

MATRIX SERVICE CO  
Form 10-K  
September 11, 2017  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K  
(Mark One)

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

For the fiscal year ended June 30, 2017

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 or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5100 E. Skelly Drive, Suite 500 74135

Tulsa, Oklahoma (Address of Principal Executive Offices) (Zip Code)

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

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

(Title of class)

Common Stock, par value \$0.01 per share

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

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

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

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

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

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

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

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

Edgar Filing: MATRIX SERVICE CO - Form 10-K

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second quarter was approximately \$590 million.

The number of shares of the registrant's common stock outstanding as of September 5, 2017 was 26,722,392 shares.

Documents Incorporated by Reference

Certain sections of the registrant's definitive proxy statement relating to the registrant's 2017 annual meeting of stockholders, which definitive proxy statement will be filed within 120 days of the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

---

Table of Contents

TABLE OF CONTENTS

	Page
Part I	
Item 1. <u>Business</u>	<u>2</u>
Item 1A. <u>Risk Factors</u>	<u>8</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>19</u>
Item 2. <u>Properties</u>	<u>20</u>
Item 3. <u>Legal Proceedings</u>	<u>21</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>21</u>
Part II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
Item 6. <u>Selected Financial Data</u>	<u>24</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>44</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>85</u>
Item 9A. <u>Controls and Procedures</u>	<u>85</u>
Item 9B. <u>Other Information</u>	<u>85</u>
Part III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>86</u>
Item 11. <u>Executive Compensation</u>	<u>86</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>86</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>86</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>86</u>

Part IV

Item 15. Exhibits and Financial Statement Schedules 87

Item 16. Form 10-K Summary 89

1

---

Table of Contents

PART I

Item 1. Business

FORWARD-LOOKING STATEMENTS

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

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

- the impact to our business of crude oil, natural gas and other commodity prices;
- amounts and nature of future revenues and margins from each of our segments;
- trends in the industries we serve;
- our ability to generate sufficient cash from operations or to raise cash in order to meet our short and long-term capital requirements;
- 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 expectations with respect to the likelihood of a future impairment; and
- our ability to comply with the covenants in our credit agreement.

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

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

- the risk factors discussed in Item 1A of this Annual Report and listed from time to time in our filings with the Securities and Exchange Commission;
- economic, market or business conditions in general and in the oil, gas, power, iron and steel, agricultural and mining industries in particular;
  - reduced creditworthiness of our customer base and the higher risk of non-payment of receivables due to low prevailing crude oil and other commodity prices;
- the inherently uncertain outcome of current and future litigation;
- the adequacy of our reserves for contingencies;
- changes in laws or regulations; and
- other factors, many of which are beyond our control.

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

## Table of Contents

### BACKGROUND

The Company began operations in 1984 as an Oklahoma corporation under the name of Matrix Service. In 1989, we incorporated in the State of Delaware under the name of Matrix Service Company. We provide engineering, fabrication, infrastructure, construction, and maintenance services primarily to the oil, gas, power, petrochemical, industrial, agricultural, mining and minerals markets. We also sell products for crude oil and refined product aboveground storage tanks and process heating equipment used in the oil, gas and petrochemical markets. We maintain regional offices throughout the United States, Canada and other international locations, and operate through separate union and merit subsidiaries.

The Company is licensed to operate in all 50 states, in four Canadian provinces and in other international locations. Our principal executive offices are located at 5100 E. Skelly Drive, Suite 500, Tulsa, Oklahoma 74135. Our telephone number is (918) 838-8822. Unless the context otherwise requires, all references herein to “Matrix Service Company”, “Matrix”, the “Company” or to “we”, “our”, and “us” are to Matrix Service Company and its subsidiaries.

### WEBSITE ACCESS TO REPORTS

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

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

### OPERATING SEGMENTS

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

The Electrical Infrastructure segment primarily encompasses 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, natural gas fired power stations, and renewable energy installations.

The Oil Gas & Chemical segment includes turnaround activities, plant maintenance, engineering and construction in the downstream and midstream petroleum industries. Our customers in these industries are engaged in refining crude oil and processing, fractionating, and marketing of natural gas and natural gas liquids. Another key offering is industrial cleaning services, which include hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the petrochemical, upstream petroleum, and sulfur extraction, recovery and processing markets.

The Storage Solutions segment includes new construction of crude and refined products aboveground storage tanks (“ASTs”), as well as planned and emergency maintenance services. The Storage Solutions segment also includes

balance of plant work in storage terminals and tank farms. 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, we offer AST products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems and floating roof seals.

## Table of Contents

The Industrial segment primarily includes construction and maintenance work in the iron and steel, mining and minerals, and agricultural industries. Our work in the mining and minerals industry is primarily for customers engaged in the extraction of copper. Our work in the agricultural industry includes the engineering and design of grain silos, docks and handling systems; the design of control system automation and materials handling for the food industry; and engineering, construction, process design and balance of plant work for fertilizer production facilities. We also perform work in bulk material handling, thermal vacuum chambers, and other industrial markets.

### RECENT DEVELOPMENTS

#### Purchase of Houston Interests, LLC

On December 12, 2016, the Company completed the acquisition of Houston Interests, LLC ("Houston Interests"), a premier global solutions company that provides consulting, engineering, design, construction services and systems integration for \$42.5 million, net of working capital adjustments and cash acquired. Houston Interests brings expertise to the Company in natural gas processing; sulfur recovery, processing and handling; liquid terminals, silos and other bulk storage; process plant design; power generation environmental controls and material handling; industrial power distribution; electrical, instrumentation and controls; marine structures; material handling systems and terminals for cement, sulfur, fertilizer, coal and grain; and process heaters. The business has been included in our Matrix PDM Engineering, Inc. subsidiary, and its operating results have been included in the Oil Gas & Chemical and Industrial segments.

#### Matrix Applied Technologies

On February 1, 2016, the Company completed the acquisition of all outstanding stock of Baillie Tank Equipment, Ltd. ("BTE"), an internationally-based company with nearly 20 years of experience in the design and manufacture of products for use on aboveground storage tanks. Founded in 1998, BTE is a provider of tank products including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems, and seals. BTE is headquartered in Sydney, Australia with a manufacturing facility in Seoul, South Korea. The Company acquired BTE to expand its service offerings of certain technical solutions for aboveground storage tanks. The business is now known as Matrix Applied Technologies, and its operating results are included in the Storage Solutions segment.

The Company purchased BTE with cash on-hand for a net purchase price of \$13.0 million. The Company paid \$15.4 million when including the subsequent repayment of long-term debt acquired and the settlement of certain other liabilities acquired, and excluding the cash acquired and certain amounts owed to the former owners for working capital adjustments.

#### HDB Ltd. Limited Partnership

On August 22, 2014, the Company purchased substantially all of the assets of HDB Ltd. Limited Partnership ("HDB"). HDB, headquartered in Bakersfield, California provides construction, fabrication and turnaround services to energy companies throughout California's central valley. The acquisition advanced a strategic goal of the Company to expand into the upstream energy market. The acquisition purchase price was \$5.6 million and was funded with cash on hand. Commencing on August 22, 2014, HDB's operating results are included in the Oil Gas & Chemical segment.

### OTHER BUSINESS MATTERS

#### Customers and Marketing

The Company provided services to approximately 600 customers in fiscal 2017. One customer, Energy Transfer Partners, L.P., accounted for \$233.7 million or 19.5% of our consolidated revenue, all of which was in the Storage Solutions segment. Another customer, TransCanada Corporation, accounted for \$183.2 million or 15.3% of our consolidated revenue, \$171.8 million of which was in the Electrical Infrastructure segment and \$11.4 million of which was in the Storage Solutions segment. The loss of these major customers or other significant customers could have a material adverse effect on the Company; however, we are not dependent on any single contract or customer on an on-going basis.

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



projects have durations ranging from a few days to multiple years.

4

---

Table of Contents

## Segment Financial Information

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

## Competition

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

## Backlog

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

fixed-price awards;

minimum customer commitments on cost plus arrangements; and

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

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

The following table provides a summary of changes in our backlog in fiscal 2017:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of June 30, 2016	\$369,791	\$91,478	\$359,013	\$48,390	\$868,672
Project awards	245,409	409,550	264,234	141,399	1,060,592
Acquired backlog from Houston Interests (Note 2)	—	26,502	—	3,195	29,697
Project scope adjustment <sup>(1)</sup>	(79,179 )	—	—	—	(79,179 )
Revenue recognized	(373,384 )	(240,523 )	(481,696 )	(101,906)	(1,197,509)
Backlog as of June 30, 2017	\$162,637	\$287,007	\$141,551	\$91,078	\$682,273
Book-to-bill ratio <sup>(2)</sup>	0.7	1.7	0.5	1.4	0.9

In July 2017, the Company reached a settlement agreement with the customer on a large project in the Electrical Infrastructure segment. The agreement resolved open claims and modified the terms enabling the Company to recover all costs and overhead to perform the remainder of the work. In addition, the execution strategy was revised and a significant portion of future work will no longer be performed by the Company. The magnitude of the scope reduction is based on the Company's best estimate at this time but may change as the detailed execution plan continues to develop.

(2) Calculated by dividing project awards by revenue recognized.

Project awards in all segments are cyclical and are typically the result of a sales process that can take several months to complete. Historically, backlog in the Storage Solutions and Electrical Infrastructure segments generally have the greatest volatility because individual project awards can be less frequent and more significant. We expect to recognize approximately 92% of our total backlog reported as of June 30, 2017 as revenue within the next year.

The change in backlog in the Electrical Infrastructure segment during the year ended June 30, 2017 is mainly attributable to the work, including the project scope adjustment, related to the previously announced Napanee Power Generating Station project partially offset by transmission and distribution awards, which continue to meet the Company's expectations and the award for the electrical balance of plant work for PSEG Power's new 540-megawatt combined cycle power facility in New Jersey.



## Table of Contents

The increase in backlog in the Oil, Gas & Chemical segment during the year ended June 30, 2017 is mainly attributable to backlog acquired from Houston Interests and increased project awards such as the previously announced award for the engineering, procurement and construction of a liquefied natural gas ("LNG") storage and vaporization facility for Southwest Gas Company, the previously announced Ultra-Low-Sulfur Gasoline Relocation Project awarded by KBR, Inc., and the previously announced award for the engineering, project management, procurement and commissioning of a 200 million cubic foot per day cryogenic gas recovery plant located in the SCOOP play of Southern Oklahoma's Woodford Shale and Springer Shale formations.

The decline in backlog in the Storage Solutions segment during the year ended June 30, 2017 is attributable to the work related to the previously announced project for the construction of terminals supporting the Dakota Access Pipeline partially offset by storage solutions awards, including the previously announced award for the engineering, procurement, fabrication and construction of a 2 million gallon LNG tank for the JAX LNG Bunker Facility near the Port of Jacksonville in Florida, and the previously announced EPC award to construct 10 new tanks at the Vopak Americas Brownfield Expansion Project at the Deer Park, TX terminal. In addition, we continue to see a more cautious approach to decision-making on the part of clients and prolonged market uncertainty, which is delaying the timing of awards.

The increase in backlog in the Industrial segment during the year ended June 30, 2017 is primarily attributable to increased project awards, including an award for a thermal vacuum chamber project during the second fiscal quarter.

### Seasonality and Other Factors

Our operating results can exhibit seasonal fluctuations, especially in our Oil Gas & Chemical segment, for a variety of reasons. Turnarounds and planned outages at customer facilities are typically scheduled in the spring and the fall when the demand for energy is lower. Within the Electrical Infrastructure segment, transmission and distribution work is generally scheduled by the public utilities when the demand for electricity is at its lowest. Therefore, revenue volume in the summer months is typically lower than in other periods throughout the year. Also, we typically see a lower level of operating activity relating to construction projects during the winter months and early in the calendar year because many of our customers' capital budgets have not been finalized.

Our business can also be affected, both positively and negatively, by seasonal factors such as energy demand or weather conditions including hurricanes, snowstorms, and abnormally low or high temperatures. Some of these seasonal factors may cause some of our offices and projects to close or reduce activities temporarily. In addition to the above noted factors, the general timing of project starts and completions could exhibit significant fluctuations. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

Other factors impacting operating results in all segments come from work site permitting delays or customers accelerating or postponing work. The differing types, sizes, and durations of our contracts, combined with their geographic diversity and stages of completion, often results in fluctuations in the Company's operating results.

### Material Sources and Availability

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

### Insurance

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

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

and name the Company as an additional insured for activities arising out of the subcontractors' work. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of the Company, to secure the subcontractors' work. There can be no assurance that our insurance and the additional insurance coverage provided by our subcontractors will fully protect us against a valid claim or loss under the contracts with our customers.

## Table of Contents

### Employees

As of June 30, 2017, the Company had 4,001 employees of which 896 were employed in non-field positions and 3,105 were employed in field or shop positions. The number of employees varies significantly throughout the year because of the number, type and size of projects we have in progress at any particular time.

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

### Patents and Proprietary Technology

Matrix Service Company's subsidiaries have several patents and patents pending, and continue to pursue new ideas and innovations to better serve our customers in several areas of our business. The Flex-A-Span® and Flex-A-Seal® trademarks are utilized to market the Company's unique seals for floating roof tanks. The FastFroth® trademark is utilized to market the Company's unique industrial cleaning process. Our patented RS 1000 Tank Mixer controls sludge build-up in crude oil tanks through resuspension. The Flexible Fluid Containment System patent covers a system that captures and contains flue leaking from pipe and valve connections. The Flex-A-Swivel patent refers to our unique pipe swivel joint assembly. Our patent for Spacerless or Geocomposite Double Bottom for Storage Tanks relates to a replacement bottom with leak detection and containment that allows for the retrofitting of an existing tank while minimizing the loss of capacity. The patent for the Training Tank for Personnel Entry, Exit and Rescue relates to a training device that can be used to train personnel on equipment that is made to simulate confined space scenarios. The Company also holds a perpetual license to use various patents and technologies related to LNG storage tanks, LIN/LOX storage tanks, LPG storage tanks and thermal vacuum chambers.

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

### Regulation

#### Health and Safety Regulations

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

#### Environmental

The Company's operations and the operations of its customers are subject to extensive and changing environmental laws and regulations. These laws and regulations relate primarily to air and water pollutants and the management and disposal of hazardous materials. The Company is exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or hazardous materials. In order to limit costs incurred as a result of environmental exposure, the Company maintains contractor's pollution liability insurance that covers liability that may be incurred as a result of accidental releases of hazardous materials.

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

Table of Contents

Item 1A. Risk Factors

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

Risk Factors Related to Our Business

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

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

Although we have taken what we believe are appropriate precautions to adequately train and equip our employees, we have experienced serious accidents, including fatalities, in the past and may experience additional accidents in the future. Serious accidents may subject us to penalties, civil litigation or criminal prosecution. Claims for damages to persons, including claims for bodily injury or loss of life, could result in costs and liabilities, which could materially and adversely affect our financial condition, results of operations or cash flows. Poor safety performance could also jeopardize our relationships with our customers.

Our profitability could be negatively impacted if we are not able to maintain appropriate utilization of our workforce. The extent to which we utilize our workforce affects our profitability. If we under utilize our workforce, our project gross margins and overall profitability suffer in the short-term. If we over utilize our workforce, we may negatively impact safety, employee satisfaction and project execution, which could result in a decline of future project awards.

The utilization of our workforce is impacted by numerous factors including:

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

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

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



Table of Contents

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

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

Our revenue and profitability may be adversely affected by a reduced level of activity in the hydrocarbon industry. In recent years, demand from the worldwide hydrocarbon industry has been a significant generator of our revenue. Numerous factors influence capital expenditure decisions in the hydrocarbon industry, including, but not limited to, the following:

- current and projected oil and gas prices;
- exploration, extraction, production and transportation costs;
- refining margins;
- the discovery rate, size and location of new oil and gas reserves;
- technological challenges and advances;
- ability to export hydrocarbon products;
- demand for hydrocarbon production; and
- changing taxes, price controls, and laws and regulations.

The aforementioned factors are beyond our control and could have a material adverse effect on our results of operations, particularly in the Storage Solutions and Oil Gas & Chemical segments, and on our financial position or cash flow.

The operations of our Storage Solutions segment are influenced by the overall forward market for crude oil, and certain market conditions may adversely affect that segment's financial and operating results.

The results of our Storage Solutions segment may be influenced by the overall forward market for crude oil. A "contango" market (meaning that the price of crude oil for future delivery is higher than the current price) is associated with greater demand for crude oil storage capacity, because a party can simultaneously purchase crude oil at current prices for storage and sell at higher prices for future delivery. A "backwardated" market (meaning that the price of crude oil for future delivery is lower than the current price) is associated with lower demand for crude oil storage capacity, because a party can capture a premium for prompt delivery of crude oil rather than storing it for future sale. A prolonged backwardated market or other adverse market conditions could have an adverse impact on demand for new construction in our Storage Solutions segment. Finally, higher absolute levels of crude oil prices increase the costs of financing and insuring crude oil in storage, which negatively affects storage economics. As a result, the overall forward market for crude oil may have an adverse effect on our Storage Solution segment's business, results of operations and financial condition.



Table of Contents

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

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

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

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

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

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

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

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

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

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

to these incentives and penalties are recorded on a percentage of completion basis in the period when estimable and probable.

Table of Contents

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

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

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

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

Our actual results could materially differ from these estimates.

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

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

Increases in imports of foreign steel into the U.S. may reduce our customers' profitability and capital spending plans. An economic slowdown in China and other countries has affected the supply and price of steel products. Expansions and contractions in these economies can significantly affect the price of steel and of finished steel products.

Additionally, in a number of foreign countries, such as China, steel producers are generally government-owned and may therefore make production decisions based on political or other factors that do not reflect market conditions.

Disruptions in foreign markets from excess steel production may encourage importers to target the U.S. with excess capacity at aggressive prices, and existing trade laws and regulations may be inadequate to prevent unfair trade practices, which could have a material adverse effect on our steel industry customers. In recent months, new tariffs have resulted in a reduction in imports of steel products into the U.S. However, we have not yet seen a significant increase in the demand for the maintenance and construction work we provide to our domestic steel industry customers.

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

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

unable to collect amounts owed to us under our contracts, we may be required to record a charge against previously recognized earnings related to the project, and our liquidity, financial condition and results of operations could be adversely affected.

Table of Contents

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

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

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

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

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

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

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

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

We may not realize the growth opportunities, operating margins and synergies that are anticipated from acquisitions.

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





Table of Contents

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

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

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

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

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

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

Many of our contracts have termination rights. Therefore, project adjustments may occur from time to time to contracts in our backlog.

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

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

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

We can provide no assurance that we will have sufficient cash from operations or the credit capacity to meet all of our future cash needs should we encounter significant working capital requirements or incur significant acquisition costs.

Insufficient cash from operations, significant working capital requirements, and contract disputes have in the past, and could in the future, reduce availability under our senior revolving credit facility.

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

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

Table of Contents

We are susceptible to adverse weather conditions, which may harm our business and financial results. Our business may be adversely affected by severe weather in areas where we have significant operations. Repercussions of severe weather conditions may include:

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

Our senior revolving credit facility imposes restrictions that may limit business alternatives.

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

Our failure to comply with one or more of the covenants in our senior revolving credit facility could result in an event of default. We can provide no assurance that a default could be remedied, or that our creditors would grant a waiver or amend the terms of the senior revolving credit facility. If an event of default occurs, our lenders could elect to declare all amounts outstanding under the facility to be immediately due and payable, terminate all commitments, refuse to extend further credit, and require us to provide cash to collateralize any outstanding letters of credit. If an event of default occurs and the lenders under the senior revolving credit facility accelerate the maturity of any loans or other debt outstanding, we may not have sufficient liquidity to repay amounts outstanding under the existing agreement. An inability to attract and retain qualified personnel, and in particular, engineers, project managers, and skilled craft workers, could impact our ability to perform on our contracts, which could harm our business and impair our future revenues and profitability.

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

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

Table of Contents

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

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

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

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

Earnings for future periods may be affected by impairment charges.

Because we have grown in part through acquisitions, goodwill and other acquired intangible assets represent a substantial portion of our assets. We perform annual goodwill impairment reviews in the fourth quarter of every fiscal year. In addition, we perform an impairment review whenever events or changes in circumstances indicate the carrying value of goodwill or an intangible or fixed asset may not be recoverable. Current market conditions have resulted in a significant reduction in the difference between the fair values and carrying amounts of our assets, which has increased the likelihood of an impairment. If market conditions further deteriorate, we may determine that a significant impairment has occurred, which could require us to write off a portion of our assets and could adversely affect our financial condition or results of operations. As of June 30, 2017 the Company had \$26.3 million of amortizing intangible assets and \$113.5 million of non-amortizing goodwill representing 4.5% and 19.4% of the Company's total assets, respectively.

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

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

delays in our contract performance.

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

Table of Contents

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

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

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

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

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

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

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

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

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

In addition, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), and comparable state and foreign laws, we may be required to investigate and remediate regulated materials.

CERCLA and the comparable state laws typically impose liability without regard to whether a company knew of or caused the release, and liability for the entire cost of clean-up can be imposed upon any responsible party. We are subject to numerous other laws and regulations including those related to business registrations and licenses, environment, workplace, employment, health and safety. These laws and regulations are complex, change frequently and could become more stringent in the future. It is impossible to predict the effect on us of any future changes to these laws and regulations. We can provide no absolute assurance that our operations will continue to comply with future laws and regulations or that the costs to comply with these laws and regulations and/or a failure to comply with these laws will not significantly adversely affect our business, financial condition and results of operations.

