Plan	36-6488227/001	Green	Green	N/A	1,156	—	—	No	5/31/2015
Contributions to other multiemployer plans					14,503	8,966	7,616		
Total contributions made					\$ 30,369	\$ 24,465	\$ 16,537		

Matrix Service Company**Notes to Consolidated Financial Statements (continued)**

- (1) Our contributions for the Joint Pension Fund Local Union 164 IBEW exceeded 5% of total contributions for the 2012 plan year. This information was not available for the 2013 plan year.
- (2) Our collective bargaining agreements with the Boilermaker-Blacksmith National Pension Trust are under a National Maintenance Agreement platform which is evergreen in terms of expiration. However, the agreements allow for termination of the collective bargaining agreement by either party with a predetermined written notice.
- (3) For the Local 351 IBEW Pension Plan, the Company has not received a funding notification that covers the Company's fiscal year 2014 during the preparation of this Form 10-K. Under Federal pension law, if a multiemployer pension plan is determined to be in critical or endangered status, the plan must provide notice of this status to participants, beneficiaries, the bargaining parties, the Pension Benefit Guaranty Corporation, and the Department of Labor. The Company also observed that the Local 351 IBEW Pension Plan has not submitted any Critical or Endangered Status Notices to the Department of Labor for 2014 (which can be accessed at <http://www.dol.gov/ebsa/criticalstatusnotices.html>).

Employee Stock Purchase Plan

The Matrix Service Company 2011 Employee Stock Purchase Plan ("ESPP") was effective January 1, 2011. The ESPP allows employees to purchase shares through payroll deductions and members of the Board of Directors to purchase shares from amounts withheld from their cash retainers. Share purchases are limited to an aggregate market value of no greater than \$60,000 per calendar year per participant and are purchased at market value with no discount to the participant. Contributions are with after tax earnings and are accumulated in non-interest bearing accounts for quarterly purchases of company stock. Upon the purchase of shares, the participants receive all stockholder rights including dividend and voting rights, and are permitted to sell their shares at any time. The Company has made 1,000,000 shares available under the ESPP. The ESPP can be terminated at the discretion of the Board of Directors or on January 2, 2021. Shares are issued from Treasury Stock under the ESPP. There were 5,440 shares issued in fiscal 2014, 4,452 shares in fiscal 2013, and 4,395 shares in fiscal 2012.

Note 13—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 ASTs, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including LNG, liquid nitrogen/liquid oxygen LIN/LOX, LPG tanks and other specialty vessels including spheres. We also offer aboveground storage tank products including floating roof seals. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

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

The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at cost; therefore, no intercompany profit or loss recognized.

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

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Results of Operations
(In thousands)

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Unallocated Corporate	Total
Twelve months ended June 30, 2014						
Gross revenues	\$ 205,570	\$ 240,131	\$ 611,826	\$ 206,933	\$ —	\$ 1,264,460
Less: inter-segment revenues	—	441	930	—	—	1,371
Consolidated revenues	205,570	239,690	610,896	206,933	—	1,263,089
Gross profit	20,629	26,912	68,448	20,484	—	136,473
Operating income	7,703	9,939	34,310	6,655	—	58,607
Segment assets	120,264	72,406	200,493	105,049	70,720	568,932
Capital expenditures	9,055	5,421	2,519	1,157	5,437	23,589
Depreciation and amortization expense	3,292	3,768	7,707	3,751	—	18,518
Twelve months ended June 30, 2013						
Gross revenues	\$ 171,204	\$ 273,979	\$ 395,794	\$ 54,321	\$ —	\$ 895,298
Less: inter-segment revenues	—	131	2,593	—	—	2,724
Consolidated revenues	171,204	273,848	393,201	54,321	—	892,574
Gross profit	21,754	32,879	37,455	2,614	—	94,702
Operating income (loss)	11,185	15,415	11,904	(1,790)	—	36,714
Segment assets	64,771	75,591	159,149	27,347	83,120	409,978
Capital expenditures	2,129	2,942	9,929	1,645	6,586	23,231
Depreciation and amortization expense	2,167	2,943	6,740	932	—	12,782
Twelve months ended June 30, 2012						
Gross revenues	\$ 135,086	\$ 206,031	\$ 380,488	\$ 19,983	\$ —	\$ 741,588
Less: inter-segment revenues	—	208	2,334	—	—	2,542
Consolidated revenues	135,086	205,823	378,154	19,983	—	739,046
Gross profit	16,676	20,070	42,393	479	—	79,618
Operating income (loss)	7,609	8,134	17,493	(1,601)	—	31,635
Segment assets	51,998	53,567	150,543	14,018	53,009	323,135
Capital expenditures	2,581	2,346	3,929	741	3,937	13,534
Depreciation and amortization expense	1,823	2,838	6,309	515	—	11,485

