

# MATRIX SERVICE CO

## **FORM 8-K/A** (Amended Current report filing)

Filed 02/27/17 for the Period Ending 02/27/17

Address	5100 EAST SKELLY DRIVE SUITE 700 TULSA, OK 74135
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Sector	Energy
Fiscal Year	06/30

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 8-K/A  
(Amendment No.1)**

**CURRENT REPORT**

**PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**Date of report (Date of earliest event reported) December 12, 2016**

**Matrix Service Company**  
(Exact Name of Registrant as Specified in Its Charter)

**DELAWARE**  
(State or Other Jurisdiction of Incorporation)

**001-15461**  
(Commission  
File Number)

**73-1352174**  
(IRS Employer  
Identification No.)

**5100 E Skelly Dr., Suite 500, Tulsa, OK**  
(Address of Principal Executive Offices)

**74135**  
(Zip Code)

**918-838-8822**  
(Registrant's Telephone Number, Including Area Code)

**NOT APPLICABLE**  
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions ( *see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

## EXPLANATORY NOTE

On December 16, 2016, Matrix Service Company (the "Company"), filed with the Securities and Exchange Commission a Current Report on Form 8-K (the "Initial Report"), reporting the completion of the acquisition of all of the issued and outstanding membership interests in Houston Interests, LLC ("Houston Interests").

This Current Report on Form 8-K/A amends Item 9.01 of the Initial Report to present certain financial statements of Houston Interests and to present certain unaudited pro forma financial statements of the Company in connection with the Company's acquisition of Houston Interests, which financial statements and unaudited pro forma financial information are filed as exhibits hereto. No other modifications to the Initial Report are being made by this Amendment. This Amendment should be read in connection with the Initial Report, which provides a more complete description of the Houston Interests acquisition.

### **Item 9.01. Financial Statements and Exhibits.**

#### **(a) Financial Statements of Businesses Acquired.**

The audited consolidated balance sheet of Houston Interests as of December 31, 2015, the audited consolidated statements of income, equity, and cash flows for the year ended December 31, 2015 and the related notes to the financial statements are filed as Exhibit 99.1 to this Current Report on Form 8-K/A and incorporated herein by reference.

In addition, the unaudited consolidated balance sheet of Houston Interests as of September 30, 2016, audited balance sheet of as of December 31, 2015, the unaudited consolidated statements of income, equity, and cash flows for the nine months ended September 30, 2016 and 2015 and the related notes to the financial statements are filed as Exhibit 99.2 to this Current Report on Form 8-K/A and incorporated herein by reference.

#### **(b) Pro Forma Financial Information.**

The unaudited pro forma condensed combined balance sheet of the Company as of September 30, 2016 and the unaudited pro forma condensed combined statements of income for the three months ended September 30, 2016 and for the year ended June 30, 2016, which have been prepared to give effect to the acquisition of Houston Interests, are filed as Exhibit 99.3 to this Current Report on Form 8-K/A and incorporated herein by reference. The pro forma financial statements are presented for informational purposes only and do not purport to represent what the Company's results of operations or financial position would have been had the transaction reflected occurred on the dates indicated or to project the Company's financial position as of any future date or the Company's results of operations for any future period.

#### **(d) Exhibits.**

The following exhibits are filed herewith:

<b>Exhibit No.</b>	<b>Description</b>
2.1	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. 001-15461), is hereby incorporated by reference).
23	Consent of Eide Bailly LLP.
99.1	Houston Interests' audited consolidated balance sheet as of December 31, 2015, audited consolidated statements of income, equity, and cash flows and the related footnotes for the year ended December 31, 2015.
99.2	Houston Interests' unaudited consolidated balance sheet as of September 30, 2016, audited balance sheet of as of December 31, 2015, unaudited consolidated statements of income, equity, and cash flows for the nine months ended September 30, 2016 and 2015 and the related footnotes.
99.3	Matrix Service Company unaudited pro forma condensed combined balance sheet as of September 30, 2016 and the unaudited pro forma condensed combined statements of income for the three months ended September 30, 2016 and for the year ended June 30, 2016, giving effect to the acquisition.

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**SIGNATURES**

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

Matrix Service Company

Dated: February 27, 2017

By: /s/ Kevin S. Cavanah

Kevin S. Cavanah  
Vice President and Chief Financial Officer

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## EXHIBIT INDEX

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**Consent of Independent Registered Public Accounting Firm**

The consolidated financial statements of Houston Interests, LLC as of December 31, 2015 and for the year then ended, included in this Current Report on Form 8-K of Matrix Service Company, have been audited by Eide Bailly LLP, independent auditors, as stated in their report appearing herein.

We consent to the incorporation by reference in the following Registration Statements of Matrix Service Company of our report, dated March 31, 2016, except with respect to Notes 2 and 9, for which the date is February 27, 2017, on our audit of the consolidated financial statements of Houston Interests, LLC:

Registration Statement on Form S-8 (File No. 333-214590) related to the Matrix Service Company 2016 Stock and Incentive Compensation Plan

Registration Statement on Form S-8 (File No. 333-203207) related to the Matrix Service Company 2012 Stock and Incentive Compensation Plan

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

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

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

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

/S/ EIDE BAILLY LLP

Tulsa, Oklahoma  
February 27, 2017

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Houston Interests, LLC  
Tulsa, Oklahoma

We have audited the accompanying consolidated financial statements of Houston Interests, LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Houston Interests, LLC and its subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Restatement and Reissuance**

As discussed in Note 9, subsequent to the issuance of the Company's 2015 consolidated financial statements and our report thereon dated March 31, 2016, we became aware that those financial statements contained certain errors resulting in understatement of revenues and overstatement of billings in excess of costs and estimated earnings on uncompleted contracts and accounts receivable. In our original report, we expressed an unmodified opinion on the 2015 financial statements, and our opinion on the revised statements, as expressed herein, remains unmodified.

*/S/ EIDE BAILLY LLP*

Tulsa, Oklahoma  
March 31, 2016, except for Notes 2 and 9, for which the date is February 27, 2017

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED BALANCE SHEET**

**December 31, 2015**

	2015
	(restated)
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 21,938,374
Trade accounts receivable, net	28,278,322
Costs and estimated earnings in excess of billings on uncompleted contracts	4,168,613
Prepaid expenses and other	835,505
Total current assets	55,220,814
Property and equipment, net	1,401,125
Goodwill, net	7,741,717
Total assets	\$ 64,363,656
<b>Liabilities and Members' Equity</b>	
Current liabilities:	
Accounts payable	\$ 3,075,855
Current maturities of long-term debt	1,274,605
Accrued liabilities	6,844,060
Unearned revenue	1,994,666
Billings in excess of costs and estimated earnings on uncompleted contracts	33,198,912
Total current liabilities	46,388,098
Long-term debt, less current maturities	4,959,277
Total liabilities	51,347,375
Members' equity	13,016,281
Total liabilities and members' equity	\$ 64,363,656

See notes to consolidated financial statements

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED STATEMENT OF INCOME**  
**Year ended December 31, 2015**

	2015
	(restated)
Revenues	\$ 127,374,082
Cost of revenues	86,898,221
Gross profit	40,475,861
Operating expenses:	
General and administrative expenses	25,836,706
Amortization	967,704
Total operating expenses	26,804,410
Income from operations	13,671,451
Other income (expense), net	(128,435)
Net income	13,543,016
Less net income attributable to noncontrolling interest	1,303,773
Net income attributable to Houston Interests, LLC	\$ 12,239,243

