

---

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

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended December 31, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-15461

---

**MATRIX SERVICE COMPANY**

(Exact name of registrant as specified in its charter)

---

**DELAWARE**  
(State of incorporation)

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

**5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135**  
(Address of principal executive offices and zip code)

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

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

---

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

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

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

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

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

As of February 1, 2013 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,020,505 shares outstanding.

---

---

**TABLE OF CONTENTS****PAGE****PART I****FINANCIAL INFORMATION**

Item 1.	<a href="#">Financial Statements (Unaudited)</a>	
	<a href="#">Condensed Consolidated Statements of Income for the Three and Six Months Ended December 31, 2012 and 2011</a>	<a href="#">1</a>
	<a href="#">Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended December 31, 2012 and 2011</a>	<a href="#">2</a>
	<a href="#">Condensed Consolidated Balance Sheets as of December 31, 2012 and June 30, 2012</a>	<a href="#">3</a>
	<a href="#">Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2012 and 2011</a>	<a href="#">5</a>
	<a href="#">Condensed Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended December 31, 2012 and 2011</a>	<a href="#">7</a>
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">8</a>
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">16</a>
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">25</a>
Item 4.	<a href="#">Controls and Procedures</a>	<a href="#">25</a>

**PART II****OTHER INFORMATION**

Item 1.	<a href="#">Legal Proceedings</a>	<a href="#">26</a>
Item 1A.	<a href="#">Risk Factors</a>	<a href="#">26</a>
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">26</a>
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	<a href="#">27</a>
Item 4.	<a href="#">Mine Safety Disclosures</a>	<a href="#">27</a>
Item 5.	<a href="#">Other Information</a>	<a href="#">27</a>
Item 6.	<a href="#">Exhibits</a>	<a href="#">27</a>
	<a href="#">Signature</a>	<a href="#">27</a>

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

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Revenues	\$ 221,436	\$ 200,964	\$ 431,044	\$ 370,285
Cost of revenues	199,103	177,866	386,467	329,094
Gross profit	22,333	23,098	44,577	41,191
Selling, general and administrative expenses	13,561	11,898	27,881	23,381
Operating income	8,772	11,200	16,696	17,810
Other income (expense):				
Interest expense	(217)	(166)	(400)	(443)
Interest income	12	3	20	6
Other	(7)	301	50	(375)
Income before income tax expense	8,560	11,338	16,366	16,998
Provision for federal, state and foreign income taxes	3,124	4,307	6,246	6,458
Net income	\$ 5,436	\$ 7,031	\$ 10,120	\$ 10,540
Basic earnings per common share	\$ 0.21	\$ 0.27	\$ 0.39	\$ 0.40
Diluted earnings per common share	\$ 0.21	\$ 0.27	\$ 0.39	\$ 0.40
Weighted average common shares outstanding:				
Basic	25,939	25,819	25,863	26,110
Diluted	26,204	26,111	26,172	26,420

See accompanying notes.

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

(In thousands)

(unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Net income	\$ 5,436	\$ 7,031	\$ 10,120	\$ 10,540
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(152)	238	315	(721)
Comprehensive income	<u>\$ 5,284</u>	<u>\$ 7,269</u>	<u>\$ 10,435</u>	<u>\$ 9,819</u>

See accompanying notes.

**Matrix Service Company**  
**Condensed Consolidated Balance Sheets**

(In thousands)

(unaudited)

	December 31, 2012	June 30, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 33,209	\$ 39,726
Accounts receivable, less allowances (December 31, 2012—\$785 and June 30, 2012—\$1,201)	152,754	108,034
Costs and estimated earnings in excess of billings on uncompleted contracts	66,151	68,562
Deferred income taxes	5,487	6,024
Inventories	3,683	2,482
Income taxes receivable	1,060	—
Other current assets	4,974	5,688
Total current assets	267,318	230,516
Property, plant and equipment at cost:		
Land and buildings	29,357	28,846
Construction equipment	64,076	59,176
Transportation equipment	31,524	25,865
Office equipment and software	17,793	16,892
Construction in progress	6,824	2,910
	149,574	133,689
Accumulated depreciation	(84,100)	(78,814)
	65,474	54,875
Goodwill	30,975	28,675
Other intangible assets	8,134	6,504
Other assets	4,173	2,565
Total assets	\$ 376,074	\$ 323,135

See accompanying notes.

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

	December 31, 2012	June 30, 2012
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 59,709	\$ 48,931
Billings on uncompleted contracts in excess of costs and estimated earnings	57,606	30,293
Accrued wages and benefits	15,779	15,298
Accrued insurance	7,390	6,912
Income taxes payable	—	1,115
Other accrued expenses	3,971	3,414
<b>Total current liabilities</b>	<b>144,455</b>	<b>105,963</b>
Deferred income taxes	5,814	6,075
Long term debt	3,425	—
<b>Total liabilities</b>	<b>153,694</b>	<b>112,038</b>
Commitments and contingencies		
Stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of December 31, 2012, and June 30, 2012	279	279
Additional paid-in capital	117,059	116,693
Retained earnings	127,539	117,419
Accumulated other comprehensive income	1,086	771
	<b>245,963</b>	<b>235,162</b>
Less: Treasury stock, at cost—1,869,558 shares as of December 31, 2012, and 2,141,990 shares as of June 30, 2012	(23,583)	(24,065)
<b>Total stockholders' equity</b>	<b>222,380</b>	<b>211,097</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 376,074</b>	<b>\$ 323,135</b>

See accompanying notes.

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

(In thousands)

(unaudited)

	Six Months Ended	
	December 31, 2012	December 31, 2011
<b>Operating activities:</b>		
Net income	\$ 10,120	\$ 10,540
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	5,796	5,738
Deferred income tax	178	(28)
Gain on sale of property, plant and equipment	(51)	(43)
Allowance for uncollectible accounts	239	29
Stock-based compensation expense	1,812	1,735
Other	41	(28)
Changes in operating assets and liabilities increasing (decreasing) cash:		
Accounts receivable	(43,819)	(12,241)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,411	(16,474)
Inventories	(1,201)	(332)
Other assets	(991)	(1,561)
Accounts payable	9,763	12,565
Billings on uncompleted contracts in excess of costs and estimated earnings	27,313	(3,669)
Accrued expenses	(657)	(2,059)
Net cash provided (used) by operating activities	10,954	(5,828)
<b>Investing activities:</b>		
Acquisition of property, plant and equipment	(12,041)	(6,759)
Acquisition	(8,250)	—
Proceeds from asset sales	73	177
Net cash used by investing activities	\$ (20,218)	\$ (6,582)

See accompanying notes.

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

	Six Months Ended	
	December 31, 2012	December 31, 2011
<b>Financing activities:</b>		
Issuances of common stock	\$ 106	\$ 80
Capital lease payments	(36)	(182)
Excess tax benefit of exercised stock options and vesting of deferred shares	29	—
Payment of debt amendment fees	—	(573)
Advances under credit agreement	18,475	—
Repayments of advances under credit agreement	(15,050)	—
Treasury shares purchased by Employee Stock Purchase Plan	22	27
Open market purchase of treasury shares	—	(8,126)
Other treasury share purchases	(1,065)	(439)
Net cash provided (used) by financing activities	2,481	(9,213)
Effect of exchange rate changes on cash	266	(292)
Net decrease in cash and cash equivalents	(6,517)	(21,915)
Cash and cash equivalents, beginning of period	39,726	59,357
Cash and cash equivalents, end of period	<u>\$ 33,209</u>	<u>\$ 37,442</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Income taxes	\$ 6,559	\$ 3,640
Interest	\$ 281	\$ 279
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	\$ 494	\$ 637

See accompanying notes.