Matrix Service Company
Notes to Consolidated Financial Statements (continued)

Geographical information is as follows:

	Revenues		
	Twelve Months Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
	(In thousands)		
Domestic	\$ 1,149,262	\$ 814,879	\$ 674,496
International	113,827	77,695	64,550
	<u>\$ 1,263,089</u>	<u>\$ 892,574</u>	<u>\$ 739,046</u>

	Long-Lived Assets		
	June 30, 2014	June 30, 2013	June 30, 2012
		(In thousands)	
Domestic	\$ 164,894	\$ 101,581	\$ 85,290
International	28,490	12,378	6,132
	<u>\$ 193,384</u>	<u>\$ 113,959</u>	<u>\$ 91,422</u>

Information about Significant Customers

In fiscal 2014, two customers accounted for 17.3% and 12.7% of our consolidated revenue and 35.8% and 26.3% of our Storage Solutions revenue, respectively. Four other customers accounted for 20.8%, 17.5%, 17.0%, and 10.8% of our Electrical Infrastructure revenue, respectively. An additional three customers accounted for 18.3%, 14.0%, and 10.2% of our Oil Gas & Chemical revenue, respectively. Five more customers accounted for 23.3%, 15.1%, 13.0%, 12.7%, and 11.3% of our Industrial revenue, respectively.

In fiscal 2013, one customer accounted for 10.7% of our consolidated revenue and 24.3% of our Storage Solutions revenue and an additional customer accounted for 10.6% of our Storage Solutions revenue. Four other customers accounted for 24.9%, 19.6%, 12.6% and 11.1% of our Electrical Infrastructure revenue, respectively. An additional three customers accounted for 20.7%, 16.1% and 10.0% of our Oil Gas & Chemical revenue, respectively. Three more customers accounted for 23.3%, 20.5% and 16.4% of our Industrial revenue, respectively.

In fiscal 2012, one customer accounted for 11.0% of our consolidated revenue and 35.1% of our Oil Gas & Chemical revenue and an additional customer accounted for 16.2% of our Oil Gas & Chemical revenue. Another customer accounted for 10.7% of our consolidated revenue and 20.9% of our Storage Solutions revenue. Three other customers accounted for 18.6%, 11.8% and 11.2% of our Electrical Infrastructure revenue, respectively. An additional four customers accounted for 25.7%, 18.1%, 15.3% and 12.2% of our Industrial revenue, respectively.

Note 14—Subsequent Event

On August 22, 2014 the Company purchased substantially all of the assets of HDB Ltd. Limited Partnership ("HDB"). HDB, with an office 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's to expand into the upstream energy market. The acquisition purchase price was \$5.25 million and was funded with cash on hand. The accounting for this acquisition is incomplete; however, the Company does not expect the impact of the acquisition to be material to the financial statements.

Matrix Service Company
Quarterly Financial Data (Unaudited)
Fiscal Years Ended June 30, 2014 and June 30, 2013

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share amounts)				
Fiscal Year 2014				
Revenues	\$ 226,217	\$ 310,998	\$ 381,516	\$ 344,358
Gross profit	25,476	34,150	39,944	36,903
Operating income	10,762	14,817	18,819	14,209
Net income	6,552	10,306	11,396	7,556
Earnings per common share:				
Basic	0.25	0.39	0.43	0.29
Diluted	0.25	0.38	0.42	0.28
Fiscal Year 2013				
Revenues	\$ 209,608	\$ 221,436	\$ 225,970	\$ 235,560
Gross profit	22,244	22,333	23,126	26,999
Operating income	7,924	8,722	8,431	11,587
Net income	4,684	5,436	6,521	7,367
Earnings per common share:				
Basic	0.18	0.21	0.25	0.28
Diluted	0.18	0.21	0.25	0.28

The sum of earnings per share for the four quarters may not equal the total earnings per share for the year due to changes in the average number of common shares outstanding and rounding.

Matrix Service Company
Schedule II—Valuation and Qualifying Accounts
June 30, 2014, June 30, 2013, and June 30, 2012
(In thousands)

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts— Describe	Deductions— Describe	Balance at End of Period
Fiscal Year 2014					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 795	\$ 121	\$ —	\$ (712) (A)	\$ 204
Valuation reserve for deferred tax assets	90	—	—	—	90
Total	\$ 885	\$ 121	\$ —	\$ (712)	\$ 294
Fiscal Year 2013					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 1,201	\$ 725	\$ (666) (C)	\$ (465)	\$ 795
Valuation reserve for deferred tax assets	230	(140) (B)	—	—	90
Total	\$ 1,431	\$ 585	\$ (666)	\$ (465)	\$ 885
Fiscal Year 2012					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 1,428	\$ 23	\$ (250)	\$ —	\$ 1,201
Valuation reserve for deferred tax assets	774	(544)	—	—	230
Total	\$ 2,202	\$ (521)	\$ (250)	\$ —	\$ 1,431

(A) Receivables written off against allowance for doubtful accounts.