See notes to consolidated financial statements

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED STATEMENT OF EQUITY**

**Year ended December 31, 2015**

	Member's Interest	Noncontrolling Interest	Total Equity
Balance, January 1, 2015	\$ 5,581,073	\$ 6,782,577	\$ 12,363,650
Net income, as restated	12,239,243	1,303,773	13,543,016
Buyout of noncontrolling interest	(19,547)	(8,086,350)	(8,105,897)
Distributions	(4,784,488)	—	(4,784,488)
Balance, December 31, 2015, as restated	<u>\$ 13,016,281</u>	<u>\$ —</u>	<u>\$ 13,016,281</u>

See notes to consolidated financial statements

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Year ended December 31, 2015**

	2015
	(restated)
<b>Cash Flows from Operating Activities</b>	
Net income	\$ 13,543,016
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	431,703
Amortization	967,704
Provision for doubtful accounts receivable	236,114
Changes in assets and liabilities:	
Trade accounts receivable	(21,731,860)
Costs and estimated earnings in excess of billings on uncompleted contracts	696,527
Prepaid expenses and other	666,244
Accounts payable	(3,273,045)
Accrued liabilities	524,270
Unearned revenue	(278,319)
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,165,118)
Net cash used in operating activities	(12,382,764)
<b>Cash Flows from Investing Activities</b>	
Release of cash restricted for use	3,175,507
Buyout of minority interest	(8,105,897)
Purchases of property and equipment	(276,590)
Net cash used in investing activities	(5,206,980)
<b>Cash Flows from Financing Activities</b>	
Proceeds from issuance of debt	6,500,000
Principal payments on long-term debt	(651,118)
Distributions	(4,784,488)
Net cash provided by financing activities	1,064,394
Net decrease in cash and cash equivalents	(16,525,350)
Cash and cash equivalents, beginning of year	38,463,724
Cash and cash equivalents, end of year	\$ 21,938,374
<b>Supplemental Disclosures of Cash Flow Information</b>	
Cash paid for interest	\$ 135,148

See notes to consolidated financial statements

## HOUSTON INTERESTS, LLC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

#### Note 1 - Business and Summary of Significant Accounting Policies

##### Organization and basis of presentation

Houston Interests, LLC (Houston) is a single member limited liability company formed under Oklahoma law. The member has limited personal liability.

The consolidated financial statements include the accounts of Devco USA, LLC (DUSA), River International, LLC (RI), Devco International, LLC (DI), Process Plant Services, LLC (PPS), all Oklahoma limited liability companies, S&R Technical Services, Inc. (SR), an Oklahoma S-corporation, River Consulting, LLC (River), a Louisiana limited liability company, River Food Services, LLC (RFOOD), a Maryland limited liability company and River Consulting Colombia, SAS (RCOL), a Republic of Colombia simplified stock corporation (collectively, the Company).

River, RI, SR, PPS and RFOOD operate from primary offices in Columbus Ohio; Pittsburgh, Pennsylvania; Metairie, Louisiana and Tulsa, Oklahoma and provide professional engineering, project and construction management services to various industries throughout the United States and globally. RCOL is based in Bogata, D.C., Republic of Colombia and provides professional engineering, project and construction management services. DUSA and DI are based in Tulsa and custom design, manufacture and sell turn-key solutions for the natural gas industry as well as sulfur prilling, pelletizing and pouring facilities and equipment. DUSA and DI also design and sell process heating equipment. DUSA and DI's systems are installed throughout the United States and globally.

##### Acquisitions

On April 1, 2011, Houston purchased 51% interests in both DUSA and River from Kinder Morgan Bulk Terminals (KMBT) and RCI Holdings, Inc. (RCIH), respectively in a single transaction valued at \$10,000,000. Both KMBT and RCIH are wholly owned subsidiaries of Kinder Morgan Energy Partners, L.P. (Kinder). Goodwill consists of the value of the purchasing shareholder's reputation and experience in the industry, the benefits derived from allowing the acquired companies to sell internationally, and the synergies of combining the two complimentary companies. Houston formed DI and RI for the specific purpose of engaging in international business for their namesake sister companies. Prior to Houston's purchase of the remaining 49% interest in DUSA and River on July 10, 2015 (which is more fully described below), Houston paid KMBT and RCIH 5% of all revenues earned by DI and 1.5% of all revenues earned by RI, respectively as additional purchase consideration.

Under the terms of the April 1, 2011 purchase agreement, Houston had options to purchase the remaining 49% membership interests in DUSA and River for \$47,213 and \$52,787 per membership interest percentage acquired, respectively. Additionally, the exercise price of each option is increased based on the amount of future earnings, capital contributions and distributions. On July 10, 2015 Houston exercised its option to purchase the remaining 49% membership interest in DUSA and River for \$4,963,452 and \$3,143,945, respectively.

On June 23, 2012, Houston purchased 100% of the outstanding common stock of SR in a transaction valued at approximately \$550,000. SR is a drafting company focused primarily on industrial applications, with a specialty in piping design. The acquisition of SR provided Houston with additional expertise in the design of facilities related to the energy industry. Goodwill consists of the value of the synergy in combining SR's capabilities with Houston's existing customer base, including augmenting and expanding River's capabilities.

##### Basis of accounting

The Company's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions regarding a variety of operating and financial matters. These assumptions include estimated hours and equipment costs to complete projects which materially affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and cash equivalents

Cash and cash equivalents consist of money-market accounts and commercial bank accounts.

### Accounts receivable and credit policy

The Company's billing arrangements are governed by contracts with its customers. Generally, invoices are issued and accounts receivable are recorded either upon completion of defined project milestones or as time is worked on the project. The Company estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. As of December 31, 2015, management considered all amounts collectible and, therefore, recorded no allowance for doubtful accounts. Accounts receivable are considered to be past due if any portion of the receivable balance is outstanding past terms and are charged to earnings as uncollectible when management determines the customer is unable or unwilling to pay. Typically, the Company does not charge interest on past due accounts receivable nor does it require collateral from its customers. In the majority of cases, the Company's contracts provide for regular billings which mitigate the collection risk and cash flow burden of large projects.

### Property and equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets. Improvements are capitalized, and maintenance and repairs are charged to expense when incurred. As assets are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. No impairments were recorded in 2015.

### Unearned Revenues

Unearned revenues represents advance payments on spare parts orders and payments received on substantially completed projects with outstanding "punch list" items or extended final approval timelines. For substantially completed projects with outstanding items or extended final approval timelines, the amount of revenue deferred is based on the estimated costs to satisfy remaining obligations in the final approval period. Such unearned revenues at December 31, 2015 amounted to approximately \$1,983,000.

### Warranty

DUSA, DINT, and PPS provide warranties for their products generally ranging from 12 to 24 months. If River, RFOOD, or RCOL provides equipment as part of its services on a project, it also generally provides a 12 to 24 month warranty on the equipment. For purchased items, the manufacturer's warranty is passed on to the customer. The Company experiences very few warranty claims. Generally, a relatively small amount of contingency on each project is withheld from revenue recognition to satisfy potential issues.

### Income taxes

As a single member limited liability company, Houston's taxable income or loss is allocated to its sole member. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. All years under applicable statute are available for examination as neither Houston nor any of the subsidiary companies have been audited.

The accounting for income taxes may, at times, involve some degree of uncertainty, and, as such, lead to uncertain tax positions having been taken. Management evaluated Houston's tax positions and concluded that Houston had taken no uncertain tax positions that require adjustment to the consolidated financial statements. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

### Revenue recognition and unbilled costs

In May 2014, the FASB and the International Accounting Standards Board issued a converged standard on revenue recognition, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under this guidance, an entity should recognize 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. This ASU is effective for us for annual reporting periods beginning after December 15, 2018. We are evaluating the impact of this guidance on our financial statements and related disclosures.