Table of Contents

We face a potential loss of business under a recently enacted California statute.

In 2013, the California Legislature enacted, and the governor signed, Senate Bill 54 ("SB 54"). SB 54 imposes requirements as to prevailing wages on certain private projects and requires employers to maintain a workforce in which sixty percent of the workers have graduated from an approved apprenticeship program, regardless of whether public funds are used. SB 54 was enacted in an attempt to ensure that parties constructing or performing work on projects in refineries or otherwise involving "chemical manufacturing and processing facilities that generate, store, treat, handle, refine, process, and transport hazardous materials" do not create safety hazards by employing unskilled or untrained workers to perform the work. To accomplish this purpose, the statute requires that owners who are "contracting for the performance of construction, alteration, demolition, installation, repair, or maintenance work" on such facilities must ensure that the outside contractors use a "skilled and trained workforce." A skilled and trained workforce is defined in the statute as a workforce in which all of the workers are registered apprentices or skilled journey persons paid at least prevailing wages. SB 54 primarily has implications to the volume of opportunities for our merit operations in refineries in the State of California. SB 54 is not applicable to contracts entered into prior to January 1, 2014. Our Oil Gas & Chemical segment derived a portion of its revenues in previous years utilizing non-union employees on refinery construction and maintenance projects located in the State of California under contracts entered into prior to January 1, 2014. We intend to comply with SB 54 and adjust our business practices accordingly. However, we have experienced a decline in revenue from our refinery customers located in the State of California as our backlog from older contracts expires and we revise our business practices to conform to SB 54. A failure or outage in our operational systems or cyber security attacks on any of our systems, or those of third parties, may adversely affect our financial results.

Our business is dependent upon our operational systems to process a large amount of data and complex transactions. If any of our financial, operational, or other data processing systems fail or have other significant shortcomings, our financial results could be adversely affected. Our financial results could also be adversely affected if our operational systems fail, either as a result of inadvertent error, platform failure, or by deliberate tampering with or manipulation of our operational systems. In addition, dependence upon automated systems may further increase the risk that operational system flaws, employee tampering or manipulation of those systems could result in losses that are difficult to detect.

We have become more reliant on technology to help increase efficiency in our business. We use numerous technologies to help run our operations, and this may subject our business to increased risks. Any cyber security attack that affects our facilities, our customers and any financial data could have a material adverse effect on our business. In addition, a cyber attack on our customer and employee data may result in a financial loss, including potential fines for failure to safeguard data, and may negatively impact our reputation. Third-party systems on which we rely could also suffer system failure. Any of these occurrences could disrupt our business, result in potential liability or reputational damage or otherwise have an adverse effect on our financial results.

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

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





Table of Contents

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

The U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to officials or others for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in parts of the world that have experienced corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We train our personnel concerning anti-bribery laws and issues, and we also inform our customers, vendors, and others who work for us or on our behalf that they must comply with anti-bribery law requirements. We also have procedures and controls in place to monitor compliance. We cannot assure that our internal controls and procedures always will protect us from the possible reckless or criminal acts committed by our employees or agents. If we are found to be liable for anti-bribery law violations (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others including our partners, agents, subcontractors or suppliers), we could suffer from criminal or civil penalties or other sanctions, including contract cancellations or debarment, and loss of reputation, any of which could have a material adverse effect on our business. Litigation or investigations relating to alleged or suspected violations of anti-bribery laws, even if ultimately such litigation or investigations demonstrate that we did not violate anti-bribery laws, could be costly and could divert management's attention away from other aspects of our business.

Economic, political and other risks associated with international operations could adversely affect our business. A portion of our operations are conducted outside the United States, and accordingly, our business is subject to risks associated with doing business internationally, including changes in foreign currency exchange rates, instability in political or economic conditions, difficulty in repatriating cash proceeds, differing employee relations, differing regulatory environments, trade protection measures, and difficulty in administering and enforcing corporate policies which may be different than the normal business practices of local cultures.

**Risk Factors Related to Our Common Stock**

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

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

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

Some companies that have volatile market prices for their securities have been subject to security class action suits filed against them. If a suit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion of our management's attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

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

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



Table of Contents

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

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

Shareholder activists could cause a disruption to our business.

An activist investor may indicate disagreement with our strategic direction or capital allocation policies and may seek representation on our Board of Directors. Our business, operating results or financial condition could be adversely affected and may result in, among other things:

• increased operating costs, including increased legal expenses, insurance, administrative expenses and associated costs incurred in connection with director election contests;

• uncertainties as to our future direction, which could result in the loss of potential business opportunities and could make it more difficult to attract, retain, or motivate qualified personnel, and strain relationships with investors and customers; and

• reduction or delay in our ability to effectively execute our current business strategy and to implement new strategies.

Item 1B. Unresolved Staff Comments

None

Table of Contents

## Item 2. Properties

The principal properties of Matrix Service Company are as follows:

Location	Description of Facility	Segment	Interest
Tulsa, Oklahoma	Corporate headquarters and regional office	All segments	Leased
Bakersfield, California	Regional office	All segments	Leased
Bellingham, Washington	Regional office, fabrication facility and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Owned
Canonsburg, Pennsylvania	Regional office	Electrical Infrastructure, Oil Gas & Chemical, Industrial	Leased
Catoosa, Oklahoma	Fabrication facilities, regional office and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Leased & Owned <sup>(1)</sup>
Columbus, Ohio	Regional office	All segments	Leased
Eddystone, Pennsylvania	Regional office, fabrication facility and warehouse	All segments	Leased
Hammond, Indiana	Regional office, fabrication facility, and warehouse	Oil Gas & Chemical, Industrial	Leased
Houston, Texas	Regional offices and warehouse	Oil Gas & Chemical, Storage Solutions	Leased & Owned
Metairie, Louisiana	Regional office	All segments	Leased
Orange, California	Fabrication facility, regional office and warehouse	Oil Gas & Chemical, Storage Solutions, Industrial	Leased & Owned
Pittsburgh, Pennsylvania	Regional office	All segments	Leased
Rahway, New Jersey	Regional office and warehouse	Electrical Infrastructure, Oil Gas & Chemical, Industrial	Leased
Reserve, Louisiana	Regional office and warehouse	Oil Gas & Chemical	Leased
Sewickley, Pennsylvania	Regional office	Oil Gas & Chemical, Storage Solutions, Industrial	Leased
Temperance, Michigan	Regional office and warehouse	Storage Solutions	Owned
Tucson, Arizona	Regional office and warehouse	Industrial, Storage Solutions, Oil Gas & Chemical	Leased
Burlington, Ontario, Canada	Regional office	Electrical Infrastructure, Industrial, Storage Solutions	Owned
Calgary, Alberta, Canada	Regional office	Storage Solutions	Leased
Leduc, Alberta, Canada	Regional office and warehouse	Storage Solutions	Leased
Sarnia, Ontario, Canada	Regional office and warehouse	Storage Solutions	Owned
Seoul, South Korea	Fabrication facility, regional office and warehouse	Storage Solutions	Owned
Sydney, Australia	Regional office	Storage Solutions	Leased

(1) Certain facilities were constructed by the Company on land acquired through ground leases with renewal options.

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

Table of Contents

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

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

Information concerning mine safety violations or other regulatory matters required to be disclosed in this annual report under Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Annual Report on Form 10-K.

Table of Contents

## PART II

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

## Price Range of Common Stock

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

	Fiscal Year		Fiscal Year	
	2017		2016	
	High	Low	High	Low
First quarter	\$19.57	\$15.88	\$24.00	\$16.47
Second quarter	23.20	16.20	26.22	19.41
Third quarter	23.45	15.00	20.97	15.02
Fourth quarter	17.70	7.80	19.40	14.07

Substantially all of our stockholders maintain their shares in "street name" accounts and are not individually stockholders of record. As of July 21, 2017, there were 24 holders of record of our common stock.

## 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 cash dividends on our capital stock during any fiscal year up to an amount which, when added to all other cash dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to date, except that, pursuant to an amendment to our Credit Agreement, from August 31, 2017 through December 31, 2017, the total of cash dividend payments, along with share repurchases, may not exceed \$5.0 million. In addition, during this time we are prohibited from paying cash dividends or repurchasing stock unless the pro forma Leverage Ratio, as defined in the Credit Agreement, is less than or equal to 2.50 to 1.00 (see Item 8. Financial Statements and Supplementary Data, Note 5 - Debt for information about the amended Credit Agreement subsequent event). While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

## Issuer Purchases of Equity Securities

Our Credit Agreement limits the Company's purchases of its equity securities to \$30.0 million in any calendar year, except from August 31, 2017 through December 31, 2017, when share repurchases, along with cash dividend payments, may not exceed an aggregate basket of \$5.0 million and may only be made if the pro forma Leverage Ratio is less than or equal to 2.50 to 1.00 (see Item 8. Financial Statements and Supplementary Data, Note 5 - Debt for information about the amended Credit Agreement subsequent event). The table below sets forth the information with respect to purchases made by the Company of its common stock during the fourth quarter of the fiscal year ended June 30, 2017:

Table of Contents

	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 (C)
April 1 to April 30, 2017				
Share Repurchase Program <sup>(A)</sup>	—	—	—	5,347,594
Employee Transactions <sup>(B)</sup>	—	—	—	
May 1 to May 31, 2017				
Share Repurchase Program <sup>(A)</sup>	—	—	—	5,347,594
Employee Transactions <sup>(B)</sup>	282	\$ 8.70	—	
June 1 to June 30, 2017				
Share Repurchase Program <sup>(A)</sup>	—	—	—	5,347,594
Employee Transactions <sup>(B)</sup>	—	—	—	

(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.

(C) On December 12, 2016, the Board of Directors approved a new stock buyback program (the "December 2016 Program"). Under the December 2016 Program, the Company may repurchase common stock of the Company in any calendar year commencing with calendar year 2016 and continuing through calendar year 2018, up to a maximum of \$25.0 million per calendar year. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. The December 2016 Program will continue through December 31, 2018 unless and until revoked by the Board of Directors. The amount shown as the maximum number of shares that may yet be purchased was calculated using the closing price of our stock on the last trading day of the fiscal period and the cumulative limit of \$50.0 million remaining under the program.



Table of Contents

## Item 6. Selected Financial Data

## Selected Financial Data

(In thousands, except percentages and per share data)

	Twelve Months Ended					
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	
Revenues	\$1,197,509	\$1,311,917	\$1,343,135	\$1,263,089	\$892,574	
Cost of revenues	1,116,506	1,185,926	1,255,765	1,126,616	797,872	
Gross profit	81,003	125,991	87,370	136,473	94,702	
Gross margin %	6.8	% 9.6	% 6.5	% 10.8	% 10.6	%
Selling, general and administrative expenses	76,144	85,109	78,568	77,866	57,988	
Selling, general and administrative %	6.4	% 6.5	% 5.8	% 6.2	% 6.5	%
Operating income	4,859	40,882	8,802	58,607	36,714	
Operating income %	0.4	% 3.1	% 0.7	% 4.6	% 4.1	%
Net income (loss)	138	25,537	(1,898)	36,877	24,008	
Net income (loss) attributable to noncontrolling interest	321	(3,326)	(19,055)	1,067	—	
Net income (loss) attributable to Matrix Service Company	(183)	28,863	17,157	35,810	24,008	
Earnings (loss) per share-basic	(0.01)	1.09	0.64	1.36	0.92	
Earnings (loss) per share-diluted	(0.01)	1.07	0.63	1.33	0.91	
Working capital	139,654	129,416	114,209	105,687	131,908	
Total assets	586,030	564,967	561,689	568,932	409,978	
Long-term debt	44,682	—	8,804	11,621	—	
Capital expenditures	11,908	13,939	15,773	23,589	23,231	
Cash flows provided (used) by operations	(18,746)	33,587	26,240	76,988	57,084	
Backlog	682,273	868,672	1,420,598	915,826	626,737	

Refer to the Results of Operations section included in Part II, Item 7 of this Annual Report on Form 10-K for a discussion of the impacts of business combinations and contract charges that materially impacted the comparability of information in the Selected Financial Data table above, particularly for the fiscal year ended 2017 in comparison to the fiscal year ended 2016, and the fiscal year ended 2016 in comparison to the fiscal year ended 2015.

Table of Contents

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

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

**CRITICAL ACCOUNTING ESTIMATES****Revenue Recognition**

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

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

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

**Change Orders and Claims**

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

only when realization is assured beyond a reasonable doubt. Change orders that are unapproved as to both price and scope are evaluated as claims.

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

## Table of Contents

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

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

As of June 30, 2017 and June 30, 2016, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$11.0 million and \$10.3 million, respectively.

Historically, our collections for unapproved change orders and claims have approximated the amount of revenue recognized.

### Loss Contingencies

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

Legal costs are expensed as incurred.

### Insurance Reserves

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

### Goodwill

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

We perform our annual test during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional tests. The goodwill impairment test involves comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, then goodwill is not impaired. If the fair value of a reporting unit is less than its carrying value, then goodwill is impaired to the extent of the difference, but the impairment may not exceed the balance of goodwill assigned to that reporting unit. We performed our annual goodwill impairment test as of May 31, 2017, which resulted in lower headroom, however no impairment was indicated. We define "headroom" as the percentage difference between the fair value of a reporting unit and its carrying value.

Management utilizes a discounted cash flow analysis, referred to as an income approach, to determine the estimated fair value of our reporting units. Significant judgments and assumptions including forecasted project awards, discount rate, anticipated revenue growth rate, gross margins, operating expenses, working capital needs and capital expenditures are inherent in these fair value estimates, which are based on our operating and capital budgets and on our strategic plan. As a result, actual results may differ from the estimates utilized in our income approach. The use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and could result in

the recognition of an impairment charge in the financial statements. As a result of these uncertainties, we utilize multiple scenarios and assign probabilities to each of the scenarios in the income approach. We also consider the combined carrying values of our reporting units to our market capitalization.

Table of Contents

We also consider the amount of headroom for each reporting unit when determining whether an impairment existed. The amount of headroom varies by reporting unit. Our significant assumptions, including revenue growth rates, gross margins, discount rate and other factors may change in light of changes in the economic and competitive environment in which we operate. Assuming that all other components of our fair value estimate remain unchanged, a change in the following assumptions would have the following effect on headroom:

Sensitivity Analysis					
Goodwill					
	as of				
	June 30, 2017 (in thousands)	Headroom	1% Decline in Revenue Growth Rate	1% Decline in Gross Margin Percentage	1% Increase in Discount Rate
Reporting Unit 1	\$42,217	24%	22%	7%	13%
Reporting Unit 2 <sup>(1)</sup>	\$7,994	9%	8%	-7%	1%
Reporting Unit 3	\$6,112	13%	11%	-15%	2%
Reporting Unit 4	\$4,132	18%	15%	-11%	8%
All other reporting units	\$53,046	7% <sup>(2)</sup> to 172%	4% <sup>(2)</sup> to 166%	-14% <sup>(2)</sup> to 68%	0% <sup>(2)</sup> to 145%

The valuation model for Reporting Unit 2 incorporates the award of a significant project prior to the end of the second fiscal quarter, with project work to commence shortly thereafter. Management has concluded this award is (1) probable of occurring. If the project is ultimately not awarded to us, the Company currently expects this would represent a triggering event requiring an interim evaluation of goodwill with respect to this reporting unit, which could result in a material impairment.

Includes goodwill attributable to the December 2016 acquisition of Houston Interests. Since the acquisition was (2) recorded at fair value, the anticipated headroom at June 30, 2017 for the Houston Interests related reporting units were not expected to be significant.

If the market view of revenue opportunities or gross margins changes for any of the reporting units, the Company may need to perform an interim impairment analysis, which could result in a material impairment of goodwill.

**Other Intangible Assets**

If we are required to perform an interim goodwill analysis, and such analysis indicates impairment, the Company would need to perform an impairment analysis of relevant customer relationships and other intangible assets. With respect to Reporting Unit 2 referenced above, customer relationships with a net book value of \$7.2 million as of June 30, 2017 could potentially be impaired if the reporting unit is concluded to be impaired. We will continue to monitor all intangible assets for indications of impairment and perform tests as necessary.

**Deferred Income Taxes**

We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances based on our judgments and estimates are established when necessary to reduce deferred tax assets to the amount expected to be realized in future operating results. Company management believes that realization of deferred tax assets in excess of the valuation allowance is more likely than not. Our estimates are based on facts and circumstances in existence as well as interpretations of existing tax regulations and laws applied to the facts and circumstances, with the help of professional tax advisors. Therefore, we estimate and provide for amounts of additional income taxes that may be assessed by the various taxing authorities.



Table of Contents

Recently Issued Accounting Standards

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

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted on a limited basis.

Management is currently evaluating the impact of adopting the ASU on the Company's financial position, results of operations, cash flows and related disclosures. Adoption of this ASU is expected to affect the manner in which the Company determines the unit of account for its projects (i.e., performance obligations). Under existing guidance, the Company may have multiple performance obligations for large, complex projects. Upon adoption, the Company expects that similar projects may have fewer performance obligations, possibly just one in some cases, which will result in a more constant recognition of revenue and profit over the term of the project. The Company will adopt this standard on July 1, 2018 using the modified retrospective method of application, which may result in a cumulative effect adjustment to retained earnings as of the date of adoption.

Management has completed its review of the new revenue standard and is currently developing a plan to review its contracts in order to confirm its understanding of how the new standard will impact its revenue recognition policy, disclosures, processes and internal controls. At this time, we cannot reliably estimate the amount of any potential retrospective adjustment.

Accounting Standards Update 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40):

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern."

The ASU was adopted during the Company's first fiscal quarter ending September 30, 2016. In connection with the adoption of the ASU, the Company now performs an assessment of its ability to continue as a going concern on a quarterly basis. Disclosure regarding the status of the Company's ability to continue as a going concern is required when there are conditions or events that raise substantial doubt about its ability to continue as a going concern within one year after the date that the financial statements are issued.

Accounting Standards Update 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

On September 25, 2015, the FASB issued ASU 2015-16 to simplify the accounting for measurement-period adjustments. The ASU was issued in response to stakeholder feedback that restatements of prior periods to reflect adjustments made to provisional amounts recognized in a business combination increase the cost and complexity of financial reporting but do not significantly improve the usefulness of the information. Under the ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had



been recognized as of the acquisition date. We adopted this standard on July 1, 2016 with no material impact to the Company's financial statements.

Table of Contents

Accounting Standards Update 2016-02, Leases (Topic 842)

On February 25, 2016, the FASB issued ASU 2016-02. The amendments in this update require, among other things, that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, but we do not plan to do so at this time.

We are currently evaluating the ASU's expected impact on our financial statements. See Note 8 - Operating Leases for more information about the timing and amount of future operating lease payments, which we believe is indicative of the materiality of adoption of the ASU to our financial statements.

Accounting Standards Update 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

On March 30, 2016, the FASB issued ASU 2016-09, which simplified several aspects of accounting for stock-based compensation transactions, including the accounting for income taxes and forfeitures and statutory tax withholding requirements. The Company adopted the ASU during its first fiscal quarter ending September 30, 2016. The following is a description of the key provisions of the ASU and their impacts to the Company's financial statements:

**Accounting for Income Taxes:** The amendments require the Company to recognize excess tax benefits or tax deficiencies in its provision for income taxes in its consolidated statements of income during the period of vesting or exercise of its nonvested deferred share awards and stock options, respectively, for which it expects to receive an income tax deduction. Previously, the Company recognized any excess tax benefits in additional paid-in capital ("APIC") in the balance sheet and any tax deficiencies were recognized as a reduction of APIC to the extent the Company has accumulated excess tax benefits. Any tax deficiencies in excess of accumulated excess tax benefits in APIC were recognized in the provision for income taxes. The amendments also require the Company to only present excess tax benefits and tax deficiencies in the operating section of its statements of cash flows as a component of deferred tax activity. Previously, the Company was required to present such items in both the financing section and operating section of its statements of cash flows. Amendments related to the recognition of excess tax benefits and tax deficiencies in income are required to be applied prospectively, and amendments related to the cash flow statement presentation of excess tax benefits and tax deficiencies may be applied either retrospectively or prospectively.

The Company applied the amendments requiring the recognition of excess tax benefits and tax deficiencies in income prospectively. As a result, the Company recognized \$0.5 million of excess tax benefits in its provision for income taxes during the year ended June 30, 2017, which increased basic and diluted earnings per share by \$0.02. Under the prior accounting standard, the Company would have recognized the excess tax benefits in equity as APIC. The amendments relating to the presentation of excess tax benefits and tax deficiencies in the statement of cash flows were applied retrospectively. The effect of the retrospective adjustment was to eliminate the presentation of an operating cash outflow and a financing cash inflow for excess tax benefits on exercised stock options and vesting of deferred shares. These eliminations decreased net cash provided by operating activities by \$3.3 million and decreased net cash used by financing activities by \$3.3 million for the year ended June 30, 2016, and decreased net cash provided by operating activities by \$1.8 million and increased cash provided by financing activities by \$1.8 million for the year ended June 30, 2015. Net cash flows did not change in either year as a result of the retrospective adjustment.

**Accounting for Forfeitures:** The amendments in this ASU allow the Company to elect, as a company-wide accounting policy, either to continue to estimate the amount of forfeitures to exclude from compensation expense or to exclude forfeitures from compensation expense as they occur. Upon the adoption of the ASU during the first quarter of fiscal 2017, the Company elected to account for forfeitures as they occur. The Company is required to apply these amendments on a modified retrospective basis with a cumulative adjustment to retained earnings as of the beginning of the fiscal year. The Company recorded a modified retrospective adjustment to reduce the June 30, 2016 retained earnings balance and increase the APIC balance by \$0.1 million each.