(B) Release of the valuation allowance on foreign tax credit carryovers which have now been determined to be utilizable

(C) Collection of a fully reserved receivable recognized as revenue

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure 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 June 30, 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 June 30, 2014.

Management's Report on Internal Control over Financial Reporting

See "Management's Report on Internal Control over Financial Reporting" set forth in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K. During fiscal year 2014, the Company acquired 100% of the stock 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". Refer to Note 2 of Notes to the Consolidated Financial Statements for additional information regarding this event. Management has excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of June 30, 2014. The revenues attributable to this business represented approximately 12 percent of the Company's consolidated revenues for the year ended June 30, 2014 and its aggregate total assets represented approximately 25 percent of the Company's consolidated total assets as of June 30, 2014.

Changes in Internal Control Over Financial Reporting

Except as described below, there have been no changes during the fourth fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. 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 June 30, 2014.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to the Company's directors and corporate governance is incorporated herein by reference to the sections entitled "Proposal Number 1: Election of Directors" and "Corporate Governance and Board Matters" in the Company's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders ("Proxy Statement"). The information required by this item with respect to the Company's executive officers is incorporated herein by reference to the section entitled "Executive Officer Information" in the Proxy Statement. The information required by this item with respect to the Section 16 ownership reports is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

The Company has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees, including the principal executive officer, principal financial officer and principal accounting officer of the Company. In addition, we have adopted Corporate Governance Guidelines for the Board of Directors and Charters for the Audit, Compensation and Nominating and Corporate Governance Committees of the Board of Directors. The current version of these corporate governance documents is publicly available in the "Investors" section of the Company's website at matrixservicecompany.com under "Corporate Governance." If we make any substantive amendments to the Code of Business Conduct and Ethics, or grant any waivers, including implicit waivers, from the Code of Business Conduct and Ethics applicable to the principal executive officer, principal financial officer or principal accounting officer, or any person performing similar functions, we will disclose such amendment or waiver on our website or in a report on Form 8-K.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the sections entitled "Director Compensation" and "Executive Officer Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the sections entitled "Securities Authorized for Issuance Under Executive Compensation Plans" and "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the section entitled "Proposal Number 1: Election of Directors" and "Certain Relationships and Related Transactions" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the sections entitled "Fees of Independent Registered Public Accounting Firm" and "Audit Committee Pre-Approval Policy" in the Proxy Statement.

PART IV**Item 15. Exhibits and Financial Statement Schedules****(a) (1) Financial Statements of the Company**

The following financial statements and supplementary data are filed as a part of this report under “Item 8—Financial Statements and Supplementary Data” in this Annual Report on Form 10-K:

Financial Statements of the Company

Management’s Report on Internal Control Over Financial Reporting	36
Reports of Independent Registered Public Accounting Firm (Deloitte & Touche LLP)	37
Consolidated Statements of Income for the Years Ended June 30, 2014, June 30, 2013 and June 30, 2012	39
Consolidated Statements of Comprehensive Income for the Years Ended June 30, 2014, June 30, 2013 and June 30, 2012	40
Consolidated Balance Sheets as of June 30, 2014 and June 30, 2013	41
Consolidated Statements of Cash Flows for the Years Ended June 30, 2014, June 30, 2013 and June 30, 2012	43
Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended June 30, 2014, June 30, 2013 and June 30, 2012	45
Notes to Consolidated Financial Statements	46
Quarterly Financial Data (Unaudited)	68
Schedule II—Valuation and Qualifying Accounts	69

(2) Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II—Valuation and Qualifying Accounts for the three fiscal years ended June 30, 2014, June 30, 2013 and June 30, 2012, immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.

(3) The following documents are included as exhibits to this Annual Report on Form 10-K:

- 2.0 Sales and Purchase Agreement dated December 8, 2013 between Matrix North America Construction, Inc. and Matrix Canadian Holdings, Inc., as Buyers, Matrix Service Company as a Buyer Party, Kvaerner North American Construction Inc. and Kvaerner AS, as Sellers and Kvaerner ASA, as Seller’s Guarantor (Exhibit 2.1 to the Company’s Current Report on Form 8-K (File No. 1-15461) filed December 27, 2013, is hereby incorporated by reference).
- 3.1 Amended and Restated Certificate of Incorporation (Exhibit 4.1 to the Company’s Registration Statement on Form S-3 (File No. 333-156814) filed January 21, 2009, is hereby incorporated by reference).
- 3.2 Certification of Designations, Preferences and Rights of Series B Junior Preferred Stock dated November 12, 1999 (Exhibit 3.2 to the Company’s Registration Statement on Form S-3 (File No. 333-117077) filed July 1, 2004, is hereby incorporated by reference).