The Company performs services under fixed-fee, cost-plus, cost-plus to-a-maximum, and time and material contracts. Contract terms generally range from one to 24 months.

The Company recognizes revenues on fixed-fee and cost-plus to-a-maximum contracts on the percentage-of-completion method. Percentage of completion is determined, primarily, by comparing contract costs incurred to date with total estimated contract costs. Contract costs include all direct labor, direct materials, and subcontractor costs. General and administrative costs are charged to expense as incurred. Revenues related to claims are included in contract revenues when claims are confirmed with customers.

Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Because of inherent uncertainties in estimating cost, it is at least reasonably possible that the estimates used will change within the near term.

The asset, costs and estimated earnings in excess of billings on uncompleted contracts, represents revenues recognized in excess of amounts billed. The liability, billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

Revenues earned on cost-plus and time and materials contracts are recognized as expenses are incurred and as hours are worked and billed to the customer.

Revenues for noncontract related products and services such as spare parts sales and on-site services is recognized when services are performed or upon transfer or delivery of the product to the customer.

### Goodwill

The Company recorded goodwill of \$4,642,003 and \$4,573,963 upon its purchase of DUSA and River, respectively, on April 1, 2011, and \$461,168 upon its purchase of SR on June 23, 2012, representing the excess of the purchase price over the fair value of assets acquired. These values reflect expected synergies of the combined companies.

FASB Accounting Standards Update No. 2014-02, *Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill*, permits a private company accounting alternative for goodwill. Private companies that adopt this alternative should amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of a reporting unit may be below its carrying amount. The goodwill impairment test involves a comparison of the fair value of the Company with its carrying value. Fair value is determined using the expected present value of future cash flows and a market approach. Certain estimates and judgments are required in the application of the fair value models. Companies may elect to evaluate goodwill for impairment at either the reporting unit level or company level. If the carrying amount of either the company or reporting unit, depending on such election, exceeds its implied fair value, the company will recognize a goodwill impairment loss.

In 2014, the Company elected to amortize goodwill over 10 years and to assess goodwill for impairment at the reporting unit level. Amortization expense of \$967,704 was recorded in 2015. As of December 31, 2015, management determined that no triggering event occurred for the reporting units that would require impairment testing.



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

	As of December 31, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Goodwill	\$ 9,677,134	\$ 1,935,417	\$ 7,741,717	\$ 9,677,134	\$ 967,713	\$ 8,709,421

Estimated amortization expense in future periods is as follows:

Year Ending	Amortization
2016	\$ 967,713
2017	967,713
2018	967,713
2019	967,713
2020	967,713
Thereafter	2,903,152
	<u>\$ 7,741,717</u>

#### Advertising costs

Advertising costs are primarily in the form of online advertisements and are expensed when incurred. The Company spent approximately \$182,000 on advertising costs in 2015.

#### Subsequent events

Management has evaluated subsequent events through March 31, 2016, the date the consolidated financial statements were available to be issued.

#### **Note 2 - Costs and Estimated Earnings on Uncompleted Contracts and Accounts Receivable**

Information with respect to contracts in progress consists of the following at December 31, 2015:

Costs incurred on uncompleted contracts including purchased contracts	\$ 152,483,181
Estimated earnings	58,558,543
	<u>211,041,724</u>
Less billings to date	(240,072,023)
	<u>\$ (29,030,299)</u>

Included in the accompanying consolidated balance sheet under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 4,168,613
Billings in excess of costs and estimated earnings on uncompleted contracts	(33,198,912)
	<u>\$ (29,030,299)</u>

Trade accounts receivable consist of the following:

	December 31, 2015
Trade accounts receivable	\$ 28,514,436
Less reserve for doubtful accounts	(236,114)
Net trade accounts receivable	<u>\$ 28,278,322</u>

### Note 3 - Property and Equipment

Property and equipment consists of the following at December 31, 2015:

		Lives
Computer and telephone equipment	\$ 1,632,701	4-10 years
Leasehold improvements	749,632	5-30 years
Furniture and fixtures	398,740	5-10 years
	<u>2,781,073</u>	
Less accumulated depreciation	(1,379,948)	
	<u>\$ 1,401,125</u>	

### Note 4 - Credit Agreements

In conjunction with the acquisition of SR, Houston provided a \$495,000 promissory note to the selling shareholder (the SR Note). The SR Note bears interest at a fixed rate of 2.64% per annum and is payable in nine annual installments of \$55,000 each together with accrued interest. The SR Note is secured by the common stock of SR and may be prepaid at any time without penalty.

On May 25, 2015, Houston entered into a \$6,500,000 term loan agreement with a U.S.-based financial institution. The loan proceeds were used exclusively to finance the purchase of the 49% equity interest of DUSA and River. The loan is secured by substantially all of the assets of the company and all of Houston's membership interests in the company. DUSA, River, DI, RI and SR also provided guarantees to support the loan agreement. The note is payable in 60 monthly installments of \$190,299 and bears interest at 4.12%. The agreement contains financial covenants common in an agreement of this size and nature.

Long-term debt consists of the following at December 31, 2015:

Term bank note	\$ 5,903,882
SR Note	330,000
	<u>6,233,882</u>
Less current	1,274,605
	<u>\$ 4,959,277</u>

Future maturities of long-term debt at December 31, 2015, are as follows:

Year Ending	
2016	\$ 1,274,605
2017	1,327,225
2018	1,381,398
2019	1,437,877
2020	757,777
Thereafter	55,000
	<u>\$ 6,233,882</u>

**Note 5 - Leases**

The Company has noncancelable operating leases for office space. The lease terms range from one to nine years. The Company recognizes rent expense on a straight-line basis for noncancelable leases with payment escalators.

Rent expense for the year ended December 31, 2015, was approximately \$1,265,000.

The following is a schedule of future minimum rental payments required under operating leases as of December 31, 2015:

Year Ending	Minimum Lease Payments
2016	\$ 1,444,917
2017	1,306,763
2018	982,331
2019	547,970
2020	570,091
	<u>\$ 4,852,072</u>

**Note 6 - Concentrations**

The Company maintains cash accounts, which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, cash balances may be in excess of the FDIC's insurance limit.

Kinder accounted for approximately 3% of total revenue for the year ended December 31, 2015, and represented approximately 2% of total accounts receivable at December 31, 2015.

A single customer of the Company accounted for approximately 41% of total revenue for the year ended December 31, 2015. This customer represented approximately 15% of total accounts receivable at December 31, 2015.

A single customer of the Company accounted for approximately 14% of total revenue for the year ended December 31, 2015. This customer represented approximately 36% of total accounts receivable at December 31, 2015.

Approximately 18% of total revenue for the year ended December 31, 2015 was from a single customer of the company which is also a significant vendor. At December 31, 2015, this customer represented approximately 20% of total accounts receivable.

**Note 7 - Employee Benefit Plan**

The Company maintains a 401(k) profit sharing plan covering all employees meeting eligibility requirements. Employees may elect to defer a portion of their compensation. The Company matches 4% of the employee salary. The Company made approximately \$953,000 in matching contributions for 2015. The Company made profit-sharing contributions of approximately \$277,000 in 2015.

**Note 8 - Contingencies**

Various legal actions, claims, and other contingencies arise in the normal course of the Company's business. The results of litigation are inherently unpredictable and the possibility exists that the ultimate resolution could result in a material, adverse effect to the Company's financial position, results of operations or liquidity. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Company.

**Note 9 - Restatement and Reissuance**

Subsequent to the issuance of the Company's 2015 consolidated financial statements, certain misstatements related to revenues, billings in excess of costs and estimated earnings on uncompleted contracts, and accounts receivable were identified. The Company has restated its previously issued financial statements to appropriately reflect the December 31, 2015 billings in excess of costs and estimated earnings on uncompleted contracts, accounts receivable, and members' equity, and the appropriate revenues, provision for doubtful accounts receivable, and net income for the year ended December 31, 2015.