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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Total
Balances, June 30, 2012	\$ 279	\$ 116,693	\$ 117,419	\$ (24,065)	\$ 771	\$ 211,097
Net income	—	—	10,120	—	—	10,120
Other comprehensive income	—	—	—	—	315	315
Exercise of stock options (21,600 shares)	—	(89)	—	195	—	106
Tax effect of exercised stock options and vesting of deferred shares	—	(27)	—	—	—	(27)
Issuance of deferred shares (350,048 shares)	—	(1,347)	—	1,347	—	—
Employee Stock Purchase Plan (2,055 shares)	—	17	—	5	—	22
Other treasury share purchases (101,271 shares)	—	—	—	(1,065)	—	(1,065)
Stock-based compensation expense	—	1,812	—	—	—	1,812
Balances, December 31, 2012	<u>\$ 279</u>	<u>\$ 117,059</u>	<u>\$ 127,539</u>	<u>\$ (23,583)</u>	<u>\$ 1,086</u>	<u>\$ 222,380</u>
Balances, June 30, 2011	\$ 279	\$ 113,686	\$ 100,231	\$ (15,961)	\$ 1,436	\$ 199,671
Net income	—	—	10,540	—	—	10,540
Other comprehensive loss	—	—	—	—	(721)	(721)
Exercise of stock options (15,400 shares)	—	40	—	40	—	80
Tax effect of exercised stock options and vesting of deferred shares	—	(150)	—	—	—	(150)
Issuance of deferred shares (161,222 shares)	—	(419)	—	419	—	—
Employee Stock Purchase Plan (2,636 shares)	—	21	—	6	—	27
Open market purchase of treasury shares (886,503 shares)	—	—	—	(8,126)	—	(8,126)
Other treasury share purchases (45,143 shares)	—	—	—	(439)	—	(439)
Stock-based compensation expense	—	1,735	—	—	—	1,735
Balances, December 31, 2011	<u>\$ 279</u>	<u>\$ 114,913</u>	<u>\$ 110,771</u>	<u>\$ (24,061)</u>	<u>\$ 715</u>	<u>\$ 202,617</u>

See accompanying notes.

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

**Note 1 – Basis of Presentation**

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all adjustments, consisting of normal recurring adjustments and other adjustments described herein, that are, in the opinion of management, necessary for a fair statement of the results of operations and financial position for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2012, included in the Company’s Annual Report on Form 10-K for the year then ended.

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

**Note 2 - Acquisition**

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.

The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The purchase price is expected to be finalized and settled following a final true-up of working capital accounts that is expected to conclude during the third fiscal quarter. The following table summarizes the preliminary purchase price allocation of the acquisition which is subject to change as we complete the working capital adjustments:

Current assets	\$	1,140
Property, plant and equipment		4,032
Tax deductible goodwill		2,237
Other intangible assets		1,853
Total assets acquired		9,262
Current liabilities		86
Net assets acquired		9,176
Estimated working capital adjustment		926
Purchase price before working capital adjustment	\$	8,250

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

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

**Note 3 – Uncompleted Contracts**

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

	December 31, 2012	June 30, 2012
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$ 831,053	\$ 774,749
Billings on uncompleted contracts	822,508	736,480
	<u>\$ 8,545</u>	<u>\$ 38,269</u>
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 66,151	\$ 68,562
Billings on uncompleted contracts in excess of costs and estimated earnings	57,606	30,293
	<u>\$ 8,545</u>	<u>\$ 38,269</u>

Progress billings in accounts receivable at December 31, 2012 and June 30, 2012 included retentions to be collected within one year of \$23.3 million and \$22.3 million, respectively. Contract retentions collectible beyond one year totaled \$2.9 million at December 31, 2012 and \$1.2 million at June 30, 2012.

*SME Receivables*

The Company continues to pursue collection of a certain receivable acquired in connection with the purchase of S.M. Electric Company, Inc. in February 2009. The recorded values at December 31, 2012 include \$0.7 million in claim receivables, which represents the Company's best estimate of the amount to be collected under a claim, and an additional \$2.9 million for amounts due under the related contract. Recovering the remaining receivables will require mediation or litigation and the ultimate amount realized may be significantly different than the recorded amounts, which could result in a material adjustment to future earnings.

*Western Canada Aboveground Storage Tank Project*

During the three and six months ended December 31, 2012, our results of operations were materially impacted by a charge resulting from a change in estimate for a project to construct aboveground storage tanks in western Canada. The charge was primarily driven by changes in facts and circumstances regarding lower than expected labor productivity and higher than expected direct employee costs. This change in estimate resulted in a \$3.3 million and \$3.0 million decrease in operating income, a \$2.1 million and \$2.0 million decrease in our net income and a \$0.08 and \$0.07 decrease in our diluted earnings per common share during the three and six months ended December 31, 2012, respectively. This change was the only change in estimate considered material to our results of operations during the periods presented herein.

Billings on uncompleted contracts in excess of costs and estimated earnings included an accrued loss related to this project of \$1.4 million at December 31, 2012.

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

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

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

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Goodwill	\$ 29,666	\$ 5,841	\$ 11,071	\$ 7,097	\$ 53,675
Cumulative impairment loss (A)	(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)	—	2,237	—	—	2,237
Translation adjustment	—	—	63	—	63
Net balance at December 31, 2012	<u>\$ 12,013</u>	<u>\$ 5,078</u>	<u>\$ 10,212</u>	<u>\$ 3,672</u>	<u>\$ 30,975</u>

(A) A \$25.0 million impairment charge was recorded in February 2005 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	At December 31, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(Years)	(In thousands)	
Intellectual property	6 to 15	\$ 2,460	\$ (670)	\$ 1,790
Customer based	1 to 15	4,250	(374)	3,876
Other	3 to 5	808	(210)	598
Total amortizing intangibles		7,518	(1,254)	6,264
Trade name	Indefinite	1,870	—	1,870
Total intangible assets		<u>\$ 9,388</u>	<u>\$ (1,254)</u>	<u>\$ 8,134</u>

  

	Useful Life	At June 30, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(Years)	(In thousands)	
Intellectual property	6 to 15	\$ 2,460	\$ (586)	\$ 1,874
Customer based	1 to 15	2,657	(285)	2,372
Other	3 to 5	547	(159)	388
Total amortizing intangibles		5,664	(1,030)	4,634
Trade name	Indefinite	1,870	—	1,870
Total intangible assets		<u>\$ 7,534</u>	<u>\$ (1,030)</u>	<u>\$ 6,504</u>

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

The increase in other intangible assets at December 31, 2012 compared to June 30, 2012, is due to the acquisition of certain assets of Pelichem. Specifically, amortizing intangible assets included customer based intangibles with a fair value of \$1.6 million and other amortizing intangibles with a fair value of \$0.3 million. The weighted average amortization periods are anticipated to be 15 and 5 years, respectively. Please refer to Note 2 - Acquisition for additional information.

Amortization expense totaled \$0.2 million in the six months ended December 31, 2012 and \$0.2 million in the six months ended December 31, 2011. Amortization expense is expected to be \$0.5 million in fiscal 2013, \$0.6 million annually in fiscal years 2014 to 2016, and \$0.5 million in fiscal 2017.

**Note 5 – Debt**

The Company has a five-year, \$125.0 million senior secured revolving credit facility (the “Credit Agreement”) that expires November 7, 2016. Advances under the Credit Agreement may be used for working capital, 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 \$15.0 million per 12-month period.

Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The Credit Agreement includes additional margin ranges on Alternate Base Rate loans between 0.75% and 1.5% and between 1.75% and 2.5% on LIBOR-based loans.