- 3.3 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated July 11, 2005 (Exhibit 3.5 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 17, 2005, is hereby incorporated by reference).
- 3.4 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated October 23, 2006 (Exhibit 3.7 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 14, 2007, is hereby incorporated by reference).
- 3.5 Amended and Restated Bylaws (Exhibit 3 to the Company's Current Report on Form 8-K (File No. 1-15461) filed April 9, 2009, is hereby incorporated by reference).
- 4 Specimen Common Stock Certificate (Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-36081) filed July 26, 1990, is hereby incorporated by reference).
- +10.1 Matrix Service Company 1990 Incentive Stock Option Plan (Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 33-36081) filed June 12, 1990, is hereby incorporated by reference).
- +10.2 Matrix Service Company 1991 Incentive Stock Option Plan (Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-56945) filed June 16, 1998, is hereby incorporated by reference).
- +10.3 Matrix Service Company 1995 Nonemployee Directors' Stock Option Plan (Exhibit 4.3 to the Company's Registration Statement on Form S-8 (File No. 333-02771) filed April 23, 1996, is hereby incorporated by reference).
- +10.4 Amendment No. 1 to the Matrix Service Company 1995 Nonemployee Directors' Stock Option Plan (Exhibit B to the Company's 2005 Proxy Statement filed September 16, 2005 (File No. 1-15461), is hereby incorporated by reference).
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- +10.9 Amendment 3 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit A to the Company's Proxy Statement filed September 11, 2009 (File No. 1-15461), is hereby incorporated by reference).
- +10.10 Form of Restricted Stock Unit Award Agreement for non-employee directors (2004 Stock Incentive Plan) (Exhibit 10.8 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed September 28, 2010 (the "2010 10-K"), is hereby incorporated by reference).
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- +10.12 Form of Restricted Stock Unit Award Agreement for executive management (2004 Stock Incentive Plan – performance based) (Exhibit 10.10 to the 2010 10-K is hereby incorporated by reference).
- +10.13 Form of Stock Option Award Agreement (2004 Stock Incentive Plan – Incentive Stock Options) (Exhibit 10.13 to the 2012 10-K is hereby incorporated by reference).
- +10.14 Form of Stock Option Award Agreement (2004 Stock Incentive Plan – Non-qualified) (Exhibit 10.14 to the 2012 10-K is hereby incorporated by reference).
- +10.15 Matrix Service Company 2012 Stock and Incentive Compensation Plan (Attachment A to the Company's Proxy Statement (File No. 1-15461) filed October 10, 2012, is hereby incorporated by reference).

- +10.16 Long-Term Incentive Award Agreement (2012 Stock and Incentive Compensation Plan) (Exhibit 10 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed February 7, 2013, is hereby incorporated by reference).
 - +10.17 Form of Severance Agreement (Exhibit 10.6 to the Company's Current Report on Form 8-K (File No. 1-15461) filed October 27, 2006, is hereby incorporated by reference).
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 - 10.22 First Amendment effective as of March 13, 2014 to the Third Amended and Restated Credit Agreement (Exhibit 10 to the Company's Current Report on Form 8-K (File No. 1-5461) filed March 19, 2014, is hereby incorporated by reference).
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 - *21 Subsidiaries.
 - *23 Consent of Independent Registered Public Accounting Firm—Deloitte & Touche LLP.
 - *31.1 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CEO.
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 - *101.SCH XBRL Taxonomy Schema Document.
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 - *101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
 - *101.LAB XBRL Taxonomy Extension Labels Linkbase Document.
 - *101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- *Filed herewith
- +Management Contract or Compensatory Plan.

Index to Exhibits

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+Management Contract or Compensatory Plan.

MATRIX SERVICE COMPANY
SEPARATION AGREEMENT AND RELEASE OF CLAIMS
FOR PERSONS FORTY YEARS OF AGE AND OLDER

This Separation Agreement and Release of Claims (the "Agreement") is hereby entered into between Matthew J. Petrizzo ("Employee") and Matrix Service Company (MATRIX"), and shall set forth the terms and conditions of Employee's separation from employment with MATRIX.

1. EMPLOYMENT END DATE. Employee's employment with MATRIX and all affiliates of MATRIX will terminate effective the 23rd day of June 2014 ("Termination Date").

