

MATRIX SERVICE CO  
Form 10-Q  
May 07, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2010

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)

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**DELAWARE**  
(State of incorporation)

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

**5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135**

(Address of principal executive offices and zip code)

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

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of May 7, 2010 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,314,773 shares outstanding.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Matrix Service Company****Consolidated Statements of Income**

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended		One Month
	March 31, 2010	February 28, 2009	March 31, 2010	February 28, 2009	Ended June 30, 2009
Revenues	\$ 122,013	\$ 146,262	\$ 410,088	\$ 509,849	\$ 45,825
Cost of revenues	108,720	128,301	360,935	438,848	40,676
Gross profit	13,293	17,961	49,153	71,001	5,149
Selling, general and administrative expenses	13,248	10,916	34,711	34,754	3,570
Operating income	45	7,045	14,442	36,247	1,579
Other income (expense):					
Interest expense	(163)	(139)	(525)	(376)	(91)
Interest income	10	68	70	281	17
Other	208	(179)	752	732	98
Income before income tax expense	100	6,795	14,739	36,884	1,603
Provision for federal, state and foreign income taxes	37	2,583	5,634	13,040	609
Net income	\$ 63	\$ 4,212	\$ 9,105	\$ 23,844	\$ 994
Basic earnings per common share	\$ 0.00	\$ 0.16	\$ 0.35	\$ 0.91	\$ 0.04
Diluted earnings per common share	\$ 0.00	\$ 0.16	\$ 0.34	\$ 0.90	\$ 0.04
Weighted average common shares outstanding:					
Basic	26,307	26,147	26,258	26,107	26,192
Diluted	26,521	26,322	26,477	26,426	26,434

*See accompanying notes.*

**Table of Contents****Matrix Service Company****Consolidated Balance Sheets**

(In thousands)

(Unaudited)

	March 31, 2010	May 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 53,298	\$ 34,553
Accounts receivable, less allowances (March 31, 2010 - \$756 and May 31, 2009 - \$710)	73,574	122,283
Costs and estimated earnings in excess of billings on uncompleted contracts	39,761	35,619
Inventories	4,479	4,926
Income taxes receivable	2,075	647
Deferred income taxes	4,162	4,843
Prepaid expenses	3,886	3,935
Other current assets	1,647	3,044
<b>Total current assets</b>	<b>182,882</b>	<b>209,850</b>
Property, plant and equipment at cost:		
Land and buildings	27,862	27,319
Construction equipment	52,927	53,925
Transportation equipment	19,117	17,971
Furniture and fixtures	13,648	14,527
Construction in progress	1,750	812
	115,304	114,554
Accumulated depreciation	(60,978)	(55,745)
	54,326	58,809
Goodwill	27,336	25,768
Other intangible assets	4,215	4,571
Other assets	937	4,453
<b>Total assets</b>	<b>\$ 269,696</b>	<b>\$ 303,451</b>

*See accompanying notes.*

**Table of Contents****Matrix Service Company****Consolidated Balance Sheets**

(In thousands, except share data)

(Unaudited)

	March 31, 2010	May 31, 2009
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 28,084	\$ 48,668
Billings on uncompleted contracts in excess of costs and estimated earnings	28,403	51,305
Accrued insurance	7,833	7,612
Accrued wages and benefits	15,338	16,566
Current capital lease obligation	945	1,039
Other accrued expenses	2,618	2,200
<b>Total current liabilities</b>	<b>83,221</b>	<b>127,390</b>
Long-term capital lease obligation	290	850
Deferred income taxes	4,101	4,822
Stockholders equity:		
Common stock - \$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of March 31, 2010 and May 31, 2009	279	279
Additional paid-in capital	111,295	110,272
Retained earnings	85,492	75,393
Accumulated other comprehensive income	1,158	596
	198,224	186,540
Less: Treasury stock, at cost 1,580,481 shares as of March 31, 2010 and 1,696,517 shares as of May 31, 2009	(16,140)	(16,151)
<b>Total stockholders equity</b>	<b>182,084</b>	<b>170,389</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 269,696</b>	<b>\$ 303,451</b>

