



***MATRIX SERVICE  
COMPANY***

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*INDUSTRIAL SERVICE CONTRACTOR*

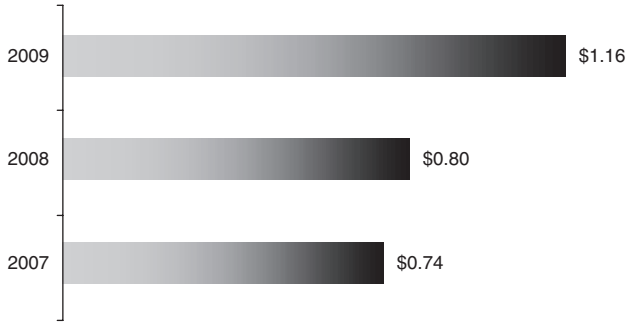
# 2009 Annual Report

Letter to Shareholders

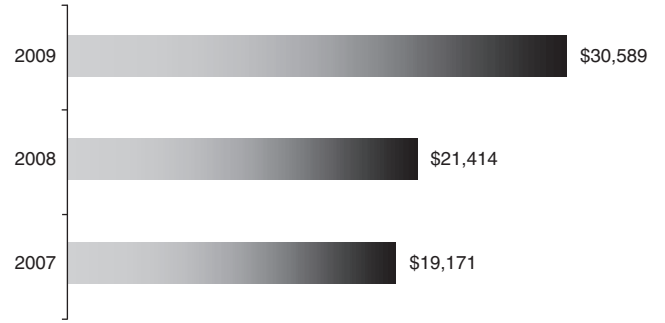
Proxy Statement

Form 10-K

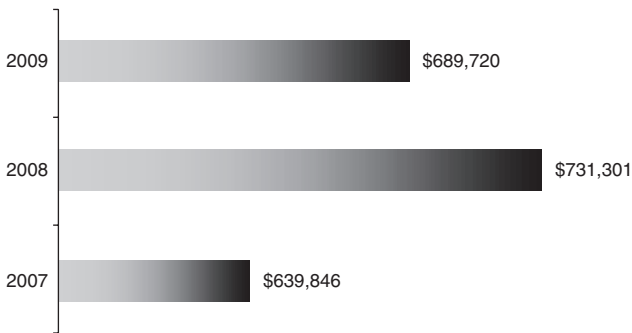
**Fully Diluted Earnings Per Share**



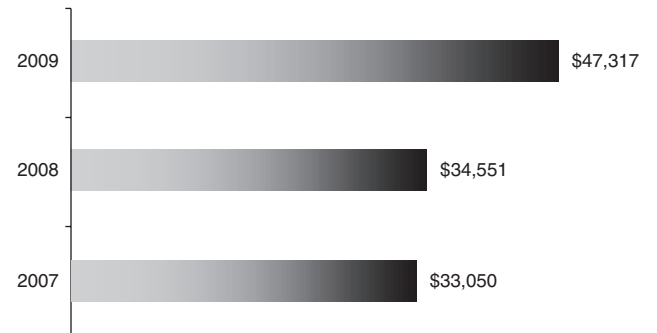
**Net Income (in thousands)**



**Revenue (in thousands)**

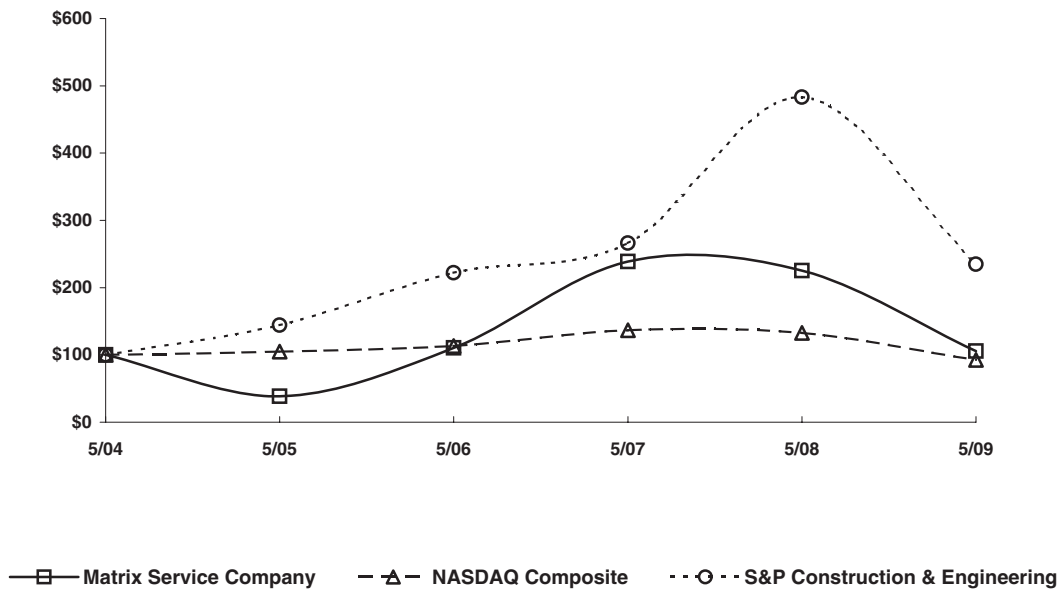


**Operating Income (in thousands)**



**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Matrix Service Company, The NASDAQ Composite Index  
And The S&P Construction & Engineering Index



\*The comparison assumes that \$100 was invested on May 31, 2004 in our common stock and in each of the foregoing indexes.

## To Our Shareholders

In April, we celebrated the 25<sup>th</sup> anniversary of Matrix Service Company. Matrix started out with just four employees in a garage office. Today, we have approximately 3,000 employees and seventeen offices across the U.S. and Canada. We are proud of our 25 year history and the achievement of such an important milestone. We would like to take this opportunity to thank our employees, our customers, our suppliers and our shareholders for their support over the years and for helping us achieve this milestone.

We are pleased to report that Matrix Service achieved record earnings and outstanding safety performance in fiscal 2009, while making significant advances in our diversification strategy. During a tough economic environment, we produced consolidated revenues of \$690 million and generated record operating income of \$47 million. We also achieved record fully diluted earnings per share of \$1.16, which is a 45% increase over the record set in fiscal 2008.

These strong operating results allowed us to continue to strengthen our financial position and liquidity. We increased our cash position to almost \$35 million while funding two strategic acquisitions during the year and we remain virtually debt free. Our financial strength puts us in a position to focus on quality projects, which is particularly important in today's competitive market place. Our strong financial position also allows us to pursue other strategic opportunities both domestically and internationally. During fiscal 2009, we completed the acquisition of certain engineering and construction assets which expanded our engineering and construction capabilities, advanced our diversification efforts in steel plate structures including LNG, LPG, thermal vacuum chambers, nuclear, and solar, and added more capabilities in process and electrical engineering. Our acquisition of S.M. Electric in fiscal 2009 accelerated the growth of our Electrical and Instrumentation business and positioned us to capitalize on numerous opportunities associated with updating and expanding the high-voltage electrical infrastructure in the U.S., especially in the Mid-Atlantic and Northeast regions. We will continue to seek other strategic opportunities in fiscal 2010 that complement our long term strategy. In fiscal 2009, we were also successful with organic growth and diversification efforts through expansion in the Gulf Coast and Western Canada. We developed the talent and infrastructure in both areas to successfully bid and execute a broader range of projects. We are positioned for significant growth in both areas over the next few years. We also worked toward and are on track to receive our N stamp in fiscal 2010, which will allow us to provide engineering, fabrication and construction of nuclear containment vessels. Each of these accomplishments demonstrates our commitment to achieving our long-term strategy.

While it is important to focus on the long term, we are very aware of the current economic environment and have and will continue to take the necessary steps to maintain our strong financial position. We continue to actively manage our overall cost structure including construction overhead and SG&A costs. Our focus is on balancing our cost structure with the need to maintain adequate resources to address the opportunities we see developing. While we are implementing further cost reductions, we also believe this is an opportunity to selectively pick up key talent, build market share and strengthen our intermediate and long-term position.

The economic downturn that began in calendar 2008 has impacted our customers who have deferred capital spending plans, altered maintenance spending programs, and cancelled previously approved projects. We have also seen increasing bidding competition during this downturn. These factors have resulted in pressure on contractors to decrease margins and accept a shift in risk allocation, including more demanding contractual terms and conditions. We have maintained and will continue to maintain our disciplined approach to project selection, contract risk management, and project execution. We remain focused on preserving the integrity and quality of our long-term business strategy, but acknowledge that continued economic pressures could make it difficult to sustain the level of operating profitability achieved in fiscal 2009.

While the economic downturn has obviously impacted our business, we do see some indications that the business climate may be improving; however the timing and strength of the economic recovery remains uncertain. Our job funnel, which is very robust, includes a broader array of projects as a result of our emphasis on business development, the addition of key talent, and recent acquisitions. The size of the job funnel and the increase in bid flow activity is also the result of our geographic expansions in the Gulf Coast and Western Canada. We are also looking at opportunities of greater scale, which is reflective of the expanded capabilities that we have built. These projects include both repair and maintenance and construction opportunities in the AST, Electrical and Instrumentation, power, infrastructure, steel plate structures and turnaround markets. We may also pursue potential opportunities in new geographies if the opportunities align with our core competencies and are in locations in which we believe we can be successful. As we pursue these opportunities, we will remain focused on managing our risk, while delivering quality project execution and value to our customers.

We have a strong cash position, strong balance sheet, and a strong team who continue to execute well in a tough environment. We believe that our conservative fiscal management has positioned the company to weather this economic downturn and emerge in a position to achieve our intermediate and long-term growth and diversification strategies as market conditions improve. Our sales, engineering and construction capabilities enable us to expand the scale, scope and reach of opportunities in the energy and industrial infrastructure markets, which is supported by the increasing number and diversity of prospects in our bid flow today. These expanded capabilities combined with our focus on safety and quality allow us to provide our clients the best service offering in the market. We will deliver our quality services and products safely, on time, and on budget. We also believe these service capabilities combined with our conservative management and our strong financial position allow us to build long-term shareholder value and provide a compelling investment opportunity for our current and future shareholders.

We appreciate your continued support and look forward to talking with you in the future.



Michael J. Hall  
*Chairman of the Board of Directors*



Michael J. Bradley  
*President and Chief Executive Officer*

**MATRIX SERVICE COMPANY  
5100 East Skelly Drive, Suite 700  
Tulsa, Oklahoma 74135**

**NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS**

Notice is hereby given that the Annual Meeting of the Stockholders of Matrix Service Company (the "Company" or "Matrix Service"), a Delaware corporation, will be held at Matrix Service's Corporate Headquarters, 5100 East Skelly Drive, Tulsa, Oklahoma, on the 23<sup>rd</sup> day of October 2009, at 2:00 p.m., Central time, for the following purposes:

1. To elect six persons to serve as members of the Board of Directors of the Company until the annual stockholders meeting in 2010 or until their successors have been elected and qualified;
2. To ratify the engagement of Deloitte & Touche LLP as the Company's independent registered public accounting firm for fiscal 2010;
3. To consider and vote upon a proposal to approve an amendment to the Company's 2004 Stock Incentive Plan to increase the number of shares of Common Stock of the Company authorized for issuance thereunder from 1,200,000 to 2,300,000; and
4. To act upon such other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on September 2, 2009 as the record date for the meeting (the "Record Date"), and only holders of record of the Company's common stock at such time are entitled to notice of and to vote at the meeting and any adjournment thereof.

By Order of the Board of Directors



Thomas E. Long  
Secretary

September 11, 2009  
Tulsa, Oklahoma

**IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE ANNUAL MEETING REGARDLESS OF WHETHER YOU PLAN TO ATTEND. THEREFORE PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY. YOU ALSO HAVE THE OPTION OF VOTING YOUR SHARES ON THE INTERNET OR BY TELEPHONE. VOTING INSTRUCTIONS ARE PRINTED ON YOUR PROXY. IF YOU VOTE BY INTERNET OR BY TELEPHONE, YOU DO NOT NEED TO MAIL BACK YOUR PROXY. IF YOU ARE PRESENT AT THE MEETING AND WISH TO DO SO, YOU MAY REVOKE THE PROXY AND VOTE IN PERSON.**

MATRIX SERVICE COMPANY  
5100 East Skelly Drive, Suite 700  
Tulsa, Oklahoma 74135

PROXY STATEMENT

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**MATRIX SERVICE COMPANY  
5100 East Skelly Drive, Suite 700  
Tulsa, Oklahoma 74135**

**PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS  
To Be Held October 23, 2009**

**SOLICITATION AND REVOCATION OF PROXIES**

The accompanying proxy is solicited by the Board of Directors of Matrix Service Company (“Matrix Service”, the “Company”, “we”, “our” or “us”) for use at the Annual Meeting of Stockholders to be held on October 23, 2009, and at any adjournments thereof for the purposes set forth in the accompanying Notice of 2009 Annual Meeting of Stockholders. The Annual Meeting will be held at 2:00 p.m., Central time, at the Company’s Corporate Headquarters, 5100 East Skelly Drive, Tulsa, Oklahoma. This proxy statement and accompanying proxy were first sent on or about September 11, 2009 to stockholders of record on September 2, 2009. The annual report of the Company on Form 10-K for the fiscal year ended May 31, 2009 accompanies this proxy statement.

If the accompanying proxy is properly executed and returned or a stockholder votes his or her proxy by Internet or telephone, the shares represented by the proxy will be voted at the meeting in accordance with the directions noted thereon or, if no direction is indicated, that stockholder’s shares will be voted in favor of the proposals described in this proxy statement. In addition, the proxy confers authority on the persons named in the proxy to vote, in their discretion, on any other matters properly presented at the Annual Meeting. The Board of Directors is not currently aware of any other such matters. Any stockholder who has given a proxy, whether by mail, Internet or telephone, has the power to revoke it at any time before it is voted by giving written notice to, or by executing a subsequent proxy and sending it to Thomas E. Long, Secretary, Matrix Service Company, 5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma, 74135 or by a later dated proxy by Internet or by telephone. The proxy also may be revoked if the stockholder is present at the meeting and elects to vote in person.

The expenses of this proxy solicitation, including the cost of preparing and mailing this proxy statement and accompanying proxy, will be borne by the Company. Such expenses will also include the charges and expenses of banks, brokerage firms and other custodians, nominees or fiduciaries for forwarding solicitation material regarding the Annual Meeting to beneficial owners of the Company’s common stock. In addition to solicitation by mail, certain directors, officers and regular employees of the Company may solicit proxies in person or by telephone, electronic transmission and facsimile transmission. Any such directors, officers or employees will not be additionally compensated therefore, but may be reimbursed for their out-of-pocket expenses in connection therewith.

**STOCKHOLDERS ENTITLED TO VOTE**

At the close of business on the record date there were 26,195,615 shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), outstanding. Each outstanding share of Common Stock is entitled to one vote upon each of the matters to be voted on at the meeting. There is no cumulative voting with respect to the election of directors. The presence, in person or by proxy, of at least a majority of the outstanding shares of common stock is required for a quorum for the transaction of business.

The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. Votes withheld from nominees for directors, abstentions and broker non-votes will be counted for purposes of determining whether a quorum has been reached. Votes will be tabulated by an inspector of election appointed by the Board of Directors of the Company. With regard to the election of directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld will have no effect on the vote. Abstentions, which may be specified on all proposals, except the election of directors, will have the effect of a negative vote. A “broker non-vote” will have no effect on the outcome of the election of directors, or the other proposals.

If you hold your shares in “street name” through a broker or nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be voted upon. If you hold your shares in “street name” and do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such “broker non-votes” will, however, be counted in determining whether there is a quorum.



**PROPOSAL NUMBER 1:  
Election of Directors**

The Company's Certificate of Incorporation and Bylaws provide that the number of directors on the Board shall be fixed from time to time by the Board of Directors but shall not be less than three nor more than 15 persons. The Board has fixed its size at six members. Directors hold office until the next annual meeting of the stockholders of the Company or until their successors have been elected and qualified. Vacancies may be filled by recommendations from the Nominating and Corporate Governance Committee and a majority vote by the remaining directors.

In accordance with the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated and urges you to vote "For" the election of the six nominees identified below who have been nominated to serve as directors until the next annual meeting of stockholders or until their successors are duly elected and qualified. Proxies solicited hereby will be voted "For" all six nominees unless stockholders specify otherwise in their proxies. The six nominees who receive the highest number of affirmative votes of the shares voting shall be elected as directors.

If, at the time of the 2009 Annual Meeting of Stockholders, any of the nominees should be unable or decline to serve, the discretionary authority provided in the proxy may be used to vote for a substitute or substitutes who may be recommended by the Nominating and Corporate Governance Committee and who the Board of Directors may propose to replace such nominee. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required.

**Nominated Director Biographies**

The nominees for director, and certain additional information with respect to each of them, are as follows:

**Michael J. Bradley**, age 54, was appointed as a director of the Company effective January 2007. Mr. Bradley has served as President and Chief Executive Officer (CEO) of the Company since November 2006. Prior to joining Matrix Service Company, Mr. Bradley served as President and CEO of DCP Midstream Partners and was a member of the board. Mr. Bradley was named Group Vice President of Gathering and Processing for Duke Energy Field Services (DEFS) in 2004 and served as Executive Vice President DEFS from 2002 to 2004. From 1994 to 2002, he served as Senior Vice President DEFS and was responsible for business development and commercial activities. Mr. Bradley graduated from the University of Kansas with a Bachelor of Science degree in Civil Engineering. He also completed the Duke University Executive Management Program. Mr. Bradley serves on the Board of Directors of Regency Energy Partners, LP. He is a member of the American Society of Civil Engineers and a former board member of the American Cancer Society. He also serves on the advisory board for the University of Kansas, School of Engineering and on the boards of the Tulsa Area United Way, the Tulsa Metro Chamber of Commerce and the Indian Nations Scout Council.

**Michael J. Hall**, age 65, was first elected as a director of the Company effective October 1998 and was elected Chairman of the Board in November 2006. Mr. Hall previously served as President and Chief Executive Officer of the Company from March 2005 until his retirement in November 2006. Mr. Hall also previously served as Vice President, Finance and Chief Financial Officer of the Company from November 1998 until his initial retirement in May 2004. Prior to working for Matrix Service, Mr. Hall was Vice President and Chief Financial Officer for Pexco Holdings, Inc. from 1994 to 1997 and Vice President, Finance and Chief Financial Officer for Worldwide Sports & Recreation, Inc., an affiliate of Pexco Holding, from 1996 to 1997. From 1984 to 1994, Mr. Hall worked for T.D. Williamson, Inc., as Senior Vice President, Chief Financial and Administrative Officer and Director of Operations, Europe, Africa and Middle East Region. Mr. Hall graduated Summa Cum Laude from Boston College with a degree in Accounting and earned his Masters of Business Administration degree with honors from Stanford Graduate School of Business. Mr. Hall is a director and Chairman of the Board of Integrated Electrical Services, Inc.; a member of the Board of Directors of Alliance G.P., LLC (the general partner of Alliance Holdings, G.P., L.P.); and a member of the Board of Directors of Alliance Resource Management G.P., LLC (the managing general partner of Alliance Resources Partners, L.P.), and a former Independent Trustee and Chairman of the Board of Trustees for American Performance Funds.

**I. Edgar (Ed) Hendrix**, age 65, was first elected as a director of the Company effective October 2000 and served as Chairman of the Board of Directors from March 2005 until November 2006. Mr. Hendrix has served as President of Patriot Energy Resources, LLC since 2005. Mr. Hendrix served as Executive Vice President and Chief Financial Officer of Loudfire, Inc. from 2002 to 2004. Prior to 2002, Mr. Hendrix served as Executive Vice President and Chief Financial Officer of Spectrum Field Services, Inc., and as Vice President-Treasurer for Parker Drilling, a New York Stock Exchange company engaged in worldwide oil and gas drilling and equipment services. He also was a management consultant with Ernst &



Young LLP. Mr. Hendrix has an undergraduate degree from Oklahoma Christian University and a Masters of Business Administration degree from the University of Oklahoma. Mr. Hendrix is a former member of the Board of Trustees for American Performance Funds and former Chairman of the Board of Red River Energy, Inc.

**Paul K. Lackey**, age 66, was first elected as a director of the Company effective October 2000. Mr. Lackey has served as Chairman of the Board of Directors of The NORDAM Group (NORDAM), an aircraft component manufacturing and repair firm, since October 2005 and as Chief Executive Officer of NORDAM from April 2002 until January 2009. Prior to joining NORDAM in July 2001, Mr. Lackey was President of the University of Oklahoma (OU)—Tulsa and Senior Vice President of the OU system. Prior to joining OU in August 1999, Mr. Lackey was a key member of former Oklahoma Governor Frank Keating’s administration. He was the Governor’s Chief of Staff from February 1997 to July 1999. From 1995 to 1997, he served in the Oklahoma Cabinet as Secretary of Health and Human Services. Before his service in state government, Mr. Lackey was President of Flint industries, an oil and gas services and commercial construction firm. He was appointed Chief Financial Officer for Flint in 1977, later became Chief Operating Officer and, ultimately, President. A graduate of the University of Mississippi with a Bachelor of Science degree in Mathematics, Mr. Lackey earned a Masters of Business Administration degree in Finance from the University of Texas. He also served in the United States Army as an artillery officer. Mr. Lackey is a director of Aaon, Inc., an advisory director of Commerce Bankshares, a director of the Tulsa Chamber of Commerce, a director of the Oklahoma Business Roundtable and a director of the Tulsa Community Hospital Authority.

**Tom E. Maxwell**, age 64, was first elected as a director of the Company effective May 2003. Mr. Maxwell is President and Chief Executive Officer of The Flintco Companies, Inc., which is ranked 19<sup>th</sup> by Engineering News-Record (ENR) among commercial construction companies in the United States. He has held this position for twenty-two years, and prior to his election to President and Chief Executive Officer of Flintco, Mr. Maxwell was the Chief Financial Officer of Flintco for five years. Mr. Maxwell began his career with five years at Deloitte and Touche and was the Chief Financial Officer of a public company, Kinark Corporation, for nine years. Mr. Maxwell earned Undergraduate and Masters Degrees in Accounting at the University of Oklahoma and is a Certified Public Accountant (inactive). Mr. Maxwell is a director of Summit Bank. In addition, Mr. Maxwell serves as a director for the Tulsa Metro Chamber of Commerce and the Oklahoma Business Roundtable, as trustee for the Friends of Fairgrounds Foundation, and as a partner in Yukon Developers.

**David J. Tippeconnic**, age 69, was elected as a director of the Company effective October 2005. Mr. Tippeconnic has served as Chief Executive Officer of Arrow-Magnolia International, Inc., a manufacturer of industrial cleaning and maintenance chemicals, since January 2005. Mr. Tippeconnic previously served as Chairman of the Board and acting Chief Executive Officer of Cherokee Nation Enterprises, a hospitality business, from September 2002 to November 2004. Prior to joining Cherokee Nation Enterprises, Mr. Tippeconnic served as President and Chief Executive Officer of CITGO Petroleum Corporation from July 1997 to October 2001. Mr. Tippeconnic also previously served as Chief Executive Officer of UNOVEN and as Executive Vice President and director of Phillips Petroleum Company. Mr. Tippeconnic has a Bachelor of Science degree in Chemical Engineering from Oklahoma State University and a Masters of Science degree in Chemical Engineering from the University of Arizona and attended the Advanced Management Program at Harvard University. Mr. Tippeconnic serves as director for Rive Technology, ONEOK, Inc. and Cherokee Nation Entertainment, and as a partner with LMT, LLC and InvestLinc Group.

*The Board of Directors recommends that the stockholders vote “For” the election of each of the above named nominees.*

## CORPORATE GOVERNANCE AND BOARD MATTERS

The Board of Directors and corporate management use their best efforts to adopt and implement sound corporate governance practices and believe strongly that effective corporate governance practices are an important component of their efforts to focus the entire organization on generating long-term stockholder value through conscientious and ethical operations.

The Board of Directors has adopted and implemented Corporate Governance Guidelines and a Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics applies to all of the Company's directors, officers (including its Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Controller and any person performing similar functions) and employees. The Corporate Governance Guidelines and Code of Business Conduct and Ethics are available in the "Investors" section of the Company's website at <http://www.matrixservice.com>.

### Director Independence Guidelines

Pursuant to the applicable rules for companies traded on the NASDAQ Global Market System (NASDAQ) and the rules and regulations of the Securities and Exchange Commission (SEC), the Board of Directors has adopted a set of director independence guidelines. In accordance with these guidelines, each independent director must be determined to have no relationship with the Company which, in the opinion of the Company's Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The guidelines specify criteria by which the independence of the Company's directors will be determined, including strict guidelines for directors and their immediate families with respect to past employment or affiliation with the Company or its independent registered public accounting firm.

The Board of Directors has affirmatively determined that each of Mr. Hendrix, Mr. Lackey, Mr. Maxwell and Mr. Tippeconnic are "independent" under the guidelines. Mr. Hall is not considered to be independent because of his prior service as a senior executive officer of the Company and Mr. Bradley is not considered to be independent because of his current employment as President and Chief Executive Officer of the Company.

The full text of the Company's director independence guidelines is included in the Company's Corporate Governance Guidelines, which is available in the "Investors" section of the Company's website at <http://www.matrixservice.com>.

### Meetings and Committees of the Board of Directors

The Company's Board of Directors met twelve times during fiscal year 2009. The Board has three standing committees – Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. During the 2009 fiscal year, each director attended a minimum of 75% of the total number of meetings of the Board and of the total number of meetings held by all committees of which he was a member.

The Company's Corporate Governance Guidelines provide that each director is expected to attend the annual meetings of stockholders of the Company. All of the members of the Company's Board of Directors attended the 2008 annual meeting.

#### Audit Committee

<u>Director</u>	<u>Fiscal 2009 Committee Service</u>
I. Edgar Hendrix, Chairman	Served all of Fiscal 2009
Paul K. Lackey, Member	Served all of Fiscal 2009
Tom. E. Maxwell, Member	Served all of Fiscal 2009
David J. Tippeconnic, Member	Served all of Fiscal 2009

The Audit Committee assists the Board of Directors in monitoring the integrity of the financial statements of the Company, the independent registered public accounting firm's qualifications and independence, the performance of the Company's internal audit function and independent registered public accounting firm and the Company's compliance with legal and regulatory requirements. In carrying out these purposes, the Audit Committee, among other things, appoints, evaluates and approves the compensation of the Company's independent registered public accounting firm, reviews and approves the scope of the annual audit and the audit fee, pre-approves all auditing services and permitted non-audit services, annually considers the qualifications and independence of the independent registered public accounting firm, reviews the results of internal audits, compliance with certain of the Company's written policies and procedures and the adequacy of the Company's

system of internal accounting controls, prepares the Audit Committee report for inclusion in the annual proxy statement and annually reviews the Audit Committee charter and the committee's performance. The Audit Committee has also established procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding accounting or auditing matters. The Audit Committee operates under a written charter. A copy of the Audit Committee Charter is available in the "Investors" section of the Company's website at <http://www.matrixservice.com>. The Audit Committee held four meetings during fiscal 2009.

### Compensation Committee

<u>Director</u>	<u>Fiscal 2009 Committee Service</u>
Paul K. Lackey, Chairman	Served all of Fiscal 2009
I. Edgar Hendrix, Member	Served all of Fiscal 2009
Tom E. Maxwell, Member	Served all of Fiscal 2009
David J. Tippeconnic, Member	Served all of Fiscal 2009

The Compensation Committee's functions include reviewing and approving executive salary, bonus, long-term equity incentive awards, perquisites and other benefits. In addition, the Compensation Committee, in conjunction with the Board of Directors, reviews the Company's strategic and financial plans to determine their relationship to the Company's compensation program. Additional information describing the Compensation Committee's processes and procedures for considering and determining executive compensation, including the role of our Chief Executive Officer and consultants in determining or recommending the amount or form of executive compensation, is included in the Compensation Discussion and Analysis below.

The Compensation Committee operates under a written charter. The Company has made a copy of its Compensation Committee Charter available in the "Investors" section of the Company's website at <http://www.matrixservice.com>. The Compensation Committee held six meetings during fiscal 2009. The Compensation Committee has no authority under its charter to delegate some or all of its authority to subcommittees or other persons and it has no current plans to do so.

#### *Compensation Committee Interlocks and Insider Participation*

During fiscal 2009, the Compensation Committee was composed of I. Edgar Hendrix, Paul K. Lackey, Tom E. Maxwell and David J. Tippeconnic, all of whom are non-employee directors of the Company. During fiscal 2009, none of the Company's executive officers served on the Board of Directors or on the Compensation Committee of any other entity who had an executive officer that served either on the Company's Board of Directors or on its Compensation Committee.

### Nominating and Corporate Governance Committee

<u>Director</u>	<u>Fiscal 2009 Committee Service</u>
Tom E. Maxwell, Chairman	Served all of Fiscal 2009
I. Edgar Hendrix, Member	Served all of Fiscal 2009
Paul K. Lackey, Member	Served all of Fiscal 2009
David J. Tippeconnic, Member	Served all of Fiscal 2009

The Nominating and Corporate Governance Committee was established to assist the Board in identifying qualified individuals to become directors of the Company, recommend to the Board qualified director nominees for election by the stockholders or to fill vacancies on the Board, recommend to the Board membership on Board committees, recommend to the Board proposed Corporate Governance Guidelines and report annually to the Board on the status of the CEO succession plan. The Nominating and Corporate Governance Committee operates under a written charter. The Company has made a copy of its Nominating and Corporate Governance Committee Charter available in the "Investors" section of the Company's website at <http://www.matrixservice.com>. The Nominating and Corporate Governance Committee has the authority under its charter to retain a professional search firm to identify candidates. The Nominating and Corporate Governance Committee held four meetings during fiscal 2009.

#### **Director Nomination Process**

The Nominating and Corporate Governance Committee will consider director candidates submitted to it by other directors, employees and stockholders. In evaluating such nominations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board of Directors and to address the director qualifications discussed below.

The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board of Directors and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Committee considers various potential candidates for director. Candidates may come to the attention of the Committee through current directors, senior management, professional search firms, stockholders or other persons.

Once a prospective nominee has been identified, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. The initial determination involves an evaluation of the candidate against the qualifications set forth in the Corporate Governance Guidelines, which require broad experience, wisdom, integrity, the ability to make independent analytical inquiries, an understanding of the Company's business environment and a willingness to devote adequate time to Board duties, including service on no more than four other public company boards. The Committee also assesses the candidate's qualifications as an "independent director" under the NASDAQ's current director independence standards and the Company's director independence guidelines. If the Committee determines that additional consideration is warranted, it may request a professional search firm to gather additional information about the candidate. The Committee designates, after consultation with the CEO, which candidates are to be interviewed. After completing its evaluation, the Committee makes a recommendation to the full Board of Directors as to the persons who should be nominated by the Board and the Board determines the nominees after considering the recommendation of the Committee.

Holders of common stock wishing to recommend a person for consideration as a nominee for election to the Board can do so in accordance with the Company's Bylaws by giving timely written notice to Thomas E. Long, Secretary of Matrix Service Company, at 5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135. The written notice should give each such nominee's name, address, appropriate biographical information, a description of all arrangements or understandings between the stockholder and each such nominee and any other person or persons (naming such person or persons), relating to such nominee's service on the Board of Directors, if elected, as well as any other information that would be required in a proxy statement. Any such recommendation should be accompanied by a written statement from the person recommended, giving his or her consent to be named as a nominee and, if nominated and elected, to serve as a director. The written notice must be delivered to the Secretary of the Company not later than eighty days prior to the date of any annual or special meeting; provided, however, that in the event that the date of such annual or special meeting is not publicly announced by the Company more than ninety days prior to the meeting, notice by the stockholder must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which public announcement of the date of such meeting is communicated to the stockholders. The written notice to the Secretary of the Company must also set forth the name and address of the stockholder who intends to make the nomination and a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice.

### **Communications with the Board of Directors**

The Board of Directors provides a process by which stockholders and other interested parties may communicate with the Board or any of the directors. Stockholders and other interested parties may send written communications to the Board of Directors or any of the directors at the following address: Board of Directors of Matrix Service Company c/o Matrix Service Company, 5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135. Stockholders and other interested parties may also use the Company's online submission form at the FAQ section of the "Investors" section of the Company's website at <http://www.matrixservice.com> to contact the Board or any of the directors. All communications will be compiled by the Company's Corporate Secretary and submitted to the Board or the individual director on a periodic basis.

### **Equity Ownership Guidelines for Directors**

Each non-employee director is strongly encouraged to have a significant investment in the Company evidenced by the ownership, from time to time, either directly or indirectly, of an approximate value of \$100,000 of Matrix Service Common Stock. For purposes of these guidelines, "indirect ownership" includes the pre-tax "in the money" market value of stock options and phantom stock in the director's deferred compensation plan. Non-employee directors have five years from the date of their initial election to the Board to meet this requirement. As of August 1, 2009, all non-employee directors were in compliance with the Equity Ownership Guidelines.

Since Mr. Bradley is the Chief Executive Officer of the Company, he must comply with the Equity Ownership Guidelines for Executive Officers, which are discussed in the "Security Ownership of Certain Beneficial Owners and Management" section of this proxy statement under the caption "Equity Ownership Guidelines for Executive Officers."

## DIRECTOR COMPENSATION

### General

Management directors receive no additional compensation for service on the Board of Directors or any committee thereof. Directors of the Company are reimbursed for out-of-pocket expenses incurred in attending the Board of Directors and committee meetings.

The elements of our non-employee director compensation consist of cash compensation and equity compensation. Our objective with director compensation is to position ourselves to attract and retain individuals with relevant business and leadership background and experience by providing a competitive package of cash and equity compensation.

Total compensation for the Company's non-employee directors is determined in a manner similar to that for executives. The Compensation Committee (the "Committee") engages a third party compensation consultant to periodically review director compensation and make recommendations. The Board's philosophy is to keep director compensation competitive, simple and aligned with the interests of our shareholders. The Committee reviews benchmark data from outside consultants and makes recommendations to the full Board for approval.

Director compensation is reviewed on a bi-annual basis. This review was last completed in July 2008. Compensation was adjusted in July 2008, as outlined below. Director compensation will be formally benchmarked and evaluated again in July/August 2010.

