

MATRIX SERVICE CO
Form 10-Q
February 09, 2017

Table of Contents

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, 2016

or

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

For the transition period from _____ to _____

Commission File No. 1-15461

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

DELAWARE 73-1352174
(State of incorporation) (I.R.S. Employer Identification No.)
5100 East Skelly Drive, Suite 500, Tulsa, Oklahoma 74135
(Address of principal executive offices and zip code)

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

Not Applicable

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of February 7, 2017 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,593,791 shares outstanding.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I</u> FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Income for the Three and Six Months Ended December 31, 2016 and 2015</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended December 31, 2016 and 2015</u>	2
<u>Condensed Consolidated Balance Sheets as of December 31, 2016 and June 30, 2016</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2016 and 2015</u>	5
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended December 31, 2016 and 2015</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	36
<u>PART II</u> OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 3. <u>Defaults Upon Senior Securities</u>	38
Item 4. <u>Mine Safety Disclosures</u>	38
Item 5. <u>Other Information</u>	38
Item 6. <u>Exhibits</u>	39
<u>Signature</u>	39

Table of Contents

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, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Revenues	\$312,655	\$ 323,529	\$654,436	\$ 642,860
Cost of revenues	284,443	293,524	593,946	578,271
Gross profit	28,212	30,005	60,490	64,589
Selling, general and administrative expenses	19,975	25,070	37,952	44,553
Operating income	8,237	4,935	22,538	20,036
Other income (expense):				
Interest expense	(497)	(252)	(740)	(515)
Interest income	26	60	38	91
Other	47	(148)	54	(202)
Income before income tax expense	7,813	4,595	21,890	19,410
Provision for federal, state and foreign income taxes	2,563	1,477	7,298	6,553
Net income	5,250	3,118	14,592	12,857
Less: Net loss attributable to noncontrolling interest	—	(2,313)	—	(2,515)
Net income attributable to Matrix Service Company	\$5,250	\$ 5,431	\$14,592	\$ 15,372
Basic earnings per common share	\$0.20	\$ 0.20	\$0.55	\$ 0.58
Diluted earnings per common share	\$0.20	\$ 0.20	\$0.54	\$ 0.56
Weighted average common shares outstanding:				
Basic	26,553	26,721	26,470	26,598
Diluted	26,832	27,248	26,842	27,229
See accompanying notes.				

Table of Contents

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Net income	\$5,250	\$ 3,118	\$14,592	\$ 12,857
Other comprehensive loss, net of tax:				
Foreign currency translation loss (net of tax of \$69 and \$106 for the three and six months ended December 31, 2016, respectively, and \$204 and \$384 for the three and six months ended December 31, 2015, respectively)	(1,718)	(1,366)	(1,997)	(3,815)
Comprehensive income	3,532	1,752	12,595	9,042
Less: Comprehensive loss attributable to noncontrolling interest	—	(2,313)	—	(2,515)
Comprehensive income attributable to Matrix Service Company	\$3,532	\$ 4,065	\$12,595	\$ 11,557
See accompanying notes.				

Table of Contents

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

	December 31, 2016	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 66,230	\$71,656
Accounts receivable, less allowances (December 31, 2016— \$8,313 and June 30, 2016—\$8,403)	712	190,434
Costs and estimated earnings in excess of billings on uncompleted contracts	80,296	104,001
Inventories	4,194	3,935
Income taxes receivable	486	9
Other current assets	8,318	5,411
Total current assets	408,236	375,446
Property, plant and equipment at cost:		
Land and buildings	39,348	39,224
Construction equipment	91,587	90,386
Transportation equipment	48,254	49,046
Office equipment and software	34,946	29,577
Construction in progress	4,563	7,475
Total property, plant and equipment - at cost	218,698	215,708
Accumulated depreciation	(137,414)	(130,977)
Property, plant and equipment - net	81,284	84,731
Goodwill	113,019	78,293
Other intangible assets	29,351	20,999
Deferred income taxes	2,512	3,719
Other assets	1,388	1,779
Total assets	\$ 635,790	\$564,967
See accompanying notes.		

Table of Contents

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

	December 31, 2016	June 30, 2016
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 108,260	\$ 141,445
Billings on uncompleted contracts in excess of costs and estimated earnings	74,858	58,327
Accrued wages and benefits	21,162	27,716
Accrued insurance	9,171	9,246
Income taxes payable	1,293	2,675
Other accrued expenses	15,539	6,621
Total current liabilities	230,283	246,030
Deferred income taxes	2,855	3,198
Borrowings under senior revolving credit facility	72,412	—
Other liabilities	411	173
Total liabilities	305,961	249,401
Commitments and contingencies		
Stockholders' equity:		
Matrix Service Company stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of December 31, 2016, and June 30, 2016; 26,588,643 and 26,297,145 shares outstanding as of December 31, 2016 and June 30, 2016		279
Additional paid-in capital	124,659	127,058
Retained earnings	237,749	223,157
Accumulated other comprehensive loss	(8,842)	(6,845)
	353,845	343,649
Less: Treasury stock, at cost — 1,299,574 shares as of December 31, 2016, and 1,591,072 shares as of June 30, 2016	(22,840)	(26,907)
Total Matrix Service Company stockholders' equity	331,005	316,742
Noncontrolling interest	(1,176)	(1,176)
Total stockholders' equity	329,829	315,566
Total liabilities and stockholders' equity	\$ 635,790	\$ 564,967
See accompanying notes.		

Table of Contents

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

	Six Months Ended	
	December 2016	December 31, 2015
Operating activities:		
Net income	\$14,592	\$ 12,857
Adjustments to reconcile net income to net cash used by operating activities, net of effects from acquisitions:		
Depreciation and amortization	9,988	10,720
Deferred income tax	970	1,390
Gain on sale of property, plant and equipment	(131)	(37)
Provision for uncollectible accounts	(34)	5,544
Stock-based compensation expense	3,547	3,509
Other	133	119
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:		
Accounts receivable	(48,972)	(13,820)
Costs and estimated earnings in excess of billings on uncompleted contracts	24,451	4,328
Inventories	(259)	85
Other assets and liabilities	(3,974)	(8,861)
Accounts payable	(34,276)	(16,743)
Billings on uncompleted contracts in excess of costs and estimated earnings	4,883	17,436
Accrued expenses	(1,826)	(6,840)
Net cash provided (used) by operating activities	(30,908)	9,687
Investing activities:		
Acquisitions (Note 2)	(39,798)	—
Acquisition of property, plant and equipment	(4,208)	(7,516)
Proceeds from asset sales	196	145
Net cash used by investing activities	\$(43,810)	\$ (7,371)

See accompanying notes.

- 5-

Table of Contents

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

	Six Months Ended	
	December 31,	December 31,
	2016	2015
Financing activities:		
Advances under senior revolving credit facility	\$102,084	\$ 2,753
Repayments of advances under senior revolving credit facility	(29,672)	(4,331)
Payment of debt amendment fees	(168)	—
Issuances of common stock	222	457
Proceeds from issuance of common stock under employee stock purchase plan	169	166