Statutory Tax Withholding Requirements: Under the prior accounting standard, an entire award must be classified as a liability if the fair value of the shares withheld exceeds the Company's minimum statutory withholding obligation. Under the ASU, the Company is allowed to withhold shares with a fair value up to the amount of tax owed using the maximum statutory tax rate in the employee's applicable jurisdictions. The Company is allowed to determine one maximum rate for all employees in each jurisdiction, rather than a rate for each employee in the jurisdiction. Also, the ASU requires that cash outflows to reacquire shares withheld for taxes to be classified in the financing section of the statement of cash flows.

Table of Contents

The Company adopted the ASU during the first quarter of fiscal 2017. Since the Company did not have any awards classified as liabilities due to statutory tax withholding requirements as of June 30, 2017, and since the Company already presented its cash outflows for reacquiring shares withheld for taxes as a financing activity in its statements of cash flows, these amendments did not have any impact on its financial statements upon adoption. The Company does not expect changes to employee withholdings for stock compensation to have a material impact to the financial statements.

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

On June 16, 2016, the FASB issued ASU 2016-13, which will change how the Company accounts for its allowance for uncollectible accounts. The amendments in this update require a financial asset (or a group of financial assets) to be presented at the net amount expected to be collected. The income statement will reflect any increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.

Current GAAP delays the recognition of the full amount of credit losses until the loss is probable of occurring. The amendments in this update eliminate the probable initial recognition threshold and, instead, reflect the Company's current estimate of all expected credit losses. In addition, current guidance limits the information the Company may consider in measuring a credit loss to its past events and current conditions. The amendments in this update broaden the information the Company may consider in developing its expected credit loss estimate to include forecasted information.

The amendments in this update are effective for the Company on July 1, 2020 and the Company may early adopt on July 1, 2019. The Company must apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the Company does not expect this update to have a material impact to its estimate of the allowance for uncollectible accounts.

Accounting Standards Update 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

On January 26, 2017, the FASB issued ASU 2017-04, which simplifies the goodwill impairment test by eliminating step two from the procedure. Previously, goodwill was tested for impairment by performing a two-step test. The first step involves determining the fair value of a reporting unit and comparing it to the carrying amount of the reporting unit's net assets. If the fair value of the reporting unit is less than its carrying amount, then the goodwill assigned to that reporting unit is determined to be impaired and step two must then be completed to measure the amount of the impairment. Step two involved measuring the reporting unit's assets and liabilities at fair value following a process similar to determining the fair value of assets acquired and liabilities assumed in a business combination. The net fair value of the assets acquired and liabilities assumed was then compared to the fair value of the reporting unit in order to compute the implied goodwill for the reporting unit. The difference between the carrying amount of the reporting unit's goodwill and the amount of the implied goodwill computed was the amount of the goodwill impairment to be recognized. Under ASU 2017-04, instead of performing step two of the test, the Company will recognize an impairment charge to the extent a reporting unit's fair value is less than the carrying amount of its net assets, as indicated by step one of the test.

The standard must be applied prospectively and must be adopted in fiscal years beginning after December 15, 2019. Early adoption is permitted and the Company adopted the ASU during its fourth fiscal quarter of 2017. The Company performed its annual goodwill impairment test on May 31, 2017 in accordance with the adopted ASU.

Accounting Standards Update 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09 which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for interim and annual

reporting periods beginning after December 15, 2017. Early adoption is permitted and prospective application is required. Management does not expect the adoption of ASU 2017-09 to have a material impact on the Company's financial position, results of operations or cash flows.

Table of Contents

Results of Operations

Overview

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

The Electrical Infrastructure segment primarily encompasses 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, natural gas fired power stations, and renewable energy installations.

The Oil Gas & Chemical segment includes turnaround activities, plant maintenance, engineering and construction in the downstream and midstream petroleum industries. Our customers in these industries are engaged in refining crude oil and processing, fractionating, and marketing of natural gas and natural gas liquids. Another key offering is industrial cleaning services, which include hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the petrochemical, upstream petroleum, and sulfur extraction, recovery and processing markets.

The Storage Solutions segment includes new construction of crude and refined products, ASTs, as well as planned and emergency maintenance services. The Storage Solutions segment also includes balance of plant work in storage terminals and tank farms. Also included in the Storage Solutions segment is work related to specialty storage tanks, including LNG, LIN/LOX, LPG tanks and other specialty vessels, including spheres. Finally, we offer AST products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems and floating roof seals.

The Industrial segment primarily includes construction and maintenance work in the iron and steel, mining and minerals, and agricultural industries. Our work in the mining and minerals industry is primarily for customers engaged in the extraction of copper. Our work in the agricultural industry includes the engineering and design of grain silos, docks and handling systems; the design of control system automation and materials handling for the food industry; and engineering, construction, process design and balance of plant work for fertilizer production facilities. We also perform work in bulk material handling, thermal vacuum chambers, and other industrial markets.

The majority of the work for all segments is performed in the United States, with 19.7% of revenues generated internationally during fiscal 2017, 14.0% in fiscal 2016 and 10.2% in fiscal 2014. The percentage of revenues generated internationally is expected to decrease in fiscal 2018 compared to fiscal 2017 as work on a significant Canadian project in our Electrical Infrastructure segment nears completion. Significant period to period changes in revenues, gross profits and operating results are discussed below on a consolidated basis and for each segment.

Table of ContentsMatrix Service Company  
Results of Operations  
(In thousands)

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total	
<b>Fiscal Year 2017</b>						
Consolidated revenues	\$ 373,384	\$ 240,523	\$ 481,696	\$ 101,906	\$ 1,197,509	
Gross profit	7,137	12,675	55,651	5,540	81,003	
Gross profit %	1.9	% 5.3	% 11.6	% 5.4	% 6.8	%
Selling, general and administrative expenses	15,446	21,458	32,723	6,517	76,144	
Operating income (loss)	(8,309 )	(8,783 )	22,928	(977 )	4,859	
Operating income %	(2.2 )%	(3.7 )%	4.8	% (1.0 )%	0.4	%
<b>Fiscal Year 2016</b>						
Consolidated revenues	\$ 349,011	\$ 249,795	\$ 563,512	\$ 149,599	\$ 1,311,917	
Gross profit	29,301	18,553	67,843	10,294	125,991	
Gross profit %	8.4	% 7.4	% 12.0	% 6.9	% 9.6	%
Selling, general and administrative expenses	18,157	22,056	34,394	10,502	85,109	
Operating income (loss)	11,144	(3,503 )	33,449	(208 )	40,882	
Operating income %	3.2	% (1.4 )%	5.9	% (0.1 )%	3.1	%
<b>Fiscal Year 2015</b>						
Consolidated revenues	\$ 257,930	\$ 305,360	\$ 503,123	\$ 276,722	\$ 1,343,135	
Gross profit (loss)	(31,444 )	25,394	58,085	35,335	87,370	
Gross profit %	(12.2 )%	8.3	% 11.5	% 12.8	% 6.5	%
Selling, general and administrative expenses	12,849	18,330	29,016	18,373	78,568	
Operating income (loss)	(44,293 )	7,064	29,069	16,962	8,802	
Operating income %	(17.2 )%	2.3	% 5.8	% 6.1	% 0.7	%
<b>Variances Fiscal Year 2017 to Fiscal Year 2016 Increase/(Decrease)</b>						
Consolidated revenues	\$ 24,373	\$ (9,272 )	\$ (81,816 )	\$ (47,693 )	\$ (114,408 )	
Gross profit	(22,164 )	(5,878 )	(12,192 )	(4,754 )	(44,988 )	
Selling, general and administrative expenses	(2,711 )	(598 )	(1,671 )	(3,985 )	(8,965 )	
Operating income	(19,453 )	(5,280 )	(10,521 )	(769 )	(36,023 )	
<b>Variances Fiscal Year 2016 to Fiscal Year 2015 Increase/(Decrease)</b>						
Consolidated revenues	\$ 91,081	\$ (55,565 )	\$ 60,389	\$ (127,123)	\$ (31,218 )	
Gross profit	60,745	(6,841 )	9,758	(25,041 )	38,621	
Selling, general and administrative expenses	5,308	3,726	5,378	(7,871 )	6,541	
Operating income	55,437	(10,567 )	4,380	(17,170 )	32,080	

Table of Contents

Impact of Commodity Price Volatility

A major decline in crude oil prices beginning in late 2014 and uncertainty in the energy industry has continued to negatively impact our results, particularly in the Oil Gas & Chemical and Storage Solutions segments. In our Storage Solutions segment, our customers continue to take a long-term view of the market, but continue to be cautious short-term. In our Oil Gas & Chemical segment, we are beginning to see some capital project awards and an improving outlook in routine maintenance and turnaround work. Although we are seeing some positive signs, our customers have been responding to prolonged lower crude oil prices and commodity price uncertainty by reducing spending on capital projects and delaying elective maintenance. This response tends to lag the price movements of crude oil and other commodities due to budget cycles and the long-term nature of planning for capital projects, especially large capital projects. While the average price of crude oil has increased modestly and the business environment in the energy industry did improve during fiscal 2017, increased volumes of project awards in these segments could lag these positive developments.

In the Industrial segment, our iron and steel customers have been facing challenges related to the global steel production over-capacity and the strong U.S. Dollar, which led to fewer project awards and lower work volumes in fiscal 2017. However, we are currently experiencing increased bidding activity and have been awarded more projects recently, both of which suggest that business conditions for our iron and steel customers may be improving. Furthermore, the value of the U.S. Dollar has been trending downward since the middle of fiscal 2017, the price of crude oil has modestly increased during fiscal 2017 and we are seeing improving economic conditions in other industrial markets. These developments tend to increase demand for steel, which in turn may lead to more project awards from our iron and steel customers near term. In the mining and minerals markets, fiscal 2017 experienced lower spending due to the softness of other commodity prices. However, copper prices, to which our clients are particularly exposed, have increased in recent months.

We do not expect fluctuation in commodity prices to have a significant impact on the Electrical Infrastructure segment.

Fiscal 2017 Versus Fiscal 2016

Consolidated

Consolidated revenue was \$1.197 billion in fiscal 2017, a decrease of \$114.4 million, or 8.7% from consolidated revenue of \$1.312 billion in fiscal 2016. On a segment basis, consolidated revenue decreased in the Storage Solutions, Industrial and Oil Gas & Chemical segments by \$81.8 million, \$47.7 million, and \$9.3 million, respectively, which were partially offset by higher revenue in the Electrical Infrastructure segment of \$24.4 million.

Consolidated gross profit was \$81.0 million in fiscal 2017 compared to \$126.0 million in fiscal 2016. Gross margin decreased to 6.8% in fiscal 2017 compared to 9.6% in fiscal 2016. The reduction in gross margin in fiscal 2017 is primarily attributable to lower volumes, which led to increased under recovery of construction overhead costs, and the financial impact of an Electrical Infrastructure project (more fully discussed in Item 8. Financial Statements and Supplementary Data, Note 3 - Uncompleted Contracts).

Consolidated SG&A expenses were \$76.1 million in fiscal 2017 compared to \$85.1 million in the prior year. The decrease is primarily related to lower incentive compensation expense in fiscal 2017 and a bad debt charge of \$5.2 million from a client bankruptcy in fiscal 2016. Fiscal 2017 SG&A expense included \$1.1 million of acquisition and integration costs from the Houston Interests acquisition and fiscal 2016 SG&A expense included \$1.2 million of acquisition and integration costs from the Baillie Tank Equipment acquisition (See Item 8. Financial Statements and Supplementary Data, Note 2 - Acquisitions).

Net interest expense was \$2.1 million in fiscal 2017, and \$0.7 million in the prior year. The higher interest expense in fiscal 2017 is primarily attributable to the higher average debt balance in the current year, which is largely attributable to the borrowings used to fund the Houston Interests acquisition, which was completed in the second quarter of fiscal 2017, and borrowings due to the timing of collections and disbursements on the previously announced Electrical Infrastructure project.

Our effective tax rate for fiscal 2017 was 94.4% compared to 35.6% in the same period a year earlier. Our effective tax rate for fiscal 2017 was impacted, in part, by the Electrical Infrastructure project discussed above. The loss on this



project produced a tax benefit in Canada, which has a lower tax rate than the U.S. At the same time, the Company earned most of its taxable income domestically, which is taxed at a much higher rate. A full analysis of the Company's provision for income taxes is included in Item 8. Financial Statements and Supplementary Data, Note 6 - Income Taxes.

Net loss attributable to Matrix Service Company and the related fully diluted loss per share were \$0.2 million and \$0.01, respectively, in fiscal 2017 compared to net income and fully diluted earnings per share of \$28.9 million and \$1.07, respectively, in fiscal 2016.

Table of Contents**Electrical Infrastructure**

Revenue for the Electrical Infrastructure segment increased \$24.4 million to \$373.4 million in fiscal 2017 compared to \$349.0 million in fiscal 2016. The increase in revenue was primarily a result of higher volumes on a significant power generation project, partially offset by lower volumes in transmission and distribution work. The fiscal 2017 gross margin was 1.9% compared to 8.4% in fiscal 2016. The lower fiscal 2017 gross margin was primarily attributable to the financial impact of the project referenced in the discussion of consolidated results above (more fully discussed in Item 8. Financial Statements and Supplementary Data, Note 3 - Uncompleted Contracts). Fiscal 2016 gross margin was negatively impacted by charges recorded in connection with an acquired EPC joint venture project (more fully discussed in Item 8. Financial Statements and Supplementary Data, Note 3 - Uncompleted Contracts).

**Oil Gas & Chemical**

Revenue for the Oil Gas & Chemical segment was \$240.5 million in fiscal 2017 compared to \$249.8 million in fiscal 2016. The decrease in revenue is related to lower volume across the business as refiners continue to limit spending as the result of continued volatility in commodity prices and market uncertainty, partially offset by incremental revenues associated with Houston Interests, which was acquired in December 2016 (See Item 8. Financial Statements and Supplementary Data, Note 2 - Acquisitions). The gross margin was 5.3% in fiscal 2017 compared to 7.4% in fiscal 2016. The gross margin for fiscal 2017 was affected by lower volume, which led to increased under recovery of overhead costs.

**Storage Solutions**

Revenue for the Storage Solutions segment was \$481.7 million in fiscal 2017 compared to \$563.5 million in the prior year. The decrease is primarily attributable to reduced activity during the second half of fiscal 2017 on the previously announced project for the construction of crude gathering terminals that support the Dakota Access Pipeline project and lower volumes in our domestic storage business. Gross margin was 11.6% in fiscal 2017 as a result of strong project execution, partially offset by increased under recovery of overhead costs due to lower volumes. Gross margin in fiscal 2016 was 12.0% as a result of effective project execution.

**Industrial**

Revenue for the Industrial segment was \$101.9 million in fiscal 2017 compared to \$149.6 million in fiscal 2016. The decline in revenue is primarily attributable to lower business volumes in the iron and steel and mining markets as a result of depressed commodity prices, and lower revenue recognized on a large fertilizer project. The gross margin was 5.4% in fiscal 2017 compared to 6.9% in the prior year. The fiscal 2017 gross margin was negatively impacted by the under recovery of construction overhead costs due to reduced volume.

**Fiscal 2016 Versus Fiscal 2015****Consolidated**

Consolidated revenue was \$1.312 billion in fiscal 2016, a decrease of \$31.2 million, or 2.3% from consolidated revenue of \$1.343 billion in fiscal 2015. On a segment basis, consolidated revenue increased in the Electrical Infrastructure and Storage Solutions segments by \$91.1 million and \$60.4 million, respectively, but were offset by lower revenue in the Industrial and Oil Gas & Chemical segments of \$127.1 million and \$55.6 million, respectively. Consolidated gross profit was \$126.0 million in fiscal 2016 compared to \$87.4 million in fiscal 2015. The Company recorded project charges of \$7.1 million and \$53.4 million on the acquired EPC joint venture project in fiscal 2016 and fiscal 2015, respectively. The charges, which are discussed in Item 8. Financial Statements and Supplementary Data, Note 3 - Uncompleted Contracts, reduced fiscal 2016 gross margins by 0.6% to 9.6% and reduced fiscal 2015 gross margins by 4.3% to 6.5%.

Consolidated SG&A expenses were \$85.1 million in fiscal 2016 compared to \$78.6 million in the prior year. The increase in fiscal 2016 is primarily related to a bad debt charge of \$5.2 million, increased incentive expense related to higher profitability over the prior fiscal year, severance payments, and \$1.2 million of costs related to the Baillie Tank Equipment, Ltd. acquisition described in Note 2.

Net interest expense was \$0.7 million in fiscal 2016, and \$0.8 million in the prior year. Fiscal 2015 results include \$0.3 million of interest income attributable to an award received due to the settlement of a customer dispute.

Our effective tax rate for fiscal 2016 was 35.6% compared to 123.2% in the same period a year earlier. Our effective tax rate for fiscal 2016 and 2015 was impacted, in part, by the acquired EPC joint venture project charges in which the Company has a 65% interest and does not receive a tax benefit. A full analysis of the Company's provision for income taxes is included in Item 8. Financial Statements and Supplementary Data, Note 6 - Income Taxes.

Table of Contents

Fiscal 2016 net income attributable to Matrix Service Company and the related fully diluted earnings per share were \$28.9 million and \$1.07, compared to \$17.2 million and \$0.63 in the same period a year earlier.

Electrical Infrastructure

Revenue for the Electrical Infrastructure segment increased \$91.1 million to \$349.0 million in fiscal 2016 compared to \$257.9 million in the same period a year earlier. The increased revenue volume in fiscal 2016 was due to volume increases in power delivery and accelerating work on the previously announced Napanee Generating Station. The Company recorded project charges of \$7.1 million and \$53.4 million on the acquired EPC joint venture project in fiscal 2016 and fiscal 2015. The charges, which are discussed in Item 8. Financial Statements and Supplementary Data, Note 3 - Uncompleted Contracts, reduced fiscal 2016 segment gross margins by 2.3% to 8.4% and reduced fiscal 2015 segment gross margins by 22.2% to (12.2%).

Oil Gas & Chemical

Revenue for the Oil Gas & Chemical segment was \$249.8 million in fiscal 2016 compared to \$305.4 million in the same period a year earlier. The decrease of \$55.6 million is largely related to a significant turnaround in fiscal 2015 and lower levels of capital work in fiscal 2016. Fiscal 2016 gross margins were 7.4% compared to 8.3% a year earlier. Gross margins for fiscal 2016 were affected by lower volume, which led to the under recovery of overhead costs, and a project charge in our upstream business. Fiscal 2015 margins were negatively affected by lower than expected profitability on a significant turnaround.

Storage Solutions

Revenue for the Storage Solutions segment increased to \$563.5 million in fiscal 2016 compared to \$503.1 million in the prior year. The increase of \$60.4 million is primarily attributable to a previously announced project for the construction of crude gathering terminals feeding the Dakota Access Pipeline, partially offset by lower revenue volume in our Canadian operations. Gross margins were 12.0% for fiscal 2016 compared to 11.5% in the prior year. Fiscal 2016 margins were positively impacted by the improved recovery of construction overhead costs along with strong project execution.

Industrial

Revenue for the Industrial segment decreased \$127.1 million to \$149.6 million in fiscal 2016 compared to \$276.7 million in the same period a year earlier. The decline in revenue is primarily attributable to lower business volumes in the iron and steel and mining markets, and lower revenue recognized on a large fertilizer project that is nearing completion. Gross margins were 6.9% in fiscal 2016 compared to 12.8% in the same period a year earlier. Fiscal 2016 margins were positively impacted by strong project execution offset by a forecasted unfavorable customer settlement and lower margins on iron and steel work due to lower volume. Fiscal 2015 gross margins were high primarily due to profit recognized on favorable project completions and a favorable settlement with a customer.

Table of Contents

## Non-GAAP Financial Measure

EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as net income (loss) before interest expense, income taxes, depreciation and amortization. We have presented Adjusted EBITDA, which we define as net income (loss) attributable to Matrix Service Company before interest expense, income taxes, depreciation and amortization, 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 (loss) attributable to Matrix Service Company” is the most directly comparable GAAP measure to Adjusted EBITDA. Since Adjusted 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. Adjusted EBITDA, as we calculate it, may not be comparable to similarly titled measures employed by other companies. In addition, this measure is not a measure of our ability to fund our cash needs. As Adjusted EBITDA excludes certain financial information compared with net income (loss) attributable to Matrix Service Company, 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, Adjusted EBITDA, has certain material limitations as follows:

It does not include interest expense. Because we have borrowed money to finance our operations and to acquire businesses, pay commitment fees to maintain our senior revolving credit facility, and incur fees to issue letters of credit under the senior revolving 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 Adjusted EBITDA to net income (loss) attributable to Matrix Service Company follows:

	Twelve Months Ended		
	June 30,	June 30,	June 30,
	2017	2016	2015
	(in thousands)		
Net income (loss) attributable to Matrix Service Company	\$(183 )	\$28,863	\$17,157
Interest expense	2,211	852	1,236
Provision for income taxes	2,308	14,116	10,090
Depreciation and amortization	21,602	21,441	23,480
Adjusted EBITDA	\$25,938	\$65,272	\$51,963

Table of Contents

FINANCIAL CONDITION AND LIQUIDITY

Overview

We define liquidity as the ability to pay our liabilities as they become due, fund business operations and meet all contractual and financial obligations. Our primary sources of liquidity in fiscal 2017 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 June 30, 2017 totaled \$43.8 million and availability under the senior revolving credit facility totaled \$78.4 million, resulting in total liquidity of \$122.2 million. The United States Dollar equivalent of Canadian, South Korean, Australian and Colombian deposits totaled \$7.7 million and is included in our consolidated cash balance. We expect to fund our operations for the next twelve months through the use of cash generated from operations, existing cash balances and borrowings under our senior revolving credit facility, as necessary.