*See accompanying notes.*

**Table of Contents****Matrix Service Company****Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	Nine Months Ended March 31, 2010	February 28, 2009	One Month Ended June 30, 2009
<b>Operating activities:</b>			
Net income	\$ 9,105	\$ 23,844	\$ 994
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	8,880	7,617	994
Deferred income tax	256	(1,173)	(411)
(Gain) loss on sale of property, plant and equipment	26	220	(19)
Provision for uncollectible accounts	2,838	303	66
Stock-based compensation expense	1,557	3,091	238
Tax benefit deficiency from the vesting of deferred shares	(393)		
Other	118	325	4
Changes in operating assets and liabilities increasing (decreasing) cash:			
Receivables	26,388	5,310	22,214
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,477)	15,643	(722)
Inventories	536	(1,871)	(89)
Prepaid expenses and other assets	2,821	14	(1,171)
Accounts payable	(15,051)	(15,164)	(5,676)
Billings on uncompleted contracts in excess of costs and estimated earnings	(23,956)	(4,875)	1,054
Accrued expenses	(1,347)	(4,772)	591
Income tax receivable/payable	(2,267)	(2,612)	839
Net cash provided by operating activities	5,034	25,900	18,906
<b>Investing activities:</b>			
Acquisition of property, plant and equipment	(4,059)	(8,618)	(348)
Proceeds from asset sales	87	998	21
Acquisition of businesses, net of cash acquired		(15,142)	
Net cash used by investing activities	\$ (3,972)	\$ (22,762)	\$ (327)
<i>See accompanying notes.</i>			

**Table of Contents****Matrix Service Company****Consolidated Statements of Cash Flows (continued)**

(In thousands)

(Unaudited)

	Nine Months Ended March 31, 2010	February 28, 2009	One Month Ended June 30, 2009
<b>Financing activities:</b>			
Issuances of common stock	\$ 67	\$ 202	\$
Capital lease payments	(829)	(822)	(87)
Tax benefit of exercised stock options	2	106	
Purchase of treasury shares	(428)	(32)	
Debt amendment fees		(213)	
Net cash used by financing activities	(1,188)	(759)	(87)
Effect of exchange rate changes on cash	948	(1,816)	(569)
Net increase in cash and cash equivalents	822	563	17,923
Cash and cash equivalents, beginning of period	52,476	21,989	34,553
Cash and cash equivalents, end of period	\$ 53,298	\$ 22,552	\$ 52,476

**Supplemental disclosure of cash flow information:**

Cash paid during the period for:			
Income taxes	\$ 7,810	\$ 16,764	\$ 247
Interest	\$ 400	\$ 292	\$ 142
Non-cash investing and financing activities:			
Equipment acquired through capital leases	\$ 236	\$ 756	\$ 26
Purchases of property, plant and equipment on account	\$ 100	\$ 112	\$ 112

*See accompanying notes.*



**Table of Contents****Matrix Service Company****Consolidated Statements of Changes in Stockholders' Equity**

(In thousands, except share data)

(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Translation Adjustments	Total
Balances, May 31, 2009	\$ 279	\$ 110,272	\$ 75,393	\$ (16,151)	\$ 596	\$ 170,389
Net income			994			994
Other comprehensive loss					(815)	(815)
Comprehensive income						179
Issuance of deferred shares (1,952 shares)		(5)		5		
Tax effect from the vesting of deferred shares		(9)				(9)
Stock-based compensation expense		238				238
Balances, June 30, 2009	279	110,496	76,387	(16,146)	(219)	170,797
Net income			9,105			9,105
Other comprehensive income					1,377	1,377
Comprehensive income						10,482
Exercise of stock options (11,500 shares)		36		31		67
Issuance of deferred shares (147,488 shares)		(403)		403		
Treasury share purchases (44,904 shares)				(428)		(428)
Tax effect of exercised stock options and the vesting of deferred shares		(391)				(391)
Stock-based compensation expense		1,557				1,557
Balances, March 31, 2010	\$ 279	\$ 111,295	\$ 85,492	\$ (16,140)	\$ 1,158	\$ 182,084
Balances, May 31, 2008	\$ 279	\$ 108,402	\$ 44,809	\$ (16,374)	\$ 1,584	\$ 138,700
Net income			23,844			23,844
Other comprehensive loss					(2,804)	(2,804)
Comprehensive income						21,040
Exercise of stock options (48,650 shares)		75	(5)	132		202
Issuance of deferred shares (41,627 shares)		(109)		109		
Purchase of treasury shares (2,900 shares)				(32)		(32)
Tax effect of exercised stock options and vesting of deferred shares		(85)				(85)
Stock-based compensation expense		3,091				3,091
Balances, February 28, 2009	\$ 279	\$ 111,374	\$ 68,648	\$ (16,165)	\$ (1,220)	\$ 162,916