In July 2008, the Committee engaged a third party compensation consultant, Hewitt Associates LLC, to conduct a current market study of director compensation. Hewitt obtained benchmark data using published compensation surveys and proxy analysis of selected benchmark companies similar in size, location and industry. For fiscal 2009, the proxy analysis consisted of a review of the director pay at the same peer companies that were used to perform a proxy analysis of the pay of our executive officers.

Based on the consultant's findings and recommendations, the Committee determined that total compensation for directors should be approximately \$125,000 with approximately 50% in cash and 50% in equity. The objective is to provide a long-term component to total compensation that aligns the interests of directors with those of our stockholders through stock ownership. Therefore, the Committee recommended that the equity component of director compensation should be performance-based restricted stock units, which ties a director's compensation directly to our performance.

At the July 2008 Board meeting, adjustments were made to the annual retainer, Committee Chair and Chairman fees for fiscal 2009. The annual retainer was established as \$60,000 plus \$5,000 for each of the Committee Chairmen. The additional fee for the Chairman of the Board is 25% of the annual retainer, or \$15,000. Cash compensation may be taken in the form of cash payments or may be deferred with interest.

Equity compensation awarded for fiscal 2009 was granted at a value of \$65,000 and was all performance-based. The performance measure utilized was Matrix Service's consolidated fully-diluted earnings per share (EPS) for a three-year period beginning in fiscal 2009. Restrictions will lapse at the end of the three-year period, based on the Company's performance and have Threshold, Target and Maximum levels of achievement. In the event the minimum performance goal is not achieved, the restricted stock units are forfeited.

The basis for the October 2008 Restricted Stock Unit awards to non-employee directors is detailed below:

- Annual equity value of \$65,000 (represents approximately 50% of total compensation)
- Actual number of shares were determined by dividing annual value by the twenty-day moving average of the stock price calculated five days prior to the grant date
- 100% of the equity component of Board compensation is performance-based. Performance is defined for Threshold, Target and Maximum level awards based on our cumulative EPS for a three-year period beginning in fiscal 2009. Phantom shares, which will be settled only in cash, will be used for awards earned above the Target level. Shares awarded for performance between the established levels will be calculated on a pro-rata basis.
- Performance for the three-year period is measured at the end of the period.
- If the threshold performance objective is not met, the restricted stock units are forfeited.



The Board of Directors also has a Deferred Fee Plan which allows directors to defer all or a portion of their cash compensation with interest. The effective interest rate is researched and recommended by the CFO for approval by the Committee at the regularly-scheduled meeting each October. For 2009, the interest rate is 6.5%.

Non-employee directors are also eligible to participate in our medical, dental and vision benefits.

### **Fiscal 2009 Director Compensation**

The compensation earned by each director in fiscal 2009 is summarized in the table below:

<u>Name (1)</u>	<u>Fees Earned or Paid in Cash (\$ (2))</u>	<u>Restricted Stock Awards (\$ (3))</u>	<u>Stock Option Awards (\$ (4))</u>	<u>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$ (5))</u>	<u>All Other Compensation (\$ (6))</u>	<u>Total (\$)</u>
Michael J. Hall .....	75,000	4,446	—	—	6,607	86,053
I. Edgar Hendrix .....	65,000	4,288	—	4,541	6,607	80,436
Paul K. Lackey .....	65,000	4,288	—	2,931	—	72,219
Tom E. Maxwell .....	65,000	4,288	—	2,524	—	71,812
David J. Tippeconnic .....	60,000	4,288	—	4,047	6,607	74,942

- (1) Mr. Michael J. Bradley, our CEO, is not included in this table since he is an employee and thus receives no compensation for his services as a director. Mr. Bradley's compensation received as an employee is shown in the Summary Compensation Table for our Named Executive Officers.
- (2) Includes fees earned in the fiscal year but paid subsequent to the completion of the fiscal year and fees earned in the fiscal year but deferred under the Deferred Fee Plan for members of the Board of Directors of Matrix Service Company. The following directors deferred cash compensation in fiscal 2009 into an interest-bearing account.

<u>Name</u>	<u>Fees Deferred (\$)</u>
I. Edgar Hendrix .....	48,750
Paul K. Lackey .....	65,000
Tom E. Maxwell .....	65,000
David J. Tippeconnic .....	60,000

- (3) The amounts shown represent expense recognized in the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the 2009 fiscal year in accordance with Statement of Financial Accounting Standards No. 123(R), Share Based Payment (SFAS 123R), for restricted stock awards granted to non-employee directors, excluding any assumptions for future forfeitures. There were no actual forfeitures of stock awards in fiscal 2009. All assumptions utilized to calculate the expense amounts shown above are set forth in Note 10 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2009. For each non-employee director, the grant date fair value of the 4,100 restricted stock units granted in fiscal 2009 was \$47,150. As of May 31, 2009, Mr. Hall, Mr. Hendrix, Mr. Lackey, Mr. Maxwell and Mr. Tippeconnic each had 9,700 restricted stock units outstanding.
- (4) There were no stock option awards granted to non-employee directors in fiscal 2009 and there were no unvested stock option awards as of the beginning of fiscal 2009. As a result, there was no compensation expense recognized for stock option awards in fiscal 2009. As of May 31, 2009, Mr. Hendrix had 5,000 stock options outstanding, Mr. Lackey had 15,000 stock options outstanding, Mr. Maxwell had 15,000 stock options outstanding, and Mr. Tippeconnic had 5,000 stock options outstanding.
- (5) A non-employee director may defer all or part of director fees earned into the Deferred Fee Plan for Members of the Board of Directors of Matrix Service Company (Deferred Fee Plan). Under the Deferred Fee Plan, directors are allowed to defer fees and earn interest. The amounts shown represent interest earned under the plan in excess of a market rate. For fiscal 2009, the market rate for the deferrals was approximately 4.6% based on the applicable federal rates as compared to the actual rates earned of 8.0% from June 1, 2008 to December 31, 2008 and 6.5% from January 1, 2009 to May 31, 2009. We based the rate earned on our incremental borrowing rate as of the beginning of each calendar year. Previously, directors were also allowed to defer fees in the form of Phantom Shares of our stock. The fees were converted into phantom shares based on the price of our stock on the deferral election date. In fiscal 2009, Mr. Lackey's and Mr. Maxwell's phantom shares declined in value by \$137,071 and \$88,571, respectively, and Mr. Lackey redeemed 4,286 phantom shares valued at \$103,335.
- (6) Consists of the portion of premiums we pay related to directors' participation in our health and welfare plans.

## Fiscal 2009 Grants of Plan-Based Awards to Directors

The following table sets forth fiscal 2009 grants of plan-based awards to directors:

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (1)			Grant Date Fair Value of Stock Awards (\$) (2)
		Threshold (# of shares)	Target (# of shares)	Maximum (# of shares)	
Michael J. Hall .....	10/21/08	2,050	4,100	4,100	47,150
I. Edgar Hendrix .....	10/21/08	2,050	4,100	4,100	47,150
Paul K. Lackey .....	10/21/08	2,050	4,100	4,100	47,150
Tom E. Maxwell .....	10/21/08	2,050	4,100	4,100	47,150
David J. Tippeconnic .....	10/21/08	2,050	4,100	4,100	47,150

- (1) Amounts shown are the number of shares of performance-based restricted stock units granted to the non-employee directors. Performance is defined for Threshold, Target and Maximum level awards based on Matrix Service's cumulative EPS for a three-year period beginning in fiscal 2009. Phantom shares, which will be settled only in cash, will be used for awards earned above the Target level. Therefore, if our cumulative fully-diluted EPS exceeds the Target level, Directors will begin to earn phantom shares and will earn 2,050 phantom shares in addition to 4,100 restricted stock units if our cumulative fully-diluted EPS reaches the Maximum level. Shares awarded for performance between the established levels will be calculated on a pro-rata basis.
- (2) Amounts shown are calculated based upon the Maximum number of restricted stock units awarded multiplied by the closing stock price on the date of grant.



## AUDIT COMMITTEE MATTERS

### Report of the Audit Committee of the Board of Directors

The Audit Committee oversees the Company's financial reporting process, including the system of internal controls, on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the associated system of internal controls. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's financial statements and internal control over financial reporting in accordance with the Public Company Accounting Oversight Board Standards and to issue reports thereon. The Audit Committee monitors these processes. The Audit Committee's role does not provide any special assurance with regard to the Company's financial statements, nor does it involve a professional evaluation of the quality of the audits performed by the independent registered public accounting firm. As part of its oversight responsibilities, the Audit Committee has:

- reviewed and discussed with the Company's internal auditors and independent registered public accounting firm, with and without management present, their evaluations of the Company's internal accounting controls and the overall quality of the Company's financial reporting;
- reviewed and discussed with management and the independent registered public accounting firm the Company's audited financial statements as of and for the year ended May 31, 2009;
- discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 114, The Auditor's Communication with Those Charged with Governance, as currently in effect (which Statement on Auditing Standards superseded Statement on Auditing Standards No. 61, Communication with Audit Committees); and
- received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm its independence.

Based on the reviews and discussions above, the Audit Committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009 for filing with the Securities and Exchange Commission. The Audit Committee, subject to ratification by the stockholders, and in connection with the change in fiscal year end from May 31 to June 30, has selected Deloitte & Touche LLP as the Company's independent registered public accounting firm for the thirteen months ending June 30, 2010.

The Audit Committee is governed by a written charter. The Board of Directors has determined that the members of the Audit Committee are independent and financially literate as defined by the applicable standards. The Board has also determined that I. Edgar Hendrix qualifies as a financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002.

Members of the Audit Committee:

I. Edgar Hendrix, Audit Committee Chairman  
Paul K. Lackey, Audit Committee Member  
Tom E. Maxwell, Audit Committee Member  
David J. Tippeconnic, Audit Committee Member

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference the proxy statement into any filing by the Company under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically and expressly incorporates this report by reference into any such filing, and shall not otherwise be deemed filed under such acts.

## Fees of Independent Registered Public Accounting Firm

Fees billed for audit services in fiscal 2009 and 2008 include fees associated with the annual audit, the reviews of our quarterly reports on Form 10-Q, the audit of our internal controls, and services performed in connection with other filings with the SEC. Fees billed for audit-related services were for assurance and related services that are reasonably related to the performance of the audit or review and consisted of special construction project review services, due diligence on acquisitions and review procedures related to filing of a shelf registration statement. Fees billed for tax services were for tax consulting services approved by the Audit Committee.

	Deloitte & Touche LLP	
	Fiscal 2009	Fiscal 2008
Audit Services .....	\$734,548	\$727,970
Audit-Related Services .....	46,926	138,890
Tax Services .....	—	10,188
Total .....	<u>\$781,474</u>	<u>\$877,048</u>

### Audit Committee Pre-Approval Policy

The Audit Committee's policy is to pre-approve all audit, audit-related, tax and permissible non-audit services provided by the independent registered public accounting firm on a periodic basis up to a specified dollar amount in order to assure that the provision of such services does not impair the auditor's independence. The Company has also made the Audit Committee's pre-approval policy available in the "Investors" section of the Company's website at <http://www.matrixservice.com>.

### PROPOSAL NUMBER 2:

#### Ratification of Selection of Independent Registered Public Accounting Firm

Pursuant to the Sarbanes-Oxley Act of 2002, the Audit Committee of the Board of Directors of the Company has been charged with the exclusive power and authority to engage or terminate the independent registered public accounting firm. The Audit Committee of the Board of Directors has engaged the firm of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2010. Deloitte & Touche LLP has served as independent auditors for the Company since January 2006.

A proposal will be presented at the annual meeting asking the stockholders to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm. If the stockholders do not ratify the appointment of Deloitte & Touche LLP, the Audit Committee will reconsider the appointment.

The affirmative vote of holders of a majority of the shares of common stock present in person or represented by proxy at the annual meeting is required for the adoption of this proposal. ***The Board of Directors recommends that the stockholders vote "For" ratification of Deloitte & Touche LLP's engagement.***

A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting of Stockholders and will have an opportunity to make a statement, if he or she desires to do so, and to respond to appropriate questions from those attending the meeting.

## EXECUTIVE OFFICER INFORMATION

### Executive Officer Biographies

In addition to Mr. Bradley, the Company's President and Chief Executive Officer, who serves on the Board of Directors and whose biographical information is set forth under the caption, "Nominated Director Biographies," the executive officers of the Company are:

**Nancy E. Austin**, age 42 has served as Vice President, Human Resources for the Company since January 2006. Ms. Austin served as Director of Human Resources from September 2000 to January 2006. Prior to joining the Company, Ms. Austin worked for TV Guide, Samson Resources and Villareal & Associates specializing in human resource management, employee relations, and consulting. Ms. Austin holds a Bachelor of Science degree in Political Science from Oklahoma State University and is a certified Professional in Human Resources. She is also a member of the Society for Human Resource Management, World-at-Work and Tulsa Area Human Resources Association.

**Kevin S. Cavanah**, age 44, has served as Vice President, Accounting and Financial Reporting for the Company since August 2007 and as Controller since April 2003. Prior to joining the Company, Mr. Cavanah served as an Accounting Manager for Williams Communications from 2001 to 2003 and as an Accounting Manager for The Williams Companies, Inc. from 1998 to 2001. Prior to joining Williams, Mr. Cavanah served as an Audit Manager for Ernst & Young, LLP. Mr. Cavanah has a Bachelor of Science in Business Administration degree in Accounting from the University of Arkansas. He is a Certified Public Accountant and is a member of Financial Executives International.

**Kevin A. Durkin**, age 47, has served as Vice President, Business Development for Matrix Service Inc., a subsidiary of the Company, since June 2008. He has previously served as Pre-Construction Manager for the Orange Region from November 2006 to May 2008; Small Capital Construction Division Manager for the Orange Region from June 2000 to October 2006; Business Development Manager for Matrix Service Inc. from June 1998 to May 2000; Southwest Turnaround Manager for Colt Construction Division from June 1996 to May 1998; and as assistant Regional Manager for the Orange Region from July 1989 to May 1996. Prior to joining Matrix Service, Mr. Durkin worked for a construction firm serving the energy industry holding numerous positions in operations, engineering and marketing. Mr. Durkin holds a Bachelor of Arts degree in Business Administration, Marketing from California State University, Fullerton.

**Albert D. Fosbenner**, age 54, has served as Vice President, Matrix Service Industrial Contractors, Inc., a subsidiary of the Company, since June 2004. Mr. Fosbenner previously served as Vice President of Finance, Treasurer and Acting Chief Financial Officer for Western Integrated Networks LLC from December 2001 through 2003, President and Chief Executive Officer of CCS Fitness, Inc. from January 2000 through December 2001 and Senior Vice President and Treasurer of Frontiervision Partners LLP during 1998 and 1999. Mr. Fosbenner has a Bachelor of Science degree in Accounting from Philadelphia University. He passed the Certified Public Accountant examination and is a Certified Management Accountant (inactive). Mr. Fosbenner is a member of Financial Executives International and the Association for Corporate Growth.

**Robert A. Long**, age 66, has served as Vice President of Matrix Service Inc. since June 2008. In June 2007, Mr. Long came out of retirement to serve, in a consulting capacity, as Project Manager for the Matrix Service Sabine Pass LNG Project until its completion in June 2008. Mr. Long was previously employed with Chicago Bridge & Iron from 1966 until his retirement in 1998 after holding numerous management and senior level positions, including President of CB&I Constructors, Inc. Mr. Long graduated from the University of Alabama-Birmingham with a Bachelor of Science degree in Engineering.

**Thomas E. Long**, age 52, has served as Vice President Finance and Chief Financial Officer since April 2008. Prior to joining Matrix Service, Mr. Long served as Vice President and Chief Financial Officer of DCP Midstream Partners, LP, a publicly traded natural gas and natural gas liquids company since its formation in December 2005. From 1998 to 2005, Mr. Long served in several executive positions with subsidiaries of Duke Energy Corp., Charlotte, North Carolina, one of the nation's largest electric power companies. During his tenure at Duke Energy, Mr. Long served as Vice President and Chief Financial Officer of its publicly owned power company in Ecuador; Vice President and Treasurer of Duke Energy Field Services, Denver; and Executive Vice President of National Methanol Company, a Duke Energy Corp. chemical joint-venture in Saudi Arabia. Starting in 1991, Mr. Long held financial management positions at PanEnergy Corp., Houston. He began his career in 1979 at Texas Eastern Corp., Houston. Mr. Long has a Bachelor of Arts degree in Accounting from Lamar University, is a member of Financial Executives International and is a Certified Public Accountant.

**Joseph F. Montalbano**, age 60, has served as Vice President and Chief Operating Officer since May 2008. From 2002 to 2008, Mr. Montalbano served as Senior Vice President and Senior Project Director Energy Sector of Black & Veatch, where he was responsible for all construction projects under his direction. Prior to working at Black & Veatch from 1972 to 2002,

Mr. Montalbano served numerous project management roles with a national construction firm serving the energy sector. Mr. Montalbano holds a Bachelor of Science degree in Electrical Engineering and Masters of Science degree in Electrical Engineering from Polytechnic Institute of Brooklyn. He earned a Masters in Business Administration degree from New York Institute of Technology and is registered as a Professional Engineer in multiple states.

**Matthew J. Petrizzo**, age 47, has served as President, Matrix Service Industrial Contractors, Inc., since June 2008. He previously served as Vice President, Matrix Service Industrial Contractors, Inc. from November 2007 to June 2008. Prior to joining the Company, Mr. Petrizzo served as a Project Director for Washington Group International from 2006 to 2007. Mr. Petrizzo also worked in various capacities for Washington Group International from 2001 to 2006 and for Washington Group legacy companies, Raytheon Engineers and Constructors from 1994 to 2001 and Ebasco Services Inc. from 1984 to 1994. Mr. Petrizzo graduated from Hofstra University with a degree in Electrical Engineering and is a Registered Professional Engineer in the state of New Jersey.

**Bradley J. Rinehart**, age 45, has served as Vice President, Matrix Service Inc. since May 1997. He previously served as Regional Manager for the Michigan Region from April 1991 to April 1997; Operations Manager for the Michigan Region from January 1990 to March 1991; and as a Project Manager for the Michigan Region from January 1988 to December 1989. Mr. Rinehart holds a Bachelor of Science degree in Construction Science from the University of Oklahoma.

**James P. Ryan**, age 54, has served as President, Matrix Service Inc. since August 2005. He previously served the Company as Chief Operating Officer from October 2004 to August 2005 and as Vice President of Matrix Service Inc. from October 1999 to October 2004. Prior to joining Matrix Service, Mr. Ryan worked for Gibraltar Construction Company from January 1993 to September 1999 providing construction management services. Previous employers include MW Kellogg, Kiewit Industrial Company and Hoffman Construction Company. Mr. Ryan also previously provided independent consulting services to the power industry. Mr. Ryan graduated from Purdue University with a degree in Civil Engineering.

**Lansing G. Smith**, age 57, has served as Vice President, Fabrication, Engineering, and Procurement for the Company since March 2008. From 2006 to 2008, Mr. Smith served as Director of Manufacturing for Exterran, Inc. From 2002 to 2005, he was Manufacturing Manager of Norris, a Dover company. Mr. Smith also served as Operations Manager with Parker Hannifin Corporation from 1999 to 2002. From 1989 to 1999, he worked for Koch Industries, Inc. in a number of management positions. Mr. Smith earned a Bachelor of Science degree in Industrial Engineering from the University of Arkansas and a Master of Business Administration degree from Oklahoma State University. He is a member of the American Society for Quality and is a Registered Professional Engineer in Oklahoma and Texas.

**William R. Sullivan**, age 44, has served as Vice President, Matrix Service Inc., since June 2008. He previously served as Regional Manager of the Southwest Region from 2002 to 2008 and Operations Manager for the Southwest AST Region from 1989 to 2002. Prior to joining the Company, Mr. Sullivan worked in various capacities for a construction firm serving the energy industry holding numerous positions in operations, project management, and manufacturing.

## COMPENSATION DISCUSSION AND ANALYSIS

### Compensation Philosophy and Objectives

We are focused on building and maintaining a sustainable business model that consistently delivers superior returns to our stockholders. To be successful, we must attract, retain and motivate key talent to provide the needed leadership capabilities to execute our business strategy. Our compensation philosophy and approach is designed to support these overarching objectives.

Our basic compensation philosophy is to provide the opportunity for outstanding compensation when superior performance is demonstrated. This pay-for-performance philosophy is reflected in each aspect of the compensation package for executive officers and management team members. All components of compensation for executive officers and key management are reviewed periodically to ensure consistency with our compensation philosophy and competitive market practices. We use the following basic principles in the design and administration of our executive compensation program:

- **Competitiveness** – Our compensation programs are designed to ensure we can attract, motivate and retain the talent needed to lead and grow the business. Targets for base salary, short-term and long-term compensation are generally based on median (50<sup>th</sup> percentile) market levels.
- **Support Business Objectives, Strategy and Values** – Ultimately our compensation program is designed to drive the achievement of annual business objectives, support the creation of long-term value for our stockholders, and promote and encourage behavior consistent with our core values and guiding principles.
- **Pay for Performance** – While we establish target pay levels at median or 50<sup>th</sup> percentile market levels with target level performance, our plans provide the opportunity for significantly greater rewards for outstanding performance. At the same time, performance that does not meet expectations is not rewarded.
- **Individual Performance** – In addition to objective company-wide, business unit and operating unit financial measures, our programs emphasize individual performance and the achievement of personal objectives.
- **Integrated Approach** – We look at compensation in total and strive to achieve an appropriate balance of immediate, short-term and long-term compensation components, with the ultimate goal of aligning executive compensation with long-term stockholder value.

Our executive compensation program is administered by the Compensation Committee of the Board of Directors (the “Committee”). The role of the Committee is to provide oversight and direction to ensure the establishment of executive compensation programs that are competitive in nature, enable us to attract top talent, and align the interests of our executive officers with that of our stockholders.

The Committee is supported by our Vice President, Human Resources, and other executive officers as needed or requested, in the design, review and administration of our executive compensation programs. The Committee engages a third party compensation consulting firm to evaluate Board and executive officer compensation, benchmark our practices compared to other companies and provide associated recommendations. In July 2008, Hewitt Associates LLC was engaged by the Committee to evaluate our compensation practices and assist with the establishment of compensation for fiscal 2009. In July 2009, Hewitt Associates LLC also provided information and comments to the Committee with respect to fiscal 2010 compensation. Hewitt Associates was engaged exclusively by the Committee and will not provide other services to senior management.



For fiscal 2010, due to the uncertainty in the market and the economy and, after consultation with their Hewitt consultant, the Committee decided that no adjustments would be made to the base pay of the CEO and other executive officers at the start of the fiscal year although the Committee indicated it may consider merit increases at a later date if conditions improve. In a typical year, we would review competitive market data prepared by the third-party consultant, including an analysis of survey data based on companies in similar industries for each position. Where possible, the data for each position is regressed to predict an appropriate level of compensation based on our revenues. Where regression analysis is not available, the analysis is performed using companies in similar industries with revenues on average close to our revenue. In addition to survey data, we review the consultant's analysis of proxy disclosed compensation data for named executive officers of peer companies. For pay decisions for fiscal 2009, we reviewed the proxy information for the following companies:

Astec Industries Inc.	Layne Christensen Co.
Columbus McKinnon Corp.	Mastec Inc.
Dresser-Rand Group Inc.	Quanta Services Inc.
Dycom Industries Inc.	Sterling Construction Co. Inc.
Furmanite Corp.	Team Inc.
Gardner Denver Inc.	Tetra Tech Inc.
Granite Construction Inc.	Titan International Inc.
Insituform Technologies	VSE Corp.
Integrated Electrical Services	Willbros Group Inc.

This year, the Committee reviewed executive compensation in terms of the mix of targeted compensation and the types of programs offered. This review was broader than in a typical year when we would also be considering levels of compensation. The Committee sought to ensure that the compensation package offered to our executives is competitive in form and structure. Most of the companies included in the review are not in our proxy peer group since they are larger than us. However, for this review, they were included because we compete with them for talent in the marketplace. The companies from which we obtained information from their proxy data for the purposes of this fiscal 2010 evaluation were as follows:

Aecom Technology Corp.	Jacobs Engineering Group
Chicago Bridge & Iron	KBR Inc.
Emcor Group Inc.	McDermott International
Fluor Corp.	Quanta Services Inc. *
FMC Technologies	Willbros Group Inc. *
Foster Wheeler Ltd.	URS Corp
Granite Construction Inc. *	

\* Also included in our fiscal 2009 proxy peer group.

In addition, trends and prevalent information for executive benefits and perquisites from survey sources were also considered. The Committee concluded that it believes our mix of pay components is appropriate for our business strategy and compensation philosophy and our approach to executive benefits and perquisites is sound.

When adjustments are to be made, the CEO considers the third party consultant's findings and provides recommendations to the Committee regarding compensation for review, discussion and approval for all executive officers with the exception of himself. The Committee establishes CEO compensation. The Committee reviews performance of the CEO, establishes appropriate compensation for the CEO and approves compensation for the other executive officers, in executive session without management present.

In implementing our compensation philosophy, the Committee also compares our CEO's total compensation to the total compensation of the other Named Executive Officers over time. However, the Committee has not established a targeted level of difference between the total compensation of the CEO and the median total compensation level for the next lower tier of management. The Committee also considers internal pay equity among the other Named Executive Officers, and in relation to the next lower tier of management, in order to maintain compensation levels that are consistent with the individual contributions and responsibilities of those executive officers.

The Committee typically reviews base salary for executive officer compensation at its regularly-scheduled July/August meeting. At this meeting, the Committee also reviews and approves incentive payments for the previous fiscal year and establishes incentive targets for the coming fiscal year under the short-term incentive plan. Long-term incentive awards are

approved by the Committee at a meeting immediately following the annual stockholders meeting each October. The Committee may also approve base pay, short-term incentive and long-term incentive (equity) grants for executive officers during the year for promotions or new hires.

### **Key Elements of Executive Officer Compensation**

The primary elements of our executive compensation program include:

- Base Pay;
- Annual/Short-Term Incentive Compensation;
- Long-Term Incentive Compensation (Equity);
- Perquisites and Other Benefits; and
- Change of Control Agreements.

#### **Base Pay**

Base pay is the foundation of our executive compensation package. Base pay is based on the executive officer's responsibilities, role in the organization, level and type of work experience, and individual job performance. Our practice in establishing executive base pay, and that for other managers and employees, is to determine the market median or "50<sup>th</sup> percentile" among comparable companies. This data is obtained through our third party compensation consultant. We expect to engage a compensation consultant to review and benchmark competitive market pay data on no less than a bi-annual basis.

We utilize a market-based job evaluation system to establish and ensure equitable, competitive pay levels throughout the organization. Salary grades and pay ranges are established by evaluating positions based on the external market data and internal equity. Each executive officer, like other employees, is assigned to a salary grade. Broad ranges of salary are associated with each grade. The position within the salary grade/pay range for each individual is determined based on the respective level of experience, skill and demonstrated performance.

Base pay and salary grade also play a factor in determining other short- and long-term incentive compensation awards. Short-term incentive awards are reflected as a percentage of base salary and long-term incentives are based on an executive officer's salary grade.

Mr. Michael J. Bradley became President and Chief Executive Officer of the Company effective November 6, 2006. His initial annual base salary was \$475,000. Effective August 1, 2007, based on the Committee's assessment of Mr. Bradley's initial performance, Mr. Bradley's salary was increased to \$525,000. In July 2008 based on data provided by Hewitt Associates showing that Mr. Bradley's base salary was significantly below the median and in recognition of Mr. Bradley's outstanding performance in fiscal 2008, the Committee approved an increase in Mr. Bradley's base pay to \$670,000 effective June 1, 2008. Based on uncertainty in the market and the economy and notwithstanding the Committee's extremely positive assessment of Mr. Bradley's performance in fiscal 2009, the Committee made no adjustment to Mr. Bradley's base pay in June 2009, which remains at \$670,000.

Fiscal 2009 base pay compensation for our other Named Executive Officers (Mr. Thomas E. Long, Mr. Joseph F. Montalbano, Mr. Matthew J. Petrizzo and Mr. James P. Ryan) is administered in line with our established compensation philosophy discussed above.

Mr. Long joined the company as Chief Financial Officer on April 30, 2008 at an annual base pay of \$300,000, which was not adjusted during the year.

Mr. Montalbano joined the company as Chief Operating Officer on May 12, 2008 at an annual base pay of \$350,000, which was not adjusted during the year.

Mr. Petrizzo joined the company as Vice President of Matrix Service Industrial Contractors, Inc. (MSICI), a wholly-owned subsidiary of the Company, on November 12, 2007 at an annual base pay of \$210,000. Based on his outstanding performance, Mr. Petrizzo was promoted to President of MSICI on June 1, 2008 and received an annual base pay adjustment to \$265,000. Mr. Petrizzo's new base pay of \$265,000 included a salary adjustment in connection with our elimination of the automobile allowance for executive officers.



Mr. Ryan received a base pay adjustment on June 1, 2008 based on his performance and the elimination of the automobile allowance as previously noted. His annual base pay increased from \$273,780 to \$303,300.

Based on market uncertainty and economic conditions, in June 2009 Mr. Bradley recommended no base pay adjustments for fiscal 2010 for the Named Executive Officers, which the Committee accepted, although the Committee indicated it may consider merit increases at a later date if conditions improve.

#### Annual/Short-Term Incentive Compensation

Our annual/short-term incentive compensation plan is designed to offer the opportunity for substantial incentive awards for delivering outstanding performance. Rewards under our short-term incentive compensation plans are based on overall company, business unit, operating unit, and individual performance, as compared to pre-established objectives that are tied to enhancement of stockholder value. Our short-term incentive compensation objectives are designed to:

- Support and drive performance toward achieving our strategic objectives,
- Emphasize overall company, business unit, operating unit and individual performance in the structuring of reward opportunities,
- Motivate and reward superior performance, and
- Provide incentive compensation opportunities that are competitive in the industry.

For fiscal 2009, our annual/short-term incentive targets were established as follows:

- Short-term incentive compensation was based on four primary factors:
  - Financial Performance,
  - Safety Performance,
  - Strategy/Growth execution, and
  - Business/Personal Objectives, including project execution, business development, risk management and cost optimization.
- For fiscal 2009 financial performance, a consolidated annual income goal was recommended by the CEO and approved by the Committee at the July 2008 meeting.
- Financial performance measures for the CEO, COO and CFO were based on fully-diluted earnings per share (EPS).
- Corresponding financial targets for pre-tax income were established for each operating company and organizational unit based on business plans, which were designed to drive growth and/or improve profitability.
- Once all targets were established for the Company, Threshold, Maximum and Stretch levels of performance were defined. Threshold was defined as 90% of Target, Maximum was defined as 110% of Target and Stretch was defined as 120% of Target. No incentives are paid for performance below the Threshold level.
- Financial incentives for Mr. Bradley, Mr. Long and Mr. Montalbano and other corporate executive management were tied to our consolidated performance. Incentives for Mr. Ryan, Mr. Petrizzo and other executive officers, managers and operating division personnel were tied to both their respective operating company or organizational unit and our consolidated results.
- Safety Performance Targets were established based on Total Recordable Incident Rate (TRIR). The TRIR levels for fiscal 2009 were 1.25 for Threshold payout, 1.0 for Target payout and 0.75 for Maximum payout. Incentives for Mr. Ryan, Mr. Petrizzo and other executive officers, managers and operating division personnel were tied to both their respective operating company or organizational unit and our consolidated results. Other subjective criteria including behavioral-based safety training implementation, safety audits, and safety accountability were also evaluated.
- Growth/strategy execution was measured against how well we positioned ourselves for growth and diversification coming into fiscal year 2010 and how well we grew our backlog.
- Other performance criteria in the form of personal objectives were established for each executive officer in line with the Company's fiscal 2009 plan.

- Actual performance in relation to established measures was presented to the Committee at the July 2009 meeting and was approved. Incentives for fiscal 2009 performance were paid on August 14, 2009.
- Discretionary awards outside of the plan may be recommended by the CEO and approved by the Committee in the event there are special circumstances or achievements that need to be recognized.

Performance measures established shortly after the beginning of the fiscal year do not include the impact of an acquisition, positive or negative, completed within the fiscal year. However, it is anticipated that the Committee would evaluate any acquisitions which may be completed during the fiscal year on a case-by-case basis to determine their impact on the plan and adjust performance measures appropriately.

In fiscal 2009, the short-term incentive compensation payable to Mr. Bradley was based on the attainment of the following objectives:

Safety:

Achieve TRIR of 1.0 Target; 1.25 Threshold; 0.75 Maximum  
Progress toward building consistency and strengthening safety culture

Financial:

Achieve fully-diluted EPS of \$1.50 Target; \$1.35 Threshold; \$1.65 Maximum; and \$1.80 Stretch

Strategy:

Position Company for 15% organic earnings growth for fiscal 2010.  
Assess overhead costs and allocation and identify opportunities to reduce.

Personal Objectives:

Customer Focus – Revitalize and refocus the Business Development and Sales operations to enhance a “customer facing” organization.

Progress toward expanding the Company’s geographic reach and diversification in power, downstream petroleum, natural gas, industrial and alternative energy, leveraged around our core capabilities.

Add engineering and fabrication capabilities to expand project lifecycle and engineer, procure and construct (EPC) services centered around our core businesses.

Position the Company to accelerate long-term growth through addition of key talent and strategic acquisitions.

The Committee evaluated actual results in each category against the expected levels of performance:

Safety: In fiscal 2009, we achieved a TRIR of 0.68 and implemented behavioral-based safety programs.

Financial: Our fully diluted EPS was \$1.16. Although \$1.16 EPS represents a record level of earnings, it was below the Threshold level of performance and no amounts were paid out in respect of this objective.

Strategy: Due to market conditions, which included significant delays and cancellations in capital spending by a number of our clients, organic growth was challenging. However, we did make significant progress toward the advancement of our long-term strategy in fiscal 2009. We were successful with organic growth and diversification efforts through expansion in the Gulf Coast and Western Canada regions. Also, we continued to strengthen our financial position and liquidity, funding two strategic acquisitions from operating cash flows while increasing our cash position to \$35 million and remaining virtually debt free. We continued to actively manage the overall cost structure including construction overhead and SG&A costs with a focus on balancing the cost structure in light of current market conditions with the need to maintain adequate capacity to address potential opportunities.