The following is a summary of the effects of the restatement in the Company's December 31, 2015 consolidated balance sheet:

	As Previously Reported	Adjustment	As Restated
As of December 31, 2015			
Trade accounts receivable, net	\$ 28,514,436	\$ (236,114)	\$ 28,278,322
Total current assets	55,456,928	(236,114)	55,220,814
Total assets	64,599,770	(236,114)	64,363,656
Billings in excess of costs and estimated earnings on uncompleted contracts	34,059,544	(860,632)	33,198,912
Total current liabilities	47,248,730	(860,632)	46,388,098
Total liabilities	52,208,007	(860,632)	51,347,375
Member's equity	12,391,763	624,518	13,016,281

The following is a summary of the effects of the restatement in the Company's December 31, 2015 consolidated statement of income:

	As Previously Reported	Adjustment	As Restated
Year ended December 31, 2015			
Revenues	\$ 126,513,450	\$ 860,632	\$ 127,374,082
Gross profit	39,615,229	860,632	40,475,861
General and administrative expenses	25,600,592	236,114	25,836,706
Total operating expenses	26,568,296	236,114	26,804,410
Income from operations	13,046,933	624,518	13,671,451
Net income	12,918,498	624,518	13,543,016
Net income attributed to the Company	11,614,725	624,518	12,239,243

The following is a summary of the effects of the restatement in the Company's December 31, 2015 consolidated statement of equity:

	As Previously Reported	Adjustment	As Restated
Year ended December 31, 2015			
Net income, member's interest	\$ 11,614,725	\$ 624,518	\$ 12,239,243
Net income, total	12,918,498	624,518	13,543,016
Member's interest, December 31, 2015	12,391,763	624,518	13,016,281
Total equity, December 31, 2015	12,391,763	624,518	13,016,281

The following is a summary of the effects of the restatement in the Company's December 31, 2015 statement of cash flows:

	As Previously Reported	Adjustment	As Restated
Year ended December 31, 2015			
Net income	\$ 12,918,498	\$ 624,518	\$ 13,543,016
Provision for doubtful accounts receivable	—	236,114	236,114
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,304,486)	(860,632)	(4,165,118)

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

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**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2016	December 31, 2015
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,125,194	\$ 21,938,374
Trade accounts receivable, net	15,105,530	28,278,322
Costs and estimated earnings in excess of billings on uncompleted contracts	913,666	4,168,613
Prepaid expenses and other	1,159,323	835,505
Total current assets	33,303,713	55,220,814
Property and equipment, net	1,135,918	1,401,125
Goodwill, net	7,015,939	7,741,717
Total assets	\$ 41,455,570	\$ 64,363,656
 <b>Liabilities and Members' Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,001,094	\$ 3,075,855
Current maturities of long-term debt	1,313,923	1,274,605
Accrued liabilities	2,972,932	6,844,060
Unearned revenue	1,137,990	1,994,666
Billings in excess of costs and estimated earnings on uncompleted contracts	16,727,433	33,198,912
Total current liabilities	23,153,372	46,388,098
Long-term debt, less current maturities	3,954,757	4,959,277
Total liabilities	27,108,129	51,347,375
Members' equity:		
Member's interest	14,347,441	13,016,281
Total member's equity	14,347,441	13,016,281
Total liabilities and members' equity	\$ 41,455,570	\$ 64,363,656

See notes to consolidated financial statements

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Revenues	\$ 65,717,094	\$ 93,928,163
Cost of revenues	38,072,984	67,837,972
Gross profit	27,644,110	26,090,191
Operating expenses:		
General and administrative expenses	20,181,713	18,112,047
Amortization	725,778	725,778
Total operating expenses	20,907,491	18,837,825
Income from operations	6,736,619	7,252,366
Other income (expense), net	(178,209)	(41,164)
Net income	6,558,410	7,211,202
Less net income attributable to noncontrolling interest	—	1,303,773
Net income attributable to Houston Interests, LLC	\$ 6,558,410	\$ 5,907,429

See notes to consolidated financial statements



**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED STATEMENTS OF EQUITY**

**(Unaudited)**

	Member's Interest		Noncontrolling Interest		Total Equity
Balance, January 1, 2015	\$ 5,581,073	\$	6,782,577	\$	12,363,650
Net income	5,907,429		1,303,773		7,211,202
Buyout of noncontrolling interest	(19,547)		(8,086,350)		(8,105,897)
Distributions	(3,282,000)		—		(3,282,000)
Balance, September 30, 2015	\$ 8,186,955	\$	—	\$	8,186,955

	Member's Interest		Noncontrolling Interest		Total Equity
Balance, January 1, 2016	\$ 13,016,281	\$	—	\$	13,016,281
Net income	6,558,410		—		6,558,410
Distributions	(5,227,250)		—		(5,227,250)
Balance, September 30, 2016	\$ 14,347,441	\$	—	\$	14,347,441

See notes to consolidated financial statements

**HOUSTON INTERESTS, LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Nine Months Ended	
	September 30, 2016	September 30, 2015
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 6,558,410	\$ 7,211,202
Adjustments to reconcile net income to net cash provided (used) in operating activities:		
Depreciation	382,099	318,176
Amortization	725,778	725,778
Provision for doubtful accounts receivable	752,315	—
Changes in assets and liabilities:		
Trade accounts receivable	12,420,477	(16,169,990)
Costs and estimated earnings in excess of billings on uncompleted contracts	3,254,947	940,776
Prepaid expenses and other	(323,818)	(840,538)
Accounts payable	(2,074,761)	(2,405,295)
Accrued liabilities	(3,871,128)	336,017
Unearned revenue	(856,676)	294,738
Billings in excess of costs and estimated earnings on uncompleted contracts	(16,471,479)	(3,063,327)
Net cash provided by (used in) operating activities	<u>496,164</u>	<u>(12,652,463)</u>
<b>Cash Flows from Investing Activities</b>		
Release of cash restricted for use	—	3,175,507
Buyout of minority interest	—	(8,105,897)
Purchases of property and equipment	(116,892)	(179,675)
Net cash used in investing activities	<u>(116,892)</u>	<u>(5,110,065)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of debt	—	6,500,000
Principal payments on long-term debt	(965,202)	(255,795)
Distributions	(5,227,250)	(3,282,000)
Net cash provided by financing activities	<u>(6,192,452)</u>	<u>2,962,205</u>
Net decrease in cash and cash equivalents	(5,813,180)	(14,800,323)
Cash and cash equivalents, beginning of year	21,938,374	38,463,724
Cash and cash equivalents, end of year	<u>\$ 16,125,194</u>	<u>\$ 23,663,401</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 180,611</u>	<u>\$ 135,148</u>

See notes to consolidated financial statements

## HOUSTON INTERESTS, LLC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended September 30, 2016 and 2015

(Unaudited)

#### Note 1 - Business and Summary of Significant Accounting Policies

##### Organization and basis of presentation

Houston Interests, LLC (Houston) is a single member limited liability company formed under Oklahoma law. The member has limited personal liability.

The consolidated financial statements include the accounts of Devco USA, LLC (DUSA), River International, LLC (RI), Devco International, LLC (DI), Process Plant Services, LLC (PPS), all Oklahoma limited liability companies, S&R Technical Services, Inc. (SR), an Oklahoma S-corporation, River Consulting, LLC (River), a Louisiana limited liability company, River Food Services, LLC (RFOOD), a Maryland limited liability company and River Consulting Colombia, SAS (RCOL), a Republic of Colombia simplified stock corporation (collectively, the Company).