*See accompanying notes.*



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**Matrix Service Company**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**Note 1 Basis of Presentation**

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

The accompanying unaudited 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 for the interim periods.

The accompanying financial statements should be read in conjunction with the audited financial statements for the year ended May 31, 2009, 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 its customer base. In addition, Matrix Service generates a significant portion of its revenues under a comparatively few major contracts, which often do not commence or terminate in the same period from one year to the next. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

**Note 2 Change in Fiscal Year**

On July 30, 2009, the Company s Board of Directors approved a change in the Company s fiscal year from May 31 to June 30. As a result of this change, the Company has a transition period for the one month ended June 30, 2009 ( June Transition Period ). The unaudited results of operations and changes in stockholders equity and cash flows for the June Transition Period are presented in the financial statements in this Form 10-Q. The audited results of operations and changes in stockholders equity and cash flows for the June Transition Period will be included in the Company s Annual Report on Form 10-K for the year ending June 30, 2010.

The Company will report the following periods for fiscal 2010 and fiscal 2009 in its Form 10-Q and Form 10-K filings:

<b>Period</b>	<b>Fiscal 2010</b>	<b>Fiscal 2009</b>
June Transition Period	One month ending June 30, 2009	Not applicable
First quarter	Three months ending September 30, 2009	Three months ended August 31, 2008
Second quarter	Three months ending December 31, 2009	Three months ended November 30, 2008
Third quarter	Three months ending March 31, 2010	Three months ended February 28, 2009
Fourth quarter	Three months ending June 30, 2010	Three months ended May 31, 2009

We did not recast the results for the prior fiscal periods because our financial reporting processes in place at the time included certain procedures that are only performed on a quarterly basis. Consequently, to recast those periods would have been impractical and would not have been cost-justified. Furthermore, we believe the quarters reported in fiscal 2009 provide a meaningful comparison to the fiscal 2010 quarters and there are no factors, seasonal or otherwise, that materially impact the comparability of information or trends.

**Table of Contents****Matrix Service Company****Notes to Consolidated Financial Statements****(Unaudited)****Note 3 Goodwill**

The changes in the carrying amount of goodwill by segment from May 31, 2009 to March 31, 2010 are as follows:

	<b>Construction Services</b>	<b>Repair and Maintenance Services</b>	<b>Total</b>
	(In thousands)		
Balance at May 31, 2009	\$ 5,595	\$ 20,173	\$ 25,768
Purchase price adjustments	832	554	1,386
Translation adjustment		182	182
Balance at March 31, 2010	\$ 6,427	\$ 20,909	\$ 27,336

The purchase price adjustments related to the February 5, 2009 acquisition of S.M. Electric Company, Inc. and were recorded in the June Transition Period and the first and second quarters of fiscal 2010. The adjustments primarily related to the value of contracts that were in progress at the acquisition date.

**Note 4 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:

	<b>March 31, 2010</b>	<b>May 31, 2009</b>
	(In thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$ 629,392	\$ 1,071,904
Billings on uncompleted contracts	618,034	1,087,590
	\$ 11,358	\$ (15,686)
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 39,761	\$ 35,619
Billings on uncompleted contracts in excess of costs and estimated earnings	28,403	51,305
	\$ 11,358	\$ (15,686)

Progress billings in accounts receivable at March 31, 2010 and May 31, 2009 included retentions to be collected within one year of \$14.1 million and \$15.2 million, respectively. Contract retentions collectible beyond one year are included in Other Assets on the Consolidated Balance Sheets and totaled \$2.8 million at May 31, 2009. All retention balances as of March 31, 2010 were expected to be collected within the next 12 months.