The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. \$15.0 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 1.75% to 2.5%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 2.25% to 3.0%. 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 0.30% and 0.45% based on the Senior Leverage Ratio.

The Credit Agreement includes a Senior Leverage Ratio covenant which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended December 31, 2012, Consolidated EBITDA, as defined in the Credit Agreement, was \$45.6 million. Accordingly, at December 31, 2012, Consolidated Funded Indebtedness in excess of \$114.0 million would have violated the Senior Leverage Ratio covenant. Consolidated Funded Indebtedness at December 31, 2012 was \$4.5 million, which includes \$3.4 million of outstanding borrowings, and \$1.1 million of non-workers compensation related letters of credit.

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

Availability under the senior credit facility was as follows:

	December 31, 2012	June 30, 2012
(In thousands)		
Senior credit facility	\$ 125,000	\$ 125,000
Capacity constraint due to the Senior Leverage Ratio	11,027	9,662
Capacity under the credit facility	113,973	115,338
Borrowings outstanding	3,425	—
Letters of credit	8,446	8,499
Availability under the senior credit facility	<u>\$ 102,102</u>	<u>\$ 106,839</u>

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

**Note 6 – Income Taxes**

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

The Company provides for income taxes regardless of whether it has received a tax assessment. Taxes are provided when it is considered probable that additional taxes will be due in excess of amounts included in the tax return. The Company regularly reviews exposure to additional income taxes due, and as further information is known or events occur, adjustments may be recorded.

**Note 7 – Commitments and Contingencies**

*Insurance Reserves*

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

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

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

*Unapproved Change Orders and Claims*

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders of \$9.3 million at December 31, 2012 and \$8.5 million at June 30, 2012. There were no revenues related to claims included in costs and estimated earnings in excess of billings on uncompleted contracts at December 31, 2012 or June 30, 2012. 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.

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

**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 adverse impact on the Company's financial position, results of operations or liquidity.

**Note 8 – Earnings per Common Share**

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

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

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(In thousands, except per share data)			
<b>Basic EPS:</b>				
Net income	\$ 5,436	\$ 7,031	\$ 10,120	\$ 10,540
Weighted average shares outstanding	25,939	25,819	25,863	26,110
Basic EPS	\$ 0.21	\$ 0.27	\$ 0.39	\$ 0.40
<b>Diluted EPS:</b>				
Weighted average shares outstanding – basic	25,939	25,819	25,863	26,110
Dilutive stock options	59	64	65	76
Dilutive nonvested deferred shares	206	228	244	234
Diluted weighted average shares	26,204	26,111	26,172	26,420
Diluted EPS	\$ 0.21	\$ 0.27	\$ 0.39	\$ 0.40

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

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(In thousands)			
Stock options	327	242	327	173
Nonvested deferred shares	71	41	36	40
Total antidilutive securities	398	283	363	213

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

**Note 9 – Segment Information**

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

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

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

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

The Industrial segment includes work in the mining and minerals industry, bulk material handling, thermal vacuum chambers, as well as work for clients in other industrial and manufacturing markets.

Other consists of corporate asset balances.

The chief operating decision maker evaluates performance and allocates resources based primarily on operating income. The results of each operating segment include an allocation of corporate costs. 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 and eliminated in consolidation; therefore, no intercompany profit or loss is recognized.

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



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

**Results of Operations**  
(In thousands)

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
<b>Gross revenues</b>				
Electrical Infrastructure	\$ 50,123	\$ 43,628	\$ 83,393	\$ 65,640
Oil Gas & Chemical	66,635	49,750	133,732	95,749
Storage Solutions	98,183	99,710	203,601	195,632
Industrial	7,033	8,076	12,008	14,651
Total gross revenues	<u>\$ 221,974</u>	<u>\$ 201,164</u>	<u>\$ 432,734</u>	<u>\$ 371,672</u>
<b>Less: Inter-segment revenues</b>				
Electrical Infrastructure	\$ —	\$ —	\$ —	\$ —
Oil Gas & Chemical	—	33	—	208
Storage Solutions	538	167	1,690	1,179
Industrial	—	—	—	—
Total inter-segment revenues	<u>\$ 538</u>	<u>\$ 200</u>	<u>\$ 1,690</u>	<u>\$ 1,387</u>
<b>Consolidated revenues</b>				
Electrical Infrastructure	\$ 50,123	\$ 43,628	\$ 83,393	\$ 65,640
Oil Gas & Chemical	66,635	49,717	133,732	95,541
Storage Solutions	97,645	99,543	201,911	194,453
Industrial	7,033	8,076	12,008	14,651
Total consolidated revenues	<u>\$ 221,436</u>	<u>\$ 200,964</u>	<u>\$ 431,044</u>	<u>\$ 370,285</u>
<b>Gross profit (loss)</b>				
Electrical Infrastructure	\$ 6,629	\$ 4,991	\$ 11,335	\$ 7,776
Oil Gas & Chemical	8,045	4,936	15,912	9,283
Storage Solutions	7,748	12,689	17,717	23,076
Industrial	(89)	482	(387)	1,056
Total gross profit	<u>\$ 22,333</u>	<u>\$ 23,098</u>	<u>\$ 44,577</u>	<u>\$ 41,191</u>
<b>Operating income (loss)</b>				
Electrical Infrastructure	\$ 3,696	\$ 2,492	\$ 6,015	\$ 3,221
Oil Gas & Chemical	3,927	2,410	7,702	3,822
Storage Solutions	1,550	6,547	4,999	10,773
Industrial	(401)	(249)	(2,020)	(6)
Total operating income	<u>\$ 8,772</u>	<u>\$ 11,200</u>	<u>\$ 16,696</u>	<u>\$ 17,810</u>
<b>Segment assets</b>				
Electrical Infrastructure	\$ 72,229	\$ 59,919	\$ 72,229	\$ 59,919
Oil Gas & Chemical	76,044	50,479	76,044	50,479
Storage Solutions	163,906	138,550	163,906	138,550
Industrial	14,555	18,904	14,555	18,904
Other	49,340	47,746	49,340	47,746
Total segment assets	<u>\$ 376,074</u>	<u>\$ 315,598</u>	<u>\$ 376,074</u>	<u>\$ 315,598</u>

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **CRITICAL ACCOUNTING ESTIMATES**

There have been no material changes in our critical accounting policies from those reported in our fiscal 2012 Annual Report on Form 10-K filed with the SEC. For more information on our critical accounting policies, see Part II, Item 7 of our fiscal 2012 Annual Report on Form 10-K. The following section provides certain information with respect to our critical accounting estimates as of the close of our most recent quarterly period.

#### ***Unapproved Change Orders and Claims***

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders of \$9.3 million at December 31, 2012 and \$8.5 million at June 30, 2012. There were no revenues related to claims included in costs and estimated earnings in excess of billings on uncompleted contracts at December 31, 2012 or June 30, 2012. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings.

#### ***SME Receivables***

The Company continues to pursue collection of certain receivables acquired in connection with the purchase of S.M. Electric Company, Inc. in February 2009. The recorded values at December 31, 2012 include \$0.7 million in claim receivables, which represents the Company's best estimate of the amount to be collected under a claim, and an additional \$2.9 million for amounts due under the related contract. Recovering the remaining receivables will require mediation or litigation and the ultimate amount realized may be significantly different than the recorded amounts, which could result in an adjustment to future earnings.

#### ***Insurance Reserves***

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, self-insured retentions and coverage limits. We establish reserves for claims using a combination of actuarially determined estimates and management judgment on a case-by-case basis and update our evaluations as further information becomes known. Judgments and assumptions, including the assumed losses for claims incurred but not reported, are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. If actual results of claim settlements are different than the amounts estimated, we may be exposed to gains and losses that could be significant.