2. SEPARATION PAYMENT. Employee is a signatory under an Executive Severance Agreement dated February 12, 2008 and agreed to all the terms and conditions of that Severance Agreement. The Employee's termination from Matrix is a triggering event for payment of the severance benefit set forth in the Executive Severance Agreement. In consideration for participation in the Executive Severance Agreement and in consideration of the representations, covenants and mutual promises set forth in this Agreement, the severance benefit shall consist of the following:

- (i) MATRIX will pay Employee (A) one (1) year's base salary plus (B) the average of bonuses paid to Employee in the two (2) prior calendar years and the bonus that Employee would have received for the current calendar year, in each case, less customary payroll deductions (the "Severance Pay"). Employee will receive the Severance Pay referred to in clause (A) above in a lump sum seven (7) days after his execution of this Agreement unless this Agreement is otherwise revoked in accordance with Paragraph 5 below. Employee will receive the Severance Pay referred to in clause (B) above no later than ten (10) days following certification of the bonus amounts for fiscal 2014 by the Compensation Committee of the Board of Directors of MATRIX, which is expected to take place on August 26, 2014.
- (ii) MATRIX will provide Employee with an outplacement allowance consisting of the following and subject to the following conditions:

Reimbursement to the entity that provides outplacement services to Employee for the actual costs of reasonable outplacement services directly related to the termination of employment hereunder, which expenses (A) are incurred and the invoice received by MATRIX no later than December 31, 2014; (B) are no greater than the maximum amount of \$5,000 in the aggregate and (C) have been approved by MATRIX in advance of such expenditures. Such reimbursement shall be paid on a timely basis following submission of invoices properly substantiating such expenses. Outplacement services may consist of any services which are customarily provided to departing employees,

including with limitation, assistance with resume preparation, training with respect to modern job searching techniques and coaching with respect to employment interviews.

(iii) MATRIX will reimburse Employee for the payments Employee makes for COBRA coverage for a period ending on December 31, 2014, provided Employee timely elects and pays for continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), within the time period prescribed pursuant to COBRA. COBRA reimbursements will be made by MATRIX to Employee consistent with MATRIX's normal expense reimbursement policy, provided that Employee submits documentation to MATRIX substantiating his payments for COBRA coverage. Notwithstanding the foregoing, if Employee, Employee's spouse, or Employee's dependent becomes eligible to be covered by any other employer-sponsored group health plan or becomes eligible for coverage under any government-sponsored health plan, reimbursement of COBRA premiums provided under this clause (iii) shall cease.

Paragraphs (i) through (iii) together represent consideration for the representations, agreements, waivers, and releases set forth herein, and upon the terms and conditions herein described ("Separation Payment"). Employee further acknowledges and agrees that this Separation Payment includes consideration to which he would not otherwise be entitled but for this Agreement.

Employee understands and agrees that MATRIX is under no obligation to offer, pay, or tender The Separation Payment unless and until the Employee executes and signs this Agreement and knowingly and voluntarily releases the claims described herein. The Parties agree that payment of the Separation Payment shall not be construed as an admission of liability for any alleged damages or wrongdoing by MATRIX.

3. RELEASE OF ALL CLAIMS. In exchange and consideration for the Separation Payment and other benefits stated above, Employee hereby releases MATRIX and its affiliates and subsidiaries and their respective officers, directors, employees, managers, representatives, advisors, successors, assigns, agents or others working on their behalf (collectively, "Affiliates"), of any and all claims, liabilities or actions, known or unknown, which Employee presently has, may have or which Employee ever had against MATRIX and its Affiliates, as of the execution date of this Agreement, including but not limited to any tort claims, any contract claims, any claims for emotional distress, or claims under federal or state statutes, including Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991; the Civil Rights Act of 1966; the Americans with Disabilities Act of 1990 (ADA), as amended by the Americans with Disabilities Act Amendments Act (ADAAA); the National Labor Relations Act, as amended; 42 U.S.C. §§1981 and 1983; the Rehabilitation Act of 1973; the Genetic Information Non-Discrimination Act of 2008; the Employee Retirement Income Security Act of 1974, as amended; the Fair Labor Standards Act, including the Wage and Hour Laws relating to payment of wages; the Equal Pay Act (only if Releasing Party is female); the Occupational Safety and Health Act; the Employee Polygraph Protection Act; the Vietnam Era Veterans Readjustment Assistance Act; the Immigration Reform and Control Act; the Family and Medical Leave Act of 1993; the Age Discrimination in Employment Act of 1967, as amended and the Older Worker Benefit Protection Act, and all other federal, state or local human

rights, fair employment and other such laws which may be involved in the termination of Employee's employment as well as any claim arising from any MATRIX policy or procedure.