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

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

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

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

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

- Other changes in working capital.

- Capital expenditures.

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

- Acquisitions of new businesses.

- Strategic investments in new operations.

- Purchases of shares under our stock buyback program.

- Contract disputes which can be significant.

- Collection issues, including those caused by weak commodity prices or other factors which can lead to credit deterioration of our customers

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

- Cash on hand outside of the United States that cannot be repatriated without incremental taxation

Table of Contents

## Cash Flows Used by Operating Activities

Cash flows used by operating activities for the twelve months ended June 30, 2017 totaled \$18.7 million. Major components of cash flows from operating activities for the year ending June 30, 2017 are as follows:

## Net Cash Used by Operating Activities

(In thousands)

Net income	\$138
Non-cash expenses	30,669
Deferred income tax	(2,556 )
Cash effect of changes in working capital, net of acquisitions	(47,286 )
Other	289
Net cash used by operating activities	\$(18,746)

Working capital changes, net of effects from acquisitions, at June 30, 2017 in comparison to June 30, 2016 include the following:

Accounts receivable, net of bad debt expense recognized during the period, increased by \$11.9 million during fiscal 2017, which reduced cash flows from operating activities. The variance is primarily attributable to the timing of billing and collections.

Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") decreased \$13.6 million while billings on uncompleted contracts in excess of costs and estimated earnings ("BIE") increased \$5.2 million, both of which increased cash flows from operating activities. The changes were due to the timing of invoice billings and collections. CIE and BIE balances can experience significant day-to-day fluctuations based on contract terms, the timing of when job costs are incurred, the invoicing of those job costs to the customer and subsequent cash collection, and other factors. See the Consolidated Statement of Cash Flows at Part 2, Item 8 of this Annual Report on Form 10-K for adjustments to net income and the impact of operating activities.

Accounts payable decreased by \$37.0 million, which reduced cash flows from operating activities. The decrease was primarily due to the timing of payments and lower volumes of work in fiscal 2017 compared to the prior year.

Accrued expenses decreased by \$9.6 million, which reduced cash flows from operating activities. The decrease was primarily due to lower volumes of work in fiscal 2017 compared to the prior year and timing.

## Cash Flows Used for Investing Activities

Investing activities used \$51.4 million of cash during the year ended June 30, 2017 due to \$40.8 million of cash paid for the acquisition of Houston Interests and capital expenditures of \$11.9 million, partially offset by proceeds from asset dispositions of \$1.3 million. Capital expenditures included \$4.4 million for office equipment and software, \$3.8 million for the purchase of construction, fabrication equipment and small tools, \$3.3 million for transportation equipment, and \$0.4 million for land and buildings. The Company expects to spend approximately \$8.2 million on capital expenditures in fiscal 2018.

## Cash Flows Provided by Financing Activities

Financing activities provided \$42.7 million of cash during the year ended June 30, 2017 primarily due to net borrowings under our senior revolving credit facility of \$44.7 million and capital contributions received from the non-controlling interest holder of the EPC joint venture of \$0.9 million. These sources of cash were partially offset by the repurchase of \$2.3 million of Company stock for payment of withholding taxes due on equity-based compensation and the \$1.1 million payment of fees related to the amendment and restatement and extension of our senior revolving credit facility.

Outstanding borrowings at June 30, 2017 under our senior revolving credit facility were primarily used to fund the acquisition of Houston Interests and working capital needs in our Canadian business due to the timing of collections and disbursements on the previously announced Electrical Infrastructure project.





Table of Contents

Senior Revolving Credit Facility

On February 8, 2017, the Company entered into the Fourth Amended and Restated Credit Agreement (the "Credit Agreement"), by and among the Company and certain foreign subsidiaries, as Borrowers, various subsidiaries of the Company, as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, Sole Lead Arranger and Sole Bookrunner, and the other Lenders party thereto, which replaced the Third Amended and Restated Credit Agreement dated as of November 7, 2011, as previously amended (the "Prior Credit Agreement").

The Credit Agreement provides for a five-year senior secured revolving credit facility of \$300.0 million that expires February 8, 2022, which replaces the \$250.0 million senior secured revolving credit facility under the Prior Credit Agreement. The new credit facility may be used for working capital, acquisitions, capital expenditures, issuances of letters of credit and other lawful purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

- ▲ Leverage Ratio, determined as of the end of each fiscal quarter, may not exceed 3.00 to 1.00.
  - ▲ Fixed Charge Coverage Ratio, determined as of the end of each fiscal quarter, greater than or equal to 1.25 to 1.00.
- Asset dispositions (other than dispositions in which all of the net cash proceeds therefrom are reinvested into the Company and dispositions of inventory and obsolete or unneeded equipment in the ordinary course of business) are limited to \$20.0 million per 12-month period.

The new credit facility includes a sub-facility for revolving loans denominated in Australian Dollars, Canadian Dollars, Euros and Pounds Sterling in an aggregate amount not to exceed the U.S. Dollar equivalent of \$75.0 million and a \$200.0 million sublimit for letters of credit.

Each revolving borrowing under the Credit Agreement will bear interest at a rate per annum equal to:

- The ABR or the Adjusted LIBO Rate, in the case of revolving loans denominated in U.S. Dollars;
- The Canadian Prime Rate or the CDOR rate, in the case of revolving loans denominated in Canadian Dollars;
- The Adjusted LIBO Rate, in the case of revolving loans denominated in Pounds Sterling or Australian Dollars;
- The EURIBO Rate, in the case of revolving loans denominated in Euros,

in each case, plus the Applicable Margin, which is based on the Company's Leverage Ratio. The Applicable Margin on ABR loans ranges between 0.625% and 1.625%. The Applicable Margin for Adjusted LIBO, EURIBO and CDOR loans ranges between 1.625% and 2.625% and the Applicable Margin for Canadian Prime Rate loans ranges between 2.125% and 3.125%.

The unused credit facility fee is between 0.25% and 0.45% based on the Leverage Ratio.

The Credit Agreement includes a Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended June 30, 2017, Consolidated EBITDA, as defined in the Credit Agreement, was \$43.6 million. Accordingly, at June 30, 2017, there was a restriction on our ability to access the full amount of the senior revolving credit facility. However, any continued constraint in future fiscal periods is not expected to impact our ability to operate the business. Consolidated Funded Indebtedness, as defined in the Credit Agreement, at June 30, 2017 was \$52.5 million.

Consolidated EBITDA, as defined in the Credit Agreement, or "Covenant EBITDA," differs from Adjusted EBITDA, as reported under "Results of Operations - Non-GAAP Financial Measure," in Item 7 primarily because it permits the Company to:

- exclude non-cash stock-based compensation expense,
- include pro forma EBITDA of acquired businesses as if the acquisition occurred at the beginning of the previous four quarters, and
- exclude certain other extraordinary items, as defined in the Credit Agreement. The Company excluded as extraordinary items the acquisition and integration costs incurred during the previous four quarters.



Table of Contents

Availability under the senior revolving credit facility is as follows:

	June 30, 2017	June 30, 2016
	(In thousands)	
Senior revolving credit facility	\$300,000	\$200,000
Capacity constraint due to the Senior Leverage Ratio	169,092	20,138
Capacity under the senior revolving credit facility	130,908	179,862
Borrowings outstanding	44,682	—
Letters of credit	7,825	20,755
Availability under the senior revolving credit facility	\$78,401	\$159,107

Although the constraint reduces our liquidity, the Company believes that the remaining availability under our senior revolving credit facility along with cash on hand and cash generated from operations will provide sufficient liquidity to achieve both our short-term and long-term business objectives. In addition, the credit agreement amendment discussed below under the caption "Subsequent Event" will further enhance our liquidity during the first half of fiscal 2018.

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

Outstanding borrowings at June 30, 2017 under our Credit Agreement were primarily used to fund the acquisition of Houston Interests and working capital needs in our Canadian business due to the timing of collections and disbursements on the previously announced Electrical Infrastructure project.

At June 30, 2017, the Company was at the lowest margin tier for the Adjusted LIBO Rate, EURIBO Rate, Alternate Base Rate, CDOR and Canadian Prime Rate loans and the lowest tier for the Unused Revolving Credit Facility Fee. Subsequent Event

On August 31, 2017, the Company entered in to an amendment to its Credit Agreement, which provided the following:

The maximum permitted Leverage Ratio was temporarily increased to 4.00 to 1.00 for the quarters ending September 30, 2017, and December 31, 2017. The maximum Leverage Ratio will revert back to 3.00 to 1.00 beginning with the quarter ending March 31, 2018.

The Fixed Charge Coverage Ratio will not be tested for the quarters ending September 30, 2017 and December 31, 2017, but will be in effect and tested quarterly thereafter beginning with the quarter ending March 31, 2018.

A new minimum Consolidated EBITDA covenant was added solely for the four-quarter period ending December 31, 2017. For this period, the Company is required to achieve Consolidated EBITDA of \$15.0 million.

The Restricted Payments covenant was amended to restrict cash dividends and share repurchases during the period beginning August 31, 2017 and ending December 31, 2017 to an aggregate basket of \$5.0 million. In addition, during such period, both cash dividends and share repurchases are prohibited unless the pro forma Leverage Ratio is less than or equal to 2.50 to 1.00. Thereafter, the restriction reverts back to limiting cash dividends to 50% of net income for each fiscal year, and limiting share repurchases to \$30.0 million per calendar year.

- An additional increased pricing tier was added for the "Covenant Relief Period" beginning on August 31, 2017 and ending on the date we deliver our financial statements and compliance certificate for the fiscal quarter ending December 31, 2017. If our Leverage Ratio as of any quarterly calculation date during the Covenant Relief Period exceeds 3.00 to 1.00: (1) the Applicable Margin on ABR loans will be 1.875%; (2) the Applicable Margin for Adjusted LIBO, EURIBO and CDOR will be 2.875%; (3) the Applicable Margin for Canadian

Prime Rate loans will be 3.375%; and (4) the unused credit facility fee will be 0.50%.

Table of Contents

## 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 cash dividends on our capital stock during any fiscal year up to an amount which, when added to all other cash dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to date, except that, pursuant to an amendment to our Credit Agreement, from August 31, 2017 through December 31, 2017, the total of cash dividend payments, along with share repurchases, may not exceed \$5.0 million. In addition, during this time we are prohibited from paying cash dividends or repurchasing stock unless the pro forma Leverage Ratio, as defined in the Credit Agreement, is less than or equal to 2.50 to 1.00 (see Item 8. Financial Statements and Supplementary Data, Note 5 - Debt for information about the amended Credit Agreement subsequent event). While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

## Treasury Shares

On December 12, 2016, the Board of Directors approved a new stock buyback program (the "December 2016 Program"), which replaced the previous program that had been in place since November 2014. Under the December 2016 Program, the Company may repurchase common stock of the Company in any calendar year commencing with calendar year 2016 and continuing through calendar year 2018, up to a maximum of \$25.0 million per calendar year. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions, except during the period from August 31, 2017 until December 31, 2017, when share repurchases, along with cash dividend payments, are restricted to an aggregate basket of \$5.0 million under our Credit Agreement. In addition, during this time share repurchases may only be made if the pro forma Leverage Ratio is less than or equal to 2.50 to 1.00 (see Item 8. Financial Statements and Supplementary Data, Note 5 - Debt for information about the amended Credit Agreement subsequent event). The December 2016 Program will continue through December 31, 2018 unless and until it is modified or revoked by the Board of Directors. No shares have been repurchased under the December 2016 Program as of June 30, 2017.

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 134,535 and 205,504 shares of common stock during fiscal 2017 and 2016, respectively, to satisfy these obligations. These shares were returned to the Company's pool of treasury shares. The Company has 1,287,655 treasury shares as of June 30, 2017 and intends to utilize these treasury shares in connection with equity awards under the Company's stock incentive plans and for sales to the Employee Stock Purchase Plan.

## Off-Balance Sheet Arrangements

As of June 30, 2017, the following off-balance sheet arrangements were in place to support our ordinary course obligations:

	Expiration Period				Total
	Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years	
	(In thousands)				
Letters of credit <sup>(1)</sup>	\$15,659	\$ —	\$ —	\$ —	—\$15,659
Surety bonds	67,271	2,227	20	—	69,518
Total	\$82,930	\$ 2,227	\$ 20	\$ —	—\$85,177

All letters of credit issued under our senior revolving credit facility are in support of our workers' compensation insurance programs or certain construction contracts. The letters of credit that support our workers' compensation programs are expected to renew annually through the term of our senior revolving credit facility. The letters of credit that support construction contracts will expire within a year.



Table of Contents

## Contractual Obligations

Contractual obligations at June 30, 2017 are summarized below:

	Contractual Obligations by Expiration Period				
	Less than		More than		
	1	1-3 Years	3-5 Years	5	Total
	Year				Years
	(In thousands)				
Borrowings under senior revolving credit facility <sup>(1)</sup>	\$—	\$—	\$ 44,682	\$—	\$44,682
Interest payments on debt <sup>(1)</sup>	2,547	4,841	4,895	—	12,283
Operating leases	7,477	11,332	7,013	10,129	35,951
Purchase obligations	2,424	2,697	674	—	5,795
Total contractual obligations	\$12,448	\$ 18,870	\$ 57,264	\$ 10,129	\$98,711

- (1) Assumes total debt principal at June 30, 2017 is carried to maturity with no future borrowings or repayments.  
 (1) Interest payments on debt assumes the lowest margin tier that the Company was at for the fiscal year ended 2017.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

## Interest Rate Risk

Our interest rate risk results primarily from our variable rate indebtedness under our Credit Agreement, which is influenced by movements in short-term rates. Borrowings under our \$300.0 million senior revolving credit facility bear interest at a rate per annum equal to:

- The ABR or the Adjusted LIBO Rate, in the case of revolving loans denominated in U.S. Dollars;
- The Canadian Prime Rate or the CDOR rate, in the case of revolving loans denominated in Canadian Dollars;
- The Adjusted LIBO Rate, in the case of revolving loans denominated in Pounds Sterling or Australian Dollars;
- The EURIBO Rate, in the case of revolving loans denominated in Euros,

in each case, plus the Applicable Margin, which is based on the Company's Leverage Ratio. The Applicable Margin on ABR loans ranges between 0.625% and 1.625%. The Applicable Margin for Adjusted LIBO, EURIBO and CDOR loans ranges between 1.625% and 2.625% and the Applicable Margin for Canadian Prime Rate loans ranges between 2.125% and 3.125%.

## Subsequent Event

On August 31, 2017, the Company amended its Credit Agreement, which resulted in an additional pricing tier so that if our Leverage Ratio exceeds 3.00 to 1.00 during the Covenant Relief Period: (1) the Applicable Margin on ABR loans will be 1.875%; (2) the Applicable Margin for Adjusted LIBO, EURIBO and CDOR will be 2.875%; (3) the Applicable Margin for Canadian Prime Rate loans will be 3.375%; and (4) the unused credit facility fee will be 0.50%. See Item 8. Financial Statements and Supplementary Data, Note 5 - Debt for more information about the amended Credit Agreement.

Financial instruments with interest rate risk at June 30, 2017 were as follows:

	Maturity by Fiscal Year					Total	Fair Value as of June 30, 2017
	2019	2020	2021	2022			
	(In thousands)						

## Long-term debt:

Variable rate debt	\$—	\$—	\$—	\$—	\$44,682	\$ 44,682	\$ 44,682
--------------------	-----	-----	-----	-----	----------	-----------	-----------





Table of Contents

Financial instruments with interest rate risk at June 30, 2016 were as follows:

	Maturity by Fiscal Year					Total	Fair Value as of June 30, 2016
	2018	2019	2020	2021			
	(In thousands)						

Long-term debt:

Variable rate debt	\$-	\$-	\$-	\$-	\$-	\$-	—
--------------------	-----	-----	-----	-----	-----	-----	---

#### Foreign Currency Risk

Matrix Service Company has subsidiaries with operations in Canada, South Korea and Colombia, which use the Canadian Dollar, South Korean Won and Colombian Peso, respectively, as their functional currencies. The Company also has a subsidiary with operations in Australia, but its functional currency is the U.S. Dollar since its sales are primarily denominated in U.S. Dollars. The Company's operations in Colombia resulted from business acquired as part of the Houston Interests, LLC acquisition and the operations in South Korea and Australia were acquired in the Baillie Tank Equipment, Ltd. acquisition. Both acquisitions are discussed in Note 2 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Historically, movements in the Canadian Dollar to U.S. Dollar exchange rate have not significantly impacted the Company's results. Also, the Company does not expect exchange rate fluctuations in its South Korean, Australian and Colombian operations to materially impact its financial results since these operations represent an insignificant portion of the Company's consolidated revenues and expenses. However, further growth in its Canadian, South Korean, Australian and/or Colombian operations and/or significant fluctuations in the Canadian Dollar, South Korean Won, Australian Dollar and/or Colombian Peso to U.S. Dollar exchange rates could impact the Company's financial results in the future.

Management has not entered into derivative instruments to hedge foreign currency risk, but periodically evaluates the materiality of our foreign currency exposure. To mitigate our risk, on occasion we borrow Canadian Dollars under our senior revolving credit facility to settle U.S. Dollar account balances. A 10% unfavorable change in the Canadian Dollar against the U.S. Dollar would not have had a material impact on the financial results of the Company for the fiscal year ended June 30, 2017.

#### Commodity Price Risk

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

Table of Contents

Item 8. Financial Statements and Supplementary Data

Financial Statements of the Company

<u>Management’s Report on Internal Control Over Financial Reporting</u>	<u>45</u>
---	-----------

<u>Reports of Independent Registered Public Accounting Firm</u>	<u>46</u>
---	-----------

<u>Consolidated Statements of Income for the Years Ended June 30, 2017, June 30, 2016, and June 30, 2015</u>	<u>48</u>
--	-----------

<u>Consolidated Statements of Comprehensive Income for the Years Ended June 30, 2017, June 30, 2016, and June 30, 2015</u>	<u>49</u>
--	-----------

<u>Consolidated Balance Sheets as of June 30, 2017 and June 30, 2016</u>	<u>50</u>
--	-----------

<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2017, June 30, 2016, and June 30, 2015</u>	<u>52</u>
--	-----------

<u>Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended June 30, 2017, June 30, 2016, and June 30, 2015</u>	<u>54</u>
---	-----------

<u>Notes to Consolidated Financial Statements</u>	<u>55</u>
---	-----------

<u>Quarterly Financial Data (Unaudited)</u>	<u>83</u>
---	-----------

<u>Schedule II—Valuation and Qualifying Accounts</u>	<u>84</u>
--	-----------

Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II – Valuation and Qualifying Accounts for the three fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015 immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.

Table of Contents

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Matrix Service Company (the “Company”) and its wholly-owned subsidiaries are responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations and cannot provide absolute assurance that all objectives will be met. Internal control over financial reporting is a process that involves diligence and is subject to lapses in judgment and human error. Internal control over financial reporting can also be circumvented by collusion or management override of controls. Because of these limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis.

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of June 30, 2017. In making this assessment, the Company’s management used the criteria established in Internal Control—Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework.

During fiscal year 2017, the Company completed the acquisition of Houston Interests, LLC ("Houston Interests"). Refer to Note 2 - Acquisitions, for additional information regarding this event. Management has excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of June 30, 2017. The revenues attributable to this business represented approximately 3 percent of the Company's consolidated revenues for the year ended June 30, 2017 and its aggregate total assets represented approximately 13 percent of the Company's consolidated total assets as of June 30, 2017.

Management’s assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, overall control environment and information systems control environment. Based on this assessment, the Company’s management has concluded that the Company’s internal control over financial reporting as of June 30, 2017 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of June 30, 2017. Deloitte & Touche LLP’s report on the Company’s internal control over financial reporting is included herein.

/S/ John R. Hewitt  
John R. Hewitt  
President and Chief Executive Officer  
September 11, 2017

/S/ Kevin S. Cavanah  
Kevin S. Cavanah  
Vice President and Chief Financial Officer

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Matrix Service Company  
Tulsa, Oklahoma

We have audited the internal control over financial reporting of Matrix Service Company and subsidiaries (the “Company”) as of June 30, 2017, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Houston Interests, LLC, which was acquired on December 12, 2016 and whose financial statements constitute 3% of the Company’s consolidated revenues and 13% of the Company’s consolidated total assets of the consolidated financial statement amounts as of and for the year ended June 30, 2017. Accordingly, our audit did not include the internal control over financial reporting at Houston Interests, LLC. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2017 and financial statement schedule of the Company and our report dated September 11, 2017 expressed an unqualified opinion on those

financial statements and financial statement schedule.