#### ***Goodwill***

The Company has four significant reporting units with goodwill representing 42%, 21%, 14% and 11% of the total goodwill balance. Our most recent annual goodwill impairment test, performed in the fourth quarter of fiscal 2012, indicated that the fair value of these reporting units exceeded their respective carrying values by 46%, 84%, 106% and 40%, respectively. The remaining 12% of total goodwill is allocated over three other reporting units. Based on the excess of estimated fair value over carrying value and the absence of any indicators of impairment at December 31, 2012, the Company does not currently anticipate recording a goodwill impairment charge for any of its operating units.

#### ***Recently Issued Accounting Standards***

There are no recently issued accounting standards that we believe will have a material affect on our financial statements.

## RESULTS OF OPERATIONS

### Overview

We operate our business through the following four segments:

- The Electrical Infrastructure segment primarily encompasses high voltage services to investor owned utilities, including construction of new substations, upgrades of existing substations, short-run transmission line installations, distribution upgrades and maintenance, and storm restoration services. We also provide construction and maintenance services to a variety of power generation facilities, such as combined cycle plants, nuclear facilities, coal fired power stations, and renewable energy installations.
- The Oil Gas & Chemical segment includes our traditional turnaround activities, plant maintenance services and construction in the downstream petroleum industry. Another key offering is industrial cleaning services, which include hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the renewable energy, industrial and natural gas, gas processing and compression, and upstream petroleum markets.
- The Storage Solutions segment includes new construction of, as well as planned and emergency maintenance services for, crude and refined products aboveground storage tanks. Also included in the Storage Solutions segment is work related to specialty storage tanks including liquefied natural gas (“LNG”), liquid nitrogen/liquid oxygen (“LIN/LOX”), liquid petroleum (“LPG”) tanks and other specialty vessels including spheres. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.
- The Industrial segment includes work in the mining and minerals industry, bulk material handling, thermal vacuum chambers, as well as work for clients in other industrial and manufacturing markets.

### Three Months Ended December 31, 2012 Compared to the Three Months Ended December 31, 2011

#### Consolidated

Consolidated revenues were \$221.4 million for the three months ended December 31, 2012, an increase of \$20.4 million, or 10.1%, from consolidated revenues of \$201.0 million in the same period in the prior fiscal year. The increase in consolidated revenues was a result of increases in Oil Gas & Chemical and Electrical Infrastructure revenues, which increased \$16.9 million and \$6.5 million respectively, partially offset by decreases in Storage Solutions and Industrial revenues of \$1.9 million and \$1.1 million, respectively.

Consolidated gross profit decreased from \$23.1 million in the three months ended December 31, 2011 to \$22.3 million in the three months ended December 31, 2012. The decrease of \$0.8 million was due to lower gross margins which decreased to 10.1% in fiscal 2013 compared to 11.5% a year earlier. Fiscal 2013 gross margins were negatively affected by a \$3.3 million charge related to a western Canada aboveground storage tank project. This project is discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Report on Form 10-Q.

Consolidated SG&A expenses were \$13.6 million in the three months ended December 31, 2012 compared to \$11.9 million in the same period a year earlier. The increase of \$1.7 million, or 14.3%, was primarily related to our planned investments in strategic growth areas and related support functions. SG&A expense as a percentage of revenue was 6.1% in the three months ended December 31, 2012 compared to 5.9% in the same period a year earlier.

Net interest expense was \$0.2 million in the three months ended December 31, 2012 and December 31, 2011.

There was no other income in the three months ended December 31, 2012. Other income in the three months ended December 31, 2011 was \$0.3 million and related primarily to foreign currency transaction gains.

The effective tax rate was 36.5% for the three months ended December 31, 2012 and 38.0% for the three months ended December 31, 2011. The decrease in the effective tax rate was primarily the result of an increase in the estimate of certain tax credits available to the Company, partially offset by the effect of a change in deductibility limitations applying to certain items that have been previously fully deducted.

### ***Electrical Infrastructure***

Revenues for the Electrical Infrastructure segment increased \$6.5 million, or 14.9%, to \$50.1 million in the three months ended December 31, 2012 compared to \$43.6 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. Gross margins were 13.2% in the three months ended December 31, 2012 compared to 11.4% in the same period a year earlier. The improvement in gross margins in the second quarter of fiscal 2013 is due to the favorable effect of direct margins from storm restoration work and the improved recovery of overhead costs caused by a higher business volume.

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

Revenues for the Oil Gas & Chemical segment increased to \$66.6 million in the three months ended December 31, 2012 compared to \$49.7 million in the same period a year earlier. The increase of \$16.9 million, or 34.0%, was primarily due to a higher level of turnaround and capital construction projects due to increased customer spending from existing customers and addition of new customers. Gross margins were 12.1% in the three months ended December 31, 2012 compared to 9.9% in the same period a year earlier. The improvement in gross margins in the second quarter of fiscal 2013 is primarily due to the favorable effect of the improved recovery of overhead costs caused by a higher business volume.

### ***Storage Solutions***

Revenues for the Storage Solutions segment decreased to \$97.7 million in the three months ended December 31, 2012 compared to \$99.6 million in the same period a year earlier. The decrease of \$1.9 million was due to lower levels of domestic work associated with customer delays in our aboveground storage tank business largely offset by more work in western Canada. Gross margins decreased from 12.7% in the three months ended December 31, 2011 to 7.9% in the same period in the current year. The lower margins in the current quarter were due to lower direct margins caused by a \$3.3 million charge related to a western Canada aboveground storage tank project. This project is discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Report on Form 10-Q, and higher unrecoverable overhead costs.

### ***Industrial***

Revenues for the Industrial segment totaled \$7.0 million in the three months ended December 31, 2012 compared to \$8.1 million in the same period a year earlier. The decrease of \$1.1 million, or 13.6%, was primarily due to the timing of projects related to legacy industrial work, partially offset by higher revenues in our mining and minerals and bulk material handling businesses. Gross margins decreased from 6.0% in the three months ended December 31, 2011 to (1.3%) in the same period in the current year. Gross margins in the current quarter were negatively impacted by startup costs related to entry into the bulk material handling and mining and minerals markets.

## **Six Months Ended December 31, 2012 Compared to the Six Months Ended December 31, 2011**

### **Consolidated**

Consolidated revenues were \$431.0 million for the six months ended December 31, 2012, an increase of \$60.7 million, or 16.4%, from consolidated revenues of \$370.3 million in the same period in the prior fiscal year. The increase in consolidated revenues was a result of increases in Oil Gas & Chemical, Electrical Infrastructure and Storage Solutions revenues, which increased \$38.2 million, \$17.8 million and \$7.4 million respectively, partially offset by a decrease of \$2.7 million in Industrial revenues.

Consolidated gross profit increased from \$41.2 million in the six months ended December 31, 2011 to \$44.6 million in the six months ended December 31, 2012. The increase of \$3.4 million, or 8.3%, was due to higher revenues which increased by 16.4%, partially offset by lower gross margins which decreased to 10.3% in fiscal 2013 compared to 11.1% a year earlier. Fiscal 2013 results included a \$3.0 million charge related to a western Canada aboveground storage tank project. This project is discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Report on Form 10-Q.

Consolidated SG&A expenses were \$27.9 million in the six months ended December 31, 2012 compared to \$23.4 million in the same period a year earlier. The increase of \$4.5 million, or 19.2%, was primarily related to our planned investments in the branding initiative, strategic growth areas and related support functions. 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 the six months ended December 31, 2012 compared to 6.3% in the same period a year earlier.