Personal Objectives: We successfully added key business development talent with broad industry experience, improved its database of project opportunities and added proposal evaluation tools and processes. Significant progress was made toward the advancement of the long-term growth and diversification strategy, as noted above. We successfully completed and integrated two acquisitions—certain engineering, technology and construction resources from CB&I, which expands our engineering capabilities and S.M. Electric, which expands our ability to provide services to the power industry, especially in the Northeast region.

After thorough discussion of our overall fiscal 2009 performance and Mr. Bradley’s personal performance, it was determined that he should receive an incentive payment at the Threshold level for his demonstrated leadership through continuing to enhance the talent and capability of the Company, two successful acquisitions, an outstanding safety record and culture, and the advancement of our long-term strategy. A Threshold incentive payment for Mr. Bradley is 50% of base salary. Therefore, the fiscal 2009 bonus approved for Mr. Bradley by the Committee was \$335,000 or 50% of his fiscal 2009 base salary of \$670,000.

For Mr. Montalbano, his fiscal 2009 incentive was guaranteed to be no less than Target, which was a condition of his employment. Mr. Montalbano joined us as Chief Operating Officer on May 19, 2008 at an annual base salary of \$350,000. The Target incentive opportunity for this position is 50% of base pay. Based on our previous commitment to Mr. Montalbano, the Committee approved a Target incentive payment for him of \$175,000.

For Mr. Long, fiscal 2009 incentives were based on the same four categories as Mr. Bradley. Personal objectives were specifically defined for Mr. Long’s position in line with fiscal 2009 objectives. The Committee approved an incentive payment to Mr. Long of \$75,000, which represents the Threshold level incentive, or 25% of salary, based on his successful leadership and integration of two acquisitions and cost reduction efforts, especially with respect to both external and internal audit expenses. Mr. Long joined us as Vice President, Finance and Chief Financial Officer on April 30, 2008 at an annual base salary of \$300,000.

For Mr. Petrizzo and Mr. Ryan, fiscal 2009 incentives were based on the same four categories as Mr. Bradley. However, additional financial measures for the performance of their respective operating companies were also established. Personal objectives were specifically defined for Mr. Petrizzo and Mr. Ryan in line with fiscal 2009 objectives. The Committee approved an incentive payment for Mr. Petrizzo of \$113,103 based on the excellent financial performance and strategic positioning of his operating company. This represents a 42.7% incentive for Mr. Petrizzo, which is slightly below the Target level for his position of 50% of base pay. The Committee approved an incentive payment for Mr. Ryan of \$75,825 based on the excellent safety record and culture of his operating company and in recognition of the achievement of strong operating margins in a challenging environment. This represents the Threshold level of incentive for Mr. Ryan which is 25% of base pay.

In addition to the annual incentive awards stated above, the Committee approved a special award of a total of 32,000 Restricted Stock Units (RSU) for Mr. Bradley and the other Named Executive Officers. The special RSU awards were intended as a retention tool and to supplement the fiscal 2009 cash incentives and further reward the executive management team for our record earnings, excellent safety performance and advancement of the long-term strategic plan.

The RSU awards were granted on August 14, 2009 and were time-based awards. Restrictions will lapse on the third anniversary of the award. Specific RSU award levels are detailed below:

	<u>Number of RSU’s Granted</u>
Mr. Bradley .....	10,000
Mr. Montalbano .....	6,000
Mr. Long .....	6,000
Mr. Petrizzo .....	5,000
Mr. Ryan .....	5,000

The base calculation of incentives is tied to defined measures for financial performance and safety performance while the calculation for growth/strategy and business/personal objectives is more subjective in nature. Incentives for executive officers below the CEO are recommended by the CEO and approved by the Committee. Incentive compensation payments to the CEO are determined solely by the Committee in executive session, without management present.

The Annual/Short-Term Incentive Compensation Plan is reviewed and evaluated periodically to ensure that it meets its objectives and may be modified, discontinued or replaced based on our changing objectives and requirements.

For fiscal year 2010, our annual/short-term incentive compensation plan will be based on financial performance, safety performance and the execution of specific fiscal 2010 business objectives. CEO, COO, CFO and corporate executive officers are tied to our consolidated performance. Incentives for other executive officers, managers and other operating division personnel are tied to the performance of their respective operating company or organizational unit and our consolidated

results. The percentage of each employee's annual/short-term incentive assigned to each performance element is dependent on the employee's position and responsibilities. Information on the annual/short-term incentive targets for fiscal 2010 established for each element is provided below:

Financial – Financial measures for Mr. Bradley, Mr. Long and Mr. Montalbano and other corporate executive officers are tied to consolidated fully-diluted EPS with Threshold, Target and Maximum measures. Also, for Mr. Ryan and Mr. Petrizzo, and other Company officers and employees, the portion of their incentive tied to consolidated results is based on consolidated fully-diluted EPS. For any incentives attributable to operating company and organizational unit performance, financial performance will be measured by Pre-Tax Income. Targets for Pre-Tax Income were established for each operating company and organizational unit based on business plans, which were designed to drive growth and/or improved profitability.

Safety Performance – Safety performance is measured by Total Recordable Incident Rate (TRIR). Improvement in overall safety culture and implementation of behavioral-based safety programs will also be considered.

Fiscal 2010 Business Objectives – This element will be measured by how well we execute in fiscal 2010 and position the Company for fiscal 2011, including financial strength, strategic acquisitions, standardized business processes, diversification and succession planning.

Beginning July 1, 2009 with the fiscal 2010 short-term incentive plan, we added a return metric to the plan which will more directly link our financial performance with the level of incentive payouts under the plan. After thorough discussion of various return metrics, the Committee approved a Return on Sales metric under the short-term incentive plan.

At the beginning of each fiscal year, a hurdle rate will be established based on a minimum level of Pre-Incentive Operating Income that must be earned before any incentives will be paid. Once the hurdle rate is earned, an incentive pool will be funded with 25% of each dollar earned above the hurdle rate. In the event we achieve performance at the target level, but the incentive pool is not funded to pay incentives at the target level, individual incentive opportunities will be reduced by a factor to remain within the established pool. In the event we achieve performance at the target level and the incentive pool is funded at a level greater than target, incentives will be paid at the target level of performance. The size of the incentive pool is capped by the maximum percentage of salary permitted under the plan for each participant.

#### Long-Term Incentive Compensation (Equity)

The purpose for providing long-term incentive compensation to executive officers is to tie executive rewards directly to the enhancement of long-term stockholder value. Offering the opportunity for executive officers (and other managers) to earn an ownership position in the Company enables us to remain competitive and attract, retain and motivate top executive and management talent. We believe equity ownership helps to create and maintain a long-term perspective among executive officers and provides a direct link to our long-term growth and profitability.

On October 23, 2006, we amended and restated the 2004 Stock Incentive Plan to permit the grant of restricted stock, restricted stock units, stock appreciation rights, and performance shares, in addition to stock options which were previously authorized. Beginning in October 2006, we changed the form of equity grants offered to executive officers and key management personnel from stock options to restricted stock units or RSUs. Equity grants in October 2006, October 2007 and October 2008 were awarded in the form of RSUs.

The Committee believes that the use of RSUs is the most appropriate form of equity to achieve our stated objectives, as it is a full value award that strongly and directly links management and stockholder interests. As a full value award, RSUs are less dilutive to stockholders, since we are able to issue fewer shares in order to attain the desired level of equity compensation for our executive officers and managers. RSU awards are granted on an annual basis and generally contain both a performance-based and a time-based element. Performance criteria link the equity reward to our strategic objectives and stockholder value. Time-based shares promote executive officer/management retention. Specific, individual grants vary by level/role in the organization. The amount of each award corresponds to the respective salary grade for each executive officer and manager.

The objective is to provide a long-term component to overall compensation that aligns the interests of executives with those of stockholders through stock ownership. For our long-term incentive compensation plan, the performance measure we use is a three-year measurement of fully-diluted EPS, which is designed to promote teamwork and align management toward a common, strategic goal. Three-year EPS targets for the October 2008 grants for Threshold, Target and Maximum level awards are based on fiscal 2009 to 2011 earnings. Phantom shares, which will be settled only in cash, will be used for awards earned above the Target award. Shares awarded for performance between the established levels will be calculated on a pro-rata basis.

The basis for the October 2008 Restricted Stock awards to executive officers is detailed below:

- For the Mr. Bradley, Mr. Long, Mr. Ryan and Mr. Petrizzo, 100% of the award is performance-based. The Committee believes that long-term equity compensation should be primarily performance-based for our most senior executives. Mr. Montalbano was not included in the October 2008 grant per the terms of his initial employment offer.
- For all other executive officers and managers, each award is 50% performance-based and 50% time-based. For the time-based awards restrictions lapse 20% per year over five years and vesting of the performance-based awards is based on the achievement of the targets described above.
- Performance for the three-year period will be measured after our fiscal 2011 earnings are reported.
- If minimum performance objectives are not met, the performance based shares are forfeited.
- For performance achieved above the Target level, phantom shares will be used. If we achieve fully-diluted EPS that are between the Target goal and the Maximum performance goal, then the number of phantom share rights will be determined on a pro-rata basis. In the event we achieve the Maximum performance goal, then all of the phantom share rights will vest. Within 10 days after the vesting date, we will pay in cash for each vested phantom share right an amount equal to the closing price per share of our common stock as reported by the New York Stock Exchange on the vesting date.

Grants made during fiscal 2009 are shown in the Grants of Plan-Based Awards table. Long-term equity awards are granted on an annual basis each October at the Board meeting following our annual stockholders meeting.

Equity compensation is reviewed and evaluated periodically to ensure that it meets our objectives and may be modified, discontinued or replaced based on our changing objectives.

#### Perquisites and Other Benefits

Our executive officers do not receive a significant value in perquisites or supplemental benefits. In general, our executive officers are eligible to participate in the same retirement and health and welfare plans as all eligible employees. However, to remain competitive in our benefit offerings, we offer the following benefits to executive officers:

Retirement Benefits – We sponsor a 401(k) Savings Plan which allows executive officers, and other employees, to contribute up to 25% of their salary (up to the annual IRS maximum). Executive officers participate and receive benefits under the plan in the same manner as all other eligible participants. We do not sponsor or maintain any other pension, deferred compensation plans or other supplemental retirement plans for executive officers.

Life Insurance – In addition to the group term life policy offered to all eligible employees, we provide additional life insurance to our executive officers, at no cost to the officer.

CEO – We provide a \$500,000 term life insurance policy for the CEO.

Executive Officers and Managers – We provide an additional corporate term life insurance policy for all executive officers and selected managers at the levels outlined below:

- CEO, COO and CFO – \$600,000
- Other Executive Officers – \$400,000
- Selected Managers – \$200,000

In addition to the company-provided life insurance policies described above, all executive officers, along with other eligible employees and managers, have the option to purchase supplemental life insurance for themselves, their spouses and dependents.

Country Club Membership – In fiscal 2008, we reimbursed the CEO and CFO for the initiation fee and monthly dues associated with a country club membership. While the country club may be used for business purposes, this benefit is a competitive practice and was offered and considered a perquisite of these positions. This practice, nonetheless, was discontinued for fiscal 2009.



Auto Allowance – It has been our policy to provide company vehicles or vehicle allowances to corporate officers, management personnel, and other personnel with a defined business need. The assignment of a company-provided vehicle or vehicle allowance was determined by (1) the level of the position, (2) the nature of the position and (3) business necessity. A vehicle allowance was provided to executive officers as a perquisite. The amount of the vehicle allowance varied by position. The vehicle allowance was paid as part of regular payroll and is taxable income. The vehicle allowance perquisite for all executive officers was eliminated for fiscal 2009.

The elimination of the automobile allowance and reimbursement of country club membership initiation fees and monthly dues was considered in determining the fiscal 2009 salary for each of the Named Executive Officers.

#### Clawback Policy

To the extent permitted by law, if the Board of Directors, with the recommendation of the Committee, determines that any bonus, equity award, equity equivalent award or other incentive compensation has been awarded or received by a Named Executive Officer, and that such compensation was based on the achievement of any financial results that were subsequently the subject of any material restatement of our financial statements filed with the SEC, the executive officer engaged in grossly negligent or intentional misconduct that caused or substantially caused the material restatement and the amount of the compensation would have been less had the financial statements been correct, we will seek to recover from the executive officer such compensation (in whole or in part) as we deem appropriate under the circumstances. The Board of Directors has sole discretion in determining whether an officer's conduct has or has not met any particular standard of conduct under law or Company policy.

#### Change of Control/Severance Agreements – Named Executive Officers

We have entered into Change of Control/Severance Agreements with each of the Named Executive Officers. These agreements are designed to promote stability, continuity and focus for key members of leadership during periods of uncertainty that may be created by change of control situations. Additionally, the use of such agreements is a competitive practice that enhances the Company's ability to attract and retain leadership talent.

Under these five agreements, payment of benefits may occur under two circumstances:

- If we experience a change of control and the executive suffers an adverse event or is terminated without cause, either on the date of the change of control or within 24 months following change of control date; or
- The executive is terminated from employment at any time for reasons other than cause.

In the event payment of benefits is triggered under these agreements, all benefits paid under these agreements are conditioned upon the executive executing a waiver and release of claims and confidentiality agreement in a form satisfactory to us.

Failure to execute such an agreement prior to the payment date is considered an absolute forfeiture of the severance benefit.

In the event a Named Executive Officer suffers an adverse event within 24 months of a change of control:

- Mr. Bradley, Mr. Montalbano or Mr. Long will receive an amount equal to two year's annual salary plus his annual bonus compensation based on the average bonus compensation for the lesser of the three previous years or the number of full fiscal years the executive has been employed in the position. In addition, all forms of equity benefits will vest and restrictions on those benefits will lapse immediately.
- Mr. Ryan and Mr. Petrizzo will receive an amount equal to one year's annual salary plus the average annual bonus compensation paid to the executive in the previous three calendar years.

In the event a Named Executive Officer is terminated from employment for reasons other than cause, the Named Executive Officer will receive an amount equal to one year's annual salary plus an additional amount with respect to the executive's annual bonus which varies for each executive. In addition, restrictions on certain of the initial RSU awards to Mr. Bradley and Mr. Montalbano will lapse immediately.

Benefits will be paid in the calendar year the event occurs and, generally, within 30 days of the date of the event. In no case will the payment of the severance benefits be paid later than March 15 following the calendar year in which the event occurred.

### Change of Control Agreements – Other Executive Officers and Managers

We have also entered into Change of Control Agreements with other executive officers and key members of management. These agreements are designed to promote stability, continuity and focus for key managers during periods of uncertainty that may be created by potential change of control situations. We seek to offer some security and protection when asking officers and managers to remain engaged through uncertain times. The Change of Control Agreements are provided to the other Company executive officers not named above and select management personnel.

Under these agreements, payment of benefits occurs in the event of a change of control and the executive officer/manager has suffered an adverse event or been terminated from employment for reason other than cause, either on the date of the change of control or within six months of the change of control date. There is no general severance clause in these agreements.

In the event payment of benefits is triggered under these agreements, the executive officer/manager will be paid an amount equal to one year's annual base salary. In addition, all equity awards immediately vest and all restrictions on such benefits lapse. All benefits paid under these agreements are conditional upon the executive executing a waiver and release of claims and confidentiality agreement in a form satisfactory to us. Failure to execute such an agreement prior to the payment date will be considered an absolute forfeiture of the severance benefit. In the event an executive is terminated for Cause, all benefits and payments under the agreement are forfeited.

Benefits will be paid in the calendar year the event occurs and, generally, within thirty days of the date of the event. In no case shall the payment of the severance benefits be paid later than March 15 following the calendar year in which the event occurred.

### **Report of the Compensation Committee of the Board of Directors**

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Members of the Compensation Committee:

Paul K. Lackey, Compensation Committee Chairman  
Tom E. Maxwell, Compensation Committee Member  
I. Edgar Hendrix, Compensation Committee Member  
David J. Tippeconnic, Compensation Committee Member



## EXECUTIVE OFFICER COMPENSATION

The following tables set forth certain information regarding compensation of the Chief Executive Officer, the Chief Financial Officer and each of the Company's three other most highly compensated executive officers who were serving as executive officers at the end of fiscal 2009, based on total compensation earned during fiscal 2009, for services in all capacities to the Company and its subsidiaries. Each of the executive officers listed below are referred to collectively as the "Named Executive Officers".

### Summary Compensation Table

The following table sets forth information with respect to total compensation in fiscal 2009, 2008 and 2007 for the Named Executive Officers:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Michael J. Bradley	2009	670,000	—	316,936	—	335,000	—	36,349(5)	1,358,285
Chief Executive Officer	2008	516,667	—	940,335	—	371,704	—	45,097(6)	1,873,803
	2007	277,083	150,000(4)	610,125	—	475,000	—	172,011(7)	1,684,219
Joseph F. Montalbano	2009	350,000	—	477,567	—	175,000	—	246,308(8)	1,248,875
Chief Operating Officer	2008	14,583	100,000(4)	16,143	—	—	—	29,167(9)	159,893
	2007	—	—	—	—	—	—	—	—
Thomas E. Long	2009	300,000	—	487,679	—	75,000	—	123,325(10)	986,004
Chief Financial Officer	2008	26,346	100,000(4)	44,574	—	—	—	31,823(11)	202,743
	2007	—	—	—	—	—	—	—	—
Matthew J. Petrizzo	2009	265,000	—	3,642	—	113,103	—	23,485(5)	405,230
President	2008	113,750	25,000(4)	65,212	—	80,000	—	11,289(12)	295,251
Matrix Service Industrial Contractors Inc.	2007	—	—	—	—	—	—	—	—
James P. Ryan	2009	303,300	—	(47,736)	37,873	75,825	—	26,184(5)	395,446
President	2008	273,780	—	73,623	42,695	118,127	—	36,416(12)	544,641
Matrix Service Inc.	2007	260,000	—	7,791	46,153	120,575	—	26,558(12)	461,077

- (1) The amounts shown represent expense recognized in the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the applicable fiscal year in accordance with Statement of Financial Accounting Standards No. 123(R), Share Based Payment (SFAS 123R), for restricted stock unit awards granted to the Named Executive Officers, excluding any assumptions for future forfeitures. All assumptions utilized to calculate the expense amounts shown above are set forth in Note 10 of the Notes to the Consolidated Financial Statements for the year ended May 31, 2009.
- (2) The amounts shown represent expense recognized in the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the applicable fiscal year in accordance with Statement of Financial Accounting Standards No. 123(R), Share Based Payment (SFAS 123R), for stock option awards, excluding any assumptions for future forfeitures. All assumptions utilized to calculate the expense amounts shown above are set forth in Note 10 of the Notes to the Consolidated Financial Statements for the year ended May 31, 2009. There were no stock options granted to the Named Executive Officers in fiscal 2009, 2008 and 2007.
- (3) Amounts represent amounts payable to Named Executive Officers under the incentive compensation plan for the applicable fiscal year performance.
- (4) Amounts shown represent a sign-on bonus paid to the Named Executive Officer upon initial employment with us.
- (5) Represents amounts paid by us on behalf of the Named Executive Officer in fiscal 2009 for life insurance and disability premiums and matching contributions to the Named Executive Officer's account in our qualified 401(k) plan.
- (6) Represents amounts paid by us on behalf of Mr. Bradley in fiscal 2008 for auto allowance, life insurance and disability premiums, matching contributions to Mr. Bradley's account in our qualified 401(k) plan, club dues and moving expenses.
- (7) Represents amounts paid by us on behalf of Mr. Bradley in fiscal 2007 for auto allowance, life insurance and disability premiums, matching contributions to Mr. Bradley's account in our qualified 401(k) plan and club dues. In addition, we paid \$152,331 in moving expenses for Mr. Bradley's relocation to Tulsa, Oklahoma.
- (8) Represents amounts paid us on behalf of Mr. Montalbano in fiscal 2009 for life insurance and disability premiums and matching contributions to Mr. Montalbano's account in our qualified 401(k) plan, the value associated with the use of a Company leased automobile, and \$223,639 in moving expenses for Mr. Montalbano's relocation to Tulsa, Oklahoma.
- (9) Represents amounts paid by us on behalf of Mr. Montalbano in fiscal 2008 for moving expenses for Mr. Montalbano's relocation to Tulsa, Oklahoma.
- (10) Represents amounts paid by us on behalf of Mr. Long in fiscal 2009 for life insurance and disability premiums and matching contributions to Mr. Long's account in our qualified 401(k) plan, and \$103,483 in moving expenses for Mr. Long's relocation to Tulsa, Oklahoma.
- (11) Represents amounts paid by us on behalf of Mr. Long in fiscal 2008 for life insurance and disability premiums, and \$31,043 in moving expenses for Mr. Long's relocation to Tulsa, Oklahoma.
- (12) Represents amounts paid by us on behalf of the Named Executive Officer in fiscal 2008 and fiscal 2007 for auto allowance, life insurance and disability premiums, and matching contributions to the Named Executive Officer's account in our qualified 401(k) plan.

## Grants of Plan-Based Awards During Fiscal 2009

The following table sets forth information with respect to grants of plan-based awards in fiscal 2009 to the Named Executive Officers:

Name	Approval Date	Grant Date	Estimated Possible Payouts under Non-Equity Incentive Plan Awards (1)				Estimated Future Payouts under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of shares of Stock or Units (#)	Grant Date Fair Value of Stock Awards (\$) (3)
			Threshold (\$)	Target (\$)	Maximum (\$)	Stretch (\$)	Threshold (#)	Target (#)	Maximum (#)		
Michael J. Bradley	10/21/08 7/31/08	10/21/08	335,000	502,500	670,000	770,500	30,500	61,000	61,000	—	701,500
Joseph F. Montalbano	10/21/08 7/31/08	10/21/08	175,000	175,000	262,500	315,000	—	—	—	—	—
Thomas E. Long	10/21/08 7/31/08	10/21/08	75,000	150,000	225,000	270,000	10,150	20,300	20,300	—	233,450
Matthew J. Petrizzo	10/21/08 7/31/08	10/21/08	66,250	132,500	198,750	238,500	8,600	17,200	17,200	—	197,800
James P. Ryan	10/21/08 7/31/08	10/21/08	75,825	151,650	227,475	272,970	9,400	18,800	18,800	—	216,200

- (1) The amounts shown are the targeted cash incentive compensation award potential for each Named Executive Officer under our incentive compensation plan described in the Compensation Discussion and Analysis. These amounts are based on the individual's annual salary. Actual payouts earned by the Named Executive Officers for the applicable fiscal year are reported in the Summary Compensation Table as "Non-equity incentive plan compensation".
- (2) Amounts shown are the number of shares of performance-based restricted stock unit awards granted to the Named Executive Officers in fiscal 2009. Performance is defined for Threshold, Target and Maximum level awards based on our cumulative EPS for a three-year period beginning in fiscal 2009. Phantom shares will be used for any awards earned in excess of the Target award and will be settled in cash. Shares awarded for performance between the established levels will be calculated on a pro-rata basis.
- (3) Amounts shown are calculated based upon the Maximum number of restricted stock units awarded multiplied by the closing stock price on the date of grant.

## Option Exercises and Stock Vested During Fiscal 2009

The following table sets forth information with respect to the value realized by our Named Executive Officers upon the exercise of stock options and the vesting of restricted stock units in fiscal 2009:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (2)
Michael J. Bradley	—	—	19,830	224,872
Joseph F. Montalbano	—	—	16,588	159,742
Thomas E. Long	—	—	21,750	208,365
Matthew J. Petrizzo	—	—	1,650	14,718
James P. Ryan	2,500	13,825	330	3,897

- (1) The value realized is the difference between the option exercise price and the sales price of the common stock on the date of exercise, multiplied by the number of shares for which the options were exercised.
- (2) The value realized is the closing sales price of the common stock on the vesting date, multiplied by the number of shares for which the restrictions lapsed.

## Outstanding Equity Awards at Fiscal Year-End for 2009

The following table sets forth certain information with respect to outstanding equity awards held by the Named Executive Officers as of May 31, 2009:

Name	Option Awards (1)				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Other Rights that have not Vested (\$)
Michael J. Bradley	—	—	—	—	59,490(4)	673,427	140,400(9)	1,589,328
Joseph F. Montalbano	—	—	—	—	16,587(5)	187,765	—	—
Thomas E. Long	—	—	—	—	21,751(6)	246,221	20,300(9)	229,796
Matthew J. Petrizzo	—	—	—	—	6,600(7)	74,712	25,450(9)	288,094
James P. Ryan	5,000	—	12.20	10/21/2013				
	16,300	8,400(2)	4.60	10/26/2014				
	4,500	3,000(3)	8.93	10/21/2015				
	—	—	—	—	990(8)	11,207	31,250(9)	353,750

- (1) All options were granted with 10 year terms. The options have vesting terms ranging from two to five years beginning one year after the grant date.
- (2) These options were granted on October 26, 2004 and will vest on October 26, 2009.
- (3) These options were granted on October 21, 2005 and will vest 50% on October 21, 2009 and 50% on October 21, 2010.
- (4) Amount represents restricted stock unit awards received on November 6, 2006 which vest 33.3% on November 6, 2009, 33.3% on November 6, 2010 and 33.3% on November 6, 2011.
- (5) Amount represents restricted stock unit awards received on May 19, 2008 of which 25% vest on each of May 19, 2010, 2011, 2012 and 2013.
- (6) Amount represents restricted stock unit awards received on April 30, 2008 of which 25% vest on each of April 30, 2010, 2011, 2012 and 2013.
- (7) Amount represents restricted stock unit awards received on November 12, 2007 of which 25% vests annually on each of November 12, 2009, 2010, 2011, and 2012.
- (8) Amount represents restricted stock unit awards on October 23, 2006 and will vest 33.3% on October 23, 2009, 33.3% on October 23, 2010 and 33.3% on October 23, 2011.
- (9) Amounts shown are the number of shares of performance-based restricted stock awards granted to the Named Executive Officers.

For awards granted in fiscal 2007, the Named Executive Officers will receive 60% of the award after three years if our cumulative three year operating income for fiscal years 2007, 2008 and 2009 meets the established Threshold level, 80% after three years if the cumulative operating income meets the established Target level, and 100% after three years if the cumulative operating income meets the established Maximum level.

For awards granted in fiscal 2008 and fiscal 2009, the Named Executive Officers will receive 50% of the award after three years if our cumulative fully-diluted EPS for the three-year period beginning in fiscal 2008 meets the established Threshold level, 100% after three years if the cumulative fully-diluted EPS meets the established Target level, and 150% after three years if the cumulative fully-diluted EPS meets the established Maximum level. Phantom shares will be granted for awards earned above 100%. Shares awarded for performance that falls between the established levels will be calculated on a pro-rata basis.

## Potential Payments Upon Termination or Change of Control

We have entered into Change of Control/Severance Agreements with each of the Named Executive Officers. These agreements are designed to promote stability, continuity and focus for key members of leadership during periods of uncertainty that may be created by change of control situations. Additionally, the use of such agreements is a competitive practice that enhances our ability to attract and retain leadership talent.

Under these five agreements, payment of benefits may occur under two circumstances:

- If we experience a “Change of Control” and the executive suffers an “Adverse Event” or is terminated without “Cause,” either on the date of the Change of Control or within 24 months following Change of Control date; or

- The executive is terminated from employment at any time for reasons other than Cause.

“Change of Control” means (i) a “change in ownership” of the Company of greater than 50% of the outstanding voting stock of the Company within a six month period; (ii) a “change in the effective control” of the Company as determined by a change of greater than 35% of the outstanding voting stock of the Company by a person or persons acting as a group within a twelve month period; or (iii) a “change in the ownership” of a substantial portion of the assets of the Company as these terms are defined under Internal Revenue Code § 409A(a)(2)(A)(v) and Treasury Regulations § 1.409A-3(g)(5) or other then existing and applicable Treasury Regulations promulgated under Code § 409A that define the terms “change of control” for deferred compensation arrangements.

“Cause” means, with reference to a severance event, that the executive has been severed from employment with the Company because of the executive’s theft of Company property, embezzlement or dishonesty that results in harm to the Company; continued gross or willful neglect of his or her job responsibilities after receiving written warnings regarding such neglect from the Company; conviction of a felony or pleading *nolo contendere* to a felony charged under state or federal law; or willful violation of Company policy. A determination by the Company’s Board of Directors that an event constituting “Cause” under this Agreement has occurred is binding upon the Company and the executive.

“Adverse Event” means that the executive has experienced an event that has a material adverse impact on the executive’s job position, responsibilities, duties, authorities, compensation or opportunities within the Company. An Adverse Event shall be considered “material” when: (i) the executive experiences any reduction in base salary; (ii) the executive experiences a reduction in salary range or opportunity for increases in salary; (iii) the executive experiences a reduction in incentive compensation range or opportunity; (iv) there is a material reduction in the executive’s executive benefits or perquisites; (v) the executive is reassigned to a position or role with a lower salary range, salary opportunity, incentive range or incentive opportunity; or (vi) the executive experiences a material reduction in responsibilities.

In the event payment of benefits is triggered under these agreements, the executive officer will be paid in the manner outlined below. All benefits paid under these agreements are conditioned upon the executive executing a waiver and release of claims and confidentiality agreement in a form satisfactory to us. Failure to execute such an agreement prior to the payment date is considered an absolute forfeiture of the severance benefit. In the event an executive officer is terminated for Cause, all benefits and payments under the agreement are forfeited.

- In the event an executive suffers an Adverse Event within 24 months of a Change of Control, benefits are paid as follows:

Mr. Bradley, Mr. Long and Mr. Montalbano – Paid an amount equal to two year’s annual salary plus the average annual bonus compensation paid to the executive in the lesser of the previous three years or the number of full fiscal years the executive has been employed in the position. All forms of equity benefits vest and restrictions on such benefits lapse immediately.

Mr. Ryan and Mr. Petrizzo – Paid an amount equal to one year’s annual salary plus the average annual bonus compensation paid to the executive in the previous three calendar years.

- In the event an executive is terminated from employment for reasons other than Cause, benefits are paid as follows:

Mr. Bradley – Paid an amount equal to one year’s annual salary plus bonus compensation in an amount equal to 60% of base salary. Restrictions on any of Mr. Bradley’s outstanding awards from his initial \$1.25 million restricted stock grant will lapse immediately.

Mr. Long – Paid an amount equal to one year’s annual salary plus bonus compensation in an amount equal to 50% of base salary.

Mr. Montalbano – Paid an amount equal to one year’s annual salary plus, if the termination occurs within Mr. Montalbano’s first 24 months of employment, bonus compensation in an amount equal to 50% of base salary. If the termination occurs after Mr. Montalbano’s first 24 months of employment, he will receive the average bonus payment for the lesser of the three previous years or the number of full fiscal years he has been employed in the position. In addition, restrictions on any of Mr. Montalbano’s outstanding awards from his initial restricted stock grant will lapse according to the following schedule:

- If termination for reasons other than Cause occurs within Mr. Montalbano’s first 12 months of employment with us, all restrictions will lapse on \$350,000 of his initial restricted stock grant; and

- If termination for reasons other than Cause occurs after Mr. Montalbano completes 12 months of employment, but before he completes 24 months of employment, all restrictions will lapse on the remaining \$175,000 of his initial restricted stock grant.

Mr. Ryan and Mr. Petrizzo – Paid an amount equal to one year’s annual salary plus the average annual bonus compensation paid to the executive in the previous three calendar years.

We have also entered into Change of Control Agreements with other executive officers and key members of management. These agreements are designed to promote stability, continuity and focus for key managers during periods of uncertainty that may be created by potential change of control situations. We seek to offer some security and protection when asking officers and managers to remain engaged through uncertain times. The Change of Control Agreements are provided to our other executive officers not named above and select management personnel.

Under these agreements, payment of benefits occurs in the event of a Change of Control and the executive officer/manager has suffered an Adverse Event or been terminated from employment for reason other than Cause, either on the date of the Change of Control or within six months of the Change of Control date. There is no general severance clause in these agreements.

In the event payment of benefits is triggered under these agreements, the executive officer/manager will be paid an amount equal to one year’s annual base salary. In addition, all equity awards immediately vest and all restrictions on such benefits lapse. All benefits paid under these agreements are conditional upon the executive executing a waiver and release of claims and confidentiality agreement in a form satisfactory to us. Failure to execute such an agreement prior to the payment date will be considered an absolute forfeiture of the severance benefit. In the event an executive is terminated for Cause, all benefits and payments under the agreement are forfeited.

Benefits will be paid in the calendar year the event occurs and, generally, within thirty days of the date of the event. In no case shall the payment of the severance benefits be paid later than March 15 following the calendar year in which the event occurred.

The following table shows potential payments to our Named Executive Officers under existing contracts, agreements, plans or arrangements, whether written or unwritten for various scenarios involving a termination of each of such Named Executive Officers, assuming a May 31, 2009 termination date and, where applicable, using the closing price of our common stock of \$11.32 on May 31, 2009. These amounts are estimates only. The actual amounts to be paid out can only be determined at the time of such executive officer’s separation from us.

Except for certain terminations which entitle a Named Executive Officer to severance payments under the agreements described above, and except for the acceleration of vesting of equity awards upon retirement, death or disability to which a Named Executive Officer may be entitled under his respective stock option or restricted stock unit award agreements, there are no agreements, arrangements or plans that entitle the Named Executive Officers to severance, perquisites or other enhanced benefits upon their termination of employment. Any agreement to provide such other payments or benefits to a terminating executive would be at the discretion of the Compensation Committee.