Employee affirmatively states to MATRIX that he has been paid all amounts due him other than the payment to be made in conjunction with the execution of this Separation Agreement, and has no claim for any wages due and unpaid. Employee further affirmatively states to Matrix that he has no claim for any unpaid minimum wage or overtime pay. Finally, Employee also affirmatively states that he has not been deprived of any personal leave time to which he was entitled, and that Employee makes these affirmative statements, at least in part, to induce MATRIX to enter into this Agreement.

4. OLDER WORKERS' BENEFIT PROTECTION ACT. To comply with the Older Workers' Benefit Protection Act of 1990 ("OWBPA"), MATRIX has advised Employee of the legal requirements of the OWBPA and fully incorporates the legal requirements by reference into this Agreement as follows and in paragraph 5 below:

- a. This Agreement is written in layman's terms, and Employee understands and comprehends its terms;
- b. Employee has been advised of his right to consult an attorney to review this Agreement;
- c. Employee does not waive any rights or claims that may arise after the date the Agreement is executed;
- d. Employee is receiving consideration beyond anything of value to which he is already entitled; and
- e. Employee acknowledges he has had a reasonable period of time within which to consider this Agreement.

5. CONSIDERATION PERIOD, LIMITED REVOCATION AND EFFECTIVE DATE. Employee acknowledges that he has been given a period of twenty-one (21) calendar days during which to consider whether to enter into this Agreement. Employee further acknowledges that he will have seven (7) calendar days from the date he signs and delivers a copy of the Agreement to Nancy Austin, 5100 E. Skelly Dr. Ste. 700, Tulsa, OK 74135 during which time Employee may revoke the Agreement as to his/her release of claims **under the ADEA and OWBPA only**, by delivering a signed and dated notice of revocation to Nancy Austin. This Agreement becomes immediately effective and enforceable as to all claims, except those arising under the ADEA and OWBPA. This Agreement becomes effective and enforceable as to claims under the ADEA and the OWBPA when the seven (7) day revocation period has expired if Employee has not delivered a written revocation to Nancy Austin before that time.

6. ALL CLAIMS RELEASED. This Agreement specifically includes, but not by way of limitation, all claims, known and unknown, asserted by or on behalf of Employee against MATRIX

and its Affiliates. Employee represents and warrants that no other person or entity is entitled to assert any claim of any kind or character based upon or arising out of and alleged to have been suffered by him in or as a consequence of Employee's employment and his/her relationship with MATRIX and its Affiliates. Employee agrees to indemnify and hold harmless MATRIX and its Affiliates as to any damage which he may claim against MATRIX or its Affiliates as a result of any claims brought on behalf of any other person or entity.

7. CONFIDENTIAL RECORDS AND INFORMATION. Employee agrees that Employee will not, unless required or otherwise permitted by law, disclose or divulge to any other person or entity, directly or indirectly, any confidential records or information regarding the Company, including but not limited to the following: (i) practices, policies and or procedures; (ii) trade secrets; (iii) customer names; (iv) any information regarding existing or prospective future business, planning, or development; (v) contracts or proposed contracts; (vi) financial information; (vii) staffing or personnel utilization; (viii) salary or wage levels; (ix) privileged communications; and (x) other information deemed confidential or proprietary not herein listed. Employee further covenants that he has returned all property of the Company to the company, including but not limited to computers, cell phones, vehicles, computer files and peripherals, notebooks, data, documents, drawings, files, materials, records, badges, equipment, credit card, keys and all other company belongings, as well as any copies thereof, electronic or otherwise, and has no confidential, proprietary information of the Company in his/her possession, either in hard copy or in electronic form. Further Employee covenants that he has not exported any Company electronic information to anyone or to his/her home computer or any other computer. The separation benefits set forth in this Agreement shall not be paid to Employee until Employee has returned all Company property as referenced herein.

8. NON-SOLICITATION AND NON-INTERFERENCE. Employee acknowledges and agrees that, as an employee and representative of MATRIX or an Affiliate, employee has been given specialized training and/or information and materials belonging to MATRIX, its Affiliates and to third parties, including but not limited to, clients, vendors, suppliers and customers, who have furnished such information and materials to MATRIX and its Affiliates under obligations of confidentiality. Employee acknowledges and agrees that this creates a special relationship of trust and confidence between MATRIX, its Affiliates, Employee and the established vendors, suppliers, and customers of MATRIX and its Affiliates. Employee further acknowledges and agrees that there is a high risk and opportunity for any person given such training and information to misappropriate the relationship and goodwill existing between MATRIX and its Affiliates and their established clients, vendors, suppliers, and customers. Consequently, and as ancillary covenants to the terms, conditions and promises set forth elsewhere in this Agreement, Employee agrees to this non-solicitation covenant. Employee agrees that for the period of twelve (12) months immediately following the Termination Date, Employee shall not in any manner, either individually, or in conjunction with any other person, entity or third party:

- (a) solicit the sale of goods, services or a combination of goods and services from those persons and entities that are the established customers of MATRIX and its Affiliates but only insofar as such goods and services are among those goods and services which are

- offered by MATRIX or its Affiliates to its established customers as of the Termination Date;
- (b) Interfere with the relationships or agreements between MATRIX and its Affiliates and those persons and entities that are established customers of MATRIX and its Affiliates as of the Termination Date;
 - (c) Solicit, induce, or encourage, or attempt to solicit, induce, or encourage, any person who is an employee of MATRIX or its Affiliates as of the Termination Date to quit or leave the employment of MATRIX or its Affiliates; or
 - (d) Solicit, induce, or encourage, or attempt to solicit, induce, or encourage, any person who is a contractor of MATRIX or its Affiliates as of the Termination Date to modify or terminate its relationship with MATRIX or its Affiliates.

Employee acknowledges that MATRIX and its Affiliates have a protectable business interest in their relationships with their established customers, employees, and contractors, all of which have been developed by MATRIX and its Affiliates at considerable effort and expense. Prohibited activity shall include: (i) encouraging or inducing modification or termination of relationships or agreements with MATRIX or its Affiliates, or (ii) providing goods or services or a combination of goods and services to established customers of MATRIX or its Affiliates as of the Termination Date, after engaging in any of the prohibited activity set forth in (i) above. In the event of a breach of these covenants, MATRIX shall be entitled to injunctive relief, without the posting of a bond or other security, in addition to such other relief as may be proper. The provisions of this paragraph shall be deemed severable and the unenforceability of any one or more provisions of this paragraph shall not affect the enforceability of the other provisions.

9. 401(k) AND PROFIT SHARING PLANS. Employee shall have access to all vested funds in his §401(k) plan and Profit Sharing Plan maintained by MATRIX, all as provided in the appropriate Plan documents and SPD's.

10. CONFIDENTIAL AGREEMENT. Employee and MATRIX understand and agree that all discussions, negotiations and correspondence relating to this Agreement and the terms thereof are strictly confidential and that this confidentiality provision is a material term of this Agreement. Accordingly, Employee and MATRIX understand and agree that they will not, unless otherwise required or permitted by law, disclose to others the content of this Agreement or any of the information concerning the matters which resulted in the Agreement, except that (i) Employee may disclose this information to his attorney, spouse, accountant, or other professional advisor to whom he must make such disclosures in order for them to render professional services and (ii) MATRIX may disclose this information to its attorneys and other professional advisors and may file a copy of this Agreement with the Securities and Exchange Commission and disclose any related information as may be required under the rules and regulations of the Securities and Exchange Commission or any stock exchange on which its securities may be listed. Employee and MATRIX further agree that, in the event one Party should violate this confidentiality provision, the other Party shall be entitled to pursue any legal and/or equitable remedies available to it, including injunctive relief and/or an action for breach of contract. The prevailing Party in any such action shall also be

entitled to recover its reasonable expenses, including attorneys' fees, incurred in the prosecution or defense of said action.

11. NO APPLICATION TO SUBSEQUENT ACTS. This Agreement does not apply to acts occurring following the execution date of this Agreement.

12. REEMPLOYMENT OR REINSTATEMENT. Employee agrees that MATRIX has no obligation, contractual or otherwise, to rehire, reemploy or recall him in the future.

13. SEVERABILITY CLAUSE. In the event that any of the terms or provisions of this Agreement are found to be legally unenforceable, then the remaining terms and conditions shall nevertheless be fully enforceable without regard to any such provision or terms that are found to be legally unenforceable.

14. SOLE CONSIDERATION. Employee affirms that the only consideration for his signing this Agreement are the terms stated above; that no other promise or agreement of any kind has been made to or with him by any person or entity whomsoever to cause him to execute this Agreement, and that he fully understands the meaning and intent of this Agreement including, but not limited to, its final and legally binding effect.

15. BINDING UPON PARTIES AND SUCCESSORS. This Agreement shall be binding upon the Parties, their agents, representatives, successors and assigns.

16. MODIFIED ONLY IN WRITING. This Agreement may be modified or amended only by a written document signed by the Parties. No waiver of this Agreement or of any of the promises, obligations, terms or conditions contained herein shall be valid unless it is written and signed by the Party against whom the waiver is to be enforced.

17. TAX TREATMENT. Employee agrees that he will be responsible for satisfying any tax obligation that he/she may have or incur with regard to any money received from MATRIX, including but not limited to the Separation Payment. Employee expressly understands and agrees that MATRIX will report the Separation Payment to the Internal Revenue Service by way of an IRS Form W-2.