Net interest expense was \$0.4 million in the six months ended December 31, 2012 and December 31, 2011.

Other income in the six months ended December 31, 2012 was \$0.1 million compared to a loss of \$0.4 million in the six months ended December 31, 2011. The prior period loss was related to foreign currency transaction losses.

The effective tax rate was 38.2% for the six months ended December 31, 2012 and 38.0% for the six months ended December 31, 2011. The increase in the effective tax rate was due to a change in deductibility limitations applying to certain items that have previously been fully deducted, largely offset by an increase in the estimate of certain tax credits available to the Company.

### ***Electrical Infrastructure***

Revenues for the Electrical Infrastructure segment increased \$17.8 million, or 27.1%, to \$83.4 million in the six months ended December 31, 2012 compared to \$65.6 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. Gross margins were 13.6% in the six months ended December 31, 2012 compared to 11.8% in the same period a year earlier. The improvement in gross margins in fiscal 2013 is due to the favorable effect of direct margins from storm restoration work and the improved recovery of overhead costs caused by a higher business volume.

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

Revenues for the Oil Gas & Chemical segment increased to \$133.7 million in the six months ended December 31, 2012 compared to \$95.5 million in the same period a year earlier. The increase of \$38.2 million, or 40.0%, was primarily due to a higher level of turnaround and capital construction projects due to increased spending from existing customers and addition of new customers. Gross margins were 11.9% in the six months ended December 31, 2012 compared to 9.7% in the same period a year earlier. 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.

### ***Storage Solutions***

Revenues for the Storage Solutions segment increased to \$201.9 million in the six months ended December 31, 2012 compared to \$194.5 million in the same period a year earlier. The increase of \$7.4 million was due to higher levels of work in Canada in our aboveground storage tank business. Gross margins decreased from 11.9% in the six months ended December 31, 2011 to 8.8% in the same period in the current year. The lower margins for the six months ended December 31, 2012 was due to lower direct margins caused by a \$3.0 million charge related to a western Canada aboveground storage tank project. This project is discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Report on Form 10-Q, and higher unrecoverable overhead costs.

### ***Industrial***

Revenues for the Industrial segment totaled \$12.0 million in the six months ended December 31, 2012 compared to \$14.7 million in the same period a year earlier. The decrease of \$2.7 million, or 18.4%, was primarily due to the timing of projects related to legacy industrial work, partially offset by higher revenues in our mining and minerals and bulk material handling businesses. Gross margins decreased from 7.2% in the six months ended December 31, 2011 to (3.2%) in the same period in the current year. Gross margins for the six months ended December 31, 2012 were negatively impacted by startup costs related to entry into the bulk material handling and mining and minerals markets.

### ***Backlog***

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

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

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

**Three Months Ended December 31, 2012**

The following table provides a summary of changes in our backlog for the three months ended December 31, 2012:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of September 30, 2012	\$ 135,318	\$ 116,857	\$ 264,908	\$ 17,563	\$ 534,646
Net awards	32,846	65,246	169,818	24,001	291,911
Revenue recognized	(50,123)	(66,635)	(97,645)	(7,033)	(221,436)
Backlog as of December 31, 2012	<u>\$ 118,041</u>	<u>\$ 115,468</u>	<u>\$ 337,081</u>	<u>\$ 34,531</u>	<u>\$ 605,121</u>

**Six Months Ended December 31, 2012**

The following table provides a summary of changes in our backlog for the six months ended December 31, 2012:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of June 30, 2012	\$ 127,699	\$ 117,862	\$ 236,571	\$ 15,320	\$ 497,452
Net awards	73,735	131,338	302,421	31,219	538,713
Revenue recognized	(83,393)	(133,732)	(201,911)	(12,008)	(431,044)
Backlog as of December 31, 2012	<u>\$ 118,041</u>	<u>\$ 115,468</u>	<u>\$ 337,081</u>	<u>\$ 34,531</u>	<u>\$ 605,121</u>

**Non-GAAP Financial Measure**

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

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

A reconciliation of EBITDA to net income follows:

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(In thousands)			
Net income	\$ 5,436	\$ 7,031	\$ 10,120	\$ 10,540
Interest expense	217	166	400	443
Provision for income taxes	3,124	4,307	6,246	6,458
Depreciation and amortization	2,970	2,912	5,796	5,738
EBITDA	<u>\$ 11,747</u>	<u>\$ 14,416</u>	<u>\$ 22,562</u>	<u>\$ 23,179</u>

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity for the six months ended December 31, 2012 were cash on hand at the beginning of the year, capacity under our senior revolving credit facility and cash generated from operations. Cash on hand at December 31, 2012 totaled \$33.2 million and availability under the senior revolving credit facility totaled \$102.1 million resulting in total funding availability of \$135.3 million. 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.

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

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

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

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

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 increase the

amount of our revolving credit facility. We will continue to evaluate our working capital requirements and other factors to maintain sufficient liquidity.

### Cash Flow in the Six Months Ended December 31, 2012

#### Cash Flows Provided by Operating Activities

Cash flows provided by operating activities for the six months ended December 31, 2012 totaled \$11.0 million. Major components of cash flows from operating activities are as follows:

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

Net income	\$ 10,120
Non-cash expenses	7,944
Deferred income tax	178
Cash effect of changes in operating assets and liabilities	(7,181)
Gain on disposition of property, plant and equipment	(51)
Other	(56)
Net cash provided by operating activities	<u>\$ 10,954</u>

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

- Accounts receivable increased by \$43.8 million. The accounts receivable increase is due to a higher level of business and the timing of billings particularly in the Storage Solutions and Electrical Infrastructure segments. The receivable aging categories have not deteriorated and we do not anticipate any unusual collection difficulties.
- The net change in the combined balance of costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings caused an increase in operating assets and liabilities and an increase to cash of \$29.7 million in the six months ended December 31, 2012. This change was primarily attributable to our project portfolio permitting a higher degree of advanced billings in the first six months of fiscal 2013.
- Accounts payable increased by \$9.8 million. The increase was primarily due to an increase in business activity.

#### Cash Flows Used For Investing Activities

Investing activities used \$20.2 million of cash in the six months ended December 31, 2012. This was due to capital expenditures of \$12.0 million and the purchase of certain assets of Pelichem in the amount of \$8.3 million as discussed in Note 2 - Acquisition. Capital expenditures included \$6.4 million for the purchase of construction equipment, \$3.3 million for transportation equipment, \$2.2 million for office equipment and software and \$0.1 million for land and buildings.

#### Cash Flows from Financing Activities

Financing activities provided \$2.5 million of cash in the six months ended December 31, 2012 primarily due to net cash borrowings of \$3.4 million, offset in part by treasury share purchases of \$1.1 million. Cash borrowings were Canadian dollar advances under our credit agreement to mitigate foreign exchange rate risks.

### Senior Revolving Credit Facility

The Company has a five-year, \$125.0 million senior secured revolving credit facility (the "Credit Agreement") that expires November 7, 2016. Advances under the Credit Agreement may be used for working capital, 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 will be 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 \$15.0 million per 12-month period.

Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The Credit Agreement includes additional margin ranges on Alternate Base Rate loans between 0.75% and 1.5% and between 1.75% and 2.5% on LIBOR-based loans.

The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. \$15.0 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 1.75% to 2.5%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 2.25% to 3.0%. 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 0.30% and 0.45% based on the Senior Leverage Ratio.