Name	Change of Control with Adverse Event or Termination				Termination by the Company at any Time for Reasons Other than Cause				Voluntary Termination	Retirement, Death or Disability		Maximum Potential Payments
	Salary Severance (\$ (1))	Non-Equity Incentive Plan Severance (\$ (2))	Value of Stock Options that would Vest (\$ (3))	Value of Restricted Stock for which Restrictions would Lapse (\$ (4))	Salary Severance (\$ (1))	Non-Equity Incentive Plan Severance (\$ (2))	Value of Stock Options that would Vest (\$ (3))	Value of Restricted Stock for which Restrictions would Lapse (\$ (4))	No Contractual Benefits	Value of Stock Options that would Vest (\$ (3))	Value of Restricted Stock for which Restrictions would Lapse (\$ (4))	
Michael J. Bradley	1,340,000	787,803	—	2,262,755	670,000	402,000	—	371,862	—	—	2,262,755	4,390,558
Joseph F. Montalbano	700,000	350,000	—	187,765	350,000	175,000	—	187,765	—	—	187,765	1,237,765
Thomas E. Long	600,000	150,000	—	476,017	300,000	150,000	—	—	—	—	476,017	1,226,017
Matthew J. Petrizzo	265,000	96,552	—	362,806(5)	265,000	96,552	—	—	—	—	362,806	724,358
James P. Ryan	303,300	104,842	63,618(5)	364,957(5)	303,300	104,842	—	—	—	63,618	364,957	836,717

(1) Represents payment of annual salary for the event specified based on annual salary as of May 31, 2009.

- (2) Represents payment of non-equity incentive severance for the event specified based on the average annual bonus compensation paid to the executive in the lesser of the previous three years or the number of full fiscal years the executive has been employed in the position.
- (3) Represents the value the Named Executive Officer would realize for the vesting of all nonvested stock options for the specified event. The value is the difference between the option exercise price and the market price of the common stock as of the close of business on May 31, 2009, multiplied by the number of shares represented by nonvested stock options at May 31, 2009.
- (4) Represents the value the Named Executive Officer would realize for the lapsing of restrictions on restricted stock units due to the specified event. The value is the number of shares held with restrictions at May 31, 2009 multiplied by the market price of common stock at the close of business on May 31, 2009.
- (5) Although Mr. Petrizzo's and Mr. Ryan's severance agreements do not provide for accelerated vesting of equity awards in the event of a change of control and adverse event, their award agreements do provide for vesting of such awards in the event of a change of control, as such term is defined in the plan.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Review, Approval or Ratification of a Transaction with Related Persons

The Company's Corporate Governance Guidelines, which are available through our website, <http://www.matrixservice.com>, provide that the Company shall conduct an appropriate review of all transactions with related persons for potential conflict of interest situations on an ongoing basis, and all such transactions shall be approved by the Audit Committee or another independent body of the Board. The Corporate Governance Guidelines further provide that the term "transactions with related persons" refers to all transactions which are required to be disclosed pursuant to Item 404 of Regulation S-K.

In the course of its review and approval or ratification of a transaction, the Audit Committee will consider:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction;
- the significance of the transaction to the related person;
- the significance of the transaction to us;
- whether the transaction would impair the judgment of a director or executive officer to act in our best interest; and
- any other matters the Audit Committee deems appropriate.

Our Corporate Governance Guidelines also provide that each director and executive officer is required to complete a Director and Officer Questionnaire on an annual basis, and to update such information when the questionnaire responses become incomplete or inaccurate. The Director and Officer Questionnaire requires disclosure of any transactions with the Company in which the director or executive officer, or any member of his or her immediate family, has a direct or indirect material interest.

In fiscal 2009, there were no related party transactions required to be disclosed under SEC rules and regulations.



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of August 1, 2009, certain information with respect to the shares of common stock beneficially owned by (i) each person known by the Company to own beneficially more than 5% of its outstanding shares of Common Stock, (ii) each director and director nominee of the Company, (iii) each executive officer of the Company named in the Summary Compensation Table herein and (iv) all directors, director nominees and executive officers of the Company as a group. Unless otherwise noted, each of the persons listed below has sole voting and investment power with respect to the shares listed.

<u>Identity of Beneficial Owner</u>	<u>Shares Beneficially Owned</u>	<u>Calculated Ownership % (1)</u>
Barclays Global Fund Advisors, et. al. .... 400 Howard Street San Francisco, CA 94105	1,978,265 <sup>(2)</sup>	8.2%
Thomson Horstmann & Bryant, Inc. .... PARK 80 WEST, PLAZA ONE 5 <sup>th</sup> Floor SADDLE BROOK, NJ 07663	1,579,400 <sup>(3)</sup>	6.4%
Michael J. Hall .....	25,000	*
I. Edgar Hendrix .....	8,700 <sup>(4)</sup>	*
Paul K. Lackey .....	15,000 <sup>(4)</sup>	*
Tom E. Maxwell .....	21,000 <sup>(4)</sup>	*
David J. Tippeconnic .....	21,000 <sup>(4)</sup>	*
Michael J. Bradley .....	110,372	*
Joseph F. Montalbano .....	26,217	*
Thomas E. Long .....	38,552	*
Matthew J. Petrizzo .....	7,786	*
James P. Ryan .....	53,676 <sup>(4)</sup>	*
All directors, director nominees and executive officers as a group (18 persons) .....	665,415 <sup>(4)</sup>	2.6%

\* Indicates ownership of less than one percent of the outstanding shares of common stock.

- (1) Shares of common stock which were not outstanding but which could be acquired by an executive officer upon exercise of an option within 60 days of August 1, 2009, and which are deemed outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by such executive officer, are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person.
- (2) Information is as of December 31, 2008 and is based on the Schedule 13G dated February 5, 2009 filed by Barclays Global Investors, N.A. ("Barclays Global"), Barclays Global Fund Advisors ("Barclays Global Advisors"), Barclays Global Investors, Ltd ("Barclays Ltd"), Barclays Global Investors Japan Limited ("Barclays Japan"), Barclays Global Investors Canada Limited ("Barclays Canada"), Barclays Global Investors Australia Limited ("Barclays Australia"), and Barclays Global Investors (Deutschland) AG ("Barclays Deutschland"). Barclays Global is a bank. Barclays Global Advisors is a registered investment advisor. Barclays Ltd, Barclays Japan, Barclays Canada, Barclays Australia and Barclays Deutschland are non-U.S. institutions. Of the shares shown, Barclays Global has sole voting power over 734,027 shares and sole dispositive power over 831,030 shares, Barclays Global Advisors has sole voting power over 833,962 shares and sole dispositive power over 1,129,888 shares, and Barclays Ltd has sole voting power over 850 shares and sole dispositive power over 17,347 shares.
- (3) Information is as of December 31, 2008 and is based on the Schedule 13G dated February 13, 2009 filed by Thomson Horstmann & Bryant, Inc. ("THB"). THB is a registered investment advisor. Of the shares shown, THB has sole voting power over 982,900 shares and sole dispositive power over 1,579,400 shares.
- (4) Includes the following shares of common stock that are issuable upon the exercise of stock options that are currently exercisable or are exercisable within 60 days after August 1, 2009: Mr. Hendrix – 5,000 shares; Mr. Lackey – 15,000 shares; Mr. Maxwell – 15,000 shares; Mr. Tippeconnic – 5,000 shares; Mr. Ryan – 37,200 shares; 18 directors and executive officers as a group – 161,620 shares.

### Equity Ownership Guidelines

The Board of Directors believes that our executive officers should demonstrate their commitment to and belief in the Company's long-term profitability. Accordingly, each executive officer is expected to maintain a significant investment in the Company through the ownership of Company stock. Stock ownership more closely aligns our executive officers' interests and actions with the interests of the Company's stockholders.

On August 2, 2007, the following Equity Ownership Guidelines were adopted.

- Participants – All Company executive officers
- Amount of Ownership – Defined as a multiple of the individual's base salary as noted below. These multiples represent the minimum amount an officer should seek to acquire and maintain.
 

President/CEO	–	2 x base salary
CFO/COO/Vice Presidents	–	1 x base salary
- Timing: Officers have five years from the date they become subject to these Guidelines to acquire the ownership levels defined herein. Thereafter, they are expected to retain this level of ownership during their tenure as an officer with the Company.
- Eligible Forms of Equity:
  - (1) Direct ownership of Company stock (shares owned outright, regardless of how acquired – e.g. restrictions lapse on restricted shares, options exercised held, etc.); and
  - (2) Vested/exercisable options. An executive officer will be deemed to have satisfied the ownership guideline if either (1) the aggregate price paid by the officer for shares held equals or exceeds the applicable multiple of base salary or (2) at any time the “fair market value” of the stock owned equals such amount.

An executive officer will be deemed to have satisfied the ownership guideline if the “fair market value” of the stock owned at any point in time equals the multiplier defined above. In no case will unvested options or RSUs with remaining restrictions count toward equity ownership.

The Equity Ownership Guidelines were adopted August 2, 2007 and each executive officer has five years from the date they become subject to the guidelines to comply with these guidelines. Nonetheless, as of August 1, 2009, Ms. Austin, Mr. Cavanah, Mr. Durkin, Mr. Fosbenner, Mr. Rinehart, Mr. Ryan and Mr. Sullivan have satisfied the ownership guidelines. As of that date, Mr. Bradley, Mr. Robert Long, Mr. Thomas Long, Mr. Montalbano, Mr. Petrizzo, and Mr. Smith had not yet satisfied the ownership guidelines.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock, to report their initial ownership of the common stock and any subsequent changes in ownership of the common stock with the SEC and NASDAQ and to furnish the Company with a copy of each such report.

To the Company's knowledge, based solely on the Company's review of the copies of such reports received by the Company and on written representations by certain reporting persons that no other reports were required during and with respect to fiscal 2009, all Section 16(a) filing requirements applicable to its executive officers and directors, and 10% stockholders were complied with on a timely basis, except for one late filing each for Mr. Durkin, Mr. Montalbano, Mr. Ryan and Mr. Sullivan, and two late filings for Mr. Robert Long. The Company administers the filings required by Section 16(a) of the Securities Exchange Act of 1934 on behalf of the Company's directors and executive officers. The late filings in fiscal 2009 were the result of administrative and communication errors. As a result of the late filing in fiscal 2009, the Company has implemented new procedures to prevent such errors from occurring in the future.

### **Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides information concerning the Company's common stock that may be issued upon the exercise of options, warrants and rights under all of Matrix Service Company's existing approved equity compensation plans as of May 31, 2009, including the Company's 1990 and 1991 stock option plans, the 1995 Nonemployee Directors' Stock Option Plan, and the 2004 Stock Incentive Plan.

<u>Plan Category</u>	(a)	(b)	(c)
	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (2)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by stockholders . . . .	1,102,630	\$7.64	219,013
Equity compensation plans not approved by stockholders . . . . .	<u>0</u>	N/A	<u>0</u>
Total . . . . .	<u><u>1,102,630</u></u>	<u><u>\$7.64</u></u>	<u><u>219,013</u></u>

(1) Includes 745,550 restricted stock units.

(2) Excludes the shares issuable upon the vesting of restricted stock units included in column (a) of this table for which there is no weighted-average price.

## PROPOSAL NUMBER THREE:

### Approval of Amendment Three to the Matrix Service Company 2004 Stock Incentive Plan

The Matrix Service Company 2004 Stock Option Plan was initially adopted by the Board on January 20, 2004, and approved by our stockholders on March 23, 2004 (the "Option Plan"). The Option Plan was amended, restated and renamed the Matrix Service Company 2004 Stock Incentive Plan (the "Incentive Plan") as a result of approval by the Board on July 31, 2006 and approval by our stockholders on October 23, 2006. The Incentive Plan permits the grant of restricted stock, restricted stock units, stock appreciation rights, stock options and performance shares. These awards may be granted under the Incentive Plan until the tenth anniversary of the date of stockholder approval, or October 23, 2016.

Stockholder action at the Annual Meeting will be requested with respect to the approval of Amendment 3 (the "Amendment") to the Incentive Plan. The purposes of the Amendment are to (i) increase the total number of shares of Common Stock available for issuance under the Incentive Plan from 1,200,000 shares to 2,300,000 shares, (ii) add new language to the Incentive Plan specifically prohibiting the Compensation Committee, without prior stockholder approval, from effecting any "repricing" of any award under the Incentive Plan and (iii) add award limits for awards other than options and stock appreciation rights. As of May 31, 2009, there were 219,013 remaining shares of Common Stock reserved for future grants of awards under the Incentive Plan. If the Amendment is approved by the stockholders of the Company, the total number of shares of Common Stock reserved for future grants of awards under the Incentive Plan would be 1,319,013 and represent approximately 4.7 % of the Company's total outstanding shares of Common Stock on May 31, 2009. With the continued growth of the Company, the additional shares requested are essential to ensure the availability of necessary stock to utilize as a critical part of the Company's executive and management compensation plans. While the Board of Directors is aware of the potential dilutive effect of compensatory stock awards, it also recognizes the significant motivations and performance benefits that are achieved from making such awards.

A copy of the Amendment is attached hereto as Exhibit A. A copy of the Incentive Plan will be furnished by the Company to any stockholder upon written request to: Thomas E. Long, Corporate Secretary, Matrix Service Company, 5100 E. Skelly Drive, Suite 700, Tulsa, Oklahoma 74135. The Amendment, which was approved by the Board of Directors on July 30, 2009, will not take effect unless approved by the affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote.

The purpose of the Incentive Plan is to strengthen the ability of the Company to attract and retain well-qualified executive, managerial, and professional personnel, and to encourage stock ownership by such personnel in order to increase their proprietary interest in the Company's success. The Company relies heavily upon restricted stock unit awards under the Incentive Plan to compensate its executive, managerial, and professional personnel, and to retain and motivate such personnel, and desires to continue that practice because it believes that such awards encourage and reward effective management that results in long-term corporate financial success, as measured by stock price appreciation.

#### Summary of the Incentive Plan

##### *Administration*

The Compensation Committee of the Board of Directors administers the Incentive Plan. The Committee selects the eligible employees, directors and other participants to whom awards are granted, determines the terms, conditions, form and amount of the awards, establishes, where deemed applicable, performance goals with respect to awards and determines and certifies the achievement thereof. The Compensation Committee has full power to administer the Incentive Plan and to adopt or establish, and to modify and waive, rules, regulations, agreements, guidelines and procedures which it deems necessary or advisable for the administration of the Incentive Plan. However, the Incentive Plan does not permit the Compensation Committee, without prior stockholder approval, to effect any "repricing" of any award under the Incentive Plan.

##### *Eligibility and Limits on Awards*

An employee, officer, director or consultant of the Company, or any of its subsidiaries or affiliates, is eligible to receive an award under the Incentive Plan. Awards will be made at the discretion of the Compensation Committee. As of May 31, 2009, there were 89 participants who hold awards under the Incentive Plan.

The Incentive Plan places limits on the maximum amount of awards that may be granted to any participant in any fiscal year. Under the Incentive Plan, no participant may receive awards of stock that cover in the aggregate more than 1,000,000 shares of common stock in any fiscal year.

### *Shares Authorized*

As of May 31, 2009, there were only 219,013 shares left under the Incentive Plan available for future grants. The Company is seeking authority to issue an additional 1,100,000 shares of common stock under the Incentive Plan over and above those shares previously authorized under the Incentive Plan. Accordingly, the total number of shares of common stock that may be issued pursuant to new awards under the Incentive Plan if Amendment 3 is approved is 1,319,013. The total number of shares authorized under the Incentive Plan is subject to adjustment in the event of a recapitalization, stock split, reorganization or similar transaction.

To the extent that shares of common stock subject to an award under the Incentive Plan are not issued by reason of (i) the expiration, termination or forfeiture of such award, (ii) the withholding of shares to satisfy tax withholding requirements of an award, or (iii) the tendering of previously-owned shares to pay all or a portion of the exercise price of a stock option or satisfy the tax withholding requirements of an award, then such unissued shares shall again be available for issuance under the Incentive Plan. The shares of common stock covered by an award are counted as used under the Incentive Plan only to the extent they are actually issued and delivered to a participant.

The source of common stock issued with respect to awards may be either authorized but unissued shares or previously issued shares held as treasury stock. The closing price per share of the Company's common stock on the Global Market System of the NASDAQ Stock Market LLC ("NASDAQ") on September 2, 2009, was \$10.55.

### *Awards*

The following types of awards may be granted under the Amended Incentive Plan:

*Stock Options.* Stock options may be (1) options to purchase common stock intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or (2) options that do not so qualify, or non-qualified stock options. The exercise price per share of each stock option will be determined by the Compensation Committee but may not be less than 100% of the fair market value of a share of common stock on the date of grant. Each stock option may be exercised in whole, at any time, or in part, from time to time, after the option becomes exercisable. Upon exercise, an option holder must pay the exercise price of the option in full, including applicable taxes. Payment of the exercise price may be in any legal manner permitted by the Compensation Committee and set forth in the award agreement, which may include the use of shares of common stock already owned by the option holder or through a broker-assisted cashless exercise procedure. The Incentive Plan limits the term of any stock option to 10 years.

*Stock Appreciation Rights.* A stock appreciation right entitles the holder, upon exercise, to payment of an amount equal to the excess of the fair market value of a share of the Company's common stock on the date of exercise over the grant price. The grant price may not be less than the fair market value of a share of the Company's common stock on the date of grant. Payment may be made in shares of common stock, cash or a combination of shares and cash as specified in the applicable award agreement.

*Phantom Share Rights.* A phantom share right entitles the holder to receive an amount of cash equal to the fair market value of a specified number of shares of common stock upon satisfying certain vesting conditions established by the Compensation Committee. Phantom share rights may be forfeited if, for example, the recipient's employment terminates before the award vests and/or if certain performance goals are not met. Recipients of phantom share rights will have no rights of a holder of common stock.

*Restricted Stock.* Restricted stock is an award of shares of common stock that is made subject to specified restrictions on transfer and subject to a substantial risk of forfeiture until certain conditions are met as determined by the Compensation Committee. Conditions may be based on continuing employment and/or achieving performance goals. Unless otherwise specified by the Compensation Committee, shares of restricted stock may be voted by the recipient.

*Restricted Stock Units.* Restricted stock units represent the right to receive shares of common stock upon satisfying the vesting conditions established by the Compensation Committee. Restricted stock units may be forfeited if, for example, the recipient's employment terminates before the award vests and/or if certain performance goals are not met. Recipients of restricted stock unit awards will have no rights of a holder of common stock unless and until shares of common stock have actually been issued upon vesting of such units.

*Performance Shares.* Performance shares are awards entitling the recipient to receive a number of shares of common stock upon the achievement of performance goals and such other conditions as established by the Compensation Committee. The minimum vesting period (i.e., performance cycle) for a performance share award is one year. A recipient of a performance share will have no right as a stockholder until shares of common stock are delivered to the recipient in settlement of such performance share.

#### *Performance Goals*

To allow certain awards granted under the Incentive Plan to the Company's Chief Executive Officer and its four most highly compensated executive officers to qualify as "performance-based compensation" under Section 162(m) of the Code, the Incentive Plan provides that the Compensation Committee may establish performance goals with respect to an award based upon one or more of the following performance criteria: (1) total shareholder return, (2) return on invested capital, equity or assets, (3) operating profit, (4) earnings per share, (5) sales or revenues, (6) operating expenses, (7) common stock price appreciation, (8) cash flow, (9) increase in economic value of a subsidiary, division, business unit, or asset or group of assets, (10) earnings of the Company (i) before interest, taxes, depreciation and amortization or (ii) after interest, taxes, depreciation and amortization, (11) reductions in expenses, expressed in specific amounts and/or as a percentage reduction, or (12) backlog.

At the end of each performance cycle, the Compensation Committee will determine and certify the extent to which the performance goal established for the performance cycle has been achieved and determine the number of shares to be delivered, if any, as a result thereof.

#### *Award Agreements*

The terms and provisions of each award under the Incentive Plan are evidenced by an award agreement. The award agreement will generally set forth the number of shares of common stock subject to the award, the exercise or purchase price (if applicable), vesting requirements, term and other restrictions applicable to an award and, in the case of performance-based awards, the applicable performance goals.

#### *Change in Control*

In the event of a "change in control" of the Company (as defined in the Incentive Plan), all stock options and stock appreciation rights granted under the Incentive Plan shall vest and become exercisable immediately, awards of restricted stock and restricted stock units shall vest immediately, and all performance goals established for outstanding performance shares shall be deemed immediately satisfied at the respective target levels. In addition, the Compensation Committee may adjust outstanding options by substituting stock or other securities of any successor or another party to the change in control transaction or cash out the outstanding stock options, in any such case, generally based on the consideration received by the Company's stockholders in the transaction.

#### *Amendment and Termination of Incentive Plan*

The Board of Directors may at any time amend, alter, suspend or terminate the Incentive Plan, provided that no such action may impair any outstanding award without the consent of the participant affected thereby. In addition, unless approved by the Company's stockholders, no amendment or modification may increase the number of shares of common stock that may be issued under the Incentive Plan (except pursuant to an adjustment related to a corporate change affecting the common stock), reduce the minimum purchase price at which shares may be offered under stock options or stock appreciation rights, change the class of persons eligible to participate in the Incentive Plan, or extend the termination date for making awards under the Incentive Plan. Also, no amendment or modification which is required to be approved by the Company's stockholders under the rules of NASDAQ, the requirements of Rule 16b-3 under the Securities Exchange Act of 1934, or any other applicable law, regulation or rule may become effective unless and until the Company's stockholders approve it. No award may be granted under the Incentive Plan after October 23, 2016.

#### *Tax Consequences*

The Company believes that under present U.S. tax laws the following are the U.S. federal income tax consequences generally arising with respect to awards granted under the Incentive Plan. The grant of an option, a phantom share right or a stock appreciation right ("SAR") will create no tax consequences for the participant or the Company. The participant will have no



taxable income upon exercising an incentive stock option (“ISO”) (except that the alternative minimum tax may apply) and the Company will receive no deduction at that time. Upon exercising an option other than an ISO (“NSO”), a participant will recognize ordinary income equal to the difference between the exercise price and the fair market value of the stock acquired on the date of exercise. Upon the payment of the value of a phantom share right when the vesting conditions are satisfied, the participant will recognize ordinary income equal to the amount of cash received. Upon exercising an SAR, a participant will recognize ordinary income equal to the amount of cash or the fair market value of the stock received on the date of exercise. In the case of the exercise of an NSO or SAR, the Company generally will be entitled to a deduction for the amount recognized as ordinary income by the participant, unless such deduction is limited by Section 162(m) of the Internal Revenue Code. The treatment to a participant of a disposition of shares acquired upon the exercise of an SAR or option depends on how long the shares have been held and on whether such shares are acquired by exercising an ISO or an NSO. Generally, there will be no tax consequences to the Company in connection with a disposition of shares acquired upon the exercise of an SAR or option, except that the Company may be entitled to a deduction (and the employee will recognize ordinary income) if shares acquired under an ISO are disposed of before the applicable ISO holding periods have been satisfied.

With respect to awards granted under the Incentive Plan involving shares of stock or stock rights that are restricted as to transferability and subject to a substantial risk of forfeiture, generally a participant will recognize ordinary income equal to the fair market value of the shares received at the earlier of the time at which the shares or stock rights become transferable or not subject to a substantial risk of forfeiture. However, in the case of a restricted stock award, but not in the case of an award of restricted stock units, a participant may elect to be taxed at the time of the award notwithstanding the restrictions (to minimize the tax payable in respect of the appreciation in the value of the stock from the time it is awarded until the restrictions lapse). The Company generally will be entitled to a deduction for the same amount unless such deduction is limited by Section 162(m) of the Internal Revenue Code.

The foregoing provides only a very general description of the application of U.S. federal income tax laws to awards under the Option Plan. The summary does not address the effects of foreign, state and local tax laws.

#### *Awards Granted*

As of May 31, 2009, restricted stock units for a total of 745,550 shares are outstanding under the Incentive Plan. Since inception of the Incentive Plan through May 31, 2009, restricted stock unit awards for the following number of shares have been granted under the Incentive Plan to the Named Executive Officers of the Company and specified groups: Michael J. Bradley (President and Chief Executive Officer), 269,030 shares; Joseph F. Montalbano (Vice President and Chief Operating Officer), 33,175 shares; Thomas E. Long (Vice President Finance, Chief Financial Officer and Secretary), 63,801 shares; James P. Ryan (President, Matrix Service Inc.), 32,900 shares; and Matthew J. Petrizzo (President, Matrix Service Industrial Contractors, Inc.), 33,700 shares; all current executive officers as a group, 553,489 shares; all employees, excluding current executive officers, as a group, 278,578 shares; and all current directors who are not employees, as a group, 48,500 shares. Future awards under the Incentive Plan are not yet determinable. The closing price for the common stock on the NASDAQ Global Market on May 31, 2009, was \$11.32 per share.

#### Required Vote of Stockholders

The affirmative vote of a majority of the votes cast on this proposal is required to approve Amendment 3. Abstentions will be included in determining the number of votes cast on the proposal, thus having the effect of a vote against the proposal. Broker non-votes are not counted in determining the number of votes cast on the proposal.

**The Board of Directors recommends that stockholders vote “For” the approval of Amendment Three to the Incentive Plan.**

## PROPOSALS OF STOCKHOLDERS

A proposal of a stockholder intended to be presented at the next annual meeting of stockholders must be received at the Company's principal executive offices no later than May 13, 2010, if the proposal is to be considered for inclusion in the Company's proxy statement and proxy card for such meeting.

In accordance with the Company's Bylaws, any stockholder who intends to present a proposal at the Company's 2010 Annual Meeting of Stockholders and has not sought inclusion of the proposal in the Company's proxy statement and accompanying proxy pursuant to Rule 14a-8, must provide the Secretary of the Company with notice of such proposal in order for such proposal to be properly brought before the meeting, no later than eighty days prior to the date of the meeting; provided, however, that in the event that the date of such annual meeting is not publicly announced by the Company more than ninety days prior to the meeting, notice by the stockholder must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which public announcement of the date of such meeting is communicated to the stockholders.

## OTHER MATTERS

### **Matters That May Come Before the Annual Meeting**

The Board of Directors knows of no matters other than those described in this proxy statement which will be brought before the Annual Meeting for a vote of the stockholders. If, however, any other matter requiring a vote of stockholders arises, the persons named in the accompanying proxy will vote thereon in accordance with their best judgment. The enclosed proxy confers discretionary authority to take action with respect to any additional matters that may come before the meeting.

### **Availability of Form 10-K and Annual Report to Shareholders**

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009 (without exhibits or documents incorporated by reference) including any financial statements and schedules and exhibits thereto, may be obtained without charge by written request to Thomas E. Long, Vice President Finance, Matrix Service Company, 5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135 or by visiting the "Investors Section" of the Company's website at <http://www.matrixservice.com>.

### ***Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be held on October 23, 2009***

**Stockholders may view this proxy statement, our form of proxy and our 2009 Annual Report to Stockholders over the Internet by accessing our website at <http://www.matrixservice.com>. Information on our website does not constitute a part of this proxy statement.**

By Order of the Board of Directors,



Thomas E. Long  
Secretary

September 17, 2009  
Tulsa, Oklahoma



**AMENDMENT 3  
TO  
MATRIX SERVICE COMPANY  
2004 STOCK INCENTIVE PLAN**

1. *Introduction.* The Matrix Service Company 2004 Stock Option Plan was initially adopted by the Board of Directors of Matrix Service Company (the “Company”) on January 20, 2004, and approved by the Company’s stockholders on March 23, 2004 (the “Option Plan”). On October 23, 2006, the Company’s stockholders approved, based on the recommendation of the Compensation Committee and approval of the Company’s Board of Directors, the amendment and restatement of the Option Plan (the “Amended and Restated Plan”). The Amended and Restated Plan was renamed the “Matrix Service Company 2004 Stock Incentive Plan” (the “Incentive Plan”) and permits the grant of restricted stock, restricted stock units, stock appreciation rights and performance shares, in addition to options. Awards may be granted under the Incentive Plan until October 23, 2016, the tenth anniversary of the date of stockholder approval. The Incentive Plan was amended by Amendment 1 to Matrix Service Company 2004 Stock Incentive Plan on October 23, 2006, in order to clarify certain authority of the Compensation Committee. The Incentive Plan was subsequently amended By Amendment 2 to Matrix Service Company 2004 Stock Incentive Plan, effective as of October 27, 2007, in order to add provisions for the award of phantom share rights and to be compliant with Section 409A of the Code. References to “Incentive Plan” in this Amendment 3 shall mean the Incentive Plan, as so amended. Capitalized terms used herein without definition shall have the meanings provided in the Incentive Plan, as previously amended.

Under the terms of the Incentive Plan, a total of 1,200,000 shares of common stock of the Company are available for issuance pursuant to awards granted under the Incentive Plan (subject to adjustment in the event of certain corporate transactions such as a stock split, etc.).

2. *Purpose.* The purposes of this Amendment are to (i) increase the total number of shares of common stock of the Company available for issuance pursuant to awards granted under the Incentive Plan from 1,200,000 shares to 2,300,000 shares, which will enable the Company to continue to grant awards under the Incentive Plan to attract and retain key employees of the Company and its subsidiaries, (ii) add new language to the Incentive Plan specifically prohibiting the Compensation Committee, without prior stockholder approval, from effecting any “repricing” of any Award under the Incentive Plan and (iii) add award limits for Awards other than Options and SARs.

3. *Amendments.* The Plan shall be amended as follows:

(a) The definition of “Award Limit” in Section 2(d) is hereby *amended and restated* to read as follows:

“**Award Limit**” shall mean Option and SAR Awards, subject to which the aggregate number of shares of Stock equals 1,000,000, and Restricted Stock, Restricted Stock Unit, Performance Share or Phantom Share Right Awards, subject to which the aggregate number of shares of Stock equals 600,000 (in each case, as adjusted in accordance with Section 12).”

(b) Sections 4(a) and 4(b) of the Incentive Plan are hereby *amended and restated* to read as follows:

“(a) The shares of stock subject to Awards granted under the Plan shall be shares of Stock. Such shares of Stock subject to the Plan may be either authorized and unissued shares or previously issued shares acquired by the Company or any Subsidiary. The total number of shares of Stock reserved and available for distribution pursuant to Awards granted under the Plan is 2,300,000 shares. The total number of shares of Stock that may be issued pursuant to ISOs under this Plan shall be 2,300,000 shares.

(b) Notwithstanding any of the foregoing limitations set forth in this Section 4, the number of shares of Stock specified in this Section 4 shall be adjusted as provided in Section 12. The total number of shares of Stock that may be issued pursuant to ISOs under this Plan shall be subject to adjustment under Section 12 only to the extent that such adjustment is consistent with adjustments permitted of a plan authorizing incentive stock options under Section 422 of the Code.”

(c) Section 6(g) of the Incentive Plan is hereby *amended and restated* to read as follows:

“(g) Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options or SARs granted under the Plan (to the extent not theretofore exercised); provided, however, except as provided in Section 12, the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Options or SARs; and provided further, outstanding Options or SARs may not be cancelled in exchange for cash, other Awards, or Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs without prior stockholder approval.”

(d) A new Section 7(g) is hereby *added* to the Incentive Plan to read as follows:

“(g) The Committee shall not grant Restricted Stock and Restricted Stock Units to any individual Participant in any fiscal year that exceeds the Award Limit.”

(e) A new Section 8(h) is hereby *added* to the Incentive Plan to read as follows:

“(h) The Committee shall not grant Performance Shares to any individual Participant in any fiscal year that exceeds the Award Limit.”

4. *No Change.* Except as specifically set forth herein, this Amendment does not change the terms of the Incentive Plan.

5. *Effective Date.* This Amendment shall take effect and be adopted on the date that the stockholders of the Company approve this Amendment.

Executed as of the 30th day of July, 2009.

ATTEST:

/s/ Nancy E. Austin

Nancy E. Austin  
Assistant Secretary

MATRIX SERVICE COMPANY

By: /s/ Michael J. Bradley

Michael J. Bradley  
President and Chief Executive Officer



**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 May 31, 2009

or

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

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

Commission File No. 1-15461

**MATRIX SERVICE COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**5100 E. Skelly Drive, Suite 700**  
**Tulsa, Oklahoma**  
(Address of Principal Executive Offices)

**74135**  
(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**  
**Preferred Share Purchase Rights**

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

Name of Each Exchange On Which Registered: NASDAQ Global 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 Inter Active Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

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 \$202 million.

The number of shares of the registrant's common stock outstanding as of August 3, 2009 was 26,194,815 shares.

**Documents Incorporated by Reference**

Certain sections of the registrant's definitive proxy statement relating to the registrant's 2009 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.



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## 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 word “believes,” “intends,” “expects,” “anticipates,” “projects,” “estimates,” “predicts” and similar expressions are also intended to identify forward-looking statements.

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

- amounts and nature of future revenues and margins from our Construction Services and Repair and Maintenance Services segments;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- expansion and other development trends of the industries we serve;
- our ability to generate sufficient cash from operations or to raise cash in order to meet our short and long-term capital requirements; and
- our ability to comply with the covenants in our credit agreement.

These statements are based on certain assumptions and analyses derived from our experience, 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 with 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 and gas, power, and petrochemical industries in particular;
- changes in laws or regulations; and
- other factors, many of which are beyond our control.

Consequently, all of the forward-looking statements made in this 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 any such forward-looking statements, whether as a result of new information, future events or otherwise.

#### BACKGROUND

Matrix Service Company was incorporated in the State of Delaware in 1989. We provide construction and repair and maintenance services primarily to the energy and energy related industries. As a full service industrial contractor, we strive to provide our clients a high degree of safety, quality and service utilizing our qualified professionals, technical expertise, skilled craftsmen, and overall project management expertise. To serve clients efficiently and effectively, Matrix Service operates regional offices throughout the United States and Canada. We have separate union and merit subsidiaries that allow us to serve customers on both a union and a merit basis.

We are licensed to operate in all 50 states and in four Canadian provinces. Our headquarters are in Tulsa, Oklahoma, and we have regional operating facilities in California, Delaware, Illinois, Michigan, Oklahoma, Pennsylvania, New Jersey, Texas and Washington in the United States and in Ontario, Alberta, and New Brunswick in Canada. Our principal executive offices are located at 5100 E. Skelly Drive, Suite 700, Tulsa, Oklahoma 74135. Our telephone number is (918) 838-8822. Unless the context otherwise requires, all references herein to “Matrix Service”, “Matrix Service Company”, the “Company” or to “we”, “our”, and “us” are to Matrix Service Company and its subsidiaries.

## WEBSITE ACCESS TO REPORTS

Our public internet site is [www.matrixservice.com](http://www.matrixservice.com). We make available free of charge through our internet site, via a link to Edgar Online, our 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.

In addition, we currently make available on [www.matrixservice.com](http://www.matrixservice.com) our annual reports to stockholders. Adobe Acrobat Reader software is required to view these documents, which are in PDF format. A link to Adobe Systems Incorporated's Internet site, from which the software can be downloaded, is provided.