18. GOVERNING LAW AND JURISDICTION OF DISPUTES. This Agreement shall be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma, and any action to enforce any claim hereunder shall be brought exclusively in the courts of the State of Oklahoma.

19. SECTION HEADINGS. Section headings are used herein for the convenience of reference and shall not affect the meaning of any provisions in this Agreement.

20. NON-DISPARAGEMENT. The Parties shall refrain from making any disparaging statements or causing any disparaging statements to be made about the other Party, directly or indirectly, orally or in writing, to any individual, agency, organization, company, corporation, or

**Matrix Service Company
Subsidiaries**

Matrix Service Inc., an Oklahoma corporation
Matrix Service Inc. Canada, an Ontario, Canada corporation
Matrix Service Canada ULC, an Alberta, Canada unlimited liability corporation
Matrix North American Holdings, Inc., a Delaware corporation
Matrix North American Construction, Inc., a Delaware corporation
Matrix North American Construction, Ltd., a Canadian corporation
Matrix SME, Inc., an Oklahoma corporation
Matrix SME Canada, Inc., a Delaware corporation
Matrix SME Canada ULC, a Nova Scotia, Canada unlimited liability corporation
Matrix PDM Engineering, Inc., a Delaware corporation
Matrix PDM, LLC, an Oklahoma limited liability corporation
Matrix Applied Technologies, Inc., a Delaware corporation
Mobile Aquatic Solutions, Inc., an Oklahoma corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Matrix Service Company of our reports dated September 8, 2014 relating to the consolidated financial statements and financial statement schedule of Matrix Service Company and the effectiveness of Matrix Service Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K for the year ended June 30, 2014:

Registration Statement on Form S-8 (File No. 333-184982) related to the Matrix Service Company 2012 Stock and Incentive Compensation Plan

Registration Statement on Form S-3 (File No. 333-178926) related to the registration of \$400,000,000 of Common Stock, Preferred Stock, Debt Securities, Warrants and Units

Registration Statement on Form S-8 (File No. 333-171247) related to the Matrix Service Company 2011 Employee Stock Purchase Plan

Registration Statement on Form S-8 (File No. 333-171245) related to the Matrix Service Company 2004 Stock Incentive Plan

Registration Statement on Form S-8 (File No. 333-119840) related to the Matrix Service Company 2004 Stock Option Plan

Registration Statement on Form S-8 (File No. 33-36081) related to the Matrix Service Company 1990 Incentive Stock Option Plan

Registration Statement on Form S-8 (File No. 333-56945) related to the Matrix Service Company 1991 Stock Option Plan

Registration Statement on Form S-8 (File No. 33-71604) related to the Matrix Service Company 1991 Stock Option Plan

Registration Statement of Form S-8 (File No. 333-02771) related to the Matrix Service Company 1995 Nonemployee Directors' Stock Option Plan

/S/ DELOITTE & TOUCHE LLP

Tulsa, Oklahoma
September 8, 2014

CERTIFICATIONS

I, John R. Hewitt, certify that:

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

Date: September 8, 2014

/s/ John R. Hewitt

John R. Hewitt

President and Chief Executive Officer

CERTIFICATIONS

I, Kevin S. Cavanah, certify that:

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

Date: September 8, 2014

/s/ Kevin S. Cavanah

Kevin S. Cavanah

Vice President and Chief Financial Officer

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

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Hewitt, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

Date: September 8, 2014

/s/ John R. Hewitt

John R. Hewitt

President and Chief Executive Officer

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

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin S. Cavanah, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

Date: September 8, 2014

/s/ Kevin S. Cavanah

Kevin S. Cavanah

Vice President and Chief Financial Officer

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

The following table provides information for the twelve months ended June 30, 2014:

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations(1)	Section 104(b) Orders(2)	Section 104(d) Citations and Orders(3)	Section 110(b) (2) Violations(4)	Section 107(a) Orders(5)	Total Dollar Value of MSHA Assessments Proposed (\$)	Total Number of Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e) (6) (yes/no)	Received Notice of Potential to Have Pattern of Violations Under Section 104(e)(7) (yes/no)	Total Number of Legal Actions Pending as of Last Day of Period	Total Number of Legal Actions Initiated During Period	Total Number of Legal Actions Resolved During Period
Big Island Mine & Refinery 48-00154	0	0	0	0	0	\$208	—	No	No	0	0	0
Freeport-McMoran Morenci Inc, 02-00024	5	0	0	0	0	\$2,705	—	No	No	7	8	1
Freeport-McMoran Safford Inc, 02-03131	0	0	0	0	0	\$200	—	No	No	2	2	0
Solvay Chemicals Inc, 48-01295	0	0	0	0	0	\$108	—	No	No	1	1	0

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