UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2005

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 number 001-15461

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

DELAWARE	**73-1352174**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

10701 E. Ute St., Tulsa, Oklahoma 74116-1517
(Address of principal executive offices and zip code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

As of April 8, 2005, there were 19,285,276 shares of the Company's common stock, $0.01 par value per share, issued and 17,375,526 shares outstanding.

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PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

Matrix Service Company
Consolidated Statements of Operations
(In Thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004
	(unaudited)		(unaudited)	
Revenues	$ 111,447	$ 145,175	$ 309,908	$ 474,850
Cost of revenues	105,573	133,354	286,352	436,871
Gross profit	5,874	11,821	23,556	37,979
Selling, general and administrative expenses	18,076	7,610	32,949	21,612
Restructuring, impairment and abandonment	25,002	16	25,150	68
Operating income (loss)	(37,204)	4,195	(34,543)	16,299
Other income (expense):				
Interest expense	(1,637)	(708)	(3,634)	(2,149)
Interest income	—	8	1	22
Other	84	306	98	489
Income (loss) before income tax expense	(38,757)	3,801	(38,078)	14,661
Provision (benefit) for federal, state and foreign income tax expense	(3,288)	1,542	(3,010)	5,955
Net earnings of joint venture	—	—	—	510
Net income (loss)	$ (35,469)	$ 2,259	$ (35,068)	$ 9,216
Earnings (loss) per share of common stock:				
Basic	$ (2.05)	$ 0.13	$ (2.03)	$ 0.56
Diluted	$ (2.05)	$ 0.13	$ (2.03)	$ 0.52
Weighted average number of common shares:				
Basic	17,339,069	17,030,824	17,309,133	16,569,531
Diluted (includes dilutive effect of stock options)	17,339,069	17,839,007	17,309,133	17,567,510

See Notes to Consolidated Financial Statements

Matrix Service Company
Consolidated Balance Sheets
(In Thousands)

	February 28, 2005	May 31, 2004
	(unaudited)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 1,972	$ 752
Accounts receivable, less allowances (February 28, 2005 - $424, May 31, 2004 - $337)	59,228	56,974
Contract dispute receivables, net	20,975	31,456
Costs and estimated earnings in excess of billings on uncompleted contracts	22,576	18,854
Inventories	6,504	4,584
Income tax receivable	2,200	3,220
Deferred income taxes	4,352	1,493
Prepaid expenses	2,985	2,368
Total current assets	120,792	119,701
Property, plant and equipment at cost:		
Land and buildings	25,194	24,518
Construction equipment	31,868	31,294
Transportation equipment	12,471	12,445
Furniture, fixtures and office equipment	8,962	8,743
Construction in progress	684	1,593
	79,179	78,593
Accumulated depreciation	37,297	32,939
Net property, plant and equipment	41,882	45,654
Goodwill	24,872	49,666
Other assets	1,259	1,253
Total assets	$ 188,805	$216,274

See Notes to Consolidated Financial Statements

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

	February 28, 2005	May 31, 2004
	(unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 43,361	$ 27,528
Billings on uncompleted contracts in excess of costs and estimated earnings	9,450	8,115
Accrued insurance	4,603	2,152
Other accrued expenses	11,753	11,264
Current capital lease obligation