## OPERATING SEGMENTS

We have two reportable segments, the Construction Services segment and the Repair and Maintenance Services segment. See Note 13., Segment Information, in the Notes to Consolidated Financial Statements for segment, geographic and market information. We also offer services to our customers where our two business segments work together to provide a combination of services. Customers utilize our services to construct or expand operating facilities, improve operating efficiencies, maintain existing facilities and to comply with stringent environmental and safety regulations. Our projects range in duration from a few days to multiple year contracts, which can be performed as one-time contracts or as part of long-term alliance agreements. We are able to provide services and respond to our customer's requirements for both union and merit shop operations.

### Construction Services

Our Construction Services segment provides turnkey and specialty construction to many industries. Our scope of services includes civil/structural, mechanical, piping, electrical, instrumentation, millwrighting, and fabrication. These services are provided for projects of varying complexities, schedule durations, and budgets. Our project experience includes retrofits, modifications and expansions to existing facilities as well as construction of new facilities.

### Repair and Maintenance Services

Our Repair and Maintenance Services segment encompasses a wide range of routine, preventative, and emergency repair and maintenance services. Our ability to provide multiple services allows us to serve as a single source provider to our clients for their repair and maintenance needs.

## MARKETS WITHIN OPERATING SEGMENTS

Within these two operating segments we serve four primary markets:

- Aboveground Storage Tanks
- Downstream Petroleum
- Electrical and Instrumentation
- Specialty

### Aboveground Storage Tanks

One of the cornerstones of our business has been, and continues to be, aboveground storage tanks ("AST"). We offer complete engineering, procurement, and construction ("EPC") services as well as fabrication services for the bulk storage / terminal industry as well as the refining, petrochemical, pipeline and power industries. We are one of the largest AST constructors in North America. Our expertise includes cone roof tanks, dome roof tanks, open top floating roof tanks, geodesic domes, and specialty tanks. Our personnel are well versed in American Petroleum Institute ("API") standards and American Society of Mechanical Engineers ("ASME") code work in both atmospheric and pressure storage vessels.

Every AST project is designed in accordance with applicable industry standards, codes and regulations. With the teams that we have assembled, we have the knowledge and experience to comply with all applicable specifications to ensure that all

quality requirements are met. In response to environmental requirements for control of vapor emissions and leak containment, we have developed many unique designs and devices such as floating roof seal systems, dike liners, and other products. Our product offerings include dikes and liners, steel internal floating roofs, tank double bottoms, and primary and secondary seals. Every product we offer is engineered to meet our customers' quality specifications.

One of our most significant areas of expertise is our turnkey tank and terminal construction service. Our tank design and EPC services allow our clients to be confident that the project will meet safety and quality objectives and be completed within time and budget constraints. As a general contractor, we offer a single point of contact, with the capability to perform the civil and site preparation, foundations, liners, mechanical, piping, structural, tank design, engineering, fabrication and construction.

Our tank repair and maintenance services are a key component of our core business. We are one of the largest tank repair and maintenance contractors in the United States with a reputation for quality, safety and reliability. AST repair and maintenance services include replacements/repairs to tank bottoms, shells, nozzles, roof structures, steel floating roofs, seals and manways for tanks of all sizes. We provide tank cleaning, foundation repair/replacement and complete tank relocation utilizing air lifting technology.

### **Downstream Petroleum**

Our construction experience in the downstream petroleum market includes refineries, pipelines, petrochemical plants and gas facilities. This includes turnkey construction work for new or existing facilities, renovations, upgrades and expansion projects. We have developed many long-term relationships with our customers and, as a result, much of our work is repeat business.

Repair and maintenance services for the downstream petroleum industry are typically classified as either refinery maintenance or turnarounds.

Plant maintenance contracts are agreements to provide outsourcing of maintenance management and the multiple crafts necessary to provide routine and preventive maintenance services for a facility. A typical maintenance contract includes planning and scheduling and active participation in or development of reliability programs, including the development of performance metrics. These services include safety implementation and quality assurance /quality control management.

Contracts for planned major maintenance activities are generally of short duration, but require detailed scheduling and advanced planning to assure the availability of qualified personnel and specialty equipment that are needed to complete the work in the shortest possible timeframe. We are committed to delivering all services on time, within budget and schedule constraints, and most importantly, in a safe manner.

### **Electrical and Instrumentation**

Our product offerings include electrical construction, instrumentation, and control systems. Our experience spans a wide range of industries including power generation, refining, petrochemical and heavy industrial. In addition to ground-up construction, our management and technical teams perform expansion projects, critical path turnarounds, emergency response and staff augmentation services.

As part of our electrical capabilities, we have the experience and expertise to install complex instrumentation and control systems. This service includes instrument calibration and installation, loop checks, commissioning, and start-up.

Electrical and instrumentation repair and maintenance services include routine and preventative maintenance, emergency response, and outage support for various industries including power, petroleum and petrochemical.

The recent acquisition of S.M. Electric Company, Inc. significantly enhanced our electrical and instrumentation capabilities. This acquisition will enable us to focus on supporting the expansion and modernization of the Mid-Atlantic and Southern New England transmission systems while allowing us to expand in our core markets of power generation, refinery, alternative energy, and industrial infrastructure.



## **Specialty**

### *Liquefied Natural Gas/Industrial Gas Projects/Liquefied Petroleum Gas*

Matrix Service engineers, fabricates and constructs refrigerated and cryogenic liquefied gas storage tanks for the storage of ammonia, butane, carbon dioxide, ethane, methane, argon, nitrogen, oxygen, propane and other products. We recently enhanced and expanded our capabilities through the acquisition of assets, technology and resources used for the design and construction of cryogenic storage tanks, including liquefied natural gas (“LNG”) tanks, liquid nitrogen/liquid oxygen (“LIN/LOX”) tanks and liquid petroleum (“LPG”) tanks. These tanks are utilized by our customers in the chemical, petrochemical and gas industries.

### *Specialty Tanks and Vessels*

Our specialty tank and vessel expertise includes aerobic/anaerobic digesters, clarifiers, egg shaped digesters, spheres, petroleum scrubbers/absorbers, flare tips, thermal vacuum chambers and other pressure vessels. We have also expanded our specialty tank and vessel capabilities, in particular, our thermal vacuum chamber expertise with the recent asset and technology purchase. These tanks and vessels are used throughout the petroleum, chemical, power, aerospace and waste water industries.

### *Power Projects*

Our construction service offerings for the power industry includes stacks, stack liners, ducting, scrubbers, absorbers, and waste to energy facilities. Repair and maintenance services include providing repair, maintenance, and outage services for the power industry. Our onsite maintenance services include routine maintenance that includes cleaning fans, changing lube oil coolers and maintaining gas turbines, heat recovery steam generators and other equipment. We also provide turbine disassembly, inspection and repair.

### *Fabrication*

Through our facilities we provide large scale fabrication services for our operating units and our customers throughout the United States and Canada. These facilities are staffed with qualified personnel and utilize sophisticated tooling and equipment. Our fabrication facilities specialize in steel plate, structural steel and vessel fabrication utilizing carbon steels, stainless steels and specialty alloy metals. Our largest fabrication facility is centrally located in the United States. This 227,900 sq. ft. facility in Oklahoma is located at the Port of Catoosa, the most inland port in the United States with barge, rail and truck access. The facility has the capacity to fabricate new tanks, new tank components and all maintenance, retrofit and repair parts, including fixed roofs, floating roofs, seal assemblies, shell plate and tank appurtenances. This facility is qualified to fabricate equipment in adherence to ASME codes and regulations including pressure vessels, stacks/stackliners, scrubbers, ducting, flare stacks and igniter tips.

In order to leverage the expertise recently gained through the acquisition of assets, technology and resources used for the design and construction of cryogenic and specialty storage tanks and to maximize the utilization and opportunities of our fabrication facility, we are in the process of fulfilling the necessary requirements to obtain ASME’s Certificate of Authorization to build Nuclear Components (“N Stamp”) both in the fabrication facility and in the field.

## OTHER BUSINESS MATTERS

### Customers and Marketing

Matrix Service derives a significant portion of its revenues from performing services for major integrated oil companies, independent petroleum refiners, and pipeline, terminal and marketing companies. In fiscal 2009, these customer types accounted for 86% of consolidated revenues. The loss of significant work from any of these classes of customers or an overall decline in the petroleum industry would have a material adverse effect on the Company. Matrix Service also performs services for power companies, engineering firms, general contractors, and petrochemical and industrial gas companies. The Company provided services to approximately 380 customers in fiscal 2009. The following table provides a list of any customer that accounted for greater than 10% of either our Construction Services or Repair and Maintenance Services revenue for the twelve months ended May 31, 2009:

	<u>Construction Services</u>		<u>Repair and Maintenance Services</u>		<u>Total</u>	
	<u>(In thousands, except percentages)</u>					
Plains All American Pipeline LP .....	\$55,894	14.1%	\$ 20,139	6.8%	\$ 76,033	11.0%
Chevron Corp .....	33,084	8.4%	36,326	12.3%	69,410	10.1%
BP PLC .....	144	—	59,208	20.1%	59,352	8.6%
Total .....	<u>\$89,122</u>	<u>22.5%</u>	<u>\$115,673</u>	<u>39.3%</u>	<u>\$204,795</u>	<u>29.7%</u>

The loss of any of these major customers could have a material adverse effect on the Company.

Matrix Service markets its services and products primarily through its marketing and business development personnel, senior professional staff and its operating management. The marketing personnel concentrate on developing new customers and assisting management with existing customers. We enjoy many preferred provider relationships with customers who award our work through long-term agreements. In addition, we competitively bid many projects. Our projects have durations of a few days to multiple years.

### 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

Matrix Service competes with regional and national contractors in both the Construction Services and Repair and Maintenance Services segments. Competitors generally vary with the markets we serve with few competitors competing in all of the markets we serve or for all of the services we provide. Contracts are generally awarded based on reputation for quality, customer satisfaction, safety record and programs, price and schedule compliance. We believe that our turnkey capability, expertise, experience and reputation for providing safe, timely, and quality services allow us to compete effectively.

### Backlog

We define backlog as the total dollar amount of revenues that we expect to recognize as a result of performing work that has been awarded to us through a signed contract that we consider firm. The following contract types are considered firm:

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

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

The following table provides a rollforward of our backlog from May 31, 2008 to May 31, 2009:

	<u>Construction Services</u>	<u>Repair and Maintenance Services</u>	<u>Total</u>
	(In thousands)		
Backlog as of May 31, 2008 . . . . .	\$ 325,341	\$ 141,967	\$ 467,308
New backlog awarded . . . . .	323,752	312,371	636,123
Backlog acquired . . . . .	28,262	10,378	38,640
Backlog cancelled . . . . .	(48,536)	(2,742)	(51,278)
Revenue recognized on contracts in backlog . . . . .	<u>(395,240)</u>	<u>(294,480)</u>	<u>(689,720)</u>
Backlog as of May 31, 2009 . . . . .	<u>\$ 233,579</u>	<u>\$ 167,494</u>	<u>\$ 401,073</u>

At May 31, 2009, the Construction Services segment had a backlog of \$233.6 million, as compared to a backlog of \$325.3 million as of May 31, 2008. The decrease of \$91.7 million is due to declines in Aboveground Storage Tank of \$79.5 million, Downstream Petroleum of \$11.5 million and Electrical and Instrumentation of \$6.6 million, partially offset by an increase in Specialty of \$5.9 million. The backlog at May 31, 2009 and May 31, 2008 for the Repair and Maintenance Services segment was \$167.5 million and \$142.0 million, respectively. The increase of \$25.5 million was due to increases in Downstream Petroleum of \$16.4 million and Electrical and Instrumentation of \$15.6 million, partially offset by a decrease in Aboveground Storage Tank of \$6.5 million. Approximately 94% of our backlog at May 31, 2009 is expected to be completed in fiscal year 2010.

### Seasonality

Planned maintenance projects at customer facilities are typically scheduled in the spring and the fall when the demand for energy is lower. As a result, quarterly operating results in the Repair and Maintenance Services segment can fluctuate materially. The Construction Services segment typically has a lower level of operating activity during the winter months and early in the calendar year because many of our customers' capital budgets have been spent or have not been finalized.

### Raw Material Sources and Availability

Steel plate and steel pipe are the primary raw 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 foreign imports, worldwide demand, tariffs on imported steel and other market conditions.

### Insurance

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

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

## Employees

As of May 31, 2009, we had 2,818 employees of which 464 were employed in non-field positions and 2,354 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.

We maintain separate merit shop and union operations. In our union business, we operate under collective bargaining agreements with various unions representing different groups of our employees. Union agreements provide the union employees with benefits including health and welfare, pension, training programs and compensation plans. We have not experienced any significant strikes or work stoppages in recent years. We maintain health and welfare, retirement and training programs for our merit shop and most administrative employees.

Attracting and retaining high quality employees is important to our continued success and continues to be a top priority of the Company. Therefore, we have continued our professional development programs for employees in key disciplines.

## Patents and Proprietary Technology

Matrix Service has several patents, patents pending, and continues to pursue new ideas and innovations to better serve our customers in all areas of our business. The Matrix Service patents under the Flex-A-Span<sup>®</sup> and Flex-A-Seal<sup>®</sup> trademarks are utilized to cover seals for floating roof tanks. Our patent of our ThermoStor<sup>®</sup> diffuser system is for a process that receives, stores and dispenses both chilled and warm water in and from the same storage tank. The patented RS 1000 Tank Mixer<sup>®</sup> controls sludge build-up in crude oil tanks through resuspension. We also have a patent on our Flex-A-Swivel<sup>®</sup>, a swivel joint for floating roof drain systems. The Valve Shield<sup>®</sup> patent relates to a flexible fluid containment system that captures and contains fluid leaking from pipe and valve connections. The 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 mobile device that can be used to train personnel on equipment that is made to simulate real world hazards.

The Company acquired a perpetual license to use various patents and proprietary technologies of CB&I Inc. pursuant to a Technology Transfer Agreement dated December 20, 2008. These patents and technology relate to LNG storage tanks, LIN/LOX storage tanks, LPG storage tanks and thermal vacuum chambers. We believe that the ability to use these patents and technology will enable us to expand our presence in the markets for these products and will minimize the development costs typically associated with organic growth.

While we believe that continued product development and the protection of our patents are important to our business, we do not believe that these patents or purchased technology are essential to our success.

## Regulation

### *Health and Safety Regulations*

The operations of the Company are subject to the requirements of the United States Occupational Safety and Health Act (OSHA), comparable state laws and the Canadian Workers' Compensation Board and its Workplace Health, Safety and Compensation Commission. Regulations promulgated by these agencies require employers and independent contractors who perform construction services, including electrical and repair and maintenance, to implement work practices, medical surveillance systems and personnel protection programs in order 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 very strict and comprehensive safety regulations. The Company has established comprehensive programs for complying with 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 business.

### *Environmental*

The Company's operations are subject to extensive and changing environmental laws and regulations in the United States and Canada. 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 has purchased contractor's pollution liability insurance policies that cover liability we may incur as a result of accidental releases of hazardous materials at customer or operating locations, including our fabrication facilities in Oklahoma and California.

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 foresee any significant future capital spending relating to environmental matters.

## Item 1A. Risk Factors

### Risk Factors Related to Our Business

***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 repair and maintenance projects in the downstream petroleum, power and other heavy industries in the United States and Canada. The capital budgets of many of our customers are largely dependent on commodity prices, which have historically been volatile. Therefore, it is likely that our business will continue to be cyclical in nature and vulnerable to general downturns in the United States and Canadian economies and declines in commodity prices, which could adversely affect the demand for our products and services. Occasionally, the timing of the demand for our products and services in certain of these markets can also be adversely affected during periods of strong economic growth as customers may postpone closing their facilities for maintenance, repair, turnaround or expansion projects while demand for their products and their margins remain high. As a consequence of these and other factors, our results of operations have varied in the past and may experience significant periods of volatility in future periods.

Our Construction Services segment's revenue and cash flow are dependent upon engineering and construction projects. The availability of these types of projects is dependent upon the economic condition of the oil, gas, and power industries, specifically, the level of capital expenditures of oil, gas and power companies on infrastructure. The current disruption in credit and capital markets, as well as a severe recession in North America have had and may continue to have an adverse impact on the level of capital expenditures of oil, gas and power companies and/or their ability to finance these expenditures. Our failure to obtain projects, a delay in the award of projects, a cancellation of projects or delays in completion of contracts are factors that could result in under-utilization of our resources, which would have an adverse impact on our revenue and cash flow. There are numerous factors beyond our control that influence the level of capital expenditures of oil, gas and power companies, including:

- current or projected commodity prices, including oil, gas and power prices;
- refining margins;
- the demand for oil, gas and electricity;
- the abilities of oil, gas and power companies to generate, access and deploy capital;
- exploration, production and transportation costs;
- regulatory restraints on the rates that power companies may charge their customers; and
- local and international political and economic conditions.

Our Repair and Maintenance Services segment's revenue and cash flow are dependent upon maintenance plans by the oil, gas and power industries. The current disruption in credit and capital markets, as well as a severe recession in North America have had and may continue to have an adverse impact on the level and timing of maintenance expenditures of oil, gas and power companies. Our failure to obtain projects, a delay in the award of projects, a cancellation of projects or project commencement delays are factors that could result in under-utilization of our resources, which would have an adverse impact on our revenue and cash flow.

***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 primarily 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 for the period when 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.



***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, many of which may have greater financial strength and more resources. Our competitors include small family owned businesses to well-established, well-financed entities, both privately and publicly held, including many major equipment manufacturers, large engineering and construction companies, internal engineering departments and specialty contractors. The markets we serve require substantial resources and, in particular, highly skilled and experienced technical personnel. We compete primarily on the basis of price, customer satisfaction, safety performance and programs, quality of our products and services, and schedule. We may encounter increased competition from existing competitors or new market entrants in the future, which could have a material adverse effect on our business, financial condition or results of operations. In particular, as a result of the impact of the current recession on capital, and to a lesser degree, maintenance spending, we may experience pressure on our operating margins if our competitors accept lower margins in order to maintain their current level of business activity to cover their fixed overhead costs.

***Our backlog is subject to unexpected fluctuations, adjustments, 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 reflected 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 terminations, suspensions or scope adjustments may occur from time to time with respect to contracts in our backlog. Finally, poor project or contract performance could impact our backlog and profits.

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

From time to time due to the size of one or more of our contracts, one or more customers have in the past and may in the future contribute a material portion to our consolidated revenues in any one year. Because these significant customers generally contract with us for specific projects, we may lose these customers from year to year as the projects are completed. If we do not replace these projects or customers, our financial condition and results of operations could be materially adversely affected. Additionally, we have long-standing alliance relationships with many significant customers. However, our contracts with these customers are on a project-by-project basis, and these customers may unilaterally reduce or discontinue their use of our services at any time. The loss of business from any one of these customers could have a material adverse effect on our business or results of operations.

***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.***

In the current market, our customers are requiring that we bid more jobs on a fixed price basis; therefore, we expect that fixed price contracts will comprise a greater percentage of our total backlog than in recent years. 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 contract performance, productivity, worker 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 are able to 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, 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 our operations. In addition, our profits from these contracts could decrease and 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 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. Some cost-plus contracts provide for the customer's review of the accounting and cost control systems used by us to calculate these labor rates and to verify the accuracy of the reimbursable costs invoiced. These reviews could result in reductions in amounts previously billed to the customer and in adjustments to amounts previously reported by us as profit on the contract.

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.

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.

***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 due to customer changes or to incomplete or inaccurate engineering, project specifications and other similar information provided to us by the customer or the customer's representative or agent. 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 cannot assure you 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 profitability could be negatively impacted if we are not able to maintain adequate utilization of our workforce***

The costs of providing our services to customers, including the extent to which we utilize our workforce, affect our profitability. If we do not invest in building our business for the future, our long-term profitability will be negatively impacted. If we under-utilize our workforce, our project gross margins and overall profitability will 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 our 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;
- 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.

***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 expenses and profits and application of percentage-of-completion accounting;
- provisions for uncollectible receivables from customers for invoiced amounts;

- the amount and collectability of claims against customers, third-party suppliers, subcontractors and others for increased costs incurred by us that were caused by the actions or inactions of these parties, such as increased costs due to delays in their performance or to the failure of machinery, equipment and supplies provided by them to perform to agreed specifications;
- provisions for income taxes and related valuation allowances;
- recoverability of goodwill;
- 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 differ from these estimates.

***There are integration and consolidation risks associated with our growth strategy. Future acquisitions may result in significant transaction expenses, unexpected liabilities and risks associated with entering new markets, and we may be unable to profitably operate these businesses.***

An aspect of our business strategy is to make strategic acquisitions in markets where we currently operate as well as in markets in which we have not previously operated. We may have difficulties identifying attractive acquisition candidates or we may be unable to acquire desired businesses on economically acceptable terms during periods of elevated mergers and acquisition activity or for other reasons. Additionally, existing or future competitors may desire to compete with us for acquisition candidates that may have the effect of increasing acquisition costs or reducing the number of suitable acquisition candidates.

We may not have the financial resources necessary to consummate any acquisitions or the ability to obtain the necessary funds on satisfactory terms. We may not have sufficient management, financial and other resources to integrate future acquisitions. Any future acquisitions may result in significant transaction expenses, unexpected liabilities and risks associated with entering new markets in addition to the integration and consolidation risks. In the event we are unable to complete future strategic acquisitions, we may not grow in accordance with our expectations.

If we make any future acquisitions, we likely will have exposure to third parties for liabilities of the acquired business that may or may not be adequately covered by insurance or by indemnification, if any, from the former owners of the acquired business. Any of these unexpected liabilities could have a material adverse effect on our business.

***We may encounter difficulties during the course of performing our contracts that may result in additional costs to us and a reduction in our revenues and earnings that could have an adverse effect upon our financial condition and results of operations.***

Many of our construction and repair and maintenance projects are performed over extended periods of time and involve complex design and engineering specifications. In these cases, it is common for us to perform work from time-to-time over the life of the project that is outside the scope of the original contract with the expectation of receiving a signed change order from the customer. Our contracts for these projects often require us to provide extensive project management and to obtain machinery, equipment, materials and services from third parties or the customer. We may encounter difficulties in obtaining these products and services on a timely basis. In some cases, these third-party provided products may not perform as expected or the services delivered may not meet contract specifications. These performance failures and other factors, some of which are beyond our control, may result in delays and additional costs to us including, in some cases, the cost of procuring alternate product or service providers, which may adversely impact our ability to complete a project on budget and in accordance with the original delivery schedule. To the extent these and the other matters referred to in the next paragraph occur, we may seek to recover any increased costs incurred by us from the responsible party; however, we cannot assure you that we will be successful in recovering all or a part of these costs in any or all circumstances.

In certain circumstances, we guarantee project completion or the achievement of certain acceptance and performance testing levels by a scheduled date. Failure to meet schedule or performance requirements could result in additional costs to us, including lost incentive payments and the payment of contractually agreed liquidated damages. The amount of such additional costs could exceed our profit margins on the project. While we may seek to recover these amounts as claims from the supplier, vendor, subcontractor or other third party responsible for the delay or for providing non-conforming products or services, we cannot assure you that we will recover all or any part of these costs in all circumstances. Performance problems for existing and future projects could cause our actual results of operations to differ materially from those anticipated by us and could damage our reputation within our industry and our customer base.

***Unsatisfactory safety performance can affect customer relationships, result in higher operating costs, negatively impact employee morale and result in higher employee turnover.***

Workplace safety is important to the Company, our employees, and our customers. As a result, we maintain extensive safety programs and provide frequent safety training to all applicable employees at all levels of our organization. While we make every effort to protect people and property, our work is performed at construction sites and in industrial facilities and our workers are subject to the normal hazards associated with providing these services. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, damage to, or destruction of property, plant and equipment, and environmental damage. We are intensely focused on maintaining a strong safety environment and reducing the risk of accidents to the lowest possible level. Poor safety performance may result in lost revenue and profitability or in lost customer relationships that could materially increase future insurance and other operating costs.

Our growth strategy requires that we increase the size of our workforce from time to time which may require us to hire inexperienced employees. Even with thorough training, inexperienced employees have a higher likelihood of injury which could lead to higher operating costs and insurance rates.

***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 and increase profitability. 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.

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 and composition of the workforce;
- negotiating contracts;
- supervising contract performance, including performance by our employees, subcontractors and other third party suppliers and vendors;
- estimating costs for completion of contracts that is used by us 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.

***Work stoppages and other labor problems could adversely affect us.***

Some of our employees are represented by labor unions. The Company has in excess of 50 collective bargaining agreements with various labor unions. The most significant agreements and the expiration dates include the following:

<u>Trade</u>	<u>Local #</u>	<u>Location</u>	<u>Expires</u>
Boilermaker . . . . .	28	Bayonne, N.J.	12/31/2009
Boilermaker . . . . .	13	Philadelphia, PA.	9/29/2009
Electrician . . . . .	351	Winslow, N.J.	9/30/2010
National Travel Lodge . . . . .	All	National	10/31/2010
Electrician . . . . .	102	Parsippany, N.J.	5/31/2010
Electrician . . . . .	164	Paramus, N.J.	5/31/2010

The Company is also working under a number of other agreements that cover a smaller number of employees. These agreements expire within the next five years. For those agreements with upcoming expiration dates, the Company is currently negotiating renewals and expects that the renewals will be successfully completed. To date, the Company has not experienced any significant work stoppages or other significant labor problems in connection with collective bargaining agreements the Company works under. A lengthy strike or other work stoppage on any of our projects could have a material adverse effect on our business and results of operations due to an inability to complete contracted projects in a timely manner. From time to time, we have also experienced attempts to unionize certain of our merit employees. While these efforts have only achieved limited success to date, we cannot provide any assurance that we will not experience additional and more successful union activity in the future.

***Future events, including those associated with our growth strategy, 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 credit facility and impact our ability to comply with the terms of our credit agreement.

***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.***

A material portion of our revenues are recognized using the percentage-of-completion method of accounting. The percentage-of-completion accounting practices that we use result in our recognizing fixed-price contract revenues and earnings ratably over the contract term based on the proportion of actual costs incurred to our estimated contract costs. The earnings or losses recognized on individual fixed-price contracts are based on estimates of contract revenues, costs and profitability. We review our estimates of contract revenues, costs and profitability on a monthly basis. Prior to contract completion, we may adjust our estimates on one or more occasions as a result of changes in cost estimates, change orders to the original contract, collection disputes with the customer on amounts invoiced or claims against the customer for increased costs incurred by us due to customer-induced delays and other factors.

Contract losses are recognized in the fiscal period when the loss is determined. Contract profit estimates are also adjusted 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 in the period when estimable.

As a result of the requirements of the percentage-of-completion method of accounting, the possibility exists, for example, that we could have estimated and reported a profit on a contract over several prior periods and later determine, usually near contract completion, 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, thereby eliminating all or a portion of any profits from all other contracts that would have otherwise been reported in such period or even resulting in a loss being reported for such period.

Our financial loss exposure on cost-plus contracts is generally limited to a portion of our profit on the contract. However, it is possible that the customer could successfully dispute the costs we believe we incurred on the contract or assert that our costs were excessive for reasons such as poor project management or labor productivity. In addition, some cost-plus



contracts contain penalty provisions for failure to achieve certain milestones or performance standards. To the extent we are not able to recover the full amount of our costs under a cost-plus contract, including adjustments under contract penalty provisions, there would be a reduction, or possibly an elimination, of previously recognized and reported earnings. In certain circumstances, it is possible that such adjustments could be material to our operating results.

***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 and results of operations.***

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. Most of the actions against us arise out of the normal course of performing services on project sites, and include claims for workers' compensation, personal injury and property damage. From time to time, we are also named as a defendant in contract disputes with customers relating to the timeliness and quality of the performance of our services and equipment, materials, design or other services provided by subcontractors and third-party suppliers. We also are, and are likely to continue to 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 has deductibles and exclusions of coverage so we cannot provide assurance that we are adequately insured against all the types of risks that are 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 and results of operations.

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 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.

***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.

***We rely on internally and externally developed software applications and systems to support critical functions including project management, estimating, 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 operate 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, accounting and financial information to other systems, thus increasing our operational expense as well as disrupting the management of our business operations.

***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;
- weather related damage to our facilities;
- inability to receive machinery, equipment and materials at jobsites; and
- loss of productivity.

***Our projects expose us to potential professional liability, product 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. Insurance coverage is increasingly expensive and we may not be able to or may choose not to obtain or maintain adequate protection against 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.

***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 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 the 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 cannot be assured 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.



***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 an annual goodwill impairment review in the fourth quarter of every fiscal year. In addition, we perform a goodwill impairment review whenever events or changes in circumstances indicate the carrying value may not be recoverable. At some future date, we may determine that an additional significant impairment has occurred in the value of our unamortized intangible assets, goodwill or fixed assets, which could require us to write off an additional portion of our assets and could adversely affect our financial condition or results of operations.

***Earnings for future periods may be negatively impacted by foreign currency exchange rates***

We are exposed to financial risk as a result of changes in foreign currency exchange rates. The exposure relates to receivables, payables, and intercompany loans utilized to finance foreign subsidiaries in Canada. While the current exposure is not significant, future growth in foreign operations may expose the Company to additional risk which we will seek to minimize through our contracting strategies, cash management, and, depending on the magnitude of the risk, we may utilize currency hedging.

***Our 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, create liens, acquire or dispose of assets, repurchase equity, or make distributions. In addition, our 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. Our ability to comply with these covenants may be affected by factors or events beyond our control; therefore, our future 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 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 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 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.

***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 all expenditures.***

Because of the nature of our contracts, at times we commit resources to customer projects prior to receiving payments from customers in amounts sufficient to cover expenditures on the customer projects as they are incurred. Delays in customer payments may require us to make a working capital investment. If customers default in making payments on projects to which we have devoted significant resources, it could have an adverse effect on our financial position, results of operations and cash flows.

***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 growth objectives.***

To the extent that cash flow from operations, together with available borrowings under our credit facility, are insufficient to make future investments, make acquisitions or provide needed additional 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.

## **Risk Factors Related to Our Common Stock**

*Our common stock, which is listed on the NASDAQ Global Market, has from time-to-time experienced significant price and volume fluctuations. These fluctuations are likely to 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;
- 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;
- changes in securities analysts' estimates of our financial performance or the financial performance of our competitors or companies in our industry;
- general conditions in our customers' industries; and
- general conditions in the security markets.

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.

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

The issuance of additional common stock or securities convertible into our common stock would result in dilution of the ownership interest in us 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. Our Board of Directors has no present intention of issuing any such preferred stock series, but reserves the right to do so in the future. 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.

## **Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The principal properties of Matrix Service at May 31, 2009 were as follows:

<u>Location</u>	<u>Description of Facility</u>	<u>Segment</u>	<u>Interest</u>
Tulsa, Oklahoma	Corporate headquarters	Corporate	Leased
Alton, Illinois	Regional office and warehouse	Repair & Maintenance	Leased
Bellingham, Washington	Regional office and warehouse	Construction and Repair & Maintenance	Owned
Catoosa, Oklahoma	Fabrication facility, regional office and warehouse	Construction and Repair & Maintenance	Owned (1)
Cranbury, New Jersey	Sales office	Construction and Repair & Maintenance	Leased
Deer Park, Texas	Recruiting center	Construction and Repair & Maintenance	Leased
Eddystone, Pennsylvania	Regional office	Construction and Repair & Maintenance	Leased
Eddystone, Pennsylvania	Fabrication facility and warehouse	Construction and Repair & Maintenance	Leased
Houston, Texas	Regional office and warehouse	Construction and Repair & Maintenance	Owned
Houston, Texas	Regional office	Construction and Repair & Maintenance	Leased
Orange, California	Fabrication facility, regional office and warehouse	Construction and Repair & Maintenance	Owned
Newark, Delaware	Regional office and warehouse	Construction and Repair & Maintenance	Leased
Norwich, Connecticut	Sales office	Construction and Repair & Maintenance	Leased
Rahway, New Jersey	Regional office and warehouse	Construction and Repair & Maintenance	Leased
Sewickley, Pennsylvania	Regional office	Construction and Repair & Maintenance	Leased
Suisun City, California	Regional office and warehouse	Repair & Maintenance	Leased
Temperance, Michigan	Regional office and warehouse	Construction and Repair & Maintenance	Owned
Calgary, Alberta, Canada	Sales office	Construction and Repair & Maintenance	Leased
Leduc, Alberta, Canada	Regional office and warehouse	Construction and Repair & Maintenance	Leased
Saint John, New Brunswick, Canada	Regional office	Repair & Maintenance	Leased
Sarnia, Ontario, Canada	Regional office and warehouse	Repair & Maintenance	Owned

(1) Facilities were constructed by the Company in 2002 and 2003 on land acquired through the execution of a 15 year ground lease with renewal provisions for five additional terms of five years each.

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

**Item 3. Legal Proceedings**

The information called for by this item is provided in Note 7. Contingencies, of the Notes to Consolidated Financial Statements included in Part II, Item 8., under the caption "Material Legal Proceeding" which information is incorporated by reference into this item.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

## 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 Global Market System of the National Association of Securities Dealers, Inc. Automated Quotation System (“NASDAQ”). The trading symbol for our Common Stock is “MTRX”. The following table sets forth the high and low sale prices for our Common Stock as reported by NASDAQ for the periods indicated:

	<u>Fiscal Year 2009</u>		<u>Fiscal Year 2008</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First quarter .....	\$26.50	\$18.56	\$29.11	\$16.99
Second quarter .....	23.74	5.71	30.32	17.74
Third quarter .....	8.91	5.10	28.15	17.16
Fourth quarter .....	11.32	6.01	24.83	16.64

As of July 31, 2009, there were 34 holders of record of our common stock. We believe that the number of beneficial owners of our common stock is substantially greater than the number of holders of record.

#### 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. We currently intend to retain earnings to finance the growth of our business. Any payment of cash dividends in the future will depend upon our financial condition, capital requirements and earnings as well as other factors the Board of Directors may deem relevant.