As noted previously, the Credit Agreement includes a Senior Leverage Ratio covenant which provides that Consolidated Funded Indebtedness may not exceed 2.5 times Consolidated EBITDA, as defined in the agreement, over the previous four quarters. For the four quarters ended December 31, 2012, Consolidated EBITDA was \$45.6 million. Accordingly, at December 31, 2012, Consolidated Funded Indebtedness in excess of \$114.0 million would have violated the Senior Leverage Ratio covenant. Consolidated Funded Indebtedness at December 31, 2012 was \$4.5 million, which includes \$3.4 million of outstanding borrowings, and \$1.1 million of non-workers compensation related letters of credit.

#### *Dividend Policy*

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

#### **Stock Repurchase Program and Treasury Shares**

##### *Treasury Shares*

The Company's stock buyback program, which was approved by the Board of Directors on February 4, 2009, was scheduled to expire on December 31, 2012. The program permitted the Company to purchase up to 3,000,000 shares of common stock provided that such purchases do not exceed \$25.0 million in any calendar year. Since its inception, the Company has purchased a total of 886,503 shares under the stock buyback program at an average price of \$9.17. On November 6, 2012, our Board of Directors approved a two year extension of the stock buyback plan, which will allow the Company to purchase up to 2,113,497 shares through the end of calendar year 2014 if sufficient liquidity exists and we believe that it is in the best interest of the stockholders.

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 101,271 shares in the first six months of fiscal 2013 to satisfy these obligations. These shares were returned to the Company's pool of treasury shares.

The Company has 1,869,558 treasury shares as of December 31, 2012 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.

## FORWARD-LOOKING STATEMENTS

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

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

- amounts and nature of future revenues and margins from each of our segments;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- expansion and other trends of the industries we serve;
- our 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 our Form 10-K for the fiscal year ended June 30, 2012 and listed from time to time in our filings with the Securities and Exchange Commission;
- the inherently uncertain outcome of current and future litigation;
- the adequacy of our reserves for contingencies;
- economic, market or business conditions in general and in the oil, gas, power and mining and minerals industries in particular;
- changes in laws or regulations; and
- other factors, many of which are beyond our control.

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

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2012 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

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

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at December 31, 2012.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended December 31, 2012.

**PART II****OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There were no material changes in our Risk Factors from those reported in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

The table below sets forth the information with respect to purchases made by the Company of its common stock during the second quarter of fiscal year 2013.

	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
<b>October 1 to October 31, 2012</b>				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	23,842	\$ 10.36	—	
<b>November 1 to November 30, 2012</b>				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	25,255	\$ 10.42	—	
<b>December 1 to December 31, 2012</b>				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	18,720	\$ 10.96	—	

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

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

**Dividend Policy**

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

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

There were no mine safety violations or other regulatory matters required to be disclosed in this Form 10-Q under Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K.

**Item 5. Other Information**

None

**Item 6. Exhibits:**

Exhibit 10:	Matrix Service Company Long-Term Incentive Award Agreement 2012 Plan
Exhibit 31.1:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
Exhibit 31.2:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
Exhibit 32.1:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
Exhibit 32.2:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
Exhibit 101.INS:	XBRL Instance Document.
Exhibit 101.SCH:	XBRL Taxonomy Schema Document.
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase Document.
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase Document.

Signature

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

**MATRIX SERVICE COMPANY**

Date: February 7, 2013

By: /s/ Kevin S. Cavanah

---

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

**EXHIBIT INDEX**

Exhibit 10:	Matrix Service Company Long-Term Incentive Award Agreement 2012 Plan
Exhibit 31.1:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
Exhibit 31.2:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
Exhibit 32.1:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
Exhibit 32.2:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
Exhibit 101.INS:	XBRL Instance Document.
Exhibit 101.SCH:	XBRL Taxonomy Schema Document.
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase Document.
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase Document.

Grantee:  
Shares:

**MATRIX SERVICE COMPANY  
AWARD AGREEMENT**

\_\_\_\_\_, 20\_\_

«Grantee»  
«Address1»  
«Address2»  
«City», «State» «PostalCode»

Dear «FirstName»:

1. **Award.** The awards set forth in this Award Agreement (the "Award Agreement") are subject to your acceptance of and agreement to all of the applicable terms, conditions, and restrictions described in the 2012 Stock and Incentive Compensation Plan (the "Plan"), of Matrix Service Company, a Delaware corporation (the "Company") a copy of which is on file with, and may be obtained from, the Secretary of the Company, and to your acceptance of and agreement to the further terms, conditions, and restrictions described in this Award Agreement. To the extent that any provision of this Award Agreement conflicts with the expressly applicable terms of the Plan, it is hereby acknowledged and agreed that those terms of the Plan shall control and, if necessary, the applicable provisions of this Award Agreement shall be hereby deemed amended so as to carry out the purpose and intent of the Plan.

**2. Restricted Stock Units and Cash-Based Long-Term Incentive Award.**

(a) **Restricted Stock Units and Performance Units Awards.** The Company hereby grants to you an aggregate of up to «Shares» restricted stock units (individually, an "RSU," and collectively, "RSUs") as more specifically set forth in Section 2(f). Each RSU entitles you to receive one share of common stock, par value \$.01 per share, of the Company (the "Shares") at such time as the restrictions described in Section 2(e)(ii) lapse as described in Section 2(f)(i). In addition, the Company hereby grants to you an aggregate of up to «Shares» performance units (individually, a "Performance Unit," and collectively, "Performance Units"). Each Performance Unit entitles you to receive up to two Shares at such time as the restrictions described in Section 2(e)(ii) lapse as described in Section 2(f)(ii).

(b) **Form of Restricted Stock; Possession of Certificates.** The Company shall issue the Shares you become entitled to receive hereunder by book-entry registration or by issuance of a certificate or certificates for the Shares in your name as soon as practicable after the restrictions in Section 2(e)(ii) lapse as described in Section 2(f). In the event the Company issues a certificate or certificates for the Shares, such certificates shall be subject to such stop transfer orders and other restrictions as the committee of the Board of Directors that administers the Plan may deem necessary or advisable under the Plan and rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are then listed, and any applicable foreign, federal or state securities laws.

(c) **Stockholder Rights Prior to Issuance of Shares.** Neither you nor any of your beneficiaries shall be deemed to have any voting rights, rights to receive dividends or other rights as a stockholder of the Company with respect to any Shares covered by the RSUs or the Performance Units until the date of book-entry registration or issuance by the Company of a certificate to you for such Shares.

(d) **Cash-Based Long-Term Incentive Award.** In addition to the RSUs and Performance Units, the Company hereby grants to you a cash-based long-term incentive award, hereinafter referred to as the "Performance Cash Award." The minimum award is zero, the target award is \$[ ] (the "Target Award") and the maximum award is \$[ ] (the "Maximum Award"). The amount that will be paid in respect of the Performance Cash Award will be determined based on the Company's Return on Invested Capital ("ROIC"), as otherwise set forth herein and more fully described below. This Performance Cash Award entitles you to

receive up to the Maximum Award at such time as the restrictions described in Section 2(e) lapse as described in Section 2(f) if the Maximum Performance Goal (as defined below) for ROIC established by the Committee is achieved.

**(e) Restrictions.**

(i) Your ownership of the RSUs and Performance Units and your right to receive the Performance Cash Award shall be subject to the restrictions set forth in subsection (ii) of this Section 2(e) until such restrictions lapse pursuant to the terms of Section 2(f).

(ii) The restrictions referred to in subsection (i) of this Section 2(e) are as follows:

(A) At the time of your termination of employment with the Company or a Subsidiary, other than a termination of employment that occurs as a result of an event described in any of Subsections (iv) through (vii) of this Section 2(f), you shall forfeit the RSUs, Performance Units and the Performance Cash Award to the Company and all of your rights thereto shall terminate without any payment of consideration by the Company.