River, RI, SR, PPS and RFOOD operate from primary offices in Columbus Ohio; Pittsburgh, Pennsylvania; Metairie, Louisiana and Tulsa, Oklahoma and provide professional engineering, project and construction management services to various industries throughout the United States and globally. RCOL is based in Bogata, D.C., Republic of Colombia and provides professional engineering, project and construction management services. DUSA and DI are based in Tulsa and custom design, manufacture and sell turn-key solutions for the natural gas industry as well as sulfur prilling, pelletizing and pouring facilities and equipment. DUSA and DI also design and sell process heating equipment. DUSA and DI's systems are installed throughout the United States and globally.

##### Acquisitions

On April 1, 2011, Houston purchased 51% interests in both DUSA and River from Kinder Morgan Bulk Terminals (KMBT) and RCI Holdings, Inc. (RCIH), respectively in a single transaction valued at \$10,000,000. Both KMBT and RCIH are wholly owned subsidiaries of Kinder Morgan Energy Partners, L.P. (Kinder). Goodwill consists of the value of the purchasing shareholder's reputation and experience in the industry, the benefits derived from allowing the acquired companies to sell internationally, and the synergies of combining the two complimentary companies. Houston formed DI and RI for the specific purpose of engaging in international business for their namesake sister companies. Prior to Houston's purchase of the remaining 49% interest in DUSA and River on July 10, 2015 (which is more fully described below), Houston paid KMBT and RCIH 5% of all revenues earned by DI and 1.5% of all revenues earned by RI, respectively as additional purchase consideration.

Under the terms of the April 1, 2011 purchase agreement, Houston had options to purchase the remaining 49% membership interests in DUSA and River for \$47,213 and \$52,787 per membership interest percentage acquired, respectively. Additionally, the exercise price of each option is increased based on the amount of future earnings, capital contributions and distributions. On July 10, 2015 Houston exercised its option to purchase the remaining 49% membership interest in DUSA and River for \$4,963,452 and \$3,143,945, respectively.

On June 23, 2012, Houston purchased 100% of the outstanding common stock of SR in a transaction valued at approximately \$550,000. SR is a drafting company focused primarily on industrial applications, with a specialty in piping design. The acquisition of SR provided Houston with additional expertise in the design of facilities related to the energy industry. Goodwill consists of the value of the synergy in combining SR's capabilities with Houston's existing customer base, including augmenting and expanding River's capabilities.

##### Basis of accounting

The Company's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions regarding a variety of operating and financial matters. These assumptions include estimated hours and equipment costs to complete projects which materially affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and cash equivalents

Cash and cash equivalents consist of money-market accounts and commercial bank accounts.

DI had placed \$3,175,000 on deposit with its bank to collateralize a standby letter of credit. This amount was recorded as restricted cash on the balance sheet. On January 5, 2015, the Standby letter of credit was cancelled and the restriction on the cash deposit was lifted.

### Accounts receivable and credit policy

The Company's billing arrangements are governed by contracts with its customers. Generally, invoices are issued and accounts receivable are recorded either upon completion of defined project milestones or as time is worked on the project. The Company estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. Accounts receivable are considered to be past due if any portion of the receivable balance is outstanding past terms and are charged to earnings as uncollectible when management determines the customer is unable or unwilling to pay. Typically, the Company does not charge interest on past due accounts receivable nor does it require collateral from its customers. In the majority of cases, the Company's contracts provide for regular billings which mitigate the collection risk and cash flow burden of large projects.

Trade accounts receivable consist of the following:

	September 30, 2016	December 31, 2015
Trade accounts receivable	\$ 16,093,959	\$ 28,514,436
Less reserve for doubtful accounts	(988,429)	(236,114)
Net trade accounts receivable	<u>\$ 15,105,530</u>	<u>\$ 28,278,322</u>

### Property and equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets. Improvements are capitalized, and maintenance and repairs are charged to expense when incurred. As assets are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. No impairments were recorded in the nine months ended September 30, 2016 or 2015, respectively.

### Unearned Revenues

Unearned revenues represents advance payments on spare parts orders and payments received on substantially completed projects with outstanding "punch list" items or extended final approval timelines. For substantially completed projects with outstanding items or extended final approval timelines, the amount of revenue deferred is based on the estimated costs to satisfy remaining obligations in the final approval period. Such unearned revenues at September 30, 2016 and December 31, 2015 amounted to approximately \$1,138,000 and \$1,995,000, respectively. Unearned revenues on the consolidated balance sheet also includes customer deposits on spare parts of approximately \$50,000 and \$12,000 at September 30, 2016 and December 31, 2015, respectively.

### Warranty

DUSA, DINT, and PPS provide warranties for their products generally ranging from 12 to 24 months. If River, RFOOD, or RCOL provides equipment as part of its services on a project, it also generally provides a 12 to 24 month warranty on the equipment. For purchased items, the manufacturer's warranty is passed on to the customer. The Company experiences very few warranty claims. Generally, a relatively small amount of contingency on each project is withheld from revenue recognition to satisfy potential issues. The remaining contingency on the project is released upon expiration of the warranty.

### Income taxes

As a single member limited liability company, Houston's taxable income or loss is allocated to its sole member. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. All years under applicable statute are available for examination as neither Houston nor any of the subsidiary companies have been audited.

The accounting for income taxes may, at times, involve some degree of uncertainty, and, as such, lead to uncertain tax positions having been taken. Management evaluated Houston's tax positions and concluded that Houston had taken no uncertain tax positions that require adjustment to the consolidated financial statements. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

### Revenue recognition and unbilled costs

In May 2014, the FASB and the International Accounting Standards Board issued a converged standard on revenue recognition, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under this guidance, an entity should recognize 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. This ASU is effective for public entities for annual reporting periods beginning after December 15, 2017 and nonpublic entities for annual reporting periods beginning after December 15, 2018. We are evaluating the impact of this guidance on our financial statements and related disclosures.

The Company performs services under fixed-fee, cost-plus, cost-plus to-a-maximum, and time and material contracts. Contract terms generally range from one to 24 months.

The Company recognizes revenues on fixed-fee and cost-plus to-a-maximum contracts on the percentage-of-completion method. Percentage of completion is determined, primarily, by comparing contract costs incurred to date with total estimated contract costs. Contract costs include all direct labor, direct materials, and subcontractor costs. General and administrative costs are charged to expense as incurred. Revenues related to claims are included in contract revenues when claims are confirmed with customers.

Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Because of inherent uncertainties in estimating cost, it is at least reasonably possible that the estimates used will change within the near term.

The asset, costs and estimated earnings in excess of billings on uncompleted contracts, represents revenues recognized in excess of amounts billed. The liability, billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

Revenues earned on cost-plus and time and materials contracts are recognized as expenses are incurred and as hours are worked and billed to the customer.

Revenues for noncontract related products and services such as spare parts sales and on-site services is recognized when services are performed or upon transfer or delivery of the product to the customer.

Kinder represented a related party of the Company until Houston purchased Kinder's membership interests in DUSA and River on July 10, 2015. Revenues with Kinder during the nine months ended September 30, 2016 and 2015 were \$1.0 million and \$3.7 million, respectively.

### Goodwill

The Company recorded goodwill of \$4,642,003 and \$4,573,963 upon its purchase of DUSA and River, respectively, on April 1, 2011, and \$461,168 upon its purchase of SR on June 23, 2012, representing the excess of the purchase price over the fair value of assets acquired. These values reflect expected synergies of the combined companies.