#### Issuer Purchases of Equity Securities

On February 4, 2009 our Board of Directors authorized a stock buyback program (“February 2009 Program”) that allows the Company to purchase up to 3,000,000 shares of Common Stock provided that such purchases do not exceed \$25.0 million in any calendar year commencing in calendar year 2009 and continuing through calendar year 2012. The February 2009 Program replaced the previous stock buyback program that had been in place since October 2000. The Company did not purchase any common shares under either program in fiscal 2009. Matrix Service may purchase shares in future periods if sufficient liquidity exists and the Company believes that it is in the best interest of the shareholders.

In addition to any stock buyback program that may be in effect, the Company may withhold shares of common stock to satisfy the tax withholding obligations upon vesting of an employee’s deferred shares. Matrix Service withheld 14,337 and 17,237 shares in the three and nine months ended May 31, 2009 to satisfy these obligations. These shares were returned to the Company’s pool of treasury shares.

The Company has 1,696,517 treasury shares as of May 31, 2009 and intends to utilize these treasury shares solely in connection with equity awards under the Company’s stock incentive plans.

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs</u>
March 1 to March 31, 2009 .....	—	\$ —	—	3,000,000
April 1 to April 30, 2009 .....	6,949	9.58	—	3,000,000
May 1 to May 31, 2009 .....	7,388	9.73	—	3,000,000
Total .....	<u>14,337</u>	<u>\$9.66</u>		

## Item 6. Selected Financial Data

The summary financial data provided for the five years ended May 31, 2005 to May 31, 2009 was derived from the audited Consolidated Financial Statements. This information should be read together with Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, including the related notes, appearing in Item 8—Financial Statements and Supplementary Data.

	Fiscal Year Ended May 31,				
	2009	2008	2007	2006	2005 (1)
	(In thousands, except percentages and per share data)				
Revenues	\$689,720	\$731,301	\$639,846	\$493,927	\$439,138
Gross profit	94,323	75,117	65,886	47,079	31,019
Gross profit %	13.7%	10.3%	10.3%	9.5%	7.1%
Operating income (loss)	47,317	34,551	33,050	17,698	(39,138)
Income (loss) before income taxes	47,759	33,716	31,114	11,594	(44,458)
Net income (loss)	30,589	21,414	19,171	7,653	(38,830)
Net income (loss) %	4.4%	2.9%	3.0%	1.5%	(8.8)%
Earnings (loss) per share-diluted	1.16	0.80	0.74	0.35	(2.24)
Equity per share-outstanding	6.51	5.32	4.72	3.67	2.76
Weighted average shares outstanding diluted	26,390	26,875	26,752	25,742	17,327
Working capital	82,460	60,826	51,306	42,656	21,726
Total assets	303,451	274,593	242,909	188,276	202,380
Long-term debt (including long-term portion of acquisition payable and capital lease obligations)	850	1,000	836	28,116	34,400
Total debt (including acquisition payable and capital lease obligations)	1,889	2,153	4,301	30,330	79,086
Capital expenditures	9,983	18,302	13,120	5,614	1,430
Stockholders’ equity	170,389	138,700	125,576	76,399	47,985
Total long-term debt to equity %	0.5%	0.7%	0.7%	36.8%	71.7%
Cash flow provided by operations	38,624	45,596	11,358	35,880	4,516

(1) Fiscal 2005 results include impairment charges of \$26.2 million, restructuring charges of \$3.7 million, and a receivable writedown of \$10.3 million.

## 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 of the Notes to Consolidated Financial Statements included elsewhere 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 Service records profits on fixed-price contracts on a percentage-of-completion basis, primarily based on costs incurred to date compared to the total estimated contract cost. Matrix Service 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 Service includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix Service determines that it is responsible for the procurement and management of such cost components on behalf of the customer.

Matrix Service has numerous contracts that are in various stages of completion which require estimates to determine the appropriate cost and revenue recognition. Matrix Service 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. 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.

#### Claims Recognition

Claims are amounts in excess of the agreed contract price (or amounts not included in the original 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.

As of May 31, 2009 and May 31, 2008, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders of \$0.5 million and \$0.8 million, respectively. There were no claims included in costs and estimated earnings in excess of billings on uncompleted contracts as of May 31, 2009 or May 31, 2008. Historically, our collections for unapproved change orders and other 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 SFAS No. 5 “Accounting for Contingencies”. Specific reserves are provided for loss contingencies to the extent we conclude their occurrence 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 adverse 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. As of May 31, 2009 and 2008, insurance reserves totaling \$7.6 million and \$8.5 million, respectively, are included on our balance sheet. These amounts represent our best estimate of our ultimate obligations for asserted claims, insurance premium obligations, and claims incurred but not yet reported at the balance sheet dates. We establish reserves for claims using a combination of actuarially determined estimates and a case by case evaluation 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. Additionally, the actual results of claim settlements could differ from the amounts estimated.

### **Goodwill**

Goodwill and intangible assets with indefinite useful lives are not amortized and are tested at least annually for impairment. We perform our annual analysis during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional analysis. Goodwill represents the excess of the purchase price of acquisitions over the acquisition date fair value of the net assets acquired. Goodwill is evaluated for impairment by first comparing management’s estimate of the fair value of a reporting unit with its carrying value, including goodwill. Reporting units for purposes of goodwill impairment calculations are our reportable segments.

Management utilizes a discounted cash flow analysis to determine the estimated fair value of our reporting units. Significant judgments and assumptions including the discount rate, anticipated revenue growth rate and gross margins, estimated operating and interest expense, and capital expenditures are inherent in these fair value estimates which are based on our internal operating budgets. As a result, actual results may differ from the estimates utilized in our discounted cash flow analysis. 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 discounted cash flow analysis. The results of the discounted cash flow analysis are then compared to the carrying value of the reporting unit. If the carrying value of a reporting unit exceeds its fair value, a computation of the implied fair value of goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in the amount of the excess. If an impairment charge is incurred, it would negatively impact our results of operations and financial position.



We did not record a goodwill impairment for either our Construction Services or Repair and Maintenance Services segments in the three year period ended May 31, 2009. Although we do not anticipate a future impairment charge, certain events could occur that might adversely affect the reported value of goodwill. Such events could include, but are not limited to, economic or competitive conditions, a significant change in the project plans of our customers, the economic condition of the customers and industries we serve, and a material negative change in the relationships with one or more of our significant customers. If our judgments and assumptions change as a result of the occurrence of any of these events or other events that we do not currently anticipate, our expectations as to future results and our estimate of the implied value of one or more of our reporting units also may change.

Due to the presence of several impairment indicators, including a loss in market capitalization caused by the turmoil in the debt and capital markets, we performed an interim impairment test in the third quarter of fiscal 2009. The results of the interim impairment test indicated that the fair value of the goodwill was in excess of its carrying value at February 28, 2009.

We also performed our annual impairment test in the fourth quarter to determine whether an impairment existed and to determine the amount of headroom at May 31, 2009. Headroom is defined as the percentage difference between the carrying value of the goodwill and its fair value. At May 31, 2009, headroom for the Construction Services segment was 128% and headroom for the Repair and Maintenance Services segment was 59%.

Our significant assumptions, including revenue growth rates, gross margins, operating and interest expense and other factors, have been reasonably accurate in recent years, but are likely to change in light of the dynamic 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:

- if the growth rate of estimated revenue decreases one percent from current estimates, headroom for the Construction Services segment would be reduced from 128% to 109% and headroom for the Repair and Maintenance Services segment would be reduced from 59% to 46%;
- if our estimate of gross margins decreases one percent, headroom for the Construction Services segment would be reduced from 128% to 79% and headroom for the Repair and Maintenance Services segment would be reduced from 59% to 25%; and
- if the applicable discount rate increases one percent, headroom for the Construction Services segment would be reduced from 128% to 105% and headroom for the Repair and Maintenance Services segment would be reduced from 59% to 43%.

### Recently Issued Accounting Standards

Accounting standards that have recently been issued that may impact our Consolidated Financial Statements include the following.

#### *SFAS No. 141(R)—Business Combinations*

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) applies to all business combinations and establishes guidance for recognizing and measuring identifiable assets acquired, liabilities assumed, noncontrolling interests in the acquiree and goodwill. Most of these items are recognized at their full fair value on the acquisition date, including acquisitions where the acquirer obtains control but less than 100 percent ownership in the acquiree. SFAS No. 141(R) also requires transaction costs to be recognized as expense as incurred and establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations with an acquisition date in fiscal years beginning after December 15, 2008 and will be evaluated and implemented in connection with any future acquisitions.

#### *SFAS No. 157—Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). This Statement established a framework for fair value measurements in the financial statements by providing a definition of fair value, guidance on the methods used to estimate fair value and expanded disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, and accordingly, does not require any new fair value measurements. SFAS No. 157 became effective for fiscal years beginning after November 15, 2007 and was applied prospectively. The adoption of SFAS No. 157 in fiscal 2009 did not have a material effect on our financial statements.

*SFAS No. 159—The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (“SFAS No. 159”), “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115”. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 in fiscal 2009 did not have a material effect on our financial statements.

*SFAS No. 165—Subsequent Events*

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS No. 165”). The Statement’s objective is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009.

**Matrix Service Company**  
**Annual Results of Operations**  
(Amounts in thousands, except per share data)

	<u>Construction Services</u>	<u>Repair &amp; Maintenance Services</u>	<u>(1) Other</u>	<u>Total</u>
<b>Fiscal Year 2009</b>				
Consolidated revenues	\$395,240	\$294,480	\$—	\$689,720
Gross profit	50,959	43,364	—	94,323
Operating income	22,111	25,206	—	47,317
Income before income tax expense	21,973	25,786	—	47,759
Net income	14,207	16,382	—	30,589
Earnings per share—diluted				1.16
Weighted average shares outstanding—diluted				26,390
<b>Fiscal Year 2008</b>				
Consolidated revenues	\$455,887	\$275,414	\$—	\$731,301
Gross profit	33,081	42,036	—	75,117
Operating income (loss)	8,579	25,997	(25)	34,551
Income (loss) before income tax expense	7,950	25,791	(25)	33,716
Net income (loss)	5,483	15,946	(15)	21,414
Earnings per share—diluted				0.80
Weighted average shares outstanding—diluted				26,875
<b>Fiscal Year 2007</b>				
Consolidated revenues	\$366,160	\$273,686	\$—	\$639,846
Gross profit	29,494	36,392	—	65,886
Operating income (loss)	11,567	21,556	(73)	33,050
Income (loss) before income tax expense	10,394	20,793	(73)	31,114
Net income (loss)	6,498	12,718	(45)	19,171
Earnings per share—diluted				0.74
Weighted average shares outstanding—diluted				26,752
<b>Variiances 2009 to 2008</b>				
Consolidated revenues	\$ (60,647)	\$ 19,066	\$—	\$ (41,581)
Gross profit	17,878	1,328	—	19,206
Operating income (loss)	13,532	(791)	25	12,766
Income (loss) before income tax expense	14,023	(5)	25	14,043
Net income (loss)	8,724	436	15	9,175
<b>Variiances 2008 to 2007</b>				
Consolidated revenues	\$ 89,727	\$ 1,728	\$—	\$ 91,455
Gross profit	3,587	5,644	—	9,231
Operating income (loss)	(2,988)	4,441	48	1,501
Income (loss) before income tax expense	(2,444)	4,998	48	2,602
Net income (loss)	(1,015)	3,228	30	2,243

(1) Includes items associated with exited operations.

## Results of Operations

### *Overview*

The Company has two reportable segments, Construction Services and Repair and Maintenance Services. The majority of the work for both segments is performed in the United States with 3% of revenues generated in Canada during fiscal 2009. However, the Company does continue to seek opportunities for growth in international markets.

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

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

Significant fluctuations in revenues, gross profits and operating results are discussed below on a consolidated basis and for each segment. Revenues fluctuate due to many factors, including the changing product mix and project schedules, which are dependent on the level and timing of customer releases of new business.

### **Fiscal Year 2009 versus 2008**

#### *Consolidated*

Consolidated revenues were \$689.7 million in fiscal 2009, a decrease of \$41.6 million, or 5.7%, from consolidated revenues of \$731.3 million for fiscal 2008. The reduction in consolidated revenues was caused by a decrease of \$60.7 million in Construction Services revenues partially offset by an increase of \$19.1 million in Repair and Maintenance Services revenues.

Consolidated gross profit increased from \$75.1 million in fiscal 2008 to \$94.3 million in fiscal 2009. The improvement of \$19.2 million or 25.6% was due primarily to an increase in gross profit caused by higher gross margins, which improved from 10.3% in fiscal 2008 to 13.7% in fiscal 2009. The gross margin improvement was due to higher margins in the Construction Services segment, where the gross margin increased to 12.9% in the current fiscal year versus 7.3% in the prior fiscal year. Repair and Maintenance Services segment gross margins were 14.7% in fiscal 2009 compared to 15.3% in fiscal 2008.

Consolidated SG&A expenses increased \$6.4 million, or 15.8%, in fiscal 2009 to \$47.0 million from \$40.6 million for fiscal 2008. The increase was primarily due to the costs relating to our expansion into Western Canada and the Gulf Coast Region, the acquisition of S.M. Electric Company, Inc. ("SME") in February 2009, and higher employee related and facility costs incurred to build the infrastructure and sales forces necessary to support our long-term growth plan. SG&A expense as a percentage of revenue increased to 6.8% in fiscal 2009 compared to 5.6% in the prior fiscal year.

Net interest expense was \$0.2 million in fiscal 2009 compared to \$0.8 million in fiscal 2008. In the current year, the non-cash amortization of deal fees relating to the senior revolving credit facility and cash interest on our capital leases was partially offset by interest income generated from the investment of excess cash. The prior year net interest expense was primarily related to the amortization of deal fees on the senior revolving credit facility and interest on short-term borrowings under the facility.

Other income in fiscal 2009 was \$0.7 million and related primarily to insurance proceeds received. In comparison, we did not report any other income in fiscal 2008.

Income before income tax expense increased to \$47.8 million in fiscal 2009 from \$33.7 million in fiscal 2008. This \$14.1 million increase occurred primarily due to higher gross profits partially offset by higher SG&A expenses.

The effective tax rate for fiscal 2009 was 36.0% compared to 36.5% in fiscal 2008. In fiscal 2009, certain operating loss carryforwards previously reserved were utilized or deemed to be fully utilizable resulting in a tax benefit of \$1.0 million. The prior fiscal year included a \$0.7 million tax benefit resulting from the assessment of the realizability of state investment tax credits and other miscellaneous deductions.

Net income for fiscal 2009 grew to \$30.6 million, or \$1.16 per fully diluted share, versus net income in fiscal 2008 of \$21.4 million, or \$0.80 per fully diluted share.

### ***Construction Services***

Revenues for the Construction Services segment were \$395.2 million, compared with \$455.9 million in the same period a year earlier. The decrease of \$60.7 million was due to lower Specialty revenues, which decreased \$50.8 million as the construction of the tanks on a Gulf Coast LNG project was completed in the fourth quarter of fiscal 2008. In addition, Aboveground Storage Tank revenues decreased 11.7% to \$177.8 million in fiscal 2009, versus \$201.4 million in fiscal 2008, and Downstream Petroleum revenues, decreased 7.8% to \$144.2 million in fiscal 2009, versus \$156.4 million a year earlier. Partially offsetting these declines were higher Electrical and Instrumentation revenues, which increased \$25.9 million to \$45.9 million in fiscal 2009, compared to \$20.0 million a year earlier. This increase is primarily attributable to the acquisition of SME in February 2009.

At May 31, 2009, the Construction Services segment had a backlog of \$233.6 million, as compared to a backlog of \$325.3 million as of May 31, 2008. The decrease of \$91.7 million is due to declines in Aboveground Storage Tank, Downstream Petroleum and Electrical and Instrumentation of \$79.5 million, \$11.5 million and \$6.6 million, respectively. Partially offsetting these declines was an increase in Specialty of \$5.9 million. Project cancellations totaling \$19.0 million and \$29.5 million contributed to the backlog reductions in Aboveground Storage Tank and Downstream Petroleum, respectively.

Gross profit increased from \$33.1 million in fiscal 2008 to \$51.0 million in fiscal 2009. The increase in gross profit was due to improved direct gross margins primarily because fiscal 2008 results included \$20.8 million in pretax charges for cost overruns on a Gulf Coast LNG project. In addition the Company experienced improved project execution in fiscal 2009 helping to offset the negative impact of unrecovered construction overhead costs due to lower than expected revenues during the year.

Operating income and income before income tax expense were \$22.1 million and \$22.0 million in fiscal 2009 compared to \$8.6 million and \$8.0 million in fiscal 2008.

### ***Repair and Maintenance Services***

Revenues for Repair and Maintenance Services were \$294.5 million in fiscal 2009 versus \$275.4 million in fiscal 2008. The \$19.1 million improvement was due to higher Downstream Petroleum revenues, which increased \$17.2 million to \$106.2 million in fiscal 2009, compared to \$89.0 million in the prior fiscal year and higher Electrical and Instrumentation revenues, which increased \$3.6 million to \$22.0 million in fiscal 2009, compared to \$18.4 million in the prior fiscal year. These increases were partially offset by lower Aboveground Storage Tank revenues, which decreased \$1.7 million to \$166.3 million in fiscal 2009 from \$168.0 million during fiscal 2008.

Backlog at May 31, 2009 and May 31, 2008 for the Repair and Maintenance Services segment was \$167.5 million and \$142.0 million, respectively. The increase of \$25.5 million was due to increases in Downstream Petroleum of \$16.4 million and Electrical and Instrumentation of \$15.6 million, partially offset by a decline in Aboveground Storage Tank of \$6.5 million. Included in Aboveground Storage Tank's backlog decline were cancelled projects totaling \$2.7 million.

Gross profit increased from \$42.0 million in fiscal 2008 to \$43.4 million in fiscal 2009 due to an increase in revenues partially offset by a decline in gross margins, which were 14.7% in fiscal 2009 versus 15.3% in fiscal 2008.

Operating income was \$25.2 million in fiscal 2009 compared to \$26.0 million in fiscal 2008. Income before income tax expense was \$25.8 million in fiscal 2009 and fiscal 2008.

### **Fiscal Year 2008 versus 2007**

#### ***Consolidated***

Consolidated revenues were \$731.3 million in fiscal 2008, an increase of \$91.5 million, or 14.3%, from consolidated revenues of \$639.8 million for fiscal 2007. The improvement in consolidated revenues resulted from increases of \$89.7 million in Construction Services revenues and \$1.8 million in Repair and Maintenance Services revenues.

Consolidated gross profit increased from \$65.9 million in fiscal 2007 to \$75.1 million in fiscal 2008. The improvement of \$9.2 million, or 14.0% was primarily due to revenue growth of \$91.5 million. Consolidated gross margins were unchanged at 10.3% for both fiscal years despite an improvement in the Repair and Maintenance Services segment, where the gross margin grew to 15.3% in fiscal 2008 versus 13.3% in fiscal 2007. Offsetting this improvement was a decline in the Construction Services segment's gross margin, which was 8.1% in fiscal 2007 versus 7.3% in fiscal 2008.

Consolidated SG&A expenses increased \$7.8 million, or 23.8%, in fiscal 2008 to \$40.6 million from \$32.8 million in fiscal 2007. The increase was primarily caused by higher employee-related expenses and facility costs incurred to meet the current demands of anticipated growth and a bad debt charge caused by the bankruptcy of a customer that is involved in a contract dispute with the Company. SG&A expense as a percentage of revenue increased to 5.6% in fiscal 2008 compared to 5.1% in fiscal 2007 as the benefit from the 14.3% growth in revenues was more than offset by the increase in SG&A expenses.

Interest expense decreased to \$0.9 million in fiscal 2008 compared to \$2.4 million in fiscal 2007. The decline of \$1.5 million was primarily due to the conversion of \$25.0 million of convertible notes to common stock in fiscal 2007, which led to lower amortization of debt issuance costs in fiscal 2008. Current year interest expense was primarily related to the amortization of deal fees on the senior revolving credit facility and interest on short-term borrowings under this facility.

Income before income tax expense increased to \$33.7 million in fiscal 2008 from \$31.1 million in fiscal 2007. This \$2.6 million increase occurred due to higher gross profits and lower interest expense, partially offset by higher SG&A expenses.

The effective tax rates for fiscal 2008 and fiscal 2007 were 36.5% and 38.4%, respectively. The fiscal 2008 tax rate was reduced due to a tax benefit of \$0.7 million resulting from the continuing assessment of the realizability of state investment tax credits and other miscellaneous deductions. The fiscal 2007 rate was favorably impacted by the utilization of losses on disputed contracts, the tax benefits of which had been reserved as a valuation allowance in previous years.

Net income for fiscal 2008 grew to \$21.4 million, or \$0.80 per fully diluted share, versus net income in fiscal 2007 of \$19.2 million, or \$0.74 per fully diluted share.

### ***Construction Services***

Revenues for the Construction Services segment were \$455.9 million in fiscal 2008, compared with \$366.2 million in fiscal 2007. The increase of \$89.7 million, or 24.5%, was primarily due to higher Aboveground Storage Tank revenues, which increased 26.4% to \$201.4 million in fiscal 2008, versus \$159.3 million in fiscal 2007. The increase was also driven by higher revenues in Downstream Petroleum, which increased 29.5% to \$156.4 million in fiscal 2008, versus \$120.8 million in fiscal 2007, and by higher Specialty revenues, which increased 45.7% to \$78.1 million in fiscal 2008 compared to \$53.6 million a year earlier. These increases were partially offset by lower Electrical and Instrumentation revenues, which fell \$12.4 million.

At May 31, 2008, the Construction Services segment had a backlog of \$325.3 million, as compared to a backlog of \$349.3 million as of May 31, 2007. The decrease of \$24.0 million is due to declines in Specialty of \$41.0 million and Downstream Petroleum of \$19.3 million, partially offset by increases in Aboveground Storage Tank and Electrical and Instrumentation of \$23.3 and \$13.0 million, respectively. The decline in Specialty backlog was attributable to the completion of a major LNG construction project in the Gulf Coast region.

Gross profit increased from \$29.5 million in fiscal 2007 to \$33.1 million in fiscal 2008 due largely to the 24.5% growth in revenues offset partially by reduced gross margins, which fell from 8.1% in fiscal 2007 to 7.3% in fiscal 2008. The gross profit improvement of \$3.6 million occurred despite fiscal 2008 results including \$20.8 million in pre-tax charges for cost overruns related to an LNG construction project in the Gulf Coast region. In comparison, fiscal 2007 results included pre-tax charges of \$11.3 million for this same LNG construction project. The remaining Construction Services projects experienced higher margins in fiscal 2008 than those recognized in fiscal 2007.

Operating income and income before income tax expense were \$8.6 million and \$8.0 million in fiscal 2008 compared to \$11.6 million and \$10.4 million in fiscal 2007.



## Repair and Maintenance Services

Revenues for Repair and Maintenance Services were \$275.4 million in fiscal 2008 versus \$273.7 million in fiscal 2007. The change was due to higher Aboveground Storage Tank revenues, which improved 34.2% to \$168.0 million, versus \$125.2 million in fiscal 2007. This increase was largely offset by lower Downstream Petroleum revenues, which fell 26.2% to \$89.0 million in fiscal 2008, from \$120.6 million in fiscal 2007, and lower Electrical and Instrumentation revenues, which dropped \$9.5 million to \$18.4 million in fiscal 2008 from \$27.9 million during fiscal 2007.

Backlog at May 31, 2008 and May 31, 2007 for the Repair and Maintenance Services segment was \$142.0 million and \$110.8 million, respectively. The increase of \$31.2 million was due to increases in Downstream Petroleum of \$16.2 million, Aboveground Storage Tank of \$10.0 million and Electrical and Instrumentation of \$5.0 million.

Despite relatively flat year-over-year revenues, gross profit increased from \$36.4 million in fiscal 2007 to \$42.0 million in fiscal 2008 and gross margins improved from 13.3% during fiscal 2007 to 15.3% in fiscal 2008. Repair and Maintenance Services' gross margins for fiscal 2008 benefited from high levels of customer call-out work and strong markets, particularly in Aboveground Storage Tank.

Operating income and income before income tax expense increased to \$26.0 million and \$25.8 million, respectively, in fiscal 2008 compared to \$21.6 million and \$20.8 million in fiscal 2007.

## Non-GAAP Financial Measure

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

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

A reconciliation of EBITDA to net income follows:

	Fiscal Year Ended May 31,		
	2009	2008	2007
	(In thousands)		
Net income	\$30,589	\$21,414	\$19,171
Interest expense, (net of interest income in 2008 and 2007)	563	808	2,264
Provision for income taxes	17,170	12,302	11,943
Depreciation and amortization	10,760	8,373	6,500
EBITDA	<u>\$59,082</u>	<u>\$42,897</u>	<u>\$39,878</u>



## Outlook

We believe that our investments in business development, strengthened engineering and construction capabilities, geographic and product expansion as well as the addition of key talent has put us in a stronger position as we move into fiscal 2010. This should allow us to manage through the current economic downturn and capitalize on opportunities as the market improves.

We cannot predict the length or severity of the current economic downturn and remain somewhat cautious about the near-term outlook of our business. The uncertainty in the timing and magnitude of the economic recovery and the timing of awards coupled with the seasonality of our business will likely produce uneven fiscal 2010 quarterly results. The market indicators we are seeing indicate a challenging environment in the remainder of calendar year 2009 with some improvements starting late in calendar year 2009 and early in calendar year 2010.

## 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 monetary contractual obligations. Our primary sources of liquidity in fiscal 2009 were cash flows from operations and cash on hand at the beginning of the year. Cash on hand at May 31, 2009 totaled \$34.6 million and availability under the senior revolving credit facility totaled \$67.7 million, resulting in total liquidity of \$102.3 million.

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

- Changes in working capital
- 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.
- Capital expenditures
- Strategic investments in new operations
- Acquisitions of new businesses
- Purchases of shares under our stock buyback program
- Contract disputes or collection issues resulting from the failure of a significant customer

In fiscal 2009, we funded the acquisitions of S.M. Electric Company, Inc. and the purchase of certain assets, technology and resources for the design and construction of specialty cryogenic tanks with cash on hand. However, in the future we may elect to raise additional capital by issuing common stock, convertible notes, term debt or increase the amount of our revolving credit facility as necessary to fund our operations or to fund the acquisition of other businesses. We will continue to evaluate our working capital requirements and other factors to maintain sufficient liquidity.

### *Cash Flows from Operating Activities*

Operations provided \$38.6 million of cash in fiscal 2009. The cash provided by operations was primarily due to profitable operating results partially offset by an increase in working capital. The change in working capital was primarily due to reductions in accounts payable and billings in excess partially offset by decreases in accounts receivable and costs in excess.

### *Cash Flows from Investing Activities*

Investing activities used \$24.3 million of cash in fiscal 2009. This was due to capital expenditures of \$10.0 million, and the purchases of S.M. Electric Company, Inc. and certain assets, technology and resources for the design and construction of cryogenic storage tanks for a combined \$15.3 million, partially offset by proceeds from asset sales of \$1.0 million. The asset sale proceeds relate primarily to the sale of excess property. Fiscal 2009 capital expenditures included \$4.6 million for the purchase of construction equipment, \$1.3 million for transportation equipment, \$2.9 million for furniture and fixtures, and \$1.2 million for land and buildings. Assets acquired through capital leases totaled \$0.9 million in fiscal 2009 and are reported as non-cash additions to Property, Plant and Equipment in the Consolidated Statement of Cash Flows.

At May 31, 2009 expected spending on capital projects that have been approved but that are not yet complete totaled \$1.7 million. The completion of these projects will be funded with cash on hand.

### *Cash Flows from Financing Activities*

Financing activities used \$1.2 million of cash in fiscal 2009 primarily due to capital lease payments of \$1.1 million, credit agreement amendment fees of \$0.2 million and treasury share purchases of \$0.2 million. Partially offsetting these payments were proceeds from the exercise of stock options issued under our stock based compensation plans of \$0.3 million and the related tax benefit of \$0.1 million.

### *Senior Revolving Credit Facility*

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

The senior revolving credit facility is primarily used to fund short-term changes in working capital and the issuance of letters of credit. At May 31, 2009 \$7.3 million of letters of credit were outstanding to support certain workers’ compensation insurance programs and construction contracts. Availability at May 31, 2009 totaled \$67.7 million. We believe the facility provides adequate liquidity and financial flexibility to support our expected growth.

On February 11, 2009, the Company entered into an amendment (“Amendment”) to the Credit Facility which altered certain key provisions of the Credit Facility including the following:

- The limitation on share repurchases was increased from \$25.0 million for the life of the Credit Facility, to \$25.0 million in any calendar year.
- The prior limitation on acquisitions of \$7.5 million in any consecutive twelve month period and \$20.0 million for the life of the Credit Facility was eliminated so long as the Company’s Senior Leverage Ratio on a pro forma basis as of the end of the fiscal quarter immediately preceding the acquisition is below 1.00 to 1.00 and availability under the Credit Facility is at or above 50% after consummation of the acquisition. If the Senior Leverage Ratio on a pro forma basis as of the end of the fiscal quarter immediately preceding the acquisition is over 1.00 to 1.00 but below 1.75 to 1.00, acquisitions will be limited to \$25.0 million in a twelve month period, provided there is at least \$25.0 million of availability under the Credit Facility after the consummation of the acquisition.
- A financial covenant was modified to require that we maintain a Tangible Net Worth in an amount which is no less than the sum of \$110.0 million, plus the net proceeds of any issuance of equity that occurs after November 30, 2008, plus 50% of all positive quarterly net income after November 30, 2008. Previously, we were required to maintain a Tangible Net Worth of no less than the sum of \$55.6 million, plus the net cash proceeds of any issuance of equity that occurred after August 31, 2006, plus 75% of all positive quarterly net income after August 31, 2006.
- Amounts borrowed under the Credit Facility will continue to bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio.
  - The additional margins on the LIBOR-based loans increased from between 1.00% and 1.75% to between 2.00% and 2.75% based on the Senior Leverage Ratio.
  - The additional margins on the Alternate Base Rate loans increased from between 0.00% and 0.25% to between 1.00% and 1.75% based on the Senior Leverage Ratio.

- The Alternate Base Rate is now the greater of the Prime Rate, Federal Funds Effective Rate plus 0.50% or LIBOR plus 1.00%. Previously, the Alternate Base Rate was the greater of the Prime Rate or the Federal Funds Effective Rate plus 0.50%.
- The Unused Revolving Credit Facility Fee increased from between 0.175% and 0.375% to between 0.35% and 0.50% based on the Senior Leverage Ratio.

Other significant financial covenants that were not changed by the Amendment include the following:

- Senior Leverage Ratio not to exceed 2.50 to 1.00;
- Asset Coverage Ratio to be greater than or equal to 1.45 to 1.00; and,
- Fixed Charge Coverage Ratio to be greater than or equal to 1.25 to 1.00.

The Company is currently in compliance with all affirmative, negative, and financial covenants under the Credit Facility and is at the lowest margin tier for the LIBOR and Alternate Base Rate loans and the lowest tier for the Unused Revolving Credit Facility Fee. However, non-compliance with any of these ratios or a violation of other covenants could result in an event of default and reduce availability under the facility.

#### *Dividend Policy*

We have never paid cash dividends on our Common Stock, and the terms of our credit agreement limits the amount of cash dividends we can pay. We currently intend to retain earnings to finance the growth of our business. Any payment of cash dividends in the future will depend upon our financial condition, capital requirements and earnings as well as other factors the Board of Directors may deem relevant.

#### *Treasury Shares*

On February 4, 2009 our Board of Directors authorized a stock buyback program (“February 2009 Program”) that allows the Company to purchase up to 3,000,000 shares of Common Stock provided that such purchases do not exceed \$25.0 million in any calendar year commencing in calendar year 2009 and continuing through calendar year 2012. The February 2009 Program replaced the previous stock buyback program that had been in place since October 2000. The Company did not purchase any common shares under either program in fiscal 2009. Matrix Service may purchase shares in future periods if sufficient liquidity exists and the Company believes that it is in the best interest of the shareholders.

In addition to any stock buyback program that may be in effect, the Company may withhold shares of common stock to satisfy the tax withholding obligations upon vesting of an employee’s deferred shares. Matrix Service withheld 17,237 shares in fiscal 2009 to satisfy these obligations. These shares were returned to the Company’s pool of treasury shares.

The Company has 1,696,517 treasury shares as of May 31, 2009 and intends to utilize these treasury shares solely in connection with equity awards under the Company’s stock incentive plans.

#### *Commitments*

As of May 31, 2009, the following commitments were in place to support our ordinary course obligations:

	Commitments by Expiration Period				Total
	Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years	
	(In thousands)				
Letters of credit (1) .....	\$ —	\$2,615	\$4,648	\$—	\$ 7,263
Surety bonds .....	<u>76,698</u>	<u>546</u>	<u>22</u>	<u>—</u>	<u>77,266</u>
Total commitments .....	<u>\$76,698</u>	<u>\$3,161</u>	<u>\$4,670</u>	<u>\$—</u>	<u>\$84,529</u>

- (1) All letters of credit are in support of our workers’ compensation insurance programs or in support of certain construction contracts. The letters of credit are issued under our Credit Facility. The letters of credit that support our workers’ compensation programs are expected to renew annually through the term of the Credit Facility; therefore, they are reported in the same period that the Credit Facility expires. The letters of credit that support construction contracts will expire when the related work is complete and the warranty period has passed; therefore, these letters of credit are reported in the period that we expect the warranty period to end.

Contractual obligations at May 31, 2009 are summarized below:

	Contractual Obligations by Expiration Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
	(In thousands)				
Operating leases . . . . .	\$2,938	\$5,185	\$3,768	\$1,888	\$13,779
Capital lease obligations . . . . .	1,049	936	1	—	1,986
Total contractual obligations . . . . .	<u>\$3,987</u>	<u>\$6,121</u>	<u>\$3,769</u>	<u>\$1,888</u>	<u>\$15,765</u>

**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 senior credit facility, which is influenced by movements in short-term rates. Borrowings under our \$75.0 million revolving credit facility are based on an alternate base rate or one, two, three or six month LIBOR as elected by the Company plus an additional margin based on our Senior Leverage Ratio. Although there were no amounts outstanding under the facility at May 31, 2009 and we did not borrow under the facility in fiscal 2009, we have in the past and may in the future borrow against our revolving credit line to fund short-term working capital needs. We do not currently utilize interest rate swaps to hedge our interest rate risk; therefore, short-term interest rates could have an impact on future interest expense.