/S/ DELOITTE & TOUCHE LLP

Tulsa, Oklahoma

September 11, 2017

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Matrix Service Company  
Tulsa, Oklahoma

We have audited the accompanying consolidated balance sheets of Matrix Service Company and subsidiaries (the “Company”) as of June 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders’ equity for each of the three years in the period ended June 30, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Matrix Service Company and subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2017, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 11, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP  
Tulsa, Oklahoma  
September 11, 2017

Table of Contents

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

	Twelve Months Ended		
	June 30, 2017	June 30, 2016	June 30, 2015
Revenues	\$ 1,197,509	\$ 1,311,917	\$ 1,343,135
Cost of revenues	1,116,506	1,185,926	1,255,765
Gross profit	81,003	125,991	87,370
Selling, general and administrative expenses	76,144	85,109	78,568
Operating income	4,859	40,882	8,802
Other income (expense):			
Interest expense	(2,211	) (852	) (1,236
Interest income	132	190	468
Other	(334	) (567	) 158
Income before income tax expense	2,446	39,653	8,192
Provision for federal, state and foreign income taxes	2,308	14,116	10,090
Net income (loss)	138	25,537	(1,898
Less: Net income (loss) attributable to noncontrolling interest	321	(3,326	) (19,055
Net income (loss) attributable to Matrix Service Company	\$(183	) \$28,863	\$17,157
Basic earnings (loss) per common share	\$(0.01	) \$1.09	\$0.64
Diluted earnings (loss) per common share	\$(0.01	) \$1.07	\$0.63
Weighted average common shares outstanding:			
Basic	26,533	26,597	26,603
Diluted	26,533	27,100	27,177

See accompanying notes

48

---

Table of Contents

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

	Twelve Months Ended		
	June 30,	June 30,	June 30,
	2017	2016	2015
Net income (loss)	\$ 138	\$ 25,537	\$ (1,898 )
Other comprehensive loss, net of tax:			
Foreign currency translation loss (net of tax of \$180, \$236 and \$606 for the years ended June 30, 2017, 2016 and 2015, respectively)	(479 )	(919 )	(5,744 )
Comprehensive income (loss)	(341 )	24,618	(7,642 )
Less: Comprehensive income (loss) attributable to noncontrolling interest	321	(3,326 )	(19,055 )
Comprehensive income (loss) attributable to Matrix Service Company	\$(662)	\$ 27,944	\$ 11,413

See accompanying notes

49

---



Table of ContentsMatrix Service Company  
Consolidated Balance Sheets  
(In thousands)

	June 30, 2017	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$43,805	\$71,656
Accounts receivable, less allowances (2017 - \$9,887; 2016 - \$8,403)	210,953	190,434
Costs and estimated earnings in excess of billings on uncompleted contracts	91,180	104,001
Inventories	3,737	3,935
Income taxes receivable	4,042	9
Other current assets	4,913	5,411
Total current assets	358,630	375,446
Property, plant and equipment, at cost:		
Land and buildings	38,916	39,224
Construction equipment	94,298	90,386
Transportation equipment	48,574	49,046
Office equipment and software	36,556	29,577
Construction in progress	5,952	7,475
Total property, plant and equipment - at cost	224,296	215,708
Accumulated depreciation	(144,022 )	(130,977 )
Property, plant and equipment - net	80,274	84,731
Goodwill	113,501	78,293
Other intangible assets	26,296	20,999
Deferred income taxes	3,385	3,719
Other assets	3,944	1,779
Total assets	\$586,030	\$564,967

See accompanying notes

50

Table of Contents

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

	June 30, 2017	June 30, 2016
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 105,649	\$ 141,445
Billings on uncompleted contracts in excess of costs and estimated earnings	75,127	58,327
Accrued wages and benefits	20,992	27,716
Accrued insurance	9,340	9,246
Income taxes payable	169	2,675
Other accrued expenses	7,699	6,621
Total current liabilities	218,976	246,030
Deferred income taxes	128	3,198
Borrowings under senior revolving credit facility	44,682	—
Other liabilities	435	173
Total liabilities	264,221	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 June 30, 2017 and June 30, 2016; 26,600,562 and 26,297,145 shares outstanding as of June 30, 2017 and June 30, 2016	279	279
Additional paid-in capital	128,419	126,958
Retained earnings	222,974	223,257
Accumulated other comprehensive loss	(7,324 )	(6,845 )
	344,348	343,649
Less treasury stock, at cost — 1,287,655 and 1,591,072 shares as of June 30, 2017 and June 30, 2016	(22,539 )	(26,907 )
Total Matrix Service Company stockholders' equity	321,809	316,742
Noncontrolling interest	—	(1,176 )
Total stockholders' equity	321,809	315,566
Total liabilities and stockholders' equity	\$ 586,030	\$ 564,967

See accompanying notes

51

---

Table of Contents

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

	Twelve Months Ended		
	June 30, 2017	June 30, 2016	June 30, 2015
Operating activities:			
Net income (loss)	\$ 138	\$ 25,537	\$(1,898 )
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities, net of effects of acquisitions:			
Depreciation and amortization	21,602	21,441	23,480
Deferred income tax	(2,556 )	1,871	(1,052 )
Gain on sale of property, plant and equipment	(142 )	(39 )	(252 )
Provision for uncollectible accounts	1,748	6,034	357
Stock-based compensation expense	7,461	6,317	6,302
Other	289	240	238
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:			
Accounts receivable	(11,932 )	4,152	6,831
Costs and estimated earnings in excess of billings on uncompleted contracts	13,567	(17,930 )	(13,063 )
Inventories	198	606	272
Other assets and liabilities	(7,641 )	7,380	11,558
Accounts payable	(37,047 )	14,698	12,957
Billings on uncompleted contracts in excess of costs and estimated earnings	5,212	(38,377 )	(11,736 )
Accrued expenses	(9,643 )	1,657	(7,754 )
Net cash provided (used) by operating activities	(18,746 )	33,587	26,240
Investing activities:			
Acquisitions, net of cash acquired (Note 2)	(40,819 )	(13,049 )	(5,551 )
Acquisition of property, plant and equipment	(11,908 )	(13,939 )	(15,773 )
Proceeds from asset sales	1,308	422	750
Net cash used by investing activities	\$(51,419)	\$(26,566)	\$(20,574)

See accompanying notes

52

Table of Contents

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

	Twelve Months Ended		
	June 30, 2017	June 30, 2016	June 30, 2015
Financing activities:			
Advances under senior revolving credit facility	\$126,933	\$10,213	\$11,165
Repayments of advances under senior revolving credit facility	(82,251 )	(19,017 )	(13,982 )
Payment of debt amendment fees	(1,073 )	—	—
Open market purchase of treasury shares	—	(10,461 )	(5,000 )
Issuances of common stock	253	638	493
Proceeds from issuance of common stock under employee stock purchase plan	305	335	298
Repurchase of common stock for payment of statutory taxes due on equity-based compensation	(2,290 )	(4,588 )	(2,528 )
Capital contributions from noncontrolling interest	855	10,892	8,546
Repayment of acquired long-term debt	—	(1,858 )	—
Net cash provided (used) by financing activities	42,732	(13,846 )	(1,008 )
Effect of exchange rate changes on cash	(418 )	(758 )	(2,534 )
Net increase (decrease) in cash and cash equivalents	(27,851 )	(7,583 )	2,124
Cash and cash equivalents, beginning of period	71,656	79,239	77,115
Cash and cash equivalents, end of period	\$43,805	\$71,656	\$79,239
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	\$11,968	\$9,365	\$6,960
Interest	\$1,788	\$881	\$1,281
Non-cash investing and financing activities:			
Accrued acquisition working capital adjustment (Note 2)	\$1,687	\$—	\$—
Purchases of property, plant and equipment on account	\$483	\$193	\$439
Assumption of debt from acquisition (Note 2)	\$—	\$1,858	\$—

See accompanying notes

53

Table of Contents

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Non- Controlling Interest	Total
Balances, July 1, 2014	\$ 279	\$ 119,777	\$ 177,237	\$(16,595)	\$ (182 )	\$ 1,767	\$ 282,283
Capital contributions from noncontrolling interest	—	—	—	—	—	8,546	8,546
Net income (loss)	—	—	17,157	—	—	(19,055 )	(1,898 )
Other comprehensive loss	—	—	—	—	(5,744 )	—	(5,744 )
Treasury Shares sold to Employee Stock Purchase Plan (13,243 shares)	—	134	—	164	—	—	298
Exercise of stock options (55,200 shares)	—	(275 )	—	768	—	—	493
Issuance of deferred shares (326,763 shares)	—	(4,702 )	—	4,702	—	—	—
Treasury shares repurchased to satisfy tax withholding obligations (105,058 shares)	—	—	—	(2,528 )	—	—	(2,528 )
Tax effect of exercised stock options and vesting of deferred shares	—	1,802	—	—	—	—	1,802
Open market purchases of treasury shares (283,772 shares)	—	—	—	(5,000 )	—	—	(5,000 )
Stock-based compensation expense	—	6,302	—	—	—	—	6,302
Balances, June 30, 2015	279	123,038	194,394	(18,489 )	(5,926 )	(8,742 )	284,554
Capital contributions from noncontrolling interest	—	—	—	—	—	10,892	10,892
Net income (loss)	—	—	28,863	—	—	(3,326 )	25,537
Other comprehensive loss	—	—	—	—	(919 )	—	(919 )
Treasury Shares sold to Employee Stock Purchase Plan (17,304 shares)	—	177	—	158	—	—	335
Exercise of stock options (68,037 shares)	—	14	—	624	—	—	638
Issuance of deferred shares (631,443 shares)	—	(5,849 )	—	5,849	—	—	—
Treasury shares repurchased to satisfy tax withholding obligations (205,504 shares)	—	—	—	(4,588 )	—	—	(4,588 )
Tax effect of exercised stock options and vesting of deferred shares	—	3,261	—	—	—	—	3,261
Open market purchases of treasury shares (654,958 shares)	—	—	—	(10,461 )	—	—	(10,461 )
Stock-based compensation expense	—	6,317	—	—	—	—	6,317
Balances, June 30, 2016	279	126,958	223,257	(26,907 )	(6,845 )	(1,176 )	315,566
Retrospective adjustment upon adoption of ASU 2016-09 (see Note	—	100	(100 )	—	—	—	—

Edgar Filing: MATRIX SERVICE CO - Form 10-K

1)							
Balances, June 30, 2016, as adjusted	279	127,058	223,157	(26,907 )	(6,845 )	(1,176 )	315,566
Capital contributions from							
Non-Controlling Interest	—	—	—	—	—	855	855
Net income (loss)	—	—	(183 )	—	—	321	138
Other comprehensive loss	—	—	—	—	(479 )	—	(479 )
Treasury Shares Sold to Employee							
Stock Purchase Plan (16,609 shares)	—	(25 )	—	330	—	—	305
Exercise of stock options (24,813							
shares)	—	(317 )	—	570	—	—	253
Issuance of deferred shares (396,530							
shares)	—	(5,758 )	—	5,758	—	—	—
Treasury shares repurchased to							
satisfy tax withholding obligations	—	—	—	(2,290 )	—	—	(2,290 )
(134,535 shares)							
Stock-based compensation expense	—	7,461	—	—	—	—	7,461
Balances, June 30, 2017	\$ 279	\$ 128,419	\$ 222,974	\$ (22,539)	\$ (7,324 )	\$ —	\$ 321,809

See accompanying notes

54

Table of Contents

Matrix Service Company

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Organization and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Matrix Service Company (“Matrix” or the “Company”) and its subsidiaries, all of which are wholly owned. Intercompany transactions and balances have been eliminated in consolidation.

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

Use of Estimates

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

Revenue Recognition

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

Matrix has numerous contracts that are in various stages of completion which require estimates to determine the appropriate cost and revenue recognition. The Company has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs, and accordingly, does not believe significant fluctuations are likely to materialize. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete fixed-price contracts indicate a loss, provision is made through a contract write-down for the total loss anticipated. A number of our contracts contain various cost and performance incentives and penalties that impact the earnings we realize from our contracts, and adjustments related to these incentives and penalties are recorded in the period, on a percentage-of-completion basis, when estimable and probable. Indirect costs, such as salaries and benefits, supplies and tools, equipment costs and insurance costs, are charged to projects based upon direct labor hours and overhead allocation rates per direct labor hour. Warranty costs are normally incurred prior to project completion and are charged to project costs as they are incurred. Warranty costs incurred subsequent to project completion were not material for the periods presented. Overhead allocation rates are established annually during the budgeting process.

Precontract Costs

Precontract costs are costs incurred in anticipation of obtaining a contract that will result in no future benefit unless the contract is obtained. The Company generally expenses precontract costs to cost of revenue as incurred, but, in certain cases their recognition may be deferred if specific criteria are met. We had no deferred precontract costs at June 30, 2017 or 2016.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Change Orders and Claims Recognition

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

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

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

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

Cash and Cash Equivalents

The Company includes as cash equivalents all investments with original maturities of three months or less which are readily convertible into cash. The Company had approximately \$0.3 million of restricted cash related to a customer deposit at June 30, 2017 and 2016. We have cash on deposit at June 30, 2017 with banks in the United States, Canada, South Korea, Australia and Colombia in excess of Federal Deposit Insurance Corporation ("FDIC"), Canada Deposit Insurance Corporation ("CDIC"), Korea Deposit Insurance Corporation ("KDIC"), Financial Claims Scheme ("FCS") and Fondo de Garantias de Instituciones Financieras protection limits, respectively. The United States Dollar equivalent of Canadian, South Korean, Australian and Colombian deposits totaled \$7.7 million as of June 30, 2017.

Accounts Receivable

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

Retentions

Contract retentions collectible beyond one year are included in Other Assets in the Consolidated Balance Sheets. Accounts payable retentions are generally settled within one year.





Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Loss Contingencies

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

Legal costs are expensed as incurred.

Inventories

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

Depreciation

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

Impairment of Long-Lived Assets

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

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

Goodwill

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

We perform our annual test during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional tests. The goodwill impairment test involves comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, then goodwill is not impaired. If the fair value of a reporting unit is less than its carrying value, then goodwill is impaired to the extent of the difference, but the impairment may not exceed the balance of goodwill assigned to that reporting unit.

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

assign probabilities to each of the scenarios in the income approach. We also consider the combined carrying values of our reporting units to our market capitalization.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Other Intangible Assets

Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives ranging from 1 year to 15 years. A finite intangible asset is considered impaired when its carrying amount is not recoverable and exceeds the asset's fair value. The carrying amount is deemed unrecoverable if it is greater than the sum of undiscounted cash flows expected to result from use and eventual disposition of the asset. An impairment loss is equal to the excess of the carrying amount over the fair value of the asset. If quoted market prices are not available, the fair values of the intangible assets are based on present values of expected future cash flows or royalties avoided using discount rates commensurate with the risks involved.

Insurance Reserves

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, coverage limits and self-insured retentions. We establish reserves for claims using a combination of actuarially determined estimates and case-by-case evaluations of the underlying claim data and update our evaluations as further information becomes known. Judgments and assumptions are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. If actual results of claim settlements are different than the amounts estimated we may be exposed to future gains and losses that could be material.

Stock-Based Compensation

The Company has issued stock options and nonvested deferred share awards under its long-term incentive compensation plans. The fair value of these awards is calculated at grant date. The fair value of time-based, nonvested deferred shares is the value of the Company's common stock at the grant date. The fair value of market-based nonvested deferred shares is based on several factors, including the probability that the market condition specified in the grant will be achieved. The fair value of stock options is determined based on the Black-Scholes option pricing model. For all stock-based awards, expense is recognized over the requisite service period with forfeitures recorded as they occur.

Income Taxes

We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances based on our judgments and estimates are established when necessary to reduce deferred tax assets to the amount expected to be realized in future operating results. Company management believes that realization of deferred tax assets in excess of the valuation allowance is more likely than not. Our estimates are based on facts and circumstances in existence as well as interpretations of existing tax regulations and laws applied to the facts and circumstances, with the help of professional tax advisors. Therefore, we estimate and provide for amounts of additional income taxes that may be assessed by the various taxing authorities.

Foreign Currency

The functional currencies of the Company's operations in Canada, South Korea, Australia and Colombia are the Canadian Dollar, South Korean Won, U.S. Dollar and Colombian Peso, respectively. For subsidiaries with operations using a foreign functional currency, assets and liabilities are translated at the year end exchange rates and the income statement accounts are translated at average exchange rates throughout the year. Translation gains and losses are reported in Accumulated Other Comprehensive Income (Loss) in the Consolidated Statements of Changes in Stockholders' Equity and in Other Comprehensive Income (Loss) in the Consolidated Statements of Comprehensive Income. Transaction gains and losses are reported as a component of Other income (expense) in the Consolidated Statements of Income.



Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Recently Issued Accounting Standards

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

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted on a limited basis.

Management is currently evaluating the impact of adopting the ASU on the Company's financial position, results of operations, cash flows and related disclosures. Adoption of this ASU is expected to affect the manner in which the Company determines the unit of account for its projects (i.e., performance obligations). Under existing guidance, the Company may have multiple performance obligations for large, complex projects. Upon adoption, the Company expects that similar projects may have fewer performance obligations, possibly just one in some cases, which will result in a more constant recognition of revenue and profit over the term of the project. The Company will adopt this standard on July 1, 2018 using the modified retrospective method of application, which may result in a cumulative effect adjustment to retained earnings as of the date of adoption.

Management has completed its review of the new revenue standard and is currently developing a plan to review its contracts in order to confirm its understanding of how the new standard will impact its revenue recognition policy, disclosures, processes and internal controls. At this time, we cannot reliably estimate the amount of any potential retrospective adjustment.

Accounting Standards Update 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern."

The ASU was adopted during the Company's first fiscal quarter ending September 30, 2016. In connection with the adoption of the ASU, the Company now performs an assessment of its ability to continue as a going concern on a quarterly basis. Disclosure regarding the status of the Company's ability to continue as a going concern is required when there are conditions or events that raise substantial doubt about its ability to continue as a going concern within one year after the date that the financial statements are issued.

Accounting Standards Update 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

On September 25, 2015, the FASB issued ASU 2015-16 to simplify the accounting for measurement-period adjustments. The ASU was issued in response to stakeholder feedback that restatements of prior periods to reflect adjustments made to provisional amounts recognized in a business combination increase the cost and complexity of financial reporting but do not significantly improve the usefulness of the information. Under the ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the

face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. We adopted this standard on July 1, 2016 with no material impact to the Company's financial statements.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Accounting Standards Update 2016-02, Leases (Topic 842)

On February 25, 2016, the FASB issued ASU 2016-02. The amendments in this update require, among other things, that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, but we do not plan to do so at this time.

We are currently evaluating the ASU's expected impact on our financial statements. See Note 8 - Operating Leases for more information about the timing and amount of future operating lease payments, which we believe is indicative of the materiality of adoption of the ASU to our financial statements.

Accounting Standards Update 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

On March 30, 2016, the FASB issued ASU 2016-09, which simplified several aspects of accounting for stock-based compensation transactions, including the accounting for income taxes and forfeitures and statutory tax withholding requirements. The Company adopted the ASU during its first fiscal quarter ending September 30, 2016. The following is a description of the key provisions of the ASU and their impacts to the Company's financial statements:

**Accounting for Income Taxes:** The amendments require the Company to recognize excess tax benefits or tax deficiencies in its provision for income taxes in its consolidated statements of income during the period of vesting or exercise of its nonvested deferred share awards and stock options, respectively, for which it expects to receive an income tax deduction. Previously, the Company recognized any excess tax benefits in additional paid-in capital ("APIC") in the balance sheet and any tax deficiencies were recognized as a reduction of APIC to the extent the Company has accumulated excess tax benefits. Any tax deficiencies in excess of accumulated excess tax benefits in APIC were recognized in the provision for income taxes. The amendments also require the Company to only present excess tax benefits and tax deficiencies in the operating section of its statements of cash flows as a component of deferred tax activity. Previously, the Company was required to present such items in both the financing section and operating section of its statements of cash flows. Amendments related to the recognition of excess tax benefits and tax deficiencies in income are required to be applied prospectively, and amendments related to the cash flow statement presentation of excess tax benefits and tax deficiencies may be applied either retrospectively or prospectively.

The Company applied the amendments requiring the recognition of excess tax benefits and tax deficiencies in income prospectively. As a result, the Company recognized \$0.5 million of excess tax benefits in its provision for income taxes during the year ended June 30, 2017, which increased basic and diluted earnings per share by \$0.02. Under the prior accounting standard, the Company would have recognized the excess tax benefits in equity as APIC. The amendments relating to the presentation of excess tax benefits and tax deficiencies in the statement of cash flows were applied retrospectively. The effect of the retrospective adjustment was to eliminate the presentation of an operating cash outflow and a financing cash inflow for excess tax benefits on exercised stock options and vesting of deferred shares. These eliminations decreased net cash provided by operating activities by \$3.3 million and decreased net cash used by financing activities by \$3.3 million for the year ended June 30, 2016, and decreased net cash provided by operating activities by \$1.8 million and increased cash provided by financing activities by \$1.8 million for the year ended June 30, 2015. Net cash flows did not change in either year as a result of the retrospective adjustment.

**Accounting for Forfeitures:** The amendments in this ASU allow the Company to elect, as a company-wide accounting policy, either to continue to estimate the amount of forfeitures to exclude from compensation expense or to exclude forfeitures from compensation expense as they occur. Upon the adoption of the ASU during the first quarter of fiscal 2017, the Company elected to account for forfeitures as they occur. The Company is required to apply these amendments on a modified retrospective basis with a cumulative adjustment to retained earnings as of the beginning



of the fiscal year. The Company recorded a modified retrospective adjustment to reduce the June 30, 2016 retained earnings balance and increase the APIC balance by \$0.1 million each.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

**Statutory Tax Withholding Requirements:** Under the prior accounting standard, an entire award must be classified as a liability if the fair value of the shares withheld exceeds the Company's minimum statutory withholding obligation. Under the ASU, the Company is allowed to withhold shares with a fair value up to the amount of tax owed using the maximum statutory tax rate in the employee's applicable jurisdictions. The Company is allowed to determine one maximum rate for all employees in each jurisdiction, rather than a rate for each employee in the jurisdiction. Also, the ASU requires that cash outflows to reacquire shares withheld for taxes to be classified in the financing section of the statement of cash flows.