FASB Accounting Standards Update No. 2014-02, *Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill*, permits a private company accounting alternative for goodwill. Private companies that adopt this alternative should amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of a reporting unit may be below its carrying amount. The goodwill impairment test involves a comparison of the fair value of the Company with its carrying value. Fair value is determined using the expected present value of future cash flows and a market approach. Certain estimates and judgments are required in the application of the fair value models. Companies may elect to evaluate goodwill for impairment at either the reporting unit level or company level. If the carrying amount of either the company or reporting unit, depending on such election, exceeds its implied fair value, the company will recognize a goodwill impairment loss.

In 2014, the Company elected to amortize goodwill over 10 years and to assess goodwill for impairment at the reporting unit level. Amortization expense of \$725,778 was recorded in the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016 and December 31, 2015, management determined that no triggering event occurred for the reporting units that would require impairment testing.

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

	As of September 30, 2016			As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Goodwill	\$ 9,677,134	\$ 2,661,195	\$ 7,015,939	\$ 9,677,134	\$ 1,935,417	\$ 7,741,717

Estimated amortization expense in future periods is as follows:

Year Ending	Amortization
2017	\$ 967,713
2018	967,713
2019	967,713
2020	967,713
2021	967,713
Thereafter	2,177,374
	<u>\$ 7,015,939</u>

#### Advertising costs

Advertising costs are primarily in the form of online advertisements and are expensed when incurred. The Company spent approximately \$115,000 and \$124,000 on advertising costs for the nine months ended September 30, 2016 and 2015, respectively.

#### Subsequent events

On December 12, 2016, Matrix PDM Engineering Inc., a subsidiary of Matrix Service Company (Nasdaq:MTRX), purchased 100% of the membership interests of Houston Interests. The all-cash transaction was valued at \$46 million, net of cash acquired and other working capital adjustments.

The Company has evaluated subsequent events through February 27, 2017, the date the financial statements were available to be issued.

## Note 2 - Costs and Estimated Earnings on Uncompleted Contracts

Information with respect to contracts in progress consists of the following:

	September 30, 2016	December 31, 2016
Costs incurred on uncompleted contracts including purchased contracts	\$ 173,090,560	\$ 152,483,181
Estimated earnings	68,893,725	58,558,543
	<u>241,984,285</u>	<u>211,041,724</u>
Less billings to date	(257,798,052)	(240,072,023)
	<u>\$ (15,813,767)</u>	<u>\$ (29,030,299)</u>

Included in the accompanying consolidated balance sheet under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 913,666	\$ 4,168,613
Billings in excess of costs and estimated earnings on uncompleted contracts	(16,727,433)	(33,198,912)
	<u>\$ (15,813,767)</u>	<u>\$ (29,030,299)</u>

## Note 3 - Property and Equipment

Property and equipment consists of the following:

	September 30, 2016	December 31, 2015	Lives
Computer and telephone equipment	\$ 1,676,576	\$ 1,632,701	4-10 years
Leasehold improvements	797,805	749,632	5-30 years
Furniture and fixtures	423,584	398,740	5-10 years
	<u>2,897,965</u>	<u>2,781,073</u>	
Less accumulated depreciation	(1,762,047)	(1,379,948)	
	<u>\$ 1,135,918</u>	<u>\$ 1,401,125</u>	

## Note 4 - Credit Agreements

On December 19, 2012, DI entered into a \$35,000,000 credit facility with a major U.S.-based financial institution and the Export-Import Bank of the United States (ExIm Facility). The credit facility was non-revolving and was used exclusively to finance the design, engineering, and construction of a sulfur purification plant for eventual installation in Iraq ("Iraqi Project"). In June 2014, DI repaid all outstanding borrowings under the ExIm Facility with proceeds from the Iraqi Project. The ExIm Facility was terminated when all outstanding bank guarantees were released in January 2015.

In conjunction with the acquisition of SR, Houston provided a \$495,000 promissory note to the selling shareholder (the SR Note). The SR Note bears interest at a fixed rate of 2.64% per annum and is payable in nine annual installments of \$55,000 each together with accrued interest. The SR Note is secured by the common stock of SR and may be prepaid at any time without penalty.

On May 25, 2015, Houston entered into a \$6,500,000 term loan agreement with a U.S.-based financial institution. The loan proceeds were used exclusively to finance the purchase of the 49% equity interest of DUSA and River. The loan is secured by substantially all of the assets of the company and all of Houston's membership interests in the company. DUSA, River, DI, RI and SR also provided guarantees to support the loan agreement. The note is payable in 60 monthly installments of \$190,299 and bears interest at 4.12%. The agreement contains financial covenants common in an agreement of this size and nature.

Long-term debt consists of the following:

	September 30, 2016	December 31, 2015
Term bank note	\$ 4,993,680	\$ 5,903,882
SR Note	275,000	330,000
	<u>5,268,680</u>	<u>6,233,882</u>
Less current	1,313,923	1,274,605
	<u>\$ 3,954,757</u>	<u>\$ 4,959,277</u>

Future maturities of long-term debt at September 30, 2016 are as follows:

Year Ending	
2017	\$ 1,313,923
2018	1,367,530
2019	1,423,419
2020	1,108,808
2021	55,000
	<u>\$ 5,268,680</u>

#### Note 5 - Leases

The Company has noncancelable operating leases for office space. The lease terms range from one to nine years. The Company recognizes rent expense on a straight-line basis for noncancelable leases with payment escalators.

Rent expense for the nine months ended September 30, 2016 and 2015, was approximately \$1,072,000 and \$932,000, respectively.

The following is a schedule of future minimum rental payments required under operating leases as of September 30, 2016:

Year Ending	Minimum Lease Payments
2017	\$ 1,306,763
2018	982,331
2019	547,970
2020	570,091
	<u>\$ 3,407,155</u>

#### Note 6 - Concentrations

The Company maintains cash accounts, which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, cash balances may be in excess of the FDIC's insurance limit.

A single customer of the company accounted for approximately 19% of total revenue for the nine months ended September 30, 2016 and 45% for the nine months ended September 30, 2015. This customer represented approximately 3% of total accounts receivable at September 30, 2016.

A single customer of the company accounted for approximately 24% of total revenue for the nine months ended September 30, 2016 and 15% for the nine months ended September 30, 2015. This customer represented approximately 25% of total accounts receivable at September 30, 2016.

Approximately 23% of total revenue for the nine months ended September 30, 2016 was from a single customer of the company which is also a significant vendor. At September 30, 2015, this customer represented approximately 21% of total accounts receivable. For the nine months ended September 30, 2015 this customer represented 14% of total revenues.



**Note 7 - Employee Benefit Plan**

The Company maintains a 401(k) profit sharing plan covering all employees meeting eligibility requirements. Employees may elect to defer a portion of their compensation. The Company matches 4% of the employee salary. The Company made approximately \$676,000 and \$693,000 in matching contributions for the nine months ended September 30, 2016 and 2015, respectively. The Company made profit-sharing contributions of approximately \$232,000 and \$277,000 in 2016 and 2015, respectively.

**Note 8 - Contingencies**

Various legal actions, claims, and other contingencies arise in the normal course of the Company's business. The results of litigation are inherently unpredictable and the possibility exists that the ultimate resolution could result in a material, adverse effect to the Company's financial position, results of operations or liquidity. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Company.

**MATRIX SERVICE COMPANY  
INDEX TO UNAUDITED PRO FORMA  
CONDENSED FINANCIAL STATEMENTS**

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**MATRIX SERVICE COMPANY**  
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The unaudited pro forma condensed combined financial statements are based on the separate historical consolidated financial statements of Matrix Service Company (the "Company") and Houston Interests, LLC ("Houston Interests"). These unaudited pro forma condensed combined financial statements reflect the acquisition and related events using the acquisition method of accounting. The pro forma condensed combined balance sheet gives effect to the acquisition as if it occurred on September 30, 2016; the pro forma condensed combined statements of income give effect to the acquisition as if it occurred on July 1, 2015, the beginning of the Company's 2016 fiscal year.