Financial instruments with interest rate risk at May 31, 2009 were as follows:

	Maturity by Fiscal Year						Fair Value as of May 31, 2009
	2010	2011	2012	2013	2014	Total	
	(In thousands)						
Long-term debt:							
Variable rate debt (1) . . . . .	\$—	\$—	\$—	\$—	\$—	\$—	\$—

(1) There were no outstanding borrowings under our senior credit facility at May 31, 2009 nor were any amounts borrowed in fiscal 2009. At the Company's option, amounts borrowed under the revolving credit facility will bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The Alternate Base Rate is the greater of the Prime Rate, the Federal Funds Effective Rate plus 0.5% or LIBOR plus 1.00%. The additional margin ranges from 1.00% to 1.75% on Alternate Base Rate borrowings and from 2.00% to 2.75% on LIBOR-based borrowings. The Senior Leverage Ratio for the year ended May 31, 2009 placed the Company in the lowest interest rate tier, resulting in LIBOR and Alternate Base Rate margins of 2.00% and 1.00%, respectively.

Financial instruments with interest rate risk at May 31, 2008 were as follows:

	Maturity by Fiscal Year					Total	Fair Value as of May 31, 2008
	2009	2010	2011	2012	2013		
	(In thousands)						
Long-term debt:							
Variable rate debt (1) . . . . .	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Acquisition payable (2) . . . . .	111	—	—	—	—	111	111

(1) There were no outstanding borrowings under our senior credit facility at May 31, 2008. In fiscal 2008, the weighted average interest rate on our borrowings under our senior credit facility was 7.7%. At the Company's option, amounts borrowed under the revolving credit facility bore interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The Alternate Base Rate was the greater of the prime rate or the fed funds effective rate plus 0.50%. The additional margin ranged from 0.00% to 0.25% on Alternate Base Rate borrowings and from 1.00% to 1.75% on LIBOR-based borrowings. The Senior Leverage Ratio for the year ended May 31, 2008 placed the Company in the lowest interest rate tier, resulting in LIBOR and Alternative Base Rate margins of 1.00% and 0.00%, respectively.

(2) The payment included in the table represents the amount the Company was obligated to pay in the period indicated. The Acquisition payable was recorded at its present value of \$0.1 million in the financial statements, and was paid to the seller after the final resolution of disputed sales and use tax obligations.

### **Foreign Currency Risk**

Matrix Service has subsidiaries with operations in Canada with the Canadian dollar as their functional currency. Historically, movements in the foreign currency exchange rate have not significantly impacted results. However, growth in our Canadian operations and fluctuations in the Canadian dollar 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. A 10% 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 May 31, 2009.

### **Commodity Risk**

Steel plate and steel pipe are the primary raw 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 by including standard language in our contracts, which passes the risk of increases in steel prices or unavailability of steel to our customers.

**Item 8. Financial Statements and Supplementary Data**

Financial Statements of the Company

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**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 May 31, 2009, 2008, and 2007 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.

## 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. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

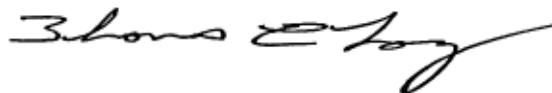
The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2009. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*.

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 May 31, 2009 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 May 31, 2009. Deloitte & Touche LLP's report on the Company's internal control over financial reporting is included herein.



Michael J. Bradley  
President and Chief Executive Officer



Thomas E. Long  
Vice President and Chief Financial Officer

August 4, 2009



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Matrix Service Company:

We have audited the internal control over financial reporting of Matrix Service Company and subsidiaries (“the Company”) as of May 31, 2009 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 May 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* 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 and financial statement schedule as of and for the year ended May 31, 2009 of the Company and our report dated August 4, 2009 expressed an unqualified opinion on those financial statements and financial statement schedule.

*Deloitte & Touche LLP*

Tulsa, Oklahoma  
August 4, 2009

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Matrix Service Company:

We have audited the accompanying consolidated balance sheets of Matrix Service Company and subsidiaries (the "Company") as of May 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2009. 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 the 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 May 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2009, 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 May 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 4, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

*Deloitte & Touche LLP*

Tulsa, Oklahoma  
August 4, 2009

**Matrix Service Company**  
**Consolidated Balance Sheets**  
(In thousands)

	<u>As of May 31,</u>	
	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 34,553	\$ 21,989
Accounts receivable, less allowances (2009—\$710; 2008—\$269) .....	122,283	105,858
Costs and estimated earnings in excess of billings on uncompleted contracts .....	35,619	49,940
Inventories .....	4,926	4,255
Income tax receivable .....	647	—
Deferred income taxes .....	4,843	4,399
Prepaid expenses .....	3,935	3,357
Other current assets .....	3,044	809
Total current assets .....	<u>209,850</u>	<u>190,607</u>
Property, plant and equipment, at cost:		
Land and buildings .....	27,319	24,268
Construction equipment .....	53,925	47,370
Transportation equipment .....	17,971	16,927
Furniture and fixtures .....	14,527	11,781
Construction in progress .....	812	6,712
	<u>114,554</u>	<u>107,058</u>
Accumulated depreciation .....	<u>(55,745)</u>	<u>(49,811)</u>
	58,809	57,247
Goodwill .....	25,768	23,329
Other intangible assets .....	4,571	—
Other assets .....	4,453	3,410
Total assets .....	<u>\$303,451</u>	<u>\$274,593</u>

*See accompanying notes.*

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

	As of May 31,	
	2009	2008
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable .....	\$ 48,668	\$ 53,560
Billings on uncompleted contracts in excess of costs and estimated earnings .....	51,305	48,709
Accrued insurance .....	7,612	8,451
Accrued wages and benefits .....	16,566	14,976
Income tax payable .....	—	2,028
Current capital lease obligation .....	1,039	1,042
Other accrued expenses .....	2,200	1,015
	127,390	129,781
Total current liabilities .....		
Long-term capital lease obligation .....	850	1,000
Deferred income taxes .....	4,822	5,112
Stockholders' equity:		
Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of May 31, 2009 and 2008 .....	279	279
Additional paid-in capital .....	110,272	108,402
Retained earnings .....	75,393	44,809
Accumulated other comprehensive income .....	596	1,584
	186,540	155,074
Less treasury stock, at cost—1,696,517 and 1,825,600 shares as of May 31, 2009 and 2008 .....	(16,151)	(16,374)
Total stockholders' equity .....	170,389	138,700
Total liabilities and stockholders' equity .....	\$303,451	\$274,593

*See accompanying notes.*

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

	<b>Fiscal Year Ended May 31,</b>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues .....	\$689,720	\$731,301	\$639,846
Cost of revenues .....	595,397	656,184	573,960
Gross profit .....	94,323	75,117	65,886
Selling, general and administrative expenses .....	47,006	40,566	32,836
Operating income .....	47,317	34,551	33,050
Other income (expense):			
Interest expense .....	(563)	(890)	(2,403)
Interest income .....	330	82	139
Other .....	675	(27)	328
Income before income taxes .....	47,759	33,716	31,114
Provision for federal, state and foreign income taxes .....	17,170	12,302	11,943
Net income .....	<u>\$ 30,589</u>	<u>\$ 21,414</u>	<u>\$ 19,171</u>
Basic earnings per common share .....	<u>\$ 1.17</u>	<u>\$ 0.81</u>	<u>\$ 0.83</u>
Diluted earnings per common share .....	<u>\$ 1.16</u>	<u>\$ 0.80</u>	<u>\$ 0.74</u>
Weighted average common shares outstanding:			
Basic .....	26,121	26,427	23,056
Diluted .....	26,390	26,875	26,752

*See accompanying notes.*

**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	Translation Adjustments	Total
Balances, May 31, 2006	\$226	\$ 75,855	\$ 4,316	\$ (4,812)	\$ 814	\$ 76,399
Net income	—	—	19,171	—	—	19,171
Other comprehensive income	—	—	—	—	153	153
Comprehensive income						19,324
Conversion of convertible notes (5,292,974 shares)	53	23,623	—	—	—	23,676
Exercise of stock options (433,920 shares)	—	1,324	(65)	1,312	—	2,571
Tax effect of exercised stock options	—	2,132	—	—	—	2,132
Stock-based compensation expense	—	1,474	—	—	—	1,474
Balances, May 31, 2007	279	104,408	23,422	(3,500)	967	125,576
Net income	—	—	21,414	—	—	21,414
Other comprehensive income	—	—	—	—	617	617
Comprehensive income						22,031
Exercise of stock options (165,450 shares)	—	574	(27)	494	—	1,041
Tax effect of exercised stock options	—	721	—	—	—	721
Stock-based compensation expense	—	2,874	—	—	—	2,874
Issuance of deferred shares (59,590 shares)	—	(175)	—	175	—	—
Other treasury share purchases (23,192 shares)	—	—	—	(700)	—	(700)
Open market purchase of treasury shares (729,982 shares)	—	—	—	(12,843)	—	(12,843)
Balances, May 31, 2008	279	108,402	44,809	(16,374)	1,584	138,700
Net income	—	—	30,589	—	—	30,589
Other comprehensive loss	—	—	—	—	(988)	(988)
Comprehensive income						29,601
Exercise of stock options (62,950 shares)	—	108	(5)	169	—	272
Tax effect of exercised stock options and vesting of deferred shares	—	(220)	—	—	—	(220)
Stock-based compensation expense	—	2,206	—	—	—	2,206
Issuance of deferred shares (83,370 shares)	—	(224)	—	224	—	—
Treasury share purchases (17,237 shares)	—	—	—	(170)	—	(170)
Balances, May 31, 2009	<u>\$279</u>	<u>\$110,272</u>	<u>\$75,393</u>	<u>\$(16,151)</u>	<u>\$ 596</u>	<u>\$170,389</u>

*See accompanying notes.*



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

	<u>Fiscal Year Ended May 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating activities:</b>			
Net income . . . . .	\$ 30,589	\$ 21,414	\$ 19,171
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of acquisitions:			
Depreciation and amortization . . . . .	10,760	8,373	6,500
(Gain) loss on sale of property, plant and equipment . . . . .	250	(6)	(186)
Allowance for uncollectible accounts . . . . .	441	1,161	189
Stock-based compensation expense . . . . .	2,206	2,874	1,474
Accretion on acquisition payable . . . . .	—	108	206
Amortization of debt issuance costs . . . . .	123	152	372
Amortization of prepaid interest . . . . .	—	—	1,069
Inventory lower of cost or market write-down . . . . .	1,157	—	—
Deferred income tax . . . . .	(88)	1,484	(1,442)
Tax benefit deficiency from vesting of deferred shares . . . . .	(347)	—	—
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions (Note 2):			
Receivables . . . . .	9,838	(2,748)	(22,957)
Costs and estimated earnings in excess of billings on uncompleted contracts . . . .	16,928	(4,306)	(21,096)
Inventories . . . . .	(1,828)	636	(1,369)
Prepaid expenses and other assets . . . . .	(749)	(1,530)	(3,879)
Accounts payable . . . . .	(25,063)	963	5,590
Billings on uncompleted contracts in excess of costs and estimated earnings . . . .	(3,411)	14,466	22,166
Accrued expenses . . . . .	494	1,265	4,333
Income tax receivable/payable . . . . .	(2,676)	1,290	1,217
Net cash provided by operating activities . . . . .	38,624	45,596	11,358
<b>Investing activities:</b>			
Acquisition of property, plant and equipment . . . . .	(9,983)	(18,302)	(13,120)
Proceeds from asset sales . . . . .	1,002	452	288
Acquisitions, net of cash acquired . . . . .	(15,337)	—	—
Net cash used by investing activities . . . . .	\$(24,318)	\$(17,850)	\$(12,832)

*See accompanying notes.*

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

	Fiscal Year Ended May 31,		
	2009	2008	2007
<b>Financing activities:</b>			
Exercise of stock options .....	\$ 272	\$ 1,041	\$ 2,571
Advances under bank credit facility .....	—	183,810	126,740
Repayments of bank credit facility .....	—	(183,810)	(126,740)
Payment of debt amendment fees .....	(244)	—	(145)
Capital lease payments .....	(1,137)	(775)	(671)
Repayment of other notes .....	—	(2,709)	(1,880)
Tax benefit of exercised stock options and vesting of deferred shares .....	127	721	2,132
Open market purchase of treasury shares .....	—	(12,843)	—
Other treasury share purchases .....	(170)	(700)	—
Net cash provided (used) by financing activities .....	(1,152)	(15,265)	2,007
Effect of exchange rate changes on cash .....	(590)	361	29
Net increase in cash and cash equivalents .....	12,564	12,842	562
Cash and cash equivalents, beginning of year .....	21,989	9,147	8,585
Cash and cash equivalents, end of year .....	<u>\$34,553</u>	<u>\$ 21,989</u>	<u>\$ 9,147</u>
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Income taxes .....	<u>\$20,134</u>	<u>\$ 8,750</u>	<u>\$ 10,034</u>
Interest .....	<u>\$ 396</u>	<u>\$ 529</u>	<u>\$ 723</u>
Non-cash investing and financing activities:			
Equipment acquired through capital leases .....	<u>\$ 877</u>	<u>\$ 1,220</u>	<u>\$ 1,316</u>
Purchases of property, plant and equipment on account .....	<u>\$ 49</u>	<u>\$ 484</u>	<u>\$ 142</u>
Conversion of convertible notes .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 25,000</u>

*See accompanying notes.*

**Matrix Service Company**  
**Notes to Consolidated Financial Statements**

**Note 1. Summary of Significant Accounting Policies**

***Organization and Basis of Presentation***

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

The Company operates primarily in the United States and has operations in Canada. The Company’s reportable segments are Construction Services and Repair and Maintenance Services.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Revenue Recognition***

Matrix Service records profits on fixed-price contracts on a percentage-of-completion basis, primarily based on costs incurred to date compared to the total estimated contract cost. Matrix Service 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 Service includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix Service determines that it is responsible for the procurement and management of such cost components on behalf of the customer.

Matrix Service has numerous contracts that are in various stages of completion which require estimates to determine the appropriate cost and revenue recognition. Matrix Service has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contracts 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 and evaluated for accuracy throughout the year based upon actual direct labor hours and actual costs incurred.

***Claims Recognition***

Claims are amounts in excess of the agreed contract price (or amounts not included in the original 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;

**Matrix Service Company**  
**Notes to Consolidated Financial Statements (continued)**

- 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.

***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 carrying value of cash equivalents approximates fair value. Approximately \$0.3 million of cash as of May 31, 2009 and 2008 is classified as Other Assets as it is restricted for use under an alliance agreement with a customer.

***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, independent refiners and marketers, power companies, petrochemical companies, pipelines, 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.

***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 SFAS No. 5, "Accounting for Contingencies". Specific reserves are provided for loss contingencies to the extent we conclude their occurrence 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 adverse effect on our financial position, results of operations or liquidity.

Legal costs are expensed as incurred.

***Inventories***

Inventories consist primarily of raw materials and are stated at the lower of cost or net realizable value. Cost is determined primarily using the average cost method. As a result of a decline in the market value of steel, which is a major component of the raw material cost, the Company recorded a charge of \$1.2 million in fiscal 2009 as an increase to cost of revenues.

***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 furniture and fixtures—3 to 10 years.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### ***Impairment of Long-Lived Assets***

The Company evaluates long-lived assets, including intangibles, 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 for the assets and recording a loss provision if the carrying value is greater than fair value.

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 is required. Until the assets are disposed of, an estimate of the fair value is redetermined when related events or circumstances change.

#### ***Goodwill***

Goodwill and intangible assets with indefinite useful lives are not amortized and are tested at least annually for impairment. Goodwill represents the excess of the purchase price of acquisitions over the acquisition date fair value of the identifiable net assets acquired. Goodwill is evaluated for impairment by first comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill. Reporting units for purposes of goodwill impairment calculations are our reportable segments.

Management utilizes a discounted cash flow analysis to determine the estimated fair value of our reporting units. Judgments and assumptions related to revenue, gross margins, operating expenses, interest, capital expenditures, cash flow and market assumptions are inherent in these estimates. As a result, use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and ultimately result in the recognition of impairment charges in the financial statements. We utilize various scenarios and assign probabilities to each of these scenarios in our discounted cash flow analysis. The results of the discounted cash flow analysis are then compared to the carrying value of the reporting unit.

If the carrying value of a reporting unit exceeds its fair value, a computation of the implied fair value of goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in the amount of the excess. If an impairment charge is incurred, it would negatively impact our results of operations and financial position. We perform our annual analysis during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant an additional analysis.

#### ***Other Intangible Assets***

Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives. Intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment. Each reporting period, we evaluate the remaining useful lives of intangible assets not being amortized to determine whether facts and circumstances continue to support an indefinite useful life. Intangible assets are considered impaired if the fair value of the intangible asset is less than its net book value. If quoted market prices are not available, the fair values of the intangible assets are determined based on present values of expected future cash flows 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. As of May 31, 2009 and 2008, insurance reserves totaling \$7.6 million and \$8.5 million, respectively, are included in our consolidated balance sheet. These amounts represent our best estimate of our ultimate obligations for asserted claims, insurance premium obligations and claims incurred but not yet reported at the balance sheet dates. 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. Additionally, the actual results of claim settlements could differ from the amounts estimated.

**Matrix Service Company**  
**Notes to Consolidated Financial Statements (continued)**

***Income Taxes***

Deferred income taxes are computed using the liability method whereby deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using presently enacted tax rates.

***Recently Issued Accounting Standards***

Accounting standards that have recently been issued that may impact our Consolidated Financial Statements include the following.

***SFAS No. 141(R)—Business Combinations***

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) applies to all business combinations and establishes guidance for recognizing and measuring identifiable assets acquired, liabilities assumed, noncontrolling interests in the acquiree and goodwill. Most of these items are recognized at their full fair value on the acquisition date, including acquisitions where the acquirer obtains control but less than 100 percent ownership in the acquiree. SFAS No. 141(R) also requires transaction costs to be recognized as expense as incurred and establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations with an acquisition date in fiscal years beginning after December 15, 2008 and will be evaluated and implemented in conjunction with any future acquisitions.

***SFAS No. 157—Fair Value Measurements***

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). This Statement established a framework for fair value measurements in the financial statements by providing a definition of fair value, guidance on the methods used to estimate fair value and expanded disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, and accordingly, does not require any new fair value measurements. SFAS No. 157 became effective for fiscal years beginning after November 15, 2007 and was applied prospectively. The adoption of SFAS No. 157 in fiscal 2009 did not have a material effect on our financial statements.

***SFAS No. 159—The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115***

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (“SFAS No. 159”), “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115”. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 in fiscal 2009 did not have a material effect on our financial statements.

***SFAS No. 165—Subsequent Events***

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS No. 165”). The Statement’s objective is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009.



## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

#### Note 2. Acquisitions

##### *Purchase of Engineering and Construction Assets and Technology*

On December 20, 2008, the Company acquired engineering and construction resources and technology used to design, engineer and construct single and full containment LNG storage tanks, LIN/LOX storage tanks, LPG storage tanks and thermal vacuum chambers from CB&I Inc., a subsidiary of Chicago Bridge & Iron Company N.V. ("CB&I"). The purchase included approximately 70 engineering and construction personnel, along with tools, equipment, and a perpetual license to use CB&I's technology necessary to design, engineer and construct LNG storage tanks, LIN/LOX storage tanks, LPG storage tanks and thermal vacuum chambers.

##### *Purchase of S.M. Electric Company, Inc.*

On February 5, 2009 the Company acquired S.M. Electric Company, Inc. ("SME"). The purchase price consisted primarily of the repayment of SME's bank indebtedness and the repayment of certain indebtedness to SME's former owners. SME, located in Rahway, New Jersey, provides electrical and contracting services to industrial and utility customers in the Northeastern United States. SME has contracts and performs work in both the Repair and Maintenance and Construction Services segments. SME's financial results are included in both operating segments from February 5, 2009.

The purchase prices were allocated to the major categories of assets and liabilities based upon their estimated fair values at their respective acquisition dates. The Company is still evaluating certain SME projects that were in progress at the acquisition date; therefore, the purchase price allocation will not be finalized until these projects progress to a point that allows us to complete our evaluations. The following table summarizes the preliminary purchase price allocation as of May 31, 2009.

Current assets . . . . .	\$33,214
Property, plant and equipment . . . . .	2,281
Tax deductible goodwill . . . . .	3,325
Other intangible assets . . . . .	4,721
Other non-current assets . . . . .	541
Total assets acquired . . . . .	44,082
Current liabilities . . . . .	28,612
Non-current liabilities . . . . .	75
Net assets acquired . . . . .	15,395
Cash acquired . . . . .	58
Net purchase price . . . . .	<u>\$15,337</u>

The operating and proforma data related to the SME acquisition was not material. Both acquisitions were funded with cash on hand.

##### *Acquisition Payable*

In fiscal years 2009, 2008 and 2007 Matrix Service paid \$0.1 million, \$2.7 million and \$1.9 million, respectively, to the former shareholders of a company acquired in fiscal 2003. As of May 31, 2009, Matrix Service has no additional obligations related to this acquisition.

**Matrix Service Company**  
**Notes to Consolidated Financial Statements (continued)**

**Note 3. Customer 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:

	As of May 31,	
	2009	2008
	(In thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts . . . . .	\$1,071,904	\$982,369
Billings on uncompleted contracts . . . . .	1,087,590	981,138
	\$ (15,686)	\$ 1,231
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts . . . . .	\$ 35,619	\$ 49,940
Billings on uncompleted contracts in excess of costs and estimated earnings . . . . .	51,305	48,709
	\$ (15,686)	\$ 1,231

Accounts receivable at May 31, 2009 and 2008 included retentions to be collected within one year of \$15.2 million and \$16.3 million, respectively. Contract retentions collectible beyond one year are included in Other Assets on the Consolidated Balance Sheets and totaled \$2.8 million at May 31, 2009 and \$1.7 million at May 31, 2008.

*Gulf Coast LNG Project*

The Company completed the construction of three LNG tanks in the Gulf Coast in fiscal 2008. The project resulted in a cumulative net loss of \$29.8 million of which \$20.8 million in losses was included in fiscal 2008 earnings and \$11.4 million of losses was included in fiscal 2007 results. All retentions on this project have been billed and collected.

**Note 4. Goodwill and Other Intangible Assets**

*Goodwill*

The changes in the carrying amount of goodwill by segment for the fiscal years ended May 31, 2009 and 2008 are as follows:

	Construction Services	Repair and Maintenance Services	Total
	(In thousands)		
Balance at May 31, 2007 . . . . .	\$4,205	\$19,152	\$23,357
Purchase price adjustment . . . . .	(153)	(65)	(218)
Translation adjustment . . . . .	—	190	190
Balance at May 31, 2008 . . . . .	4,052	19,277	23,329
Purchase price adjustment . . . . .	(452)	(194)	(646)
Translation adjustment . . . . .	—	(240)	(240)
Acquisition of business (Note 2) . . . . .	1,995	1,330	3,325
Balance at May 31, 2009 . . . . .	\$5,595	\$20,173	\$25,768

The translation adjustment relates to goodwill recorded as a part of a Canadian acquisition. A deferred tax asset valuation allowance relating to an acquisition was reversed that resulted in the goodwill adjustments in both fiscal 2009 and 2008.

**Matrix Service Company**

**Notes to Consolidated Financial Statements (continued)**

*Other Intangible Assets*

Information on the carrying value of other intangible assets for the fiscal year ended May 31, 2009 is as follows:

	<u>Useful Life</u> (years)	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u> (In thousands)	<u>Net Carrying Amount</u>
Intellectual property .....	6 to 12	\$2,460	\$ (70)	\$2,390
Customer based .....	1 to 15	769	(74)	695
Other .....	3	42	(6)	36
Total amortizing intangibles .....		<u>3,271</u>	<u>(150)</u>	<u>3,121</u>
Trade name .....	Indefinite	1,450	—	1,450
Total Intangible Assets .....		<u>\$4,721</u>	<u>\$(150)</u>	<u>\$4,571</u>

Amortization expense totaled \$0.2 million in fiscal 2009. Amortization expense is expected to be \$0.4 million in fiscal 2010 and \$0.2 million annually in fiscal 2011 to 2014.

**Note 5. Debt**

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

Availability under the senior credit facility is as follows:

	<u>May 31, 2009</u>	<u>May 31, 2008</u>
	<u>(In thousands)</u>	
Senior credit facility—revolver .....	\$75,000	\$75,000
Letters of credit .....	7,263	4,648
Availability under senior credit facility .....	<u>\$67,737</u>	<u>\$70,352</u>

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

On February 11, 2009, the Company entered into an amendment (“Amendment”) to the Credit Facility which altered certain key provisions of the Credit Facility including the following:

- The limitation on share repurchases was increased from \$25.0 million for the life of the Credit Facility, to \$25.0 million in any calendar year.
- The prior limitation on acquisitions of \$7.5 million in any consecutive twelve month period and \$20.0 million for the life of the Credit Facility was eliminated so long as the Company’s Senior Leverage Ratio on a pro forma basis as of the end of the fiscal quarter immediately preceding the acquisition is below 1.00 to 1.00 and availability under the Credit Facility is at or above 50% after consummation of the acquisition. If the Senior Leverage Ratio on a pro forma basis as of the end of the fiscal quarter immediately preceding the acquisition is over 1.00 to 1.00 but below 1.75 to 1.00, acquisitions will be limited to \$25.0 million in a twelve month period, provided there is at least \$25.0 million of availability under the Credit Facility after the consummation of the acquisition.
- A financial covenant was modified to require that we maintain a Tangible Net Worth in an amount which is no less than the sum of \$110.0 million, plus the net proceeds of any issuance of equity that occurs after November 30, 2008, plus 50% of all positive quarterly net income after November 30, 2008. Previously, we were required to maintain a Tangible Net Worth of no less than the sum of \$55.6 million, plus the net cash proceeds of any issuance of equity that occurred after August 31, 2006, plus 75% of all positive quarterly net income after August 31, 2006.

**Matrix Service Company**  
**Notes to Consolidated Financial Statements (continued)**

- Amounts borrowed under the Credit Facility will continue to bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio.
  - The additional margins on the LIBOR-based loans increased from between 1.00% and 1.75% to between 2.00% and 2.75% based on the Senior Leverage Ratio.
  - The additional margins on the Alternate Base Rate loans increased from between 0.00% and 0.25% to between 1.00% and 1.75% based on the Senior Leverage Ratio.
- The Alternate Base Rate is now the greater of the Prime Rate, Federal Funds Effective Rate plus 0.50% or LIBOR plus 1.00%. Previously, the Alternate Base Rate was the greater of the Prime Rate or the Federal Funds Effective Rate plus 0.50%.
- The Unused Revolving Credit Facility Fee increased from between 0.175% and 0.375% to between 0.35% and 0.50% based on the Senior Leverage Ratio.

Other significant financial covenants that were not changed by the Amendment include the following:

- Senior Leverage Ratio not to exceed 2.50 to 1.00;
- Asset Coverage Ratio to be greater than or equal to 1.45 to 1.00; and,
- Fixed Charge Coverage Ratio to be greater than or equal to 1.25 to 1.00.

The Company is currently in compliance with all affirmative, negative, and financial covenants under the Credit Facility and is at the lowest margin tier for the LIBOR and Alternate Base Rate loans and the lowest tier for the Unused Revolving Credit Facility Fee. However, non-compliance with any of these ratios or a violation of other covenants could result in an event of default and reduce availability under the facility.

*Convertible Notes*

Convertible notes with a principal balance of \$30.0 million, were issued through a private placement transaction on April 25, 2005. The notes were convertible into shares of our Common Stock at a conversion price of \$4.69 per share. In fiscal 2006, \$5.0 million of the convertible notes were converted into 1,002,275 shares of our Common Stock. The remaining \$25.0 million of notes were converted into 5,292,974 shares of our Common Stock in fiscal 2007.

**Note 6. Income Taxes**

The components of the provision for income taxes are as follows:

	<u>Fiscal Year Ended May 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In thousands)		
Current:			
Federal .....	\$14,485	\$ 9,213	\$11,321
State .....	2,023	1,280	1,786
Foreign .....	750	325	278
	<u>17,258</u>	<u>10,818</u>	<u>13,385</u>
Deferred:			
Federal .....	484	1,550	(1,007)
State .....	(555)	(58)	(434)
Foreign .....	(17)	(8)	(1)
	<u>(88)</u>	<u>1,484</u>	<u>(1,442)</u>
	<u>\$17,170</u>	<u>\$12,302</u>	<u>\$11,943</u>

**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:

	<u>Fiscal Year Ended May 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In thousands)		
Expected provision for Federal income taxes at the statutory rate .....	\$16,716	\$11,801	\$10,890
State income taxes, net of Federal benefit .....	1,699	1,206	1,120
Charges without tax benefit .....	(230)	(26)	529
Change in valuation allowance .....	(957)	2	(764)
State investment credits .....	(48)	(538)	—
Other .....	(10)	(143)	168
Provision for income taxes .....	<u>\$17,170</u>	<u>\$12,302</u>	<u>\$11,943</u>

The change in the valuation allowance reduced the income tax provision by \$1.0 million in fiscal 2009 and \$0.8 million in fiscal 2007. The valuation allowance did not impact the fiscal 2008 provision. The valuation allowance change also resulted in a reduction to goodwill of \$0.6 million, \$0.2 million and \$0.2 million in fiscal 2009, 2008 and 2007, respectively.

Significant components of the Company's deferred tax liabilities and assets as of May 31, 2009 and 2008 were as follows:

	<u>As of May 31,</u>	
	<u>2009</u>	<u>2008</u>
	(In thousands)	
Deferred tax liabilities:		
Tax over book depreciation .....	\$7,302	\$ 5,072
Change in tax accounting methods .....	346	761
Other—net .....	540	480
Total deferred tax liabilities .....	8,188	6,313
Deferred tax assets:		
Bad debt reserve .....	436	105
Foreign insurance dividend .....	132	132
Vacation accrual .....	375	354
Insurance reserve .....	2,439	2,750
Noncompete amortization .....	45	62
Net operating loss benefit and credit carryforwards .....	3,497	3,002
Valuation allowance .....	(774)	(2,377)
Accrued compensation and pension .....	397	550
Stock compensation expense on nonvested deferred shares .....	1,061	806
Accrued losses .....	379	166
Other—net .....	222	50
Total deferred tax assets .....	<u>8,209</u>	<u>5,600</u>
Net deferred tax asset (liability) .....	<u>\$ 21</u>	<u>\$ (713)</u>

**Matrix Service Company**  
**Notes to Consolidated Financial Statements (continued)**

As reported in the consolidated balance sheets:

	As of May 31,	
	2009	2008
	(In thousands)	
Current deferred tax assets . . . . .	\$ 4,843	\$ 4,399
Non-current deferred tax liabilities . . . . .	(4,822)	(5,112)
Net deferred tax asset (liability) . . . . .	\$ 21	\$ (713)

The Company has state operating loss carryforwards, state investment tax credit carryforwards and federal foreign tax credit carryforwards of which a portion relates to an acquisition. The valuation allowance at May 31, 2009 and May 31, 2008 reduces the recognized tax benefit of these carryforwards to an amount that will more likely than not be realized. The carryforwards generally expire between 2017 and 2027.

**Note 7. Contingencies**

*Insurance Reserves*

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

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

*Material Legal Proceeding*

On November 6, 2005, two employees of the Company's subsidiary Matrix Service Industrial Contractors, Inc. ("MSICI"), were fatally injured in an accident that occurred at a refinery in Delaware City, Delaware. The estates of both employees have sued the refinery owner for an unspecified amount of damages, including punitive damages. On January 10, 2007 the refinery owner filed a complaint in the Superior Court of the State of Delaware, New Castle County, against the Company and MSICI seeking status as an additional insured under the Company's insurance policy and for indemnification for any amounts which it may be required to pay to the estates of the deceased.

The estate of one of the deceased has settled its claim with the refinery owner, and the Company's insurer paid a portion of the settlement on the refinery owner's behalf as an additional insured. The refinery owner is pursuing its claim against the Company for the remainder of the settlement and for any liability which it may have to the other estate. A trial involving the claim of the other estate against the refinery owner is expected to begin in the third or fourth calendar quarter of 2009. The Company believes that any amounts which it may be required to pay the refinery owner beyond what it has previously reserved will be covered by its insurance policy.

*Unapproved Change Orders and Claims*

As of May 31, 2009 and May 31, 2008, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders of \$ 0.5 million and \$0.8 million, respectively. There were no claims included in costs and estimated earnings in excess of billings on uncompleted contracts at May 31, 2009 or May 31, 2008.



**Matrix Service Company**

**Notes to Consolidated Financial Statements (continued)**

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

*Other*

The Company and its subsidiaries are named as defendants in various other legal actions and are vigorously defending each of them. It is the opinion of management that none of the known legal actions will have a material adverse impact on the Company's financial position, results of operations or liquidity.

**Note 8. Leases**

*Operating Leases*

The Company is the lessee under operating leases covering real estate, office equipment and vehicles 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 May 31, 2009 total \$13.8 million and are payable as follows: fiscal 2010—\$2.9 million; fiscal 2011—\$2.8 million; fiscal 2012—\$2.4 million; fiscal 2013—\$2.2 million; fiscal 2014 \$1.6 million and thereafter—\$1.9 million. Operating lease expense was \$2.7 million, \$1.9 million and \$1.2 million for the years ended May 31, 2009, 2008 and 2007, respectively.

*Capital Leases*

The Company leases most of its copiers, printers, and passenger vehicles under various non-cancelable lease agreements. Minimum lease payments have been capitalized and the related assets and obligations recorded using various interest rates. The assets are depreciated on a straight line method over their estimated useful lives. Interest expense is recognized using the effective interest method.

The following table is a summary of future obligations under capital leases:

	<u>Minimum Lease Payments</u> (In thousands)
For the year ending May 31:	
2010 .....	\$1,049
2011 .....	717
2012 .....	219
2013 .....	1
2014 and thereafter .....	<u>—</u>
Total Payments .....	1,986
Amount representing interest .....	<u>97</u>
Total obligation .....	1,889
Current portion .....	<u>1,039</u>
Long-term capital lease obligation .....	<u>\$ 850</u>

Assets with a cost of \$4.6 million and \$3.9 million have been capitalized under capital lease arrangements at May 31, 2009 and 2008. The net book value of these assets was \$2.1 million at both dates.