**Table of Contents****Matrix Service Company****Notes to Consolidated Financial Statements****(Unaudited)****Note 5 Debt**

The Company has a five-year, \$75.0 million senior revolving credit facility ( Credit Facility ) that expires on November 30, 2012. The Credit Facility is guaranteed by substantially all of the Company's subsidiaries and is secured by a lien on substantially all of the Company's assets.

Availability under the Credit Facility is as follows:

	<b>March 31, 2010</b>	<b>May 31, 2009</b>
	(In thousands)	
Credit Facility	\$ 75,000	\$ 75,000
Letters of credit	9,543	7,263
<b>Availability under the Credit Facility</b>	<b>\$ 65,457</b>	<b>\$ 67,737</b>

The Credit Facility may be used for working capital, issuance of letters of credit or other lawful corporate purposes. The Credit Agreement contains customary affirmative and negative covenants that place certain restrictions on the Company, including limits on new debt, operating and capital lease obligations, asset sales and certain distributions, including dividends.

Key provisions of the Credit Facility include the following:

Share repurchases are limited to \$25.0 million in any calendar year.

Acquisitions are unlimited so long as the Company's Senior Leverage Ratio on a pro forma basis as of the end of the fiscal quarter immediately preceding the acquisition is below 1.00 to 1.00 and availability under the Credit Facility is at or above 50% after consummation of the acquisition. If the Senior Leverage Ratio on a pro forma basis as of the end of the fiscal quarter immediately preceding the acquisition is over 1.00 to 1.00 but below 1.75 to 1.00, acquisitions will be limited to \$25.0 million in a twelve month period, provided there is at least \$25.0 million of availability under the Credit Facility after the consummation of the acquisition.

Tangible Net Worth is required to be no less than the sum of \$110.0 million, plus the net proceeds of any issuance of equity that occurs after November 30, 2008, plus 50% of all positive quarterly net income after November 30, 2008.

Amounts borrowed under the Credit Facility will bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio.

The additional margin on the LIBOR-based loans is between 2.00% and 2.75% based on the Senior Leverage Ratio.

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The additional margin on the Alternate Base Rate loans is between 1.00% and 1.75% based on the Senior Leverage Ratio.

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**Matrix Service Company**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

The Alternate Base Rate is the greater of the Prime Rate, Federal Funds Effective Rate plus 0.50% or LIBOR plus 1.00%.

The Unused Revolving Credit Facility Fee is between 0.35% and 0.50% based on the Senior Leverage Ratio. Other significant financial covenants include the following:

The Senior Leverage Ratio must not exceed 2.50 to 1.00;

The Asset Coverage Ratio must be greater than or equal to 1.45 to 1.00; and,

The Fixed Charge Coverage Ratio must be greater than or equal to 1.25 to 1.00.

The Company is currently in compliance with all affirmative, negative, and financial covenants under the Credit Facility and is at the lowest margin tier for LIBOR and Alternate Base Rate loans and the lowest tier for the Unused Revolving Credit Facility Fee.

**Note 6 Income Taxes**

Deferred income taxes are computed using the liability method whereby deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using presently enacted tax rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes.

**Note 7 Commitments and Contingencies**

*Insurance Reserves*

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

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 under certain insurance policies up to the limits of insurance available, or we may have to purchase special insurance policies or surety bonds for specific customers or provide letters of credit issued under our Credit Facility in lieu of bonds to satisfy performance and financial guarantees on some projects. Matrix Service 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' presence at the customer's location. We also require certain subcontractors to provide additional insurance policies or surety bonds, in favor of the Company, to secure the subcontractors' work as required by the subcontract.

*Delaware Refinery Accident*

On November 6, 2005, two employees of the Company's subsidiary Matrix Service Industrial Contractors, Inc. (MSICI), were fatally injured in an accident that occurred at a refinery in Delaware City, Delaware. The estates of both employees have sued the refinery owner for unspecified damages, including punitive damages. On January 10, 2007 the refinery owner filed a complaint in the Superior Court of the State of Delaware,



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New Castle County, against the Company and MSICI seeking status as an additional insured under the Company's insurance policy and for indemnification for any amounts which it may be required to pay to the estates of the deceased.