The Company adopted the ASU during the first quarter of fiscal 2017. Since the Company did not have any awards classified as liabilities due to statutory tax withholding requirements as of June 30, 2017, and since the Company already presented its cash outflows for reacquiring shares withheld for taxes as a financing activity in its statements of cash flows, these amendments did not have any impact on its financial statements upon adoption. The Company does not expect changes to employee withholdings for stock compensation to have a material impact to the financial statements.

**Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments**

On June 16, 2016, the FASB issued ASU 2016-13, which will change how the Company accounts for its allowance for uncollectible accounts. The amendments in this update require a financial asset (or a group of financial assets) to be presented at the net amount expected to be collected. The income statement will reflect any increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.

Current GAAP delays the recognition of the full amount of credit losses until the loss is probable of occurring. The amendments in this update eliminate the probable initial recognition threshold and, instead, reflect the Company's current estimate of all expected credit losses. In addition, current guidance limits the information the Company may consider in measuring a credit loss to its past events and current conditions. The amendments in this update broaden the information the Company may consider in developing its expected credit loss estimate to include forecasted information.

The amendments in this update are effective for the Company on July 1, 2020 and the Company may early adopt on July 1, 2019. The Company must apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the Company does not expect this update to have a material impact to its estimate of the allowance for uncollectible accounts.

**Accounting Standards Update 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment**

On January 26, 2017, the FASB issued ASU 2017-04, which simplifies the goodwill impairment test by eliminating step two from the procedure. Previously, goodwill was tested for impairment by performing a two-step test. The first step involves determining the fair value of a reporting unit and comparing it to the carrying amount of the reporting unit's net assets. If the fair value of the reporting unit is less than its carrying amount, then the goodwill assigned to that reporting unit is determined to be impaired and step two must then be completed to measure the amount of the impairment. Step two involved measuring the reporting unit's assets and liabilities at fair value following a process similar to determining the fair value of assets acquired and liabilities assumed in a business combination. The net fair value of the assets acquired and liabilities assumed was then compared to the fair value of the reporting unit in order to compute the implied goodwill for the reporting unit. The difference between the carrying amount of the reporting unit's goodwill and the amount of the implied goodwill computed was the amount of the goodwill impairment to be recognized. Under ASU 2017-04, instead of performing step two of the test, the Company will recognize an impairment charge to the extent a reporting unit's fair value is less than the carrying amount of its net assets, as

indicated by step one of the test.

The standard must be applied prospectively and must be adopted in fiscal years beginning after December 15, 2019. Early adoption is permitted and the Company adopted the ASU during its fourth fiscal quarter of 2017. The Company performed its annual goodwill impairment test on May 31, 2017 in accordance with the adopted ASU.

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

## Accounting Standards Update 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09 which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted and prospective application is required. Management does not expect the adoption of ASU 2017-09 to have a material impact on the Company's financial position, results of operations or cash flows.

## Note 2—Acquisitions

## Purchase of Houston Interests, LLC

On December 12, 2016, the Company completed the acquisition of Houston Interests, LLC ("Houston Interests"), a premier global solutions company that provides consulting, engineering, design, construction services and systems integration. Houston Interests brings expertise to the Company in natural gas processing; sulfur recovery, processing and handling; liquid terminals, silos and other bulk storage; process plant design; power generation environmental controls and material handling; industrial power distribution; electrical, instrumentation and controls; marine structures; material handling systems and terminals for cement, sulfur, fertilizer, coal and grain; and process heaters. The business has been included in our Matrix PDM Engineering, Inc. subsidiary, and its operating results have been included in the Oil Gas & Chemical and Industrial segments.

The Company purchased all of the equity interests of Houston Interests for \$42.5 million, net of working capital adjustments and cash acquired. The consideration paid as of June 30, 2017 is as follows (in thousands):

Cash paid for equity interest	\$46,000
Cash paid for working capital	5,150
Less: cash acquired	(10,331 )
Cash consideration paid	40,819
Accrued working capital adjustment	1,687
Net purchase price	\$42,506

The Company funded the equity interest portion of the consideration paid from borrowings under the Company's senior secured revolving credit facility (See Note 5). The purchase of working capital was paid with cash on hand. The net purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date.

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

The following table summarizes the preliminary net purchase price allocation (in thousands):

Cash and cash equivalents	\$10,331
Accounts receivable	10,273
Costs and estimated earnings in excess of billings on uncompleted contracts	746
Other current assets	454
Current assets	21,804
Property, plant and equipment	942
Goodwill	35,146
Other intangible assets	10,220
Total assets acquired	68,112
Accounts payable	962
Billings on uncompleted contracts in excess of costs and estimated earnings	11,648
Other accrued expenses	2,475
Current liabilities	15,085
Other liabilities	190
Net assets acquired	52,837
Less: cash acquired	10,331
Net purchase price	\$42,506

The goodwill recognized from the acquisition is primarily attributable to the technical expertise of the acquired workforce and the complementary nature of Houston Interests' operations, which the Company believes will enable the combined entity to expand its service offerings and enter new markets. All of the goodwill recognized is deductible for income tax purposes. The fair value of the net assets acquired is preliminary pending the final valuation of those assets. As a result, goodwill is also preliminary since it has been recorded as the excess of the purchase price over the estimated fair value of the net assets acquired.

The Company agreed to pay the previous owners up to \$2.6 million for any unused portion of acquired warranty obligations outstanding as of June 30, 2017. This agreement was settled for \$1.7 million, which was paid in July 2017. This settlement was reflected as a decrease to the acquired current liabilities and an increase to the net purchase price. The Company incurred \$0.6 million of expenses related to closing the acquisition during the year ended June 30, 2017, which were included within selling, general and administrative expenses in the consolidated statements of income. During the year ended June 30, 2017, the acquired business contributed revenues of \$33.4 million and operating income of \$1.3 million.

The unaudited financial information in the table below summarizes the combined results of operations of Matrix Service Company and Houston Interests for the years ended June 30, 2017 and 2016, on a pro forma basis, as though the companies had been combined as of July 1, 2015. The pro forma financial information presented in the table below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at July 1, 2015 nor should it be taken as indicative of future consolidated results of operations.

	Twelve Months Ended	
	June 30,	June 30,
	2017	2016
	(In thousands, except per share data)	
Revenues	\$1,233,372	\$1,427,313
Net income attributable to Matrix Service Company	\$7,326	\$32,352
Basic earnings per common share	\$0.28	\$1.22
Diluted earnings per common share	\$0.27	\$1.19



## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

The pro forma financial information presented in the table above includes the following adjustments to the combined entities' historical financial statements:

The combined entities recorded approximately \$3.3 million of acquisition and integration expenses during the year ended June 30, 2017, which were transferred in the pro forma earnings to the year ended June 30, 2016 in order to report them as if they were incurred on July 1, 2015. Pro forma earnings were adjusted to include integration expenses that would have been recognized had the acquisition occurred on July 1, 2015 of \$0.8 million and \$0.9 million during the years ended June 30, 2017 and 2016, respectively.

Interest expense for the combined entities was increased by \$0.7 million for the year ended June 30, 2017 and by \$1.4 million during the year ended June 30, 2016. The increase was attributable to the assumption that the Company's borrowings of \$46.0 million used to fund a portion of the acquisition had been outstanding as of July 1, 2015. This increase was partially offset by the assumption that Houston Interests' former debt was extinguished as of July 1, 2015.

Depreciation and intangible asset amortization expense for the combined entities was reduced by \$1.4 million during the year ended June 30, 2017 and was increased by \$1.8 million during the year ended June 30, 2016. These adjustments are primarily due to the recognition of amortizable intangible assets as part of the acquisition and the effect of fair value adjustments to acquired property, plant and equipment.

Pro forma earnings were adjusted to include additional income tax expense of \$2.0 million and \$2.2 million during the years ended June 30, 2017 and 2016, respectively. Houston Interests was previously an exempt entity and income taxes were not assessed in its historical financial information.

#### Purchase of Baillie Tank Equipment, Ltd.

On February 1, 2016, the Company completed the acquisition of all outstanding stock of Baillie Tank Equipment, Ltd. ("BTE"), an internationally-based company with nearly 20 years of experience in the design and manufacture of products for use on aboveground storage tanks. Founded in 1998, BTE is a provider of tank products including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems, and seals. BTE is headquartered in Sydney, Australia with a manufacturing facility in Seoul, South Korea. The Company acquired BTE to expand its service offerings of certain technical solutions for aboveground storage tanks. The business is now known as Matrix Applied Technologies, and its operating results are included in the Storage Solutions segment.

The Company purchased BTE with cash on-hand for a net purchase price of \$13.0 million. The Company paid \$15.4 million when including the subsequent repayment of long-term debt acquired and the settlement of certain other liabilities acquired, and excluding the cash acquired and certain amounts owed to the former owners for working capital adjustments. The net purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date.

The following table summarizes the final purchase price allocation (in thousands):

Current assets	\$5,574
Property, plant and equipment	4,347
Goodwill	7,030
Other intangible assets	720
Other assets	233
Total assets acquired	17,904
Current liabilities	1,669
Deferred income taxes	329
Long-term debt	1,858
Other liabilities	407
Net assets acquired	13,641
Less: cash acquired	592

Net purchase price           \$13,049

64

---



## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

The goodwill recognized from the acquisition is attributable to the synergies of combining our operations and the technical expertise of the acquired workforce. None of the goodwill recognized is deductible for income tax purposes. The Company incurred \$1.2 million of expenses related to the acquisition for the year ended June 30, 2016, which are included within selling, general and administrative expenses in the consolidated statements of income. The acquired business contributed revenues of \$7.8 million and operating income of \$0.5 million during the year ended June 30, 2017, and contributed revenues of \$5.4 million and operating income of \$0.3 million for the period from February 1, 2016 to June 30, 2016.

## Purchase of HDB Ltd. Limited Partnership

On August 22, 2014, the Company purchased substantially all of the assets of HDB Ltd. Limited Partnership ("HDB"). HDB, headquartered in Bakersfield, California provides construction, fabrication and turnaround services to energy companies throughout California's central valley. The acquisition advanced a strategic goal of the Company to expand into the upstream energy market. The acquisition purchase price was \$5.6 million and was funded with cash on hand. Commencing on August 22, 2014, HDB's operating results are included in the Oil Gas & Chemical Segment. The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The following table summarizes the purchase price allocation (in thousands):

Current assets	\$1,645
Property, plant and equipment	1,001
Tax deductible goodwill	3,065
Other intangible assets	900
Total assets acquired	6,611
Current liabilities	1,060
Net assets acquired	\$5,551

All of the recorded goodwill from the HDB acquisition is tax deductible. The operating data related to this acquisition was not material.

## 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 on uncompleted contracts is reported as a current liability. Gross and net amounts on uncompleted contracts are as follows:

	June 30, 2017	June 30, 2016
	(In thousands)	
Costs and estimated earnings recognized on uncompleted contracts	\$1,919,054	\$1,875,014
Billings on uncompleted contracts	1,903,001	1,829,340
	\$16,053	\$45,674
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$91,180	\$104,001
Billings on uncompleted contracts in excess of costs and estimated earnings	75,127	58,327
	\$16,053	\$45,674

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

Progress billings in accounts receivable at June 30, 2017 and June 30, 2016 included retentions to be collected within one year of \$54.3 million and \$29.7 million, respectively. Contract retentions collectible beyond one year are included in other assets in the condensed consolidated balance sheet and totaled \$1.9 million at June 30, 2017 and \$0.3 million at June 30, 2016. Accounts payable included retentions of \$12.6 million at June 30, 2017 and \$14.9 million at June 30, 2016. Accounts payable retentions are generally expected to be settled within one year.

## Other

Our results were negatively impacted by an increased cost estimate related to a large project in the Electrical Infrastructure segment, which resulted in a decrease in gross profit. The change in cost estimate resulted from a deterioration in the financial forecast of the project during the third fiscal quarter and was caused by various factors that have delayed schedule progress and reduced productivity. In July 2017, the Company reached a settlement agreement with the customer, which resolved open claims and modified the terms enabling the Company to recover all costs and overhead to perform the remainder of the work. In addition, the execution strategy was revised and a significant portion of future work will no longer be performed by the Company. The magnitude of the scope reduction is based on the Company's best estimate at this time but may change as the detailed execution plan continues to develop.

During the year ended June 30, 2015 our results of operations were materially impacted by charges resulting from a change in estimate related to an acquired EPC joint venture project in the Electrical Infrastructure segment. The charges resulted in a reduction to operating income of \$53.4 million and an after-tax reduction of \$18.3 million to net income attributable to Matrix Service Company for fiscal year 2015. The Company recorded additional charges on this project during the year ended June 30, 2016. The fiscal 2016 project charges are attributable to higher than expected project closeout costs. The Company reached substantial completion on the project in the fourth quarter of fiscal 2015.

## Note 4—Goodwill and Other Intangible Assets

## Goodwill

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

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Net balance at June 30, 2014	\$43,243	\$ 10,943	\$ 10,027	\$ 5,624	\$ 69,837
Acquisition related adjustments	175	—	—	44	219
Purchase of HDB (Note 2)	—	3,065	—	—	3,065
Translation adjustment <sup>(1)</sup>	(1,044 )	—	(363 )	(196 )	(1,603 )
Net balance at June 30, 2015	42,374	14,008	9,664	5,472	71,518
Purchase of BTE (Note 2)	—	—	6,942	—	6,942
Translation adjustment <sup>(1)</sup>	(204 )	—	75	(38 )	(167 )
Net balance at June 30, 2016	42,170	14,008	16,681	5,434	78,293
Purchase of Houston Interests (Note 2)	—	19,596	—	15,550	35,146
Acquisition related adjustments	—	—	88	—	88
Translation adjustment <sup>(1)</sup>	(18 )	—	(5 )	(3 )	(26 )
Net balance at June 30, 2017	\$42,152	\$ 33,604	\$ 16,764	\$ 20,981	\$ 113,501

The translation adjustments relate to the periodic translation of Canadian Dollar and South Korean Won (1)denominated goodwill recorded as a part of prior acquisitions in Canada and South Korea, in which the local currency was determined to be the functional currency.



## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

We performed our annual goodwill impairment test as of May 31, 2017, which resulted in no impairment. However, the aggregate difference between the fair values of our reporting units and their carrying amounts has decreased significantly since last year as a result of current market conditions. The fair value of one reporting unit (carrying value of goodwill of \$8.0 million) only exceeded its carrying amount by 9%. The valuation model for this reporting unit incorporates the award of a significant project prior to the end of the second fiscal quarter, with project work to commence shortly thereafter. Management has concluded this award is probable of occurring. If the project is ultimately not awarded to us, the Company currently expects this would represent a triggering event requiring an interim evaluation of goodwill with respect to this reporting unit, which could result in a material impairment. In addition, for our other reporting units, if the market view of revenue opportunities or gross margin changes, the Company may need to perform an interim analysis, which could result in the recognition of a material impairment to goodwill. The Company will continue to monitor the operating results of its reporting units each period and perform additional tests as needed.

## Other Intangible Assets

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

	At June 30, 2017			
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)	(In thousands)		
Intellectual property	9 to 15	\$2,579	\$ (1,425 )	\$ 1,154
Customer based	1 to 15	38,207	(13,543 )	24,664
Non-compete Agreements	4 to 5	1,453	(1,298 )	155
Trade names	1 to 3	1,630	(1,307 )	323
Total other intangible assets		\$43,869	\$ (17,573 )	\$ 26,296
	At June 30, 2016			
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)	(In thousands)		
Intellectual property	9 to 15	\$2,579	\$ (1,246 )	\$ 1,333
Customer based	1.5 to 15	28,179	(9,655 )	18,524
Non-compete agreements	4 to 5	1,453	(1,102 )	351
Trade name	3 to 5	1,615	(824 )	791
Total other intangible assets		\$33,826	\$ (12,827 )	\$ 20,999

If we are required to perform an interim goodwill analysis, and such analysis indicates impairment, the Company would need to perform an impairment analysis of relevant customer relationships and other intangible assets. With respect to the reporting unit referenced above, customer relationships with a net book value of \$7.2 million as of June 30, 2017 could potentially be impaired if the reporting unit is concluded to be impaired. We will continue to monitor all intangible assets for indications of impairment and perform tests as necessary.

The increase in the gross carrying amount of other intangible assets at June 30, 2017 compared to June 30, 2016 is primarily due to the December 12, 2016 acquisition of Houston Interests (See Note 2). The specifically identifiable intangible assets recognized in the Houston Interests acquisition consist of:

- customer-based intangibles with a fair value of \$10.0 million and useful life of between 1 and 9 years; and
- trade name with a fair value of \$0.2 million and useful life of 1 year.



## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

Amortization expense totaled \$4.9 million, \$3.6 million, and \$5.0 million in fiscal 2017, 2016, and 2015, respectively. The Company recognized \$1.6 million of amortization expense during the year ended June 30, 2017 for intangible assets recorded as part of the Houston Interests acquisition. We estimate that future amortization of other intangible assets will be as follows (in thousands):

For year ending:

June 30, 2018	\$4,742
June 30, 2019	3,501
June 30, 2020	3,491
June 30, 2021	3,472
June 30, 2022	2,618
Thereafter	8,472
Total estimated amortization expense	\$26,296

## Note 5—Debt

On February 8, 2017, the Company entered into the Fourth Amended and Restated Credit Agreement (the "Credit Agreement"), by and among the Company and certain foreign subsidiaries, as Borrowers, various subsidiaries of the Company, as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, Sole Lead Arranger and Sole Bookrunner, and the other Lenders party thereto, which replaced the Third Amended and Restated Credit Agreement dated as of November 7, 2011, as previously amended (the "Prior Credit Agreement").

The Credit Agreement provides for a five-year senior secured revolving credit facility of \$300.0 million that expires February 8, 2022, which replaces the \$250.0 million senior secured revolving credit facility under the Prior Credit Agreement. The new credit facility may be used for working capital, acquisitions, capital expenditures, issuances of letters of credit and other lawful purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

- ▲ Leverage Ratio, determined as of the end of each fiscal quarter, may not exceed 3.00 to 1.00.
  - ▲ Fixed Charge Coverage Ratio, determined as of the end of each fiscal quarter, greater than or equal to 1.25 to 1.00.
- Asset dispositions (other than dispositions in which all of the net cash proceeds therefrom are reinvested into the Company and dispositions of inventory and obsolete or unneeded equipment in the ordinary course of business) are limited to \$20.0 million per 12-month period.

The new credit facility includes a sub-facility for revolving loans denominated in Australian Dollars, Canadian Dollars, Euros and Pounds Sterling in an aggregate amount not to exceed the U.S. Dollar equivalent of \$75.0 million and a \$200.0 million sublimit for letters of credit.

Each revolving borrowing under the Credit Agreement will bear interest at a rate per annum equal to:

- ☐ The ABR or the Adjusted LIBO Rate, in the case of revolving loans denominated in U.S. Dollars;
- ☐ The Canadian Prime Rate or the CDOR rate, in the case of revolving loans denominated in Canadian Dollars;
- ☐ The Adjusted LIBO Rate, in the case of revolving loans denominated in Pounds Sterling or Australian Dollars;
- ☐ The EURIBO Rate, in the case of revolving loans denominated in Euros,

in each case, plus the Applicable Margin, which is based on the Company's Leverage Ratio. The Applicable Margin on ABR loans ranges between 0.625% and 1.625%. The Applicable Margin for Adjusted LIBO, EURIBO and CDOR loans ranges between 1.625% and 2.625% and the Applicable Margin for Canadian Prime Rate loans ranges between 2.125% and 3.125%.

The unused credit facility fee is between 0.25% and 0.45% based on the Leverage Ratio.

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

The carrying value of the senior revolving credit facility approximates its fair value at each balance sheet date. The Credit Agreement includes a Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 3.0 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended June 30, 2017, Consolidated EBITDA was \$43.6 million. Consolidated Funded Indebtedness, as defined in the Credit Agreement, at June 30, 2017 was \$52.5 million. Availability under the senior revolving credit facility is as follows:

	June 30, 2017	June 30, 2016
	(In thousands)	
Senior revolving credit facility	\$300,000	\$200,000
Capacity constraint due to the Leverage Ratio	169,092	20,138
Capacity under the senior revolving credit facility	130,908	179,862
Letters of credit issued	7,825	20,755
Borrowings outstanding	44,682	—
Availability under the senior revolving credit facility	\$78,401	\$159,107

Outstanding borrowings at June 30, 2017 under our Credit Agreement were primarily used to fund the acquisition of Houston Interests (See Note 2) and working capital needs in our Canadian business due to the timing of collections and disbursements on the previously announced Electrical Infrastructure project.

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

## Subsequent Event

On August 31, 2017, the Company entered in to an amendment to its Credit Agreement, which provided the following:

The maximum permitted Leverage Ratio was temporarily increased to 4.00 to 1.00 for the quarters ending September 30, 2017, and December 31, 2017. The maximum Leverage Ratio will revert back to 3.00 to 1.00 beginning with the quarter ending March 31, 2018.