Since Houston Interests' fiscal year ends on December 31st and the Company's fiscal year ends June 30th, the unaudited pro forma condensed combined statement of income for the year ended June 30, 2016, which is based on the Company's 2016 fiscal year, was derived by combining the Company's 2016 fiscal year condensed consolidated statement of income with the last two quarters of Houston Interests' 2015 fiscal year consolidated statement of income and the first two quarters of Houston Interests' 2016 fiscal year consolidated statement of income. In addition, the unaudited pro forma condensed combined statement of income for the three months ended September 30, 2016, which is based on the Company's 2017 fiscal first quarter, was derived by combining the Company's 2017 fiscal first quarter condensed consolidated statement of income with the third quarter of Houston Interests' 2016 fiscal year consolidated statement of income.

The pro forma financial statements were derived, in part, from and should be read in conjunction with:

- the consolidated financial statements of the Company and the related notes to the financial statements for the year ended June 30, 2016 included in its Annual Report on Form 10-K for the year ended June 30, 2016;
- the unaudited consolidated financial statements of the Company and the related notes to the financial statements as of and for the three months ended September 30, 2016 included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2016;
- the audited consolidated balance sheet of Houston Interests as of December 31, 2015, the audited consolidated statements of income, equity, and cash flows for the year ended December 31, 2015 and the related notes to the financial statements included as Exhibit 99.1 to this Current Report on Form 8-K/A; and
- the unaudited consolidated balance sheet of Houston Interests as of September 30, 2016, audited balance sheet of as of December 31, 2015, the unaudited consolidated statements of income, equity, and cash flows for the nine months ended September 30, 2016 and 2015 and the related notes to the financial statements included as Exhibit 99.2 to this Current Report on Form 8-K/A.

The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place as of the dates indicated nor should it be taken as indicative of our future consolidated results of operations. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma financial statements.

The accompanying unaudited pro forma condensed combined financial statements reflect depreciation and amortization estimates which are preliminary, as our identification of the assets and liabilities acquired, and the fair value determinations thereof, for the acquisition has not been completed. The fair value estimates reflected in the accompanying unaudited pro forma condensed combined balance sheet are based on the best estimates available at this time. There is no guarantee that the preliminary fair value estimates, and consequently the unaudited pro forma condensed combined statements of income, will not change. To the extent that the final acquisition accounting results in an increased allocation of goodwill recorded, this amount would not be subject to amortization, but would be subject to annual impairment testing. To the extent the final acquisition accounting results in an increase to the preliminary computation of depreciable property, plant and equipment or amortizable intangible assets, the amount would be subject to depreciation or amortization, which would result in an increase or a decrease to the estimated pro forma income reflected in the accompanying unaudited pro forma condensed combined statements of income. We expect to complete the final acquisition accounting prior to filing our Form 10-Q for the quarter ending December 31, 2017.

**MATRIX SERVICE COMPANY**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016**

(In thousands, except per share data)

	Matrix Service Company	Houston Interests	Pro Forma Adjustments	Pro Forma Combined
Revenues	\$ 341,781	\$ 20,696	\$ —	\$ 362,477
Cost of revenues	309,503	12,194	—	321,697
Gross profit	32,278	8,502	—	40,780
Selling, general and administrative expenses	17,977	3,370	(87) (a)	21,246
			228 (b)	
			(242) (c)	
Operating income	14,301	5,132	101	19,534
Other income (expense):				
Interest expense	(243)	(56)	(363) (d)	(662)
Interest income	12	—	—	12
Other	7	—	—	7
Income (loss) before income tax expense	14,077	5,076	(262)	18,891
Provision for federal, state and foreign income taxes	4,735	—	2,066 (e)	6,801
Net income (loss) attributable to Matrix Service Company	<u>\$ 9,342</u>	<u>\$ 5,076</u>	<u>\$ (2,328)</u>	<u>\$ 12,090</u>
Basic earnings per common share	\$ 0.35			\$ 0.46
Diluted earnings per common share	\$ 0.35			\$ 0.45
Weighted average common shares outstanding:				
Basic	26,387			26,387
Diluted	26,796			26,796

*See accompanying notes.*

**MATRIX SERVICE COMPANY**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2016**

(In thousands, except per share data)

	<u>Matrix Service Company</u>	<u>Houston Interests</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
Revenues	\$ 1,311,917	\$ 115,224	\$ —	\$ 1,427,141
Cost of revenues	1,185,926	88,399	—	1,274,325
Gross profit	125,991	26,825	—	152,816
Selling, general and administrative expenses	85,109	14,960	(105) (a)	101,918
			2,922 (b)	
			(968) (c)	
Operating income	40,882	11,865	(1,849)	50,898
Other income (expense):				
Interest expense	(852)	(252)	(1,368) (d)	(2,472)
Interest income	190	2	—	192
Other	(567)	146	—	(421)
Income (loss) before income tax expense	39,653	11,761	(3,217)	48,197
Provision for federal, state and foreign income taxes	14,116	—	3,235 (e)	17,351
Net income (loss)	\$ 25,537	\$ 11,761	\$ (6,452)	\$ 30,846
Less: Net income (loss) attributable to noncontrolling interest	(3,326)	—	—	(3,326)
Net income (loss) attributable to Matrix Service Company	\$ 28,863	\$ 11,761	\$ (6,452)	\$ 34,172
Basic earnings per common share	\$ 1.09			\$ 1.28
Diluted earnings per common share	\$ 1.07			\$ 1.26
Weighted average common shares outstanding:				
Basic	26,597			26,597
Diluted	27,100			27,100

*See accompanying notes.*

**MATRIX SERVICE COMPANY**  
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2016**  
(In thousands)

	Matrix Service Company	Houston Interests	Pro Forma Adjustments	Pro Forma Combined
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 35,579	\$ 16,125	\$ (5,269) (f) (3,973) (g)	\$ 42,462
Accounts receivable, less allowances	230,975	15,106	—	246,081
Costs and estimated earnings in excess of billings on uncompleted contracts	105,094	914	—	106,008
Inventories	3,767	—	—	3,767
Income taxes receivable	5			
Other current assets	8,855	1,159	—	10,014
Total current assets	384,275	33,304	(9,242)	408,332
Property, plant and equipment, net	82,416	1,136	(194) (h)	83,358
Goodwill	78,274	7,016	(7,016) (i) 35,028 (i)	78,274 35,028
Other intangible assets	20,151	—	10,220 (j)	30,371
Deferred income taxes	2,712	—	—	2,712
Other assets	1,395	—	—	1,395
Total assets	\$ 569,223	\$ 41,456	\$ 28,796	\$ 639,475
<b>Liabilities and stockholders' equity</b>				
Current liabilities:				
Accounts payable	\$ 127,734	\$ 1,001	\$ 2,904 (k)	\$ 131,639
Billings on uncompleted contracts in excess of costs and estimated earnings	52,382	16,727	(2,647) (l)	66,462
Unearned revenue	—	1,138	(1,138) (m)	—
Accrued wages and benefits	23,212	—	—	23,212
Accrued insurance	9,649	—	—	9,649
Income taxes payable	3,676	—	—	3,676
Current portion of long-term debt	—	1,314	(1,314) (f)	—
Other accrued expenses	7,439	2,973	2,647 (l) 1,138 (m)	14,197
Total current liabilities	224,092	23,153	1,590	248,835
Deferred income taxes	3,198	—	—	3,198
Borrowings under senior revolving credit facility	17,186	—	46,000 (n)	63,186
Term Loan	—	3,955	(3,955) (f)	—
Other liabilities	215	—	190 (o)	405
Total liabilities	244,691	27,108	43,825	315,624
Commitments and contingencies				
Stockholders' equity:				
Matrix Service Company stockholders' equity	325,708	14,348	(14,348) (p) (681) (q)	325,027
Noncontrolling interest	(1,176)	—	—	(1,176)
Total stockholders' equity	324,532	14,348	(15,029)	323,851
Total liabilities and stockholders' equity	\$ 569,223	\$ 41,456	\$ 28,796	\$ 639,475

*See accompanying notes.*

**MATRIX SERVICE COMPANY**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

**Note 1 – Basis of Pro Forma Presentation**

Effective as of December 12, 2016, the Company acquired 100% of the membership interests of Houston Interests, LLC ("Houston Interests"). The pro forma financial statements have been prepared using the acquisition method of accounting. The pro forma combined balance sheet gives effect to the acquisition as if it occurred on September 30, 2016; the pro forma combined statements of income gives effect to the acquisition as if it occurred on July 1, 2015.