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**Matrix Service Company**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

The estate of one of the deceased has settled its claim with the refinery owner, and the Company's insurer paid a portion of the settlement on the refinery owner's behalf as an additional insured. A trial involving the claim of the other estate against the refinery owner commenced on February 15, 2010; however, a mistrial was declared. The trial is scheduled to reconvene in July of 2010. The Company believes that any amounts which it may be required to pay the refinery owner beyond what it has previously reserved will be covered by its insurance policy.

*EPA Penalty*

On April 20, 2010 the Company received notification from the EPA alleging non-compliance with certain reporting requirements mandated by the Emergency Planning and Community Right to Know Act. The EPA alleges that the Company failed to submit Toxic Release Inventory Reporting Forms in calendar years 2004, 2005, 2006 and 2008 for chromium, manganese, and nickel. The alleged reporting violations relate to the Company's fabrication facility in Catoosa, Oklahoma and have resulted in a penalty assessment of \$0.3 million. The Company is involved in on-going discussions with the EPA to resolve this matter.

*Unapproved Change Orders and Claims*

As of March 31, 2010 and May 31, 2009, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders of \$2.6 million and \$0.5 million, respectively. There were no claims included in costs and estimated earnings in excess of billings on uncompleted contracts at March 31, 2010 or May 31, 2009. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, customers generally will not pay these amounts until final resolution of related claims, and accordingly, collection of these amounts may extend beyond one year.

*Acquired Claim Receivables*

The Company is currently negotiating the settlement and collection of claim receivables that were recorded in the allocation of the purchase price in a recent acquisition. These claim receivables were recorded at their estimated net realizable values, which included an allowance for the estimated collection costs.

On April 1, 2010 the Company was awarded \$0.5 million through arbitration on one of the claims. This award was less than the claim's recorded value and resulted in a pretax charge in the third quarter of fiscal 2010 of \$2.5 million. Additionally, as a part of the Company's ongoing assessment of the recoverability of the remaining balances, the Company recorded a pretax charge in the third quarter of fiscal 2010 of \$0.4 million. Finally, cumulative collection costs have exceeded the original estimate of the allowance for collection costs resulting in pretax SG&A charges in the second and third quarters of fiscal 2010 of \$0.9 million and \$0.6 million, respectively.

*Other*

The Company and its subsidiaries are named as defendants in various other legal actions and are vigorously defending each of them. 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.

**Table of Contents****Matrix Service Company****Notes to Consolidated Financial Statements****(Unaudited)****Note 8 Other Comprehensive Income**

Other comprehensive income and accumulated other comprehensive income consisted of foreign currency translation adjustments.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>One Month</b>
	<b>March 31,</b>	<b>February 28,</b>	<b>March 31,</b>	<b>February 28,</b>	<b>Ended</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>June 30,</b>
	<b>2009</b>				
	<b>(In thousands)</b>				
Net income	\$ 63	\$ 4,212	\$ 9,105	\$ 23,844	\$ 994
Other comprehensive income (loss)	324	(375)	1,377	(2,804)	(815)
Comprehensive income	\$ 387	\$ 3,837	\$ 10,482	\$ 21,040	\$ 179

**Note 9 Earnings per Common Share**

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

The computation of basic and diluted EPS is as follows:

	<b>Basic and Diluted EPS</b>				
	<b>(In thousands, except per share data)</b>				
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>One Month</b>
	<b>March 31,</b>	<b>February 28,</b>	<b>March 31,</b>	<b>February 28,</b>	<b>Ended</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>June 30,</b>
	<b>2009</b>				
<b>Basic EPS:</b>					
Net income	\$ 63	\$ 4,212	\$ 9,105	\$ 23,844	\$ 994
Weighted average shares outstanding	26,307	26,147	26,258	26,107	26,192
Basic EPS	\$ 0.00	\$ 0.16	\$ 0.35	\$ 0.91	\$ 0.04
<b>Diluted EPS:</b>					
Weighted average shares outstanding - basic	26,307	26,147	26,258	26,107	26,192
Dilutive stock options	109	58	101	175	117
Dilutive nonvested deferred shares	105	117	118	144	125
Diluted weighted average shares outstanding	26,521	26,322	26,477	26,426	26,434