The Fixed Charge Coverage Ratio will not be tested for the quarters ending September 30, 2017 and December 31, 2017, but will be in effect and tested quarterly thereafter beginning with the quarter ending March 31, 2018.

A new minimum Consolidated EBITDA covenant was added solely for the four-quarter period ending December 31, 2017. For this period, the Company is required to achieve Consolidated EBITDA of \$15.0 million.

The Restricted Payments covenant was amended to restrict cash dividends and share repurchases during the period beginning August 31, 2017 and ending December 31, 2017 to an aggregate basket of \$5.0 million. In addition, during such period, both cash dividends and share repurchases are prohibited unless the pro forma Leverage Ratio is less than or equal to 2.50 to 1.00. Thereafter, the restriction reverts back to limiting cash dividends to 50% of net income for each fiscal year, and limiting share repurchases to \$30.0 million per calendar year.

- An additional increased pricing tier was added for the "Covenant Relief Period" beginning on August 31, 2017 and ending on the date we deliver our financial statements and compliance certificate for the fiscal quarter ending December 31, 2017. If our Leverage Ratio as of any quarterly calculation date during the Covenant Relief Period exceeds 3.00 to 1.00: (1) the Applicable Margin on ABR loans will be 1.875%; (2) the Applicable

Margin for Adjusted LIBO, EURIBO and CDOR will be 2.875%; (3) the Applicable Margin for Canadian Prime Rate loans will be 3.375%; and (4) the unused credit facility fee will be 0.50%.



## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

## Note 6—Income Taxes

The sources of pretax income (loss) are as follows:

	Twelve Months Ended		
	June 30,	June 30,	June 30,
	2017	2016	2015
	(In thousands)		
Domestic	\$19,763	\$33,986	\$(4,001)
Foreign	(17,317 )	5,667	12,193
Total	\$2,446	\$39,653	\$8,192

For fiscal 2017, 2016 and 2015, domestic pretax income included a gain of \$0.3 million and losses of \$3.3 million and \$19.1 million, respectively, related to our acquired EPC joint venture project. The Company consolidates the acquired EPC joint venture project and reports a noncontrolling interest. Accordingly, the Company's pretax income includes the noncontrolling interest holder's share of the acquired EPC project loss for which the Company does not receive a tax benefit.

The components of the provision for income tax expense (benefit) are as follows:

	Twelve Months Ended		
	June 30,	June 30,	June 30,
	2017	2016	2015
	(In thousands)		
Current:			
Federal	\$6,522	\$9,930	\$7,535
State	(185 )	2,570	1,606
Foreign	(1,509 )	(262 )	1,791
	4,828	12,238	10,932
Deferred:			
Federal	618	887	1,803
State	101	67	(362 )
Foreign	(3,239 )	924	(2,283 )
	(2,520 )	1,878	(842 )
	\$2,308	\$14,116	\$10,090

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

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

	Twelve Months Ended		
	June 30, 2017	June 30, 2016	June 30, 2015
	(In thousands)		
Expected provision for Federal income taxes at the statutory rate	\$857	\$13,879	\$2,868
State income taxes, net of Federal benefit	808	1,827	1,023
Deemed foreign dividends	—	—	1,462
Charges without tax benefit	1,741	2,187	1,478
Change in valuation allowance	1,295	311	25
Excess tax benefits on stock-based compensation <sup>(1)</sup>	(496 )	—	—
IRC S199 deduction	(749 )	(999 )	—
Foreign tax credits	—	—	(1,433 )
Research and development and other tax credits	(1,626 )	(1,928 )	(1,197 )
Foreign tax differential	1,496	(815 )	(529 )
Noncontrolling interest	(112 )	1,164	6,669
Change in uncertain tax positions	(22 )	(569 )	—
Adjustment to tax accounts	(924 )	(786 )	—
Other	40	(155 )	(276 )
Provision for income taxes	\$2,308	\$14,116	\$10,090

This represents the amount recognized for excess tax benefits upon the vesting or exercise of nonvested deferred share awards and stock options, respectively, for which the Company expects to receive an income tax deduction.

(1) Upon the adoption of ASU 2016-09, excess tax benefits and tax deficiencies are recognized as part of the provision for income taxes. See Note 1 - Summary of Significant Accounting Policies, Recently Issued Accounting Standards, ASU 2016-09, for more information about the new accounting standard.

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

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

	June 30, June 30,	
	2017	2016
	(In thousands)	
Deferred tax assets:		
Warranty reserve	\$312	\$ 195
Bad debt reserve	3,869	3,188
Paid-time-off accrual	821	865
Insurance reserve	2,284	2,461
Legal reserve	82	87
Net operating loss benefit and credit carryforwards	9,332	8,207
Valuation allowance	(1,719 )	(424 )
Accrued compensation and pension	1,346	1,268
Stock compensation expense on nonvested deferred shares	3,731	3,472
Accrued losses	340	274
Foreign currency translation and other	1,080	1,041
Total deferred tax assets	21,478	20,634
Deferred tax liabilities:		
Tax over book depreciation	11,446	11,504
Tax over book amortization	3,325	2,588
Branch future liability	2,538	2,889
Prepaid insurance	—	396
Receivable holdbacks and other	912	2,736
Total deferred tax liabilities	18,221	20,113
Net deferred tax asset	\$3,257	\$ 521

As reported in the consolidated balance sheets:

	June 30, June 30,	
	2017	2016
	(In thousands)	
Deferred income tax assets	3,385	3,719
Deferred income tax liabilities	(128 )	(3,198 )
Net deferred tax asset	\$3,257	\$ 521

The Company has state net operating loss carryforwards, state tax credit carryforwards, federal foreign tax credit carryforwards, foreign net operating loss carryforwards and foreign tax credit carryforwards. The valuation allowance at June 30, 2017 and June 30, 2016 reduces the recognized tax benefit of these carryforwards to an amount that is more likely than not to be realized. These carryforwards will generally expire as shown below:

Tax Credit Carryforwards	Expiration Period	Amount (in thousands)
State tax credits	June 2017 to June 2032	\$ 498
Federal foreign tax credits	June 2018 to June 2024	\$ 2,348
Foreign tax credits	June 2034 to June 2036	\$ 612

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

Operating Loss Carryforwards Expiration Period	Amount (in thousands)
State net operating losses      June 2022 to June 2037	\$ 19,015
Foreign net operating losses    December 2028; June 2031 to June 2036	\$ 15,454

In general, it is the practice and intention of the Company to reinvest the earnings of its foreign subsidiaries in its foreign operations. Such amounts become subject to United States taxation upon the remittance of dividends and under certain other circumstances. As of June 30, 2017, unremitted earnings of foreign subsidiaries, which have been or are intended to be permanently invested, are approximately \$1.0 million. We anticipate that any deferred tax liability related to the investment in these foreign subsidiaries could be offset by foreign tax credits.

The Company files tax returns in multiple domestic and foreign taxing jurisdictions. With a few exceptions, the Company is no longer subject to examination by taxing authorities through fiscal 2012. At June 30, 2017, the Company updated its evaluation of its open tax years in all known jurisdictions. Based on this evaluation, the Company did not identify any material uncertain tax positions. We have recorded a \$0.6 million liability as of June 30, 2017 for unrecognized tax positions and the payment of related interest and penalties. We treat the related interest and penalties as income tax expense. Due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority will occur.

## Note 7—Contingencies

## Insurance Reserves

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

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

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

## Unapproved Change Orders and Claims

As of June 30, 2017 and June 30, 2016, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$11.0 million and \$10.3 million, respectively.

Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, customers may not pay these amounts until final resolution of related claims, and accordingly, collection of these amounts may extend beyond one year.

## Other

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

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

## Note 8—Operating Leases

The Company is the lessee under operating leases covering real estate and office equipment under non-cancelable operating lease agreements that expire at various times. Future minimum lease payments under non-cancelable operating leases that were in effect at June 30, 2017 total \$36.0 million and are payable as follows: fiscal 2018—\$7.5 million; fiscal 2019—\$6.3 million; fiscal 2020—\$5.0 million; fiscal 2021—\$4.4 million; fiscal 2022—\$2.6 million and thereafter—\$10.1 million. Operating lease expense was \$7.9 million, \$6.6 million and \$6.7 million for the twelve months ended June 30, 2017, June 30, 2016 and June 30, 2015, respectively.

## Note 9—Stockholders' Equity

## Preferred Stock

The Company has 5.0 million shares of preferred stock authorized, none of which was issued or outstanding at June 30, 2017 or June 30, 2016.

## Treasury Shares

On December 12, 2016, the Board of Directors approved a new stock buyback program (the "December 2016 Program"), which replaced the previous program that had been in place since November 2014. Under the December 2016 Program, the Company may repurchase common stock of the Company in any calendar year commencing with calendar year 2016 and continuing through calendar year 2018, up to a maximum of \$25.0 million per calendar year. The Company may repurchase its stock from time to time in the open market at prevailing market prices or in privately negotiated transactions, except during the period from August 31, 2017 until December 31, 2017, when share repurchases, along with cash dividend payments, are restricted to an aggregate basket of \$5.0 million under our Credit Agreement. In addition, during this time share repurchases may only be made if the pro forma Leverage Ratio is less than or equal to 2.50 to 1.00 (see Item 8. Financial Statements and Supplementary Data, Note 5 - Debt for information about the amended Credit Agreement subsequent event). The December 2016 Program will continue through December 31, 2018 unless and until it is modified or revoked by the Board of Directors. No shares have been repurchased under the December 2016 Program as of June 30, 2017.

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 134,535 and 205,504 shares of common stock during fiscal 2017 and 2016, respectively, to satisfy these obligations. These shares were returned to the Company's pool of treasury shares. The Company has 1,287,655 treasury shares as of June 30, 2017 and intends to utilize these treasury shares in connection with equity awards under the Company's stock incentive plans and for sales to the Employee Stock Purchase Plan.

## Note 10—Stock-Based Compensation

Total stock-based compensation expense for the years ended June 30, 2017, June 30, 2016, and June 30, 2015 was \$7.5 million, \$6.3 million and \$6.3 million, respectively. Measured but unrecognized stock-based compensation expense at June 30, 2017 was \$11.9 million, all of which related to nonvested deferred shares which are expected to be recognized as expense over a weighted average period of 1.8 years. The recognized tax benefit related to the stock-based compensation expense for the years ended June 30, 2017, June 30, 2016 and June 30, 2015 totaled \$0.5 million, \$3.2 million and \$2.5 million, respectively.

## Plan Information

In November 2016, the Company's stockholders approved the Matrix Service Company 2016 Stock and Incentive Compensation Plan (the "2016 Plan"), which provides stock-based and cash-based incentives for officers, directors and other key employees. Stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares and cash-based awards can be issued under this plan. Upon approval of the 2016 Plan, the 2012 Stock and Incentive Compensation Plan ("2012 Plan") was frozen with the exception of normal vesting and other activity associated with awards previously granted under the 2012 Plan. However, shares awarded under the 2012 Plan that are subsequently forfeited or net settled for tax withholding purposes are returned to the treasury share pool and become available for grant under the 2016 Plan. The 2012 Plan was preceded by the 2004 Stock Incentive Plan ("2004 Plan"),

which was frozen upon approval of the 2012 Plan with the exception of normal vesting, forfeiture and other activity associated with awards previously granted under the 2004 Plan.

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

Awards totaling 1,800,000 shares have been authorized under the 2016 Plan. At June 30, 2017 there were 1,716,934 shares available for grant under the 2016 Plan.

## Stock Options

Stock options are granted at the market value of the Company's common stock on the grant date and expire after 10 years. The Company's policy is to issue shares upon the exercise of stock options from its treasury shares, if available. The Company did not award any new stock options in fiscal years 2017, 2016, or 2015.

Stock option activity and related information for the year ended June 30, 2017 is as follows:

	Number of Options	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value  (In thousands)
Outstanding at June 30, 2016	122,063	5.3	\$ 10.19	\$ 769
Granted	—		—	
Exercised	(24,813 )		\$ 10.19	\$ 268
Canceled	—		—	
Outstanding at June 30, 2017	97,250	P5Y3M	\$ 10.19	\$ —
Vested at June 30, 2017	97,250	P5Y3M	\$ 10.19	\$ —
Exercisable at June 30, 2017	97,250	P5Y3M	\$ 10.19	\$ —

The total intrinsic value of stock options exercised during fiscal 2017, 2016, and 2015 was \$0.3 million, \$0.7 million and \$0.7 million, respectively.

## Nonvested Deferred Shares

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

**Time-based awards**—Employee awards generally vest in four equal annual installments beginning one year after the grant date. Director awards prior to 2016 cliff vest on the earlier of three years or upon retirement from the Board. Director awards beginning in 2016 vest one year after the grant date.

**Market-based awards**—These awards are in the form of performance units which vest 3 years after the grant date only if the Company's common stock achieves certain levels of total shareholder return when compared to the total shareholder return of a peer group of companies as selected by the Compensation Committee of the Board of Directors. The payout can range from zero to 200% of the original award depending on the Company's relative total shareholder return during the performance period. These awards are settled in stock. As of June 30, 2017, there are approximately 127,000, and 183,000 performance units that are scheduled to vest in fiscal 2019, and fiscal 2020, respectively. There were approximately 80,000 performance units that were scheduled to vest in fiscal 2018, but total shareholder return during the performance period did not meet the threshold performance and the performance units were forfeited.

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

The grant date fair value of the time-based awards is determined by the market value of the Company's common stock on the grant date. The grant date fair value of the market-based awards is calculated using a Monte Carlo model. For the fiscal 2017 grant, the model estimated the fair value of the award based on approximately 100,000 simulations of the future prices of the Company's common stock compared to the future prices of the common stock of its peer companies based on historical volatilities. The model also took into account the expected dividends of the peer companies over the performance period.





## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

Nonvested deferred share activity for the twelve months ended June 30, 2017 is as follows:

	Shares	Weighted Average Grant Date Fair Value per Share
Nonvested shares at June 30, 2016	791,995	\$ 21.45
Shares granted	516,969	\$ 19.80
Performance shares earned in excess of target	88,523	\$ 18.90
Shares vested and released	(396,530)	\$ 18.24
Shares canceled	(5,604 )	\$ 19.70
Nonvested shares at June 30, 2017	995,353	\$ 21.65

There were 370,490 and 242,649 deferred shares granted in fiscal 2016 and 2015 with average grant date fair values of \$20.77 and \$29.31, respectively. There were 396,530, 631,443 and 326,763 deferred shares that vested and were released in fiscal 2017, 2016 and 2015 with weighted average fair values of \$18.24, \$22.34 and \$23.93 per share, respectively.

## Note 11—Earnings per Common Share

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

	Years Ended		
	June 30, 2017	June 30, 2016	June 30, 2015
	(In thousands, except per share data)		
Basic EPS:			
Net income (loss) attributable to Matrix Service Company	\$ (183 )	\$ 28,863	\$ 17,157
Weighted average shares outstanding	26,533	26,597	26,603
Basic earnings (loss) per share	\$ (0.01 )	\$ 1.09	\$ 0.64
Diluted EPS:			
Weighted average shares outstanding—basic	26,533	26,597	26,603
Dilutive stock options	—	68	110
Dilutive nonvested deferred shares	—	435	464
Diluted weighted average shares	26,533	27,100	27,177
Diluted earnings (loss) per share	\$ (0.01 )	\$ 1.07	\$ 0.63

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

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

	Twelve Months Ended		
	June 30, 2017	June 30, 2016	June 30, 2015
	(In thousands)		
Stock options	43	—	—
Nonvested deferred shares	430	56	148
Total antidilutive securities	473	56	148

## Note 12—Employee Benefit Plans

## Defined Contribution Plans

The Company sponsors defined contribution savings plans for all eligible employees meeting length of service requirements. Under the primary plan, participants may contribute an amount up to 25% of pretax annual compensation subject to certain limitations. The Company matches 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions. The Company matching contributions vest immediately. The Company's matching contributions were \$5.5 million, \$5.0 million, and \$4.9 million for the years ended June 30, 2017, 2016 and 2015, respectively.

## Multiemployer Pension Plans

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

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

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer discontinues contributions to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

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

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

Our participation in significant plans for the fiscal year ended June 30, 2017 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three digit plan number. The zone status is based on the latest information that the Company received from the plan and is certified by the plan's actuary. Plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are generally less than 80 percent funded, and plans in the green zone are generally at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The "Surcharge Imposed" column includes plans in a red zone status that require a payment of a surcharge in excess of regular contributions. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending or Implemented	Company Contributions Fiscal Year			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement	
		2017	2016		2017	2016	2015			
(In thousands)										
Boilermaker-Blacksmith National Pension Trust	48-6168020/001	Described below (2)	Described below (2)	Described below (2)	\$7,098	\$7,658	\$8,330	Described below (2)	Described below (1)	
Joint Pension Fund Local Union 164 IBEW	22-6031199/001	Described below (2)	Described below (2)	Described below (2)	2,709	2,635	3,026	Described below (2)	5/31/2020	
Joint Pension Fund of Local Union No 102	22-1615726/001	Green	Green	N/A	2,392	3,063	2,395	No	5/31/2019	
IBEW Local 456 Pension Plan	22-6238995/001	Green	Green	N/A	2,777	1,168	788	No	12/3/2019	
Local 351 IBEW Pension Plan	22-3417366/001	Green	Green	N/A	2,796	5,018	2,608	No	9/30/2019	
Steamfitters Local Union No 420 Pension Plan	23-2004424/001	Red	Red	Yes	2,234	1,265	937	Yes	4/30/2020	
IBEW Local Union 98 Pension Plan	23-1990722/001	Described below (2)	Described below (2)	Described below (2)	1,519	1,653	2,768	Described below (2)	4/28/2019	
Indiana Laborers Pension Fund	35-6027150/001	Described below (2)	Described below (2)	Described below (2)	2,458	2,320	2,519	Described below (2)	5/31/2019	
Iron Workers Mid-America Pension Plan	36-6488227/001	Green	Green	N/A	1,785	2,248	2,605	No	5/31/2019	
Plumbers & Pipefitters Local Union 74 Pension Fund	51-6015925/001	Yellow	Yellow	Yes	4	552	4,473	No	6/15/2019	
Pipe Fitters Retirement Fund, Local 597	62-6105084/001	Green	Green	N/A	2,563	2,377	2,259	No	5/31/2019	
Contributions to other multiemployer plans					20,274	16,054	22,282			
Total contributions made					\$48,709	\$46,011	\$54,990			

(1) Our employees are members of several Boilermaker unions that participate in the Boilermaker-Blacksmith National Pension Trust. The most significant of these unions are Boilermakers Local 374 and Boilermakers Local 128, which have collective bargaining agreements that expire on December 31, 2019 and December 31, 2020, respectively.

(2) For the Boilermaker-Blacksmith National Pension Trust, Local 164 IBEW Pension Plan, Local 98 IBEW Pension Plan and the Indiana Laborers Pension Fund, the Company has not received a funding notification that covers the Company's fiscal years 2017 or 2016 during the preparation of this Form 10-K. Under Federal pension law, if a multiemployer pension plan is determined to be in critical or endangered status, the plan must provide notice of this status to participants, beneficiaries, the bargaining parties, the Pension Benefit Guaranty Corporation, and the Department of Labor. The Company also observed that these plans have not submitted any Critical or Endangered Status Notices to the Department of Labor for either calendar years 2017 or 2016 (which can be accessed at <http://www.dol.gov/ebsa/criticalstatusnotices.html>).

#### Employee Stock Purchase Plan

The Matrix Service Company 2011 Employee Stock Purchase Plan (“ESPP”) was effective January 1, 2011. The ESPP allows employees to purchase shares through payroll deductions and members of the Board of Directors to purchase shares from amounts withheld from their cash retainers. Share purchases are limited to an aggregate market value of no greater than \$60,000 per calendar year per participant and are purchased at market value with no discount to the participant. Contributions are with after tax earnings and are accumulated in non-interest bearing accounts for quarterly purchases of company stock. Upon the purchase of shares, the participants receive all stockholder rights including dividend and voting rights, and are permitted to sell their shares at any time. The Company has made 1,000,000 shares available under the ESPP. The ESPP can be terminated at the discretion of the Board of Directors or on January 2, 2021. Shares are issued from Treasury Stock under the ESPP. There were 16,609 shares issued in fiscal 2017, 17,304 shares in fiscal 2016, and 13,243 shares in fiscal 2015.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 13—Segment Information

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

The Electrical Infrastructure segment primarily encompasses 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, natural gas fired power stations, and renewable energy installations.

The Oil Gas & Chemical segment includes turnaround activities, plant maintenance, engineering and construction in the downstream and midstream petroleum industries. Our customers in these industries are engaged in refining crude oil and processing, fractionating, and marketing of natural gas and natural gas liquids. Another key offering is industrial cleaning services, which include hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the petrochemical, upstream petroleum, and sulfur extraction, recovery and processing markets.

The Storage Solutions segment includes new construction of crude and refined products aboveground storage tanks (“ASTs”), as well as planned and emergency maintenance services. The Storage Solutions segment also includes balance of plant work in storage terminals and tank farms. 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, we offer AST products, including geodesic domes, aluminum internal floating roofs, floating suction and skimmer systems, roof drain systems and floating roof seals.