**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 May 31, 2009 or 2008.

**Matrix Service Company**  
**Notes to Consolidated Financial Statements (continued)**

*Preferred Share Purchase Rights*

The Company's Board of Directors authorized and directed a dividend of one preferred share purchase right for each common share outstanding on November 12, 1999 and authorized and directed the issuance of one right per common share for any shares issued after that date. These rights, which expire November 12, 2009, will be exercisable only if a person or group acquires 15 percent or more of the Company's common stock or announces a tender offer that would result in ownership of 15 percent or more of the common stock. Each right will entitle stockholders to buy one one-hundredth of a share of preferred stock at an exercise price of \$40. In addition, the rights enable holders to either acquire additional shares of the Company's common stock or purchase the stock of an acquiring company at a discount, depending on specific circumstances. The rights may be redeemed by the Company in whole, but not in part, for one cent per right.

In connection with the issuance of the convertible notes described under Note 5. Debt and the private placement of common stock on October 3, 2005, the Company amended the Rights Agreement for the preferred share purchase rights. The amendments render the provisions of the Rights Agreement inapplicable to the investors in the two private placements by exempting them from the definition of "acquiring person" as a result of the purchase of the convertible notes and common stock.

*Treasury Shares*

On February 4, 2009 our Board of Directors authorized a stock buyback program ("February 2009 Program") that allows the Company to purchase up to 3,000,000 shares of Common Stock provided that such purchases do not exceed \$25.0 million in any calendar year commencing in calendar year 2009 and continuing through calendar year 2012. The February 2009 Program replaced the previous stock buyback program that had been in effect since October 2000. The Company did not purchase any common shares under either program in fiscal 2009.

In addition to the stock buyback program, Matrix Service may withhold shares of common stock to satisfy the tax withholding obligation upon vesting of an employee's deferred shares. Any shares withheld are returned to treasury and are available for future issuance. The Company withheld 17,237 and 23,192 shares of common stock during fiscal 2009 and fiscal 2008 to satisfy these obligations.

Matrix Service will continue to repurchase shares in conjunction with the future issuance of deferred shares and may repurchase shares under the stock buyback program if sufficient liquidity exists and the Company believes that it is in the best interest of the shareholders. The Company has 1,696,517 treasury shares as of May 31, 2009 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.

**Note 10. Stock-Based Compensation**

Total stock-based compensation expense for the years ended May 31, 2009, 2008 and 2007 was \$2.2 million, \$2.9 million and \$1.5 million, respectively. Measured but unrecognized stock-based compensation expense at May 31, 2009 was \$4.6 million, of which \$0.2 million related to stock options and \$4.4 million related to nonvested deferred shares. These amounts are expected to be recognized as expense over a weighted average period of 2.1 years.

*Plan Information*

The Company's 1990 Incentive Stock Option Plan (the "1990 Plan"), 1991 Incentive Stock Option Plan (the "1991 Plan"), and 2004 Stock Incentive Plan (the "2004 Plan") provide incentives for officers and other key employees of the Company and the 1995 Nonemployee Directors' Stock Option Plan (the "1995 Plan") provided incentives for nonemployee directors. Stockholders have authorized an aggregate of 1,800,000 options, 2,640,000 options, and 500,000 options to be granted under the 1990, 1991 and 1995 Plans, respectively. Grants of awards totaling 1,200,000 shares have been authorized by stockholders under the 2004 Plan. The awards under the 2004 Plan may include options, restricted stock units, stock appreciation rights and performance shares.

The Company terminated the 1995 Plan in fiscal 2007. The termination of the 1995 Plan did not affect options outstanding at the time of termination. At May 31, 2009, there were approximately 219,000 shares available for grant under the 2004 Plan. There were no shares available for grant under either the 1990 or 1991 Plans.

**Matrix Service Company**

**Notes to Consolidated Financial Statements (continued)**

*Stock Options*

Stock options are valued at the date of award and compensation cost is recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period. Employee stock options generally vest annually, in equal increments, over a five-year period beginning one year after the grant date. Options granted to non-employee directors generally vest annually, in equal installments, over a two-year period beginning one year after the grant date. Under all stock option plans, the option term cannot exceed ten years. The option price per share may not be less than the fair market value of the common stock at the time the option is granted. The Company's policy is to issue shares upon the exercise of stock options from its treasury shares, if available.

Stock option activity and related information for the year ended May 31, 2009 is as follows:

	<u>Number of Options</u>	<u>Weighted-Average Remaining Contractual Life</u> (Years)	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u> (In thousands)
Outstanding at May 31, 2008 .....	457,830		\$ 7.39	
Granted .....	—		—	
Exercised .....	(62,950)		\$ 4.32	<u>\$ 538</u>
Cancelled .....	<u>(37,800)</u>		\$10.17	
Outstanding at May 31, 2009 .....	<u>357,080</u>	5.0	\$ 7.64	<u>\$1,314</u>
Vested or expected to vest at May 31, 2009 .....	<u>347,535</u>	5.0	\$ 7.64	<u>\$1,278</u>
Exercisable at May 31, 2009 .....	<u>276,680</u>	4.7	\$ 7.78	<u>\$ 979</u>

There were no options granted in fiscal 2009, 2008 or 2007. For grants prior to fiscal 2007 the Company used the Black-Scholes option pricing model to estimate grant date fair value for each stock option granted. Expected volatility was based on the historic volatility of the Company's stock. The risk-free rate was based on the applicable United States Treasury Note rate. The expected life of the option was based on historical and expected future exercise behavior.

The total intrinsic value of stock options exercised during fiscal 2009, 2008, and 2007 was \$0.5 million, \$2.5 million and \$6.2 million, respectively.

The following table summarizes information about stock options at May 31, 2009:

<u>Range of Exercise Price</u>	<u>Stock Options Outstanding</u>			<u>Stock Options Exercisable</u>		
	<u>Options Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life</u> (Years)	<u>Options Exercisable</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life</u> (Years)
\$2.13 – \$ 2.41 .....	25,000	\$ 2.24	1.3	25,000	\$ 2.24	1.3
3.03 – 3.70 .....	34,400	3.41	3.0	34,400	3.41	3.0
4.60 – 5.49 .....	106,700	4.85	5.6	65,300	4.79	5.6
8.93 – 12.20 .....	190,980	10.67	5.5	151,980	10.96	5.2
<u>\$2.13 – \$12.20 .....</u>	<u>357,080</u>	<u>\$ 7.64</u>	<u>5.0</u>	<u>276,680</u>	<u>\$ 7.78</u>	<u>4.7</u>

*Nonvested Deferred Shares*

The Company issued nonvested deferred shares in fiscal 2009, 2008 and 2007. A portion of the shares awarded to employees vest after three years only if certain performance conditions are satisfied and the remaining shares generally vest in five equal annual installments beginning one year after the grant. All shares awarded to non-employee directors vest after three years only if certain performance conditions are satisfied. Based on the actual performance as measured against the performance criteria, the performance-based portion of the award can range from zero to one hundred percent of the original

**Matrix Service Company**  
**Notes to Consolidated Financial Statements (continued)**

award grant for the fiscal 2009, 2008 and 2007 grants. The Company's policy is to issue shares upon vesting from its treasury shares, if available. The fiscal 2009 and 2008 grants also provide for an additional award of up to 50% of the original performance-based award in the form of phantom shares. The phantom share awards do not vest unless certain stretch financial targets are achieved and are settled in cash.

Deferred shares are valued at the market value of the Company's common stock at the grant date. Deferred share expense, net of estimated forfeitures, is generally recognized over the vesting period on a straight-line basis. The expense for the phantom and performance based shares is recognized over the service period based on management's assessment of the likelihood of achieving the stretch performance targets. Since the phantom share award is paid in cash, the estimated liability is marked to market based on changes in the value of Matrix Service Company Common Stock if a payout is considered probable.

The following table reflects nonvested deferred share activity and related information for the year ended May 31, 2009:

<u>Deferred Shares</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested shares at May 31, 2008 .....	502,830	\$21.41
Shares granted .....	374,015	\$11.97
Shares vested and released .....	(83,370)	\$20.80
Shares cancelled .....	(47,925)	\$18.15
Nonvested shares at May 31, 2009 .....	<u>745,550</u>	\$16.98

In fiscal 2009, due to the current level of earnings and a reduced earnings forecast, the Company made the determination that the likelihood of achieving the minimum financial threshold required for the vesting of approximately 368,000 performance based shares issued in fiscal 2009 and 2008 was low. Therefore, pretax expense of \$1.6 million previously recognized was reversed and the Company will not recognize future expense on these grants unless the financial outlook unexpectedly improves. Of the expense reversed, \$0.7 million was originally recorded in fiscal 2008. Additionally, the Company does not expect to achieve threshold financial performance for the phantom stock awarded in fiscal 2009 and 2008; therefore, no expense has been recognized.

There were 319,370 and 263,130 deferred shares granted in fiscal 2008 and 2007 with average grant date fair values of \$25.77 and \$14.79, respectively. There were 83,370 and 59,590 deferred shares that vested and were released in fiscal 2009 and 2008 with weighted average fair values of \$11.25 and \$28.01, respectively. There were no deferred shares that vested and were released in fiscal 2007.

**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, nonvested deferred shares, and convertible securities. 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 or the related average unamortized compensation expense during the period plus the related hypothetical excess tax benefit estimated to result from the shares upon vesting. Convertible debt is considered dilutive when its interest (net of tax) per common share obtainable on conversion is less than basic earnings per share and antidilutive whenever its interest (net of tax) per common share obtainable on conversion exceeds basic earnings per share. Stock options, nonvested deferred shares, and convertible debt are considered antidilutive in the event of a net loss.

Dilutive convertible securities are calculated using the "if converted" method, in which all unconverted securities are assumed to be converted as of the beginning of the period. The "if converted" method also requires that any interest charges, net of tax, applicable to the securities be added back to net income for purposes of computing diluted earnings per share.

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

The computation of basic and diluted EPS is as follows:

	Fiscal Year Ended May 31,		
	2009	2008	2007
	(In thousands, except per share data)		
<b>Basic EPS:</b>			
Net income	\$30,589	\$21,414	\$19,171
Weighted average shares outstanding	26,121	26,427	23,056
Basic EPS	\$ 1.17	\$ 0.81	\$ 0.83
<b>Diluted EPS:</b>			
Net income	\$30,589	\$21,414	\$19,171
Convertible notes interest expense (net of tax)	—	—	731
Adjusted net income	\$30,589	\$21,414	\$19,902
Weighted average shares outstanding—basic	26,121	26,427	23,056
Dilutive stock options	148	352	430
Dilutive nonvested deferred shares	121	96	24
Dilutive convertible note shares	—	—	3,242
Dilutive weighted average shares	26,390	26,875	26,752
Diluted EPS	\$ 1.16	\$ 0.80	\$ 0.74

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

	Fiscal Year Ended May 31,		
	2009	2008	2007
	(In thousands)		
Stock options	21	—	—
Nonvested deferred shares	132	133	—
Total antidilutive securities	153	133	—

#### Note 12. Employee Benefit 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 recognized cost relating to the primary plan of \$3.2 million, \$2.8 million and \$1.5 million for the fiscal years ended May 31, 2009, 2008 and 2007, respectively.

Effective October 1, 2008 the Company established a defined contribution savings plan for all eligible Canadian employees. Company contributions to the plan were less than \$0.1 million in fiscal 2009.

#### Note 13. Segment Information

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

The primary services of our Construction Services segment are aboveground storage tanks for the bulk storage/terminal industry, capital construction for the downstream petroleum industry, specialty construction, and electrical/instrumentation services for various industries. These services, including civil/structural, mechanical, piping, electrical and instrumentation,

## Matrix Service Company

### Notes to Consolidated Financial Statements (continued)

millwrighting, and fabrication, are provided for projects of varying complexities, schedule durations, and budgets. Our project experience includes renovations, retrofits, modifications and expansions to existing facilities as well as construction of new facilities.

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

Other consists of operating activity related to previously disposed of businesses and certain corporate assets.

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at cost; therefore, no intercompany profit or loss recognized.

Segment assets consist 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)**

**Annual Results of Operations  
(In thousands)**

	<u>Construction Services</u>	<u>Repair &amp; Maintenance Services</u>	<u>Other</u>	<u>Total</u>
<b>Fiscal Year 2009</b>				
Gross revenues	\$422,223	\$295,579	\$ —	\$717,802
Less: inter-segment revenues	26,983	1,099	—	28,082
Consolidated revenues	395,240	294,480	—	689,720
Gross profit	50,959	43,364	—	94,323
Operating income	22,111	25,206	—	47,317
Income before income tax expense	21,973	25,786	—	47,759
Net income	14,207	16,382	—	30,589
Segment assets	154,817	112,929	35,705	303,451
Capital expenditures	2,586	2,316	5,081	9,983
Depreciation and amortization expense	6,271	4,489	—	10,760
<b>Fiscal Year 2008</b>				
Gross revenues	\$472,696	\$278,818	\$ —	\$751,514
Less: inter-segment revenues	16,809	3,404	—	20,213
Consolidated revenues	455,887	275,414	—	731,301
Gross profit	33,081	42,036	—	75,117
Operating income (loss)	8,579	25,997	(25)	34,551
Income (loss) before income tax expense	7,950	25,791	(25)	33,716
Net income (loss)	5,483	15,946	(15)	21,414
Segment assets	150,174	93,052	31,367	274,593
Capital expenditures	9,272	4,363	4,667	18,302
Depreciation and amortization expense	4,966	3,407	—	8,373
<b>Fiscal Year 2007</b>				
Gross revenues	\$376,849	\$277,556	\$ —	\$654,405
Less: inter-segment revenues	10,689	3,870	—	14,559
Consolidated revenues	366,160	273,686	—	639,846
Gross profit	29,494	36,392	—	65,886
Operating income (loss)	11,567	21,556	(73)	33,050
Income (loss) before income tax expense	10,394	20,793	(73)	31,114
Net income (loss)	6,498	12,718	(45)	19,171
Segment assets	136,780	98,737	7,392	242,909
Capital expenditures	6,850	4,319	1,951	13,120
Depreciation and amortization expense	3,586	2,914	—	6,500



**Matrix Service Company**

**Notes to Consolidated Financial Statements (continued)**

Geographical information is as follows:

	Revenues		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007
	(In thousands)		
Domestic .....	\$668,620	\$718,276	\$624,002
International .....	21,100	13,025	15,844
	<u>\$689,720</u>	<u>\$731,301</u>	<u>\$639,846</u>

	Long-Lived Assets		
	May 31, 2009	May 31, 2008	May 31, 2007
	(In thousands)		
Domestic .....	\$87,243	\$77,897	\$66,473
International .....	4,023	4,352	3,379
	<u>\$91,266</u>	<u>\$82,249</u>	<u>\$69,852</u>

Segment revenue from external customers by market is as follows:

	Construction Services	Repair & Maintenance Services	Total
	(In thousands)		
<b>Fiscal Year 2009</b>			
Aboveground Storage Tanks .....	\$177,821	\$166,348	\$344,169
Downstream Petroleum .....	144,179	106,149	250,328
Electrical and Instrumentation .....	45,874	21,983	67,857
Specialty .....	27,366	—	27,366
Total .....	<u>\$395,240</u>	<u>\$294,480</u>	<u>\$689,720</u>
<b>Fiscal Year 2008</b>			
Aboveground Storage Tanks .....	\$201,446	\$167,970	\$369,416
Downstream Petroleum .....	156,371	89,001	245,372
Electrical and Instrumentation .....	19,975	18,443	38,418
Specialty .....	78,095	—	78,095
Total .....	<u>\$455,887</u>	<u>\$275,414</u>	<u>\$731,301</u>
<b>Fiscal Year 2007</b>			
Aboveground Storage Tanks .....	\$159,274	\$125,236	\$284,510
Downstream Petroleum .....	120,828	120,557	241,385
Electrical and Instrumentation .....	32,439	27,893	60,332
Specialty .....	53,619	—	53,619
Total .....	<u>\$366,160</u>	<u>\$273,686</u>	<u>\$639,846</u>

*Information about Significant Customers*

In fiscal 2009, one customer accounted for 11% of our consolidated revenue and 14% of our Construction Services revenue. Another customer accounted for 10% of our consolidated revenue and 12% of our Repair and Maintenance Services revenue and an additional customer accounted for 20% of our Repair and Maintenance Services revenue.

In fiscal 2008, one customer accounted for 16% of our consolidated revenue and 21% of our Construction Services revenue. Another customer accounted for 13% of our Construction Services revenue. An additional customer accounted for 18% of our Repair and Maintenance Services revenue.

**Matrix Service Company**

**Notes to Consolidated Financial Statements (continued)**

In fiscal 2007, one customer accounted for 14% of our consolidated revenue and 23% of our Construction Services revenue. Two additional customers accounted for 12% and 13% of our Construction Services revenue. Three other customers represented 20%, 13% and 11% of our Repair and Maintenance Services revenue, respectively.

**Matrix Service Company  
Quarterly Financial Data (Unaudited)  
Fiscal Years Ended May 31, 2009 and 2008**

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(In thousands, except per share amounts)			
<b>Fiscal Year 2009</b>				
Revenues . . . . .	\$186,650	\$176,937	\$146,262	\$179,871
Gross profit . . . . .	26,671	26,369	17,961	23,322
Net income . . . . .	9,504	10,128	4,212	6,745
Earnings per common share:				
Basic . . . . .	0.36	0.39	0.16	0.26
Diluted . . . . .	0.36	0.38	0.16	0.26
<b>Fiscal Year 2008</b>				
Revenues . . . . .	\$161,327	\$194,734	\$181,120	\$194,120
Gross profit . . . . .	18,904	11,246	21,001	23,966
Net income . . . . .	6,336	210	6,002	8,866
Earnings per common share:				
Basic . . . . .	0.24	0.01	0.23	0.34
Diluted . . . . .	0.23	0.01	0.22	0.34

The Company recorded pretax charges of \$1.5 million, \$16.0 million, \$2.5 million and \$0.8 million in the first through fourth quarters of fiscal 2008 related to a Gulf Coast LNG construction project. There were no losses recorded in fiscal 2009 relating to this project.

*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.*

**Matrix Service Company**  
**Schedule II—Valuation and Qualifying Accounts**  
**May 31, 2009, 2008 and 2007**  
(In thousands)

<u>COL. A</u>	<u>COL. B</u>	<u>COL. C ADDITIONS</u>		<u>COL. D</u>	<u>COL. E</u>
	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts—Describe</u>	<u>Deductions—Describe</u>	<u>Balance at End of Period</u>
<b>Fiscal Year 2009</b>					
Deducted from asset accounts:					
Allowance for doubtful accounts . . . . .	\$ 269	\$ 441	\$—	\$ —	\$ 710
Valuation reserve for deferred tax assets . . . . .	<u>2,377</u>	<u>—</u>	<u>—</u>	<u>(1,603)(E)</u>	<u>774</u>
Total . . . . .	<u>\$2,646</u>	<u>\$ 441</u>	<u>\$—</u>	<u>\$(1,603)</u>	<u>\$1,484</u>
<b>Fiscal Year 2008</b>					
Deducted from asset accounts:					
Allowance for doubtful accounts . . . . .	\$ 260	\$1,161	\$—	\$(1,152)(A)	\$ 269
Valuation reserve for deferred tax assets . . . . .	<u>2,149</u>	<u>467(B)</u>	<u>—</u>	<u>(239)(C)</u>	<u>2,377</u>
Total . . . . .	<u>\$2,409</u>	<u>\$1,628</u>	<u>\$—</u>	<u>\$(1,391)</u>	<u>\$2,646</u>
<b>Fiscal Year 2007</b>					
Deducted from asset accounts:					
Allowance for doubtful accounts . . . . .	\$ 190	\$ 189	\$—	\$ (119)(A)	\$ 260
Contract disputes reserve . . . . .	5,390	—	—	(5,390)(A)	—
Valuation reserve for deferred tax assets . . . . .	<u>3,431</u>	<u>—</u>	<u>—</u>	<u>(1,282)(D)</u>	<u>2,149</u>
Total . . . . .	<u>\$9,011</u>	<u>\$ 189</u>	<u>\$—</u>	<u>\$(6,791)</u>	<u>\$2,409</u>

- (A) Receivables written off against allowance for doubtful accounts and contract dispute reserve. The write off in fiscal 2008 relates to a receivable previously classified as a contract dispute receivable.
- (B) An excess foreign tax credit was generated in fiscal 2008 for which the current and future utilization is doubtful. Therefore, a valuation allowance for the full amount of the credit was recorded.
- (C) Operating loss carryforwards previously reserved were utilized resulting in an adjustment to goodwill and a reduction to the valuation reserve of \$218. The remaining reduction was due to certain miscellaneous adjustments.
- (D) Operating loss carryforwards previously reserved were utilized or deemed utilizable resulting in a reduction in the valuation reserve of \$921. The recognition of the operating loss carryforward resulted in a \$157 charge to goodwill and \$764 reduction of the fiscal 2007 tax provision. The remaining reduction was due to miscellaneous adjustments.
- (E) Operating loss carryforwards previously reserved were utilized or deemed utilizable resulting in a reduction in the valuation reserve of \$1,603. The recognition of the operating loss carryforward resulted in a \$646 charge to goodwill and a reduction of the fiscal 2009 tax provision of \$957.

**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). In designing and evaluating the disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. 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 May 31, 2009. 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 May 31, 2009.

***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.

***Changes in Internal Control Over Financial Reporting***

There have been no changes during the fourth quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

## 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 2009 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 [www.matrixservice.com](http://www.matrixservice.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 "Proposal Number 1: Election of Directors" 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 "Proposal Number 1: Election of Directors" 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.

## 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

Management’s Report on Internal Control Over Financial Reporting .....	38
Reports of Independent Registered Public Accounting Firm (Deloitte & Touche LLP) .....	39
Consolidated Balance Sheets as of May 31, 2009 and 2008 .....	41
Consolidated Statements of Income for the Years Ended May 31, 2009, 2008 and 2007 .....	43
Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended May 31, 2009, 2008 and 2007 ..	44
Consolidated Statements of Cash Flows for the Years Ended May 31, 2009, 2008 and 2007 .....	45
Notes to Consolidated Financial Statements .....	47
Quarterly Financial Data (Unaudited) .....	65
Schedule II—Valuation and Qualifying Accounts .....	66

#### (2) 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 May 31, 2009, 2008, and 2007 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.

**(3) The following documents are included as exhibits to this Annual Report on Form 10-K:**

- 3.1 Amended and Restated Certificate of Incorporation (Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 333-156814) filed January 21, 2009 is hereby incorporated by reference).
- 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 is hereby incorporated by reference).
- 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 May 1, 2005 (Exhibit 3.5 to the Company's Annual Report on Form 10-K (File No. 1-15461), filed August 17, 2005, is hereby incorporated by reference).
- 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, is hereby incorporated by reference).
- 3.5 Amended and Restated Bylaws (Exhibit 3 to the Company's Current Report on Form 8-K (File No. 1-15461) filed April 7, 2009, is hereby incorporated by reference).
- 4 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, is hereby incorporated by reference).
- +10.1 Matrix Service 1990 Incentive Stock Option Plan (Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-56945), as amended, filed June 12, 1990, is hereby incorporated by reference).
- +10.2 Matrix Service 1991 Incentive Stock Option Plan (Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 33-36081), filed July 26, 1990, is hereby incorporated by reference).
- +10.3 Matrix Service 1995 Nonemployee Directors' Stock Option Plan (Exhibit 4.3 to the Company's Registration Statement on Form S-8 (File No. 333-2771), filed April 24, 1996, is hereby incorporated by reference).
- +10.4 Matrix Service 2004 Stock Incentive Plan (Exhibit A to the Company's Proxy Statement filed on September 15, 2006 (File No. 1-15461), is hereby incorporated by reference).
- +10.5 Amendment 1 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10 to Amended Schedule 14A filed on October 4, 2006 (File No. 1-15461) is hereby incorporated by reference).
- +10.6 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, ("the Fiscal 2008 10-K") is hereby incorporated by reference).
- +10.7 Form of Restricted Stock Unit Award Agreement for non-employee directors (2004 Stock Incentive Plan) (Exhibit 10.7 to the Fiscal 2008 10-K is hereby incorporated by reference).
- +10.8 Form of Restricted Stock Unit Award Agreement for employees (2004 Stock Incentive Plan) (Exhibit 10.8 to the Fiscal 2008 10-K is hereby incorporated by reference).
- +10.9 Form of Severance Agreement (Exhibit 10.6 to the Company's current report on Form 8-K (File No. 1-15461), filed on October 27, 2006 is hereby incorporated by reference).
- +10.10 Form of Amendment to Severance Agreement (Senior Executives), (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461), filed January 8, 2009 is hereby incorporated by reference).
- +10.11 Form of Management Retention Agreement (Exhibit 10.7 to the Company's current report on Form 8-K (File No. 1-15461), filed October 27, 2006 is hereby incorporated by reference).
- +10.12 Form of Amendment to Severance Agreement (Key Employees), (Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (File No. 1-15461), filed January 8, 2009 is hereby incorporated by reference).
- +10.13 Form of Stock Option Award Agreement (2004 Stock Incentive Plan) (Exhibit 10.5 to the Company's annual report on Form 10-K (File No, 1-15461) filed August 4, 2006 is hereby incorporated by reference).
- +10.14 Form of Stock Option Award Agreement (1995 Directors Plan) (Exhibit 10.6 to the Company's annual report on Form 10-K (File No, 1-15461) filed August 4, 2006 is hereby incorporated by reference).
- +10.15 Amendment No. 1 to the Matrix Service 1995 Nonemployee Directors' Stock Option Plan (Exhibit B to the Company's 2005 Proxy Statement filed on September 16, 2005, is hereby incorporated by reference).
- +10.16 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 is hereby incorporated by reference).



- 10.17 Rights Agreement (including a form of Certificate of Designation of Series B Junior Participating Preferred Stock as Exhibit A thereto, a form of Rights Certificate as Exhibit B thereto and a summary of Rights to Purchase Preferred Stock as Exhibit C thereto) dated November 2, 1999, (Exhibit 1 to the Company's current report on Form 8-K (File No. 1-15461), filed November 9, 1999, is hereby incorporated by reference).
- 10.18 Amendment No. 1 to Rights Agreement effective April 21, 2005 (Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 1-15461), filed April 25, 2005, is hereby incorporated by reference).
- 10.19 Amendment No. 2 to Rights Agreement effective as of October 3, 2005 (Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 1-15461), filed on October 4, 2005, is hereby incorporated by reference).
- 10.20 Equity Interests Purchase Agreement dated as of March 7, 2003 by and among Hake Acquisition Corp., Matrix Service Company, and the Holders of the Equity Interests of The Hake Group of Companies (Exhibit 99.1 to the Company's current report on Form 8-K (File No. 1-15461), filed March 24, 2003, is hereby incorporated by reference).
- 10.21 Second Amended and Restated Credit Agreement dated as of November 30, 2006, among the Company, as Borrower, the Lenders party thereto, J.P. Morgan Chase Bank, N.A., as Administrative Agent and J.P. Morgan Securities Inc. as Sole Bookrunner and Sole Lead Arranger (filed as Exhibit 10 to the Company's Current Report on Form 8-K (File No. 1-15461), filed on December 6, 2006, is hereby incorporated by reference).
- 10.22 First Amendment to Second Amended and Restated Credit Agreement dated as of July 6, 2007 (Exhibit 10 to the Company's Current Report on Form 8-K (File No. 1-15461), filed July 11, 2007 is hereby incorporated by reference).
- 10.23 Second Amendment to Second Amended and Restated Credit Agreement (Exhibit 10 to the Company's Current Report on Form 8-K (File No. 1-15461), filed February 13, 2009, is hereby incorporated by reference).
- 10.24 Securities Purchase Agreement dated October 3, 2005 (Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15461), filed October 4, 2005, is hereby incorporated by reference).
- 10.25 Registration Rights Agreement dated October 3, 2005 (Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 1-15461), filed October 4, 2005, is hereby incorporated by reference).
- 10.26 Lump Sum Turnkey Agreement dated May 6, 2005 among the Company, Diamond LNG LLC and Bechtel Corporation (Exhibit 10.34 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 17, 2005 is hereby incorporated by reference).
- \*21 Subsidiaries.
- \*23 Consent of Independent Registered Public Accounting Firm—Deloitte & Touche LLP.
- \*31.1 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CEO.
- \*31.2 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002—CFO.
- \*32.1 Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CEO.
- \*32.2 Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002)—CFO.

\* Filed herewith.

+ Management Contract or Compensatory Plan.

## 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: August 4, 2009

By:



**Michael J. Bradley,  
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.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
 Mike Bradley	President, Chief Executive Officer and Director (Principal Executive Officer)	August 4, 2009
 Thomas E. Long	Vice President and Chief Financial Officer (Principal Financial Officer)	August 4, 2009
 Kevin S. Cavanah	Vice President—Accounting and Financial Reporting (Principal Accounting Officer)	August 4, 2009
 Michael J. Hall	Chairman of the Board of Directors	August 4, 2009
 I. Edgar Hendrix	Director	August 4, 2009
 Paul K. Lackey	Director	August 4, 2009
 Tom E. Maxwell	Director	August 4, 2009
 David E. Tippeconnic	Director	August 4, 2009

**Matrix Service Company**

**Subsidiaries**

Matrix Service Inc., an Oklahoma corporation  
Matrix Service Industrial Contractors, Inc., an Oklahoma corporation  
Matrix Service Inc. Canada, an Ontario, Canada corporation  
Matrix Service Industrial Contractors Canada, Inc., a Delaware corporation  
Matrix Service Industrial Contractors ULC, a Nova Scotia, Canada corporation  
Matrix Service Specialized Transport, Inc., a Pennsylvania corporation  
I & S, Inc., a Pennsylvania corporation  
Matrix Service ULC, an Alberta, Canada corporation  
S.M. Electric Company, Inc., a New Jersey corporation

## CERTIFICATIONS

I, Michael J. Bradley, certify that:

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

Date: August 4, 2009



Michael J. Bradley  
President and Chief Executive Officer

## CERTIFICATIONS

I, Thomas E. Long, certify that:

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

Date: August 4, 2009



Thomas E. Long  
Vice President and Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant  
Section 906 of Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending May 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Bradley, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss 1350, as adopted pursuant to ss. 906 of the Sarbanes Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2009



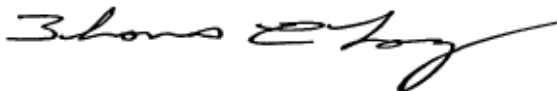
**Michael J. Bradley  
President and Chief Executive Officer**

**Certification Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant  
Section 906 of Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending May 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Long, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss 1350, as adopted pursuant to ss. 906 of the Sarbanes Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2009



**Thomas E. Long  
Vice President and Chief Financial Officer**

# Shareholder Information

## Corporate Offices

5100 E. Skelly Drive – Suite 700  
Tulsa, Oklahoma 74135  
Ph: (918)838-8822  
Fax: (918)838-8810  
Website: [www.matrixservice.com](http://www.matrixservice.com)

## Notice of Annual Meeting

The Annual Meeting of Stockholders will be at the Matrix Service Office located at: 5100 E. Skelly Drive – Suite 100  
Tulsa, Oklahoma  
October 23, 2009 at 2:00 p.m. CDT

## Stock Transfer Agent & Registrar

Computershare Trust Company, N.A.  
250 Royall Street  
Canton, Massachusetts 02021

## Investor and Media Relations

Truc Nguyen  
Grayling  
22 Cortland Street, 14<sup>th</sup> Floor  
New York, New York 10007  
Ph: (646)284-9418  
[truc.nguyen@us.grayling.com](mailto:truc.nguyen@us.grayling.com)

## Common Stock Data

Matrix Service Company's Common Stock is traded on the NASDAQ Global Market System under the Ticker Symbol: "MTRX"

## Independent Registered Public Accountants

Deloitte & Touche LLP  
Two Warren Place  
6120 S. Yale  
Suite 1700  
Tulsa, Oklahoma 74136

## Stockholder Relations & Available Information

Matrix Service Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained by stockholders without charge by writing to:  
Thomas E. Long  
Vice President and Chief Financial Officer  
Matrix Service Company  
5100 E. Skelly Drive – Suite 700  
Tulsa, Oklahoma 74135





## Board of Directors

**Michael J. Hall**  
Chairman of the Board of  
Directors

**Michael J. Bradley**  
Director

**I. Edgar Hendrix**  
Director

**Paul K. Lackey**  
Director

**Tom E. Maxwell**  
Director

**David E. Tippeconnic**  
Director

## Executive Officers

**Michael J. Bradley**  
President and CEO

**Thomas E. Long**  
V.P. and Chief Financial Officer

**Joseph P. Montalbano**  
V.P. and Chief Operating Officer

**Nancy E. Austin**  
V.P. Human Resources

**Kevin S. Cavanah**  
V.P. Accounting and  
Financial Reporting

**Lansing G. Smith**  
V.P. Engineering, Fabrication,  
and Procurement

**James P. Ryan**  
President, Matrix Service Inc.

**Kevin A. Durkin**  
V.P. Business Development  
Matrix Service Inc.

**Robert A. Long**  
V.P. Gulf Coast Business  
Unit, Matrix Service Inc.

**Bradley J. Rinehart**  
V.P. Midwestern Business  
Unit, Matrix Service Inc.

**William R. Sullivan**  
V.P. Western Business Unit  
Matrix Service Inc.

**Matthew J. Petrizzo**  
President, Matrix Service  
Industrial Contractors, Inc.

**Albert D. Fosbenner**  
V.P. Accounting and  
Administration, Matrix  
Service Industrial  
Contractors, Inc.

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To learn more about Matrix Service Company,  
visit our website at [www.matrixservice.com](http://www.matrixservice.com),  
or contact us at 1-866-FOR-MTRX (367-6879)

*Matrix Service Company is an EEO/Affirmative Action Employer and does not discriminate against any employee or applicant because of race, color, religion, sex, age, disability or national origin.*