The pro forma adjustments represent management's estimates based on information available as of the time this document was prepared and are subject to revision as additional information becomes available and additional analyses are performed. The pro forma financial statements do not reflect the impact of potential incremental revenues and earnings that may be achieved with the combined capabilities of the companies, nor do they reflect potential cost savings from operating efficiencies, synergies or asset dispositions. Also, the pro forma condensed combined statements of income do not reflect possible adjustments related to restructuring or integration activities that have yet to be determined or transaction or other costs directly attributable the acquisition that are not expected to have a continuing impact.

The combined entities have incurred \$2.9 million of nonrecurring expenses resulting directly from the transaction as of December 31, 2016. In addition, the Company expects to incur \$1.1 million of additional nonrecurring expenses within a year of the acquisition date. These nonrecurring expenses are not included in the pro forma condensed combined statements of income.

The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place as of the dates indicated nor should it be taken as indicative of our future consolidated results of operations.

**Note 2 – Preliminary Purchase Price Allocation**

The net purchase price of \$39.1 million was allocated to tangible and intangible assets and liabilities for purposes of these pro forma financial statements, based on their estimated relative fair values assuming the acquisition was completed on the pro forma balance sheet date presented. The final allocation will be based upon valuations and other studies for which the current information is preliminary. The final purchase price allocation will be determined after completion of a thorough analysis to determine the fair value of the tangible assets and liabilities, including fixed assets and identifiable intangible assets and liabilities. Accordingly, the final acquisition accounting adjustments could differ materially from the pro forma adjustments presented herein. Any increase or decrease in the fair value of the tangible and identifiable intangible assets and liabilities, as compared to the information shown herein, will also change the portion of the purchase price allocable to goodwill and could impact the operating results of the combined company following the acquisition due to differences in amortization related to the acquired assets.

The consideration that would have been transferred, subject to final working capital adjustments, and the preliminary allocation of the purchase price would have been as follows if the acquisition closed on September 30, 2016:

Cash paid for equity interest	\$	46,000
Cash paid for working capital		3,973
Less: cash acquired		(10,856)
Net purchase price	\$	<u>39,117</u>

Current assets	\$	28,035
Property, plant and equipment		942
Goodwill		35,028
Other intangible assets		10,220
Total assets acquired		74,225
Current liabilities		24,062
Other liabilities		190
Net assets acquired		49,973
Cash		10,856
Net purchase price	\$	39,117

Preliminary identifiable intangible assets in the pro forma financial statements consist of intangibles derived from customer relationships, a trade name and acquired backlog and are further discussed in item (b) included in Note 3 - Pro Forma Adjustments.

Goodwill represents the excess of the purchase price over the fair value of the underlying net assets. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any indicators of impairment.

### Note 3 – Pro Forma Adjustments

Adjustments included in the column under the heading "Pro Forma Adjustments" in the unaudited pro forma condensed combined financial statements correspond to the following descriptions:

#### *Pro Forma Adjustments to Condensed Combined Statements of Income*

(a) To record a decrease in depreciation expense due to revaluation of Houston Interest's property, plant and equipment to fair value. The useful lives of the acquired fixed assets ranged from 1 to 9 years.

(b) To record an increase in amortization expense due to valuation of Houston Interest's identifiable intangible assets at fair value as follows (in thousands):

	Fair Value	Useful Life (in years)	Pro forma amortization expense	
			For the three months ended September 30, 2016	For the year ended June 30, 2016
Customer relationships	\$ 8,210	9.0	\$ 228	\$ 912
Backlog	1,830	1.0	—	1,830
Trade name	180	1.0	—	180
Total increase to amortization expense	<u>\$ 10,220</u>		<u>\$ 228</u>	<u>\$ 2,922</u>

(c) To eliminate amortization expense Houston Interests recorded in connection with its historical goodwill in order to conform with the Company's goodwill accounting policy.

(d) The Company borrowed \$46.0 million on its existing senior revolving credit facility to fund a portion of the acquisition. Interest on these borrowings accrues at LIBOR or an Alternate Base Rate, plus in each case, an additional margin ranging between 0.25% and 1.0% and between 1.25% and 2.0%, respectively. In addition, Houston Interests was obligated to repay its long-term debt outstanding as a condition to close the acquisition.

The following adjustments represent the increase (decrease) in interest expense that would occurred had the Company's \$46.0 million of debt used for the acquisition been outstanding as of July 1, 2015, and Houston Interests paid off its previous long-term debt as of the same date (in thousands):

Description	For the three months ended	
	September 30, 2016	For the year ended June 30, 2016
Interest on borrowings used for acquisition	\$ 419	\$ 1,620
Less: interest on Houston Interests' previous borrowings	(56)	(252)
Total pro forma increase (decrease) to interest expense:	<u>\$ 363</u>	<u>\$ 1,368</u>



(e) To record the tax effect of an assumed statutory tax rate of 36% on all adjustments.

***Pro Forma Adjustments to Condensed Combined Balance Sheet***

(f) To record the Houston Interests repayment of its pre-acquisition long-term debt of \$5.3 million, which was a required condition of closing the acquisition and would have occurred had the acquisition closed on September 30, 2016. The short-term portion was \$1.3 million and the long-term portion was \$4.0 million.

(g) To record the payment the Company would have made to the previous owner of Houston Interests for working capital had the acquisition closed on September 30, 2016.

(h) To adjust the value of acquired property, plant and equipment to fair value.

(i) Represents the elimination of pre-acquisition goodwill of \$7.0 million and the recognition of an estimate of acquisition date goodwill \$35.0 million.

(j) To record intangible assets acquired at an estimated fair value of \$10.2 million. See (b) above for additional information.

(k) To record the \$2.9 million of acquisition-related expenses incurred by the combined entities.

(l) To reclassify \$2.6 million of warranty reserves included in billings on uncompleted contracts in excess of costs and estimated earnings to other accrued liabilities in order to conform to the Company's balance sheet presentation accounting policy for such reserves.

(m) To reclassify \$1.1 million of warranty reserves included in unearned revenues to other accrued liabilities in order to conform to the Company's balance sheet presentation accounting policy for such reserves.

(n) To record the \$46.0 million of borrowings under the senior revolving credit facility used to fund a portion of the acquisition.

(o) To record \$0.2 million of acquired other long-term liabilities, which were identified during the acquisition accounting that were not recorded in Houston Interests balance sheet as of September 30, 2016.

(p) To eliminate Houston Interests' pre-acquisition equity.

(q) To reduce equity by \$0.7 million for acquisition-related expenses incurred by the Company that would have reduced retained earnings on September 30, 2016 had the acquisition closed in such date. Acquisition-related expenses incurred by Houston Interests would not have reduced the combined entities' retained earnings.