(B) You may not sell, assign, transfer or otherwise dispose of any RSUs or Performance Units, any portion of the Performance Cash Award or any rights under the RSUs, Performance Units or Performance Cash Award. No RSU, Performance Unit or Performance Cash Award and no rights under any such RSU, Performance Unit or Performance Cash Award may be pledged, alienated, attached or otherwise encumbered, other than by will or the laws of descent and distribution. If you or anyone claiming under or through you attempts to violate this Section 2(e)(ii)(B), such attempted violation shall be null and void and without effect, and all of the Company's obligations hereunder shall terminate.

**(f) Lapse of Restrictions.**

(i) The restrictions described in Section 2(e)(ii) shall lapse with respect to the RSUs in four equal installments of 25 percent each on each of the first, second, third and fourth anniversaries of the date of this Award Agreement, such that the restrictions set forth in Section 2(e)(ii) shall have lapsed with respect to 100 percent of the RSUs on the fourth anniversary of the date of this Award Agreement.

(ii) The restrictions described in Section 2(e)(ii) shall lapse with respect to the Performance Units on the \_\_\_ anniversary of the date of this Award Agreement (the "Measurement Date"), but only if and to the extent the Committee certifies in writing that the "Shareholder Return Goals" set forth in this subsection (ii) are met. The Shareholder Return Goals are as follows:



<b><u>Shareholder Return Goal</u></b>	<b><u>Total Shareholder Return</u></b>	<b><u>Percentage of Return-Based RSUs for Which Conditions are Satisfied</u></b>
Threshold Total Shareholder Return Goal	____ percentile of Peer Group	__%
Above Threshold Total Shareholder Return Goal	____ percentile of Peer Group	__%
Target Total Shareholder Return Goal	____ percentile of Peer Group	__%
Above Target Total Shareholder Return Goal	____ percentile of Peer Group	__%
Maximum Total Shareholder Return Goal	____ percentile of Peer Group	__%

The Committee shall certify on a nondiscretionary basis whether and the extent to which the Shareholder Return Goals have been met on or before the date on which the Company is required to make a book-entry registration or issue a certificate for Shares relating to the achievement of Shareholder Return Goals as set forth in Section 2(f)(viii). In the event the Committee certifies that the Threshold Total Shareholder Return Goal has not been met, then all of the Performance Units will be forfeited to the Company. In the event the Committee certifies that the Company has achieved the Maximum Total Shareholder Return Goal, the conditions shall be deemed to have been satisfied and the restrictions on a number of Performance Units equal to all of the Performance Units multiplied by two shall be removed as of the Measurement Date. In the event the Committee certifies that the Company has achieved a Total Shareholder Return that is between any of the Total Shareholder Return Goals set forth above, then the conditions with respect to the Performance Units shall be deemed to have been met for the number of Performance Units determined by linear interpolation between such Shareholder Return Goals and the restrictions on such Performance Units shall be removed as of the Measurement Date and the remainder of the Performance Units will be forfeited to the Company. The Committee has the final authority to determine on a nondiscretionary basis whether the Shareholder Return Goals have been met and to what extent.

For purposes of measuring the Shareholder Return Goals with respect to the Company and each of the companies in the Peer Group: "Total Shareholder Return" shall mean the total shareholder return calculated by subtracting 1 from the following fraction:

Numerator: Ending Stock Value

Denominator: Beginning Stock Value

"Beginning Stock Value" shall mean, with respect to the Company and each of the companies in the Peer Group, \$100, invested in common stock at the average closing stock price of such company for each of the trading days in the period covering April, May and June of 2012; "Ending Stock Value" shall mean, with respect to the Company and each of the companies in the Peer Group, the average closing stock price of such company of one share of common stock for each of the trading days in the period covering April, May and June of 2015 multiplied by the sum of the number of shares represented by the Beginning Stock Value initial \$100 investment plus such additional shares resulting from all dividends paid on common stock during the three-year measurement period being treated as though they are reinvested on the applicable ex-dividend dates at the applicable closing prices on such dates; and "Peer Group" shall mean \_\_\_\_\_. The Company's ranking relative to members of the Peer Group will be determined by listing the Company and members of the Peer Group from highest to lowest Total Shareholder Return achieved by the respective company and counting down from the company with the highest Total Shareholder Return to the Company's position within such list. In all events, the Total Shareholder Return of any member of the Peer Group shall be adjusted to give effect to any stock dividends, stock splits, reverse stock splits and similar transactions. If a company or companies in the Peer Group files for bankruptcy at any time prior to the Measurement Date, then such company or companies shall have the lowest ranking in the Peer Group. If the common stock of a company or companies in the Peer Group ceases to trade on a national securities exchange as a result of a going private transaction or other acquisition at any time prior to the Measurement Date, then such company or companies shall be removed from the Peer Group.

(iii) The restrictions described in Section 2(e)(ii) shall lapse with respect to the Performance Cash Award on the second anniversary of the date of this Award Agreement (the "ROIC Measurement Date"), but only if and to the extent the Committee certifies in writing that the ROIC Performance Goals set forth in this subsection (iii) are met. The ROIC Performance Goals are as follows:

<u>ROIC Level</u>	<u>Average ROIC</u>	<u>Percentage of Performance Cash Award for Which Conditions are Satisfied</u>
Threshold ROIC Goal	__%	__%
Target ROIC Goal	__%	__%
Maximum ROIC Goal	__%	__%

The Committee shall certify on a nondiscretionary basis whether and the extent to which the ROIC Performance Goals have been met on or before the date on which the Company is required to issue you a check in redemption of your Performance Cash Award as set forth in Section 2(f)(viii). In the event the Committee certifies that the Threshold ROIC Performance Goal has not been met, then all of the Performance Cash Award will be forfeited to the Company. In the event the Committee certifies that the Maximum ROIC Goal has been met, the conditions shall be deemed to have been met for a Performance Cash Award equal to \_\_\_% of the Target Performance Cash Award. In the event the Committee certifies that the Company has achieved an ROIC that is between the Threshold ROIC Performance Goal and the Target ROIC Performance Goal or between the Target ROIC Performance Goal and the Maximum ROIC Performance Goal set forth above, then the conditions with respect to the Performance Cash Award shall be deemed to have been met for a percentage of the Performance Cash Award determined by linear interpolation between such ROIC Performance Goals and the restrictions on such Performance Cash Award shall be removed as of the ROIC Measurement Date and the remainder of the Performance Cash Award will be forfeited. The Committee has the final authority to determine on a nondiscretionary basis whether the ROIC Performance Goals have been met and to what extent.

For purposes of measuring the ROIC Performance Goals, "Average ROIC" shall mean ROIC for fiscal 20\_\_ and fiscal 20\_\_ divided by 2, and "ROIC" is the percentage derived from the following fraction:

Numerator: Operating Income x (1 - Tax Rate)

Denominator: (prior year-end Total Assets + current year-end Total Assets/2) – (prior year-end Current Liabilities + current year-end Current liabilities/2) – (prior year-end Cash + current year-end Cash/2)

(iv) Notwithstanding the provisions of subsections (i), (ii) and (iii) of this Section 2(f), the restrictions described in Section 2(e)(ii) shall lapse with respect to the RSUs, the Performance Units and the Performance Cash Award (as if each of the Target Total Shareholder Return Goal and Target Performance Cash Award had been met) upon the occurrence of any of the following events:

- (1) Your death or "Disability"; or
- (2) A Change of Control of the Company.

The term "Disability" shall mean your inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months. For purposes of this Section 2(f)(iv), the Target Performance Goal shall be deemed to have been met on the date the restrictions lapse by reason of the occurrence prior to the Measurement Date or ROIC Measurement Date of any of the foregoing events, so that the conditions on issuance of 100 percent of the Performance Units and the Target Performance Cash Award shall be deemed satisfied on the date of such event.