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Diluted EPS	\$	0.00	\$	0.16	\$	0.34	\$	0.90	\$	0.04
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**Table of Contents****Matrix Service Company****Notes to Consolidated Financial Statements****(Unaudited)**

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

<b>Antidilutive Securities</b>					
(In thousands)					
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>One Month</b>
	<b>March 31,</b>	<b>February 28,</b>	<b>March 31,</b>	<b>February 28,</b>	<b>Ended</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>June 30,</b>
					<b>2009</b>
Stock options	106	216	123		106
Nonvested deferred shares	68	646	86	126	118
<b>Total antidilutive securities</b>	<b>174</b>	<b>862</b>	<b>209</b>	<b>126</b>	<b>224</b>

**Note 10 Segment Information**

The Company has two reportable segments, the Construction Services segment and the Repair and Maintenance Services segment.

The primary services of our Construction Services segment are aboveground storage tanks for the bulk storage/terminal industry, capital construction for the downstream petroleum industry, specialty construction, and electrical/instrumentation services for various industries. These services, including civil/structural, mechanical, piping, electrical and instrumentation, millwrighting, and fabrication, are provided for projects of varying complexities, schedule durations, and budgets. Our project experience includes renovations, retrofits, modifications and expansions to existing facilities as well as construction of new facilities.

The primary services of our Repair and Maintenance Services segment are aboveground storage tank repair and maintenance services including tank inspection, cleaning and ASME code repairs, planned major and routine maintenance for the downstream petroleum industry, specialty repair and maintenance services and electrical and instrumentation repair and maintenance.

Certain corporate assets including cash, property, plant and equipment, deferred taxes, and prepaid expenses have been presented as Other .

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes. 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 generally recorded at cost; therefore, no significant intercompany profit or loss is recognized. Any intercompany profit is eliminated in consolidation.

**Table of Contents****Matrix Service Company****Notes to Consolidated Financial Statements****(Unaudited)****Results of Operations**

(In thousands)

	<b>Construction Services</b>	<b>Repair and Maintenance Services</b>	<b>Other</b>	<b>Total</b>
<b>Three Months Ended March 31, 2010</b>				
Gross revenues	\$ 79,394	\$ 45,701	\$	\$ 125,095
Less: Inter-segment revenues	3,073	9		3,082
Revenues	76,321	45,692		122,013
Gross profit	10,098	3,195		13,293
Operating income (loss)	880	(835)		45
Income (loss) before income tax expense	797	(697)		100
Net income (loss)	369	(306)		63
Segment assets	117,974	89,214	62,508	269,696
Capital expenditures	63	276	871	1,210
Depreciation and amortization expense	1,646	1,268		2,914
<b>Three Months Ended February 28, 2009</b>				
Gross revenues	\$ 85,607	\$ 66,520	\$	\$ 152,127
Less: Inter-segment revenues	5,740	125		5,865
Revenues	79,867	66,395		146,262
Gross profit	9,332	8,629		17,961
Operating income	2,641	4,404		7,045
Income before income tax expense	2,365	4,430		6,795
Net income	1,451	2,761		4,212
Segment assets	148,078	115,887	32,124	296,089
Capital expenditures	388	81	1,559	2,028
Depreciation and amortization expense	1,572	1,184		2,756
<b>Nine Months Ended March 31, 2010</b>				
Gross revenues	\$ 244,484	\$ 175,726	\$	\$ 420,210
Less: Inter-segment revenues	9,910	212		10,122
Revenues	234,574	175,514		410,088
Gross profit	33,088	16,065		49,153
Operating income	11,152	3,290		14,442
Income before income tax expense	11,148	3,591		14,739
Net income	6,886	2,219		9,105
Segment assets	117,974	89,214	62,508	269,696
Capital expenditures	565	1,082	2,412	4,059
Depreciation and amortization expense	4,976	3,904		8,880
<b>Nine Months Ended February 28, 2009</b>				
Gross revenues	\$ 316,052	\$ 216,186	\$	\$ 532,238

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Less: Inter-segment revenues	21,298	1,091	22,389
Revenues	294,754	215,095	509,849
Gross profit	37,138	33,863	71,001
Operating income			