The Industrial segment primarily includes construction and maintenance work in the iron and steel, mining and minerals, and agricultural industries. Our work in the mining and minerals industry is primarily for customers engaged in the extraction of copper. Our work in the agricultural industry includes the engineering and design of grain silos, docks and handling systems; the design of control system automation and materials handling for the food industry; and engineering, construction, process design and balance of plant work for fertilizer production facilities. We also perform work in bulk material handling, thermal vacuum chambers, and other industrial markets.

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

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

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

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

## Results of Operations

(In thousands)

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Unallocated Corporate	Total
Twelve months ended June 30, 2017						
Gross revenues	\$ 373,384	\$247,423	\$483,254	\$103,449	\$	—\$1,207,510
Less: inter-segment revenues	—	6,900	1,558	1,543	—	10,001
Consolidated revenues	373,384	240,523	481,696	101,906	—	1,197,509
Gross profit	7,137	12,675	55,651	5,540	—	81,003
Operating income (loss)	(8,309)	(8,783)	22,928	(977)	—	4,859
Segment assets	183,351	129,177	166,742	53,754	53,006	586,030
Capital expenditures	1,390	829	2,017	38	7,634	11,908
Depreciation and amortization expense	5,198	6,299	7,277	2,828	—	21,602
Twelve months ended June 30, 2016						
Gross revenues	\$ 349,011	\$252,973	\$564,738	\$149,744	\$	—\$1,316,466
Less: inter-segment revenues	—	3,178	1,226	145	—	4,549
Consolidated revenues	349,011	249,795	563,512	149,599	—	1,311,917
Gross profit	29,301	18,553	67,843	10,294	—	125,991
Operating income (loss)	11,144	(3,503)	33,449	(208)	—	40,882
Segment assets	135,298	91,350	201,875	67,569	68,875	564,967
Capital expenditures	1,611	1,481	3,882	104	6,861	13,939
Depreciation and amortization expense	5,008	4,811	8,124	3,498	—	21,441
Twelve months ended June 30, 2015						
Gross revenues	\$ 257,930	\$310,826	\$504,155	\$281,319	\$	—\$1,354,230
Less: inter-segment revenues	—	5,466	1,032	4,597	—	11,095
Consolidated revenues	257,930	305,360	503,123	276,722	—	1,343,135
Gross profit (loss)	(31,444)	25,394	58,085	35,335	—	87,370
Operating income (loss)	(44,293)	7,064	29,069	16,962	—	8,802
Segment assets	129,725	108,960	172,857	102,761	47,386	561,689
Capital expenditures	579	3,858	2,396	1,139	7,801	15,773
Depreciation and amortization expense	4,915	4,772	7,298	6,495	—	23,480

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

Geographical information is as follows:

	Revenues		
	Twelve Months Ended		
	June 30,	June 30,	June 30,
	2017	2016	2015
	(In thousands)		
United States	\$961,049	\$1,127,893	\$1,205,713
Canada	228,625	178,603	137,422
Other international	7,835	5,421	—
	\$1,197,509	\$1,311,917	\$1,343,135
	Long-Lived Assets		
	June 30,	June 30,	June 30,
	2017	2016	2015
	(In thousands)		
United States	\$193,164	\$158,970	\$166,132
Canada	21,419	19,915	22,086
Other international	12,817	10,636	—
	\$227,400	\$189,521	\$188,218

## Matrix Service Company

## Notes to Consolidated Financial Statements (continued)

## Information about Significant Customers

	Significant Customers as a Percentage of Segment Revenues								
	Consolidated	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial				
Twelve months ended June 30, 2017									
Customer one	19.5%	—	%	—	%	48.5	%	—	%
Customer two	15.3%	46.0	%	—	%	2.4	%	—	%
Customer three	5.2	%	—	%	25.8	%	—	%	—
Customer four	4.2	%	—	%	20.7	%	—	%	—
Customer five	4.0	%	12.7	%	—	%	—	%	—
Customer six	2.7	%	—	%	—	%	—	%	31.7
Customer seven	2.2	%	—	%	—	%	—	%	25.8
Twelve months ended June 30, 2016									
Customer one	14.8%	38.9	%	—	%	10.2	%	—	%
Customer two	10.6%	—	%	—	%	24.7	%	—	%
Customer three	8.3	%	—	%	—	%	19.3	%	—
Customer four	4.4	%	16.6	%	—	%	—	%	—
Customer five	4.2	%	—	%	—	%	—	%	36.9
Customer six	3.9	%	—	%	20.2	%	—	%	—
Customer seven	3.8	%	14.4	%	—	%	—	%	—
Customer eight	3.4	%	12.7	%	—	%	—	%	—
Customer nine	2.3	%	—	%	—	%	—	%	20.1
Customer ten	2.1	%	—	%	11.2	%	—	%	—
Customer eleven	1.6	%	—	%	—	%	—	%	14.0
Twelve months ended June 30, 2015									
Customer one	12.3%	—	%	—	%	33.0	%	—	%
Customer two	7.0	%	—	%	—	%	—	%	34.0
Customer three	6.5	%	12.7	%	—	%	10.9	%	—
Customer four	5.7	%	—	%	—	%	—	%	27.6
Customer five	4.8	%	25.1	%	—	%	—	%	—
Customer six	4.0	%	—	%	17.7	%	—	%	—
Customer seven	3.9	%	—	%	—	%	—	%	19.0
Customer eight	3.1	%	16.3	%	—	%	—	%	—
Customer nine	2.8	%	14.7	%	—	%	—	%	—
Customer ten	2.8	%	—	%	12.3	%	—	%	—
Customer eleven	2.4	%	12.7	%	—	%	—	%	—



Table of Contents

Matrix Service Company  
 Quarterly Financial Data (Unaudited)  
 Fiscal Years Ended June 30, 2017 and June 30, 2016

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Fiscal Year 2017				
Revenues	\$341,781	\$312,655	\$251,237	\$291,836
Gross profit (loss)	32,278	28,212	(2,614 )	23,127
Operating income (loss)	14,301	8,237	(21,210 )	3,531
Net income (loss) attributable to Matrix Service Company	9,342	5,250	(13,821 )	(954 )
Earnings (loss) per common share:				
Basic	0.35	0.20	(0.52 )	(0.04 )
Diluted	0.35	0.20	(0.52 )	(0.04 )
Fiscal Year 2016				
Revenues	\$319,331	\$323,529	\$309,422	\$359,635
Gross profit	34,584	30,005	27,303	34,099
Operating income	15,101	4,935	6,347	14,499
Net income attributable to Matrix Service Company	9,941	5,431	4,357	9,134
Earnings per common share:				
Basic	0.38	0.20	0.16	0.35
Diluted	0.37	0.20	0.16	0.34

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

Table of Contents

Matrix Service Company  
 Schedule II—Valuation and Qualifying Accounts  
 June 30, 2017, June 30, 2016, and June 30, 2015  
 (In thousands)

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts—Describe	Deductions—Describe	Balance at End of Period
Fiscal Year 2017					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 8,403	\$ 1,748	\$ —	\$ (264)	(A) \$ 9,887
Valuation reserve for deferred tax assets	424	1,295	—	—	1,719
Total	\$ 8,827	\$ 3,043	\$ —	\$ (264)	\$ 11,606
Fiscal Year 2016					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 561	\$ 6,065	\$ 1,808	(B) \$ (31)	(C) \$ 8,403
Valuation reserve for deferred tax assets	115	311	—	(2)	424
Total	\$ 676	\$ 6,376	\$ 1,808	\$ (33)	\$ 8,827
Fiscal Year 2015					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 204	\$ 422	\$ —	\$ (65)	(C) \$ 561
Valuation reserve for deferred tax assets	90	25	—	—	115
Total	\$ 294	\$ 447	\$ —	\$ (65)	\$ 676

Relates to a \$180 receivable written off against allowance for doubtful accounts, a \$60 reclassification of reserves (A) to billings on uncompleted contracts in excess of costs and estimated earnings and a \$24 currency translation adjustment.

(B) Relates to a reclassification of reserves that were initially recorded in billings on uncompleted contracts in excess of costs and estimated earnings.

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

Table of Contents

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

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at June 30, 2017.

Management's Report on Internal Control over Financial Reporting

See "Management's Report on Internal Control over Financial Reporting" set forth in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K. During fiscal year 2017, the Company completed the acquisition of Houston Interests, LLC ("Houston Interests"). Refer to Item 8. Financial Statements and Supplementary Data, Note 2 - Acquisitions, for additional information regarding this event. Management has excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of June 30, 2017. The revenues attributable to this business represented approximately 3 percent of the Company's consolidated revenues for the year ended June 30, 2017 and its aggregate total assets represented approximately 13 percent of the Company's consolidated total assets as of June 30, 2017.

Changes in Internal Control Over Financial Reporting

Except as described below, there have been no changes during the fourth fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have completed the acquisition of Houston Interests effective December 12, 2016. We are in the process of assessing and, to the extent necessary, making changes to the internal control over financial reporting of Houston Interests to conform such internal control to that used in our other operations. However, we are not yet required to evaluate, and have not yet fully evaluated, changes in Houston Interests' internal control over financial reporting. Subject to the foregoing, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended June 30, 2017.

Item 9B. Other Information

None

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to the Company's directors and corporate governance is incorporated herein by reference to the sections entitled "Proposal Number 1: Election of Directors" and "Corporate Governance and Board Matters" in the Company's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders ("Proxy Statement"). The information required by this item with respect to the Company's executive officers is incorporated herein by reference to the section entitled "Executive Officer Information" in the Proxy Statement. The information required by this item with respect to the Section 16 ownership reports is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

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

Item 11. Executive Compensation

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

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

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

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

The information required by this item is incorporated herein by reference to the section entitled "Corporate Governance and Board Matters" and "Certain Relationships and Related Transactions" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

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

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements of the Company

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

Financial Statements of the Company

<u>Management’s Report on Internal Control Over Financial Reporting</u>	<u>45</u>
<u>Reports of Independent Registered Public Accounting Firm (Deloitte &amp; Touche LLP)</u>	<u>46</u>
<u>Consolidated Statements of Income for the Years Ended June 30, 2017, June 30, 2016 and June 30, 2015</u>	<u>48</u>
<u>Consolidated Statements of Comprehensive Income for the Years Ended June 30, 2017, June 30, 2016 and June 30, 2015</u>	<u>49</u>
<u>Consolidated Balance Sheets as of June 30, 2017 and June 30, 2016</u>	<u>50</u>
<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2017, June 30, 2016 and June 30, 2015</u>	<u>52</u>
<u>Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended June 30, 2017, June 30, 2016 and June 30, 2015</u>	<u>54</u>
<u>Notes to Consolidated Financial Statements</u>	<u>55</u>
<u>Quarterly Financial Data (Unaudited)</u>	<u>83</u>
<u>Schedule II—Valuation and Qualifying Accounts</u>	<u>84</u>

(2) Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II—Valuation and Qualifying Accounts June 30, 2017, June 30, 2016 and June 30, 2015, immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.

Table of Contents

- (3) The following documents are included as exhibits to this Annual Report on Form 10-K. These exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical hereafter.
- 2 Membership Interest Purchase Agreement dated as of December 12, 2016 among Matrix PDM Engineering, Inc., as purchaser, the C. Douglas Houston Revocable Trust U/T/A dated November 21, 2016, as seller, and C. Douglas Houston, as seller representative (Exhibit 2 to the Company's Current Report on Form 8-K filed December 16, 2016 (File No. 1-15461)).
  - 3.1 Amended and Restated Certificate of Incorporation of Matrix Service Company (Appendix A to the Company's Proxy Statement filed October 7, 2016 (File No. 1-15461)).
  - 3.2 Certification of Designations, Preferences and Rights of Series B Junior Preferred Stock dated November 12, 1999 (Exhibit 3.2 to the Company's Registration Statement on Form S-3 (File No. 333-117077) filed July 1, 2004).
  - 3.3 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated July 11, 2005 (Exhibit 3.5 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 17, 2005).
  - 3.4 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated October 23, 2006 (Exhibit 3.7 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 14, 2007).
  - 3.5 Second Amended and Restated Bylaws, effective as of May 4, 2017 (Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed May 10, 2017).
  - P4 Specimen Common Stock Certificate (Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-36081) filed July 26, 1990, P).
  - +10.1 Matrix Service Company 2004 Stock Incentive Plan (Appendix B to the Company's Proxy Statement filed September 15, 2006 (File No. 1-15461)).
  - +10.2 Amendment 1 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10 to Amended Schedule 14A filed October 4, 2006 (File No. 1-15461)).
  - +10.3 Amendment 2 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10.6 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 5, 2008).
  - +10.4 Amendment 3 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit A to the Company's Proxy Statement filed September 11, 2009 (File No. 1-15461)).
  - +10.5 Form of Restricted Stock Unit Award Agreement for non-employee directors (2004 Stock Incentive Plan) (Exhibit 10.8 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed September 28, 2010 (the "2010 10-K"))).
  - +10.6 Form of Restricted Stock Unit Award Agreement for employees (2004 Stock Incentive Plan - time-based) (Exhibit 10.11 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed September 6, 2012 (the "2012 10-K"))).

- +10.7 Form of Restricted Stock Unit Award Agreement for executive management (2004 Stock Incentive Plan – performance based) (Exhibit 10.10 to the 2010 10-K).
- +10.8 Matrix Service Company 2012 Stock and Incentive Compensation Plan (Attachment A to the Company's Proxy Statement (File No. 1-15461) filed October 10, 2012).
- + Amendment Number 1 to the Matrix Service Company 2012 Stock and Incentive Compensation Plan (Exhibit 10.9 A to the Company's Proxy Statement (File No. 1-15461) filed October 10, 2014).

Table of Contents

+10.10	<u>Form of Long-Term Incentive Award Agreement (2012 Stock and Incentive Compensation Plan) (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 7, 2016).</u>
+10.11	<u>Form of Restricted Stock Unit Award Agreement for employees (2012 Stock and Incentive Compensation Plan) (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 7, 2016).</u>
+10.12	<u>Matrix Service Company 2016 Stock and Incentive Compensation Plan (Appendix B to the Company's Proxy Statement (File No. 1-15461), filed October 7, 2016).</u>
+10.13	<u>Form of Restricted Stock Unit Award Agreement for Directors (2016 Stock and Incentive Compensation Plan) (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461), filed February 9, 2017).</u>
+10.14	<u>Form of Amended and Restated Severance Agreement (Exhibit 10 to the Company's Current Report on Form 8-K filed November 15, 2016 (File No. 1-15461)).</u>
+10.15	<u>Amended and Restated Deferred Compensation Plan for Members of the Board of Directors (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed January 8, 2009).</u>
+10.16	<u>Amendment 1 to Amended and Restated Deferred Compensation Plan for Members of the Board of Directors (Exhibit 10 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 9, 2012).</u>
10.17	<u>Fourth Amended and Restated Credit Agreement dated as of February 8, 2017 among the Company and certain foreign subsidiaries, as Borrowers, various subsidiaries of the Company, as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, Lead Arranger and Sole Bookrunner, and the other lenders party thereto (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed May 10, 2017).</u>
+10.18	<u>Form of Indemnification Agreement (Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15461) filed June 9, 2015).</u>
*21	<u>Subsidiaries.</u>
*23	<u>Consent of Independent Registered Public Accounting Firm—Deloitte &amp; Touche LLP.</u>
*31.1	<u>Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CEO.</u>
*31.2	<u>Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CFO.</u>
*32.1	<u>Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CEO.</u>
*32.2	<u>Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CFO.</u>
*95	<u>Mine Safety Disclosure.</u>
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Schema Document.



\*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

\*101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

\*101.LAB XBRL Taxonomy Extension Labels Linkbase Document.

\*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\*Filed herewith.

+Management Contract or Compensatory Plan.

P: Paper filing.

Item 16. Form 10-K Summary

None

Table of Contents

Index to Exhibits

- 2 Membership Interest Purchase Agreement dated as of December 12, 2016 among Matrix PDM Engineering, Inc., as purchaser, the C. Douglas Houston Revocable Trust U/T/A dated November 21, 2016, as seller, and C. Douglas Houston, as seller representative (Exhibit 2 to the Company's Current Report on Form 8-K filed December 16, 2016 (File No. 1-15461)).
- 3.1 Amended and Restated Certificate of Incorporation of Matrix Service Company (Appendix A to the Company's Proxy Statement filed October 7, 2016 (File No. 1-15461)).
- 3.2 Certification of Designations, Preferences and Rights of Series B Junior Preferred Stock dated November 12, 1999 (Exhibit 3.2 to the Company's Registration Statement on Form S-3 (File No. 333-117077) filed July 1, 2004).
- 3.3 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated July 11, 2005 (Exhibit 3.5 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 17, 2005).
- 3.4 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated October 23, 2006 (Exhibit 3.7 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 14, 2007).
- 3.5 Second Amended and Restated Bylaws, effective as of May 4, 2017 (Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed May 10, 2017).
- P4 Specimen Common Stock Certificate (Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-36081) filed July 26, 1990, P).
- +10.1 Matrix Service Company 2004 Stock Incentive Plan (Appendix B to the Company's Proxy Statement filed September 15, 2006 (File No. 1-15461)).
- +10.2 Amendment 1 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10 to Amended Schedule 14A filed October 4, 2006 (File No. 1-15461)).
- +10.3 Amendment 2 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10.6 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 5, 2008).
- +10.4 Amendment 3 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit A to the Company's Proxy Statement filed September 11, 2009 (File No. 1-15461)).
- +10.5 Form of Restricted Stock Unit Award Agreement for non-employee directors (2004 Stock Incentive Plan) (Exhibit 10.8 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed September 28, 2010 (the "2010 10-K"))).
- +10.6 Form of Restricted Stock Unit Award Agreement for employees (2004 Stock Incentive Plan - time-based) (Exhibit 10.11 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed September 6, 2012 (the "2012 10-K"))).

- +10.7 Form of Restricted Stock Unit Award Agreement for executive management (2004 Stock Incentive Plan – performance based) (Exhibit 10.10 to the 2010 10-K).
- +10.8 Matrix Service Company 2012 Stock and Incentive Compensation Plan (Attachment A to the Company's Proxy Statement (File No. 1-15461) filed October 10, 2012).
- + Amendment Number 1 to the Matrix Service Company 2012 Stock and Incentive Compensation Plan (Exhibit 10.9 A to the Company's Proxy Statement (File No. 1-15461) filed October 10, 2014).

Table of Contents

+10.10	<u>Form of Long-Term Incentive Award Agreement (2012 Stock and Incentive Compensation Plan) (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 7, 2016).</u>
+10.11	<u>Form of Restricted Stock Unit Award Agreement for employees (2012 Stock and Incentive Compensation Plan) (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 7, 2016).</u>
+10.12	<u>Matrix Service Company 2016 Stock and Incentive Compensation Plan (Appendix B to the Company's Proxy Statement (File No. 1-15461), filed October 7, 2016).</u>
+10.13	<u>Form of Restricted Stock Unit Award Agreement for Directors (2016 Stock and Incentive Compensation Plan) (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461), filed February 9, 2017).</u>
+10.14	<u>Form of Amended and Restated Severance Agreement (Exhibit 10 to the Company's Current Report on Form 8-K filed November 15, 2016 (File No. 1-15461)).</u>
+10.15	<u>Amended and Restated Deferred Compensation Plan for Members of the Board of Directors (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed January 8, 2009).</u>
+10.16	<u>Amendment 1 to Amended and Restated Deferred Compensation Plan for Members of the Board of Directors (Exhibit 10 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed November 9, 2012).</u>
10.17	<u>Fourth Amended and Restated Credit Agreement dated as of February 8, 2017 among the Company and certain foreign subsidiaries, as Borrowers, various subsidiaries of the Company, as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, Lead Arranger and Sole Bookrunner, and the other lenders party thereto (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461) filed May 10, 2017).</u>
+10.18	<u>Form of Indemnification Agreement (Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15461) filed June 9, 2015).</u>
*21	<u>Subsidiaries.</u>
*23	<u>Consent of Independent Registered Public Accounting Firm—Deloitte &amp; Touche LLP.</u>
*31.1	<u>Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CEO.</u>
*31.2	<u>Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CFO.</u>
*32.1	<u>Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CEO.</u>
*32.2	<u>Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CFO.</u>
*95	<u>Mine Safety Disclosure.</u>
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Schema Document.

\*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

\*101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

\*101.LAB XBRL Taxonomy Extension Labels Linkbase Document.

\*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\*Filed herewith.

+Management Contract or Compensatory Plan.

P: Paper filing.

Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Matrix Service Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Matrix Service Company

Date : September 11, 2017 By: /S/ John R. Hewitt  
John R. Hewitt, President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/S/ Michael J. Hall Michael J. Hall	Chairman of the Board of Directors	September 11, 2017
/S/ John R. Hewitt John R. Hewitt	President, Chief Executive Officer and Director (Principal Executive Officer)	September 11, 2017
/S/ Kevin S. Cavanah Kevin S. Cavanah	Vice President and Chief Financial Officer (Principal Accounting and Principal Financial Officer)	September 11, 2017
/S/ Martha Z. Carnes Martha Z. Carnes	Director	September 11, 2017
/S/ John D. Chandler John D. Chandler	Director	September 11, 2017
/S/ John W. Gibson John W. Gibson	Director	September 11, 2017
/S/ I. Edgar Hendrix I. Edgar Hendrix	Director	September 11, 2017
/S/ Tom E. Maxwell Tom E. Maxwell	Director	September 11, 2017
/S/ James H. Miller James H. Miller	Director	September 11, 2017
/S/ Jim W. Mogg Jim W. Mogg	Director	September 11, 2017