(v) Notwithstanding the provisions of subsection (i) of this Section 2(f), upon the occurrence of your "Retirement," the restrictions described in Section 2(e)(ii) shall lapse with respect to a number of RSUs determined as follows: (x) the total number of RSUs awarded to you hereunder multiplied by a fraction, the numerator of which is equal to the number of full and partial months elapsed from the date of the Award to the date of your Retirement, and the denominator of which is 48, minus (y) the total number of RSUs which previously lapsed under Subsection (i) of this Section 2(f).

The term "Retirement" or "Retire" shall mean your voluntary "Separation from Service" (as defined in Code Section 409A), on or after the date on which you attain age 65.

(vi) Notwithstanding the provisions of subsection (ii) of this Section 2(f), in the event that you Retire prior to the Measurement Date and the Committee subsequently determines and certifies that the Company has achieved a Shareholder Return Goal at a level at or above the Threshold Shareholder Return Goal, the restrictions described in Section 2(e)(ii) shall lapse with respect to a pro rata number of Performance Units equal to the total number of Performance Units for which the restrictions would have lapsed on the Measurement Date under Subsection (ii) of this Section 2(f) if you had not Retired prior to the Measurement Date, multiplied by a fraction, the numerator of which is equal to the number of full and partial months elapsed from the date of the Award to the date of your Retirement, and the denominator of which is 36.

(vii) Notwithstanding the provisions of subsection (iii) of this Section 2(f), in the event that you Retire prior to the ROIC Measurement Date and the Committee subsequently determines and certifies that the Company has achieved an ROIC Goal at a level at or above the Threshold ROIC Goal, the restrictions described in Section 2(e)(ii) shall lapse with respect to a pro rata portion of the Performance Cash Award equal to the total dollar amount for which the restrictions would have lapsed on the ROIC Measurement Date under Subsection (iii) of this Section 2(f) if you had not Retired prior to the ROIC Measurement Date, multiplied by a fraction, the numerator of which is equal to the number of full and partial months elapsed from the date of the Award to the date of your Retirement, and the denominator of which is 24.

(viii) On the date of the lapse of the restrictions in accordance with this Section 2(f), or in any event, no later than the earlier of ninety (90) days after such date or two and one half months following the end of the calendar year in which the restrictions lapsed in accordance with Section 2(f), the Company will make a book-entry registration or will issue you a certificate as provided in Section 2(c) of this Award Agreement for the Shares covered by such RSUs and Performance Units in redemption of such RSUs and Performance Units and will pay you by check in redemption of the Performance Cash Award.

### **3. Agreement with Respect to Taxes; Share Withholding.**

(a) You agree that (1) you will pay to the Company or an Affiliate, as the case may be, in cash, or make arrangements satisfactory to the Company or such Affiliate regarding the payment of any taxes of any kind required by law to be withheld by the Company or any of its Affiliates with respect to the Performance Cash Award, the RSUs, the Performance Units and/or the Shares and (2) the Company or any of its Affiliates shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to you any taxes of any kind required by law to be withheld with respect to the Performance Cash Award, the RSUs, the Performance Units and the Shares.

(b) You agree that, if required by applicable law, you shall pay any taxes no later than the date as of which the value of the Performance Cash Award, RSUs, Performance Units and/or Shares first become includible in your gross income for income tax purposes; provided, however, that the Committee may, in accordance with Section 11(b) of the Plan, permit you to: (i) elect withholding by the Company of cash and/or Shares otherwise deliverable to you pursuant to this Award Agreement (provided, however, that the amount of any Shares so withheld shall not exceed the amount necessary to satisfy the Company's or any Affiliate's required tax withholding of obligations using the minimum statutory withholding rates for Federal, state and/or local tax purposes, including payroll taxes, that are applicable to supplemental taxable income) and/or (ii) tender to the Company Shares owned by you (or by you and your spouse jointly) and acquired more than six (6) months prior to such tender in full or partial satisfaction of such tax obligations, based, in each case, on the Fair Market Value of the Shares on the payment date as determined by the Committee.

4. **Adjustment of Shares.** The number of Shares subject to the RSUs and Performance Units awarded to you under this Award Agreement may be adjusted as provided in the Plan.

5. **Agreement With Respect to Securities Matters.** You agree that you will not sell or otherwise transfer any Shares received pursuant to this Award Agreement except pursuant to an effective registration statement under the U.S. Securities Act of 1933, as amended, or pursuant to an applicable exemption from such registration. Unless a registration statement relating to the Shares issuable upon the lapse of the restrictions on the RSUs and Performance Units pursuant to this Award Agreement is in effect at the time of issuance of such Shares, the certificate(s) for the Shares shall contain the following legend:

The securities evidenced by this certificate have not been registered under the Securities Act of 1933 or any other securities laws. These securities have been acquired for investment and may not be sold or transferred for value in the absence of an effective registration of them under the U.S. Securities Act of 1933 and any other applicable securities laws, or receipt by the Company of an opinion of counsel or other evidence acceptable to the Company that such registration is not required under such acts.

6. **Forfeiture and Clawback.**

(a) You agree that in the event you violate the confidentiality, non-competition, non-solicitation or non-disparagement provisions of any agreement between you and the Company or any Affiliate, or any plan of the Company or any Affiliate in which you participate, you will forfeit in their entirety the Performance Cash Award, the RSUs and the Performance Units, and all of your rights thereto shall terminate without any payment of consideration by the Company.

(b) Notwithstanding any other provision of the Plan or this Award Agreement to the contrary, you acknowledge that any incentive-based compensation paid to you hereunder may be subject to recovery by the Company under any clawback policy which the Company may adopt from time to time, including without limitation the Company's existing policy and any policy which the Company may be required to adopt under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations of the U.S. Securities and Exchange Commission thereunder or the requirements of any national securities exchange on which the Company's common stock may be listed. You agree to promptly return any such incentive-based compensation which the Company determines it is required to recover from you under any such clawback policy.

7. **Compliance with 409A.** The Company intends that this Award Agreement and the Plan either (a) comply with Section 409A and guidance thereunder or (b) be excepted from the provisions of Section 409A. Accordingly, the Company reserves the right and you agree that the Company shall have the right, without your consent and without prior notice to you, to amend either or both this Award Agreement and the Plan to cause this Award Agreement and the Plan to be so compliant or so excepted and to take such other actions under the Plan and this Award Agreement to achieve such compliance or exception.

8. **Certain Definitions.** Capitalized terms used in this Award Agreement and not otherwise defined herein shall have the respective meanings provided in the Plan.

[Signature Page to Follow]

If you accept this Award Agreement and agree to the foregoing terms and conditions, please so confirm by signing and returning the duplicate copy of this Award Agreement enclosed for that purpose.

MATRIX SERVICE COMPANY

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The foregoing Award Agreement is accepted by me as of \_\_\_\_\_, and I hereby agree to the terms, conditions, and restrictions set forth above and in the Plan.

«Grantee»

\_\_\_\_\_

CERTIFICATIONS

I, John R. Hewitt, certify that:

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

Date: February 7, 2013

/s/ John R. Hewitt

\_\_\_\_\_  
John R. Hewitt

President and Chief Executive Officer

CERTIFICATIONS

I, Kevin S. Cavanah, certify that:

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

Date: February 7, 2013

/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 Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending December 31, 2012 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: February 7, 2013

/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 Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending December 31, 2012 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: February 7, 2013

/s/ Kevin S. Cavanah

---

Kevin S. Cavanah

Vice President and Chief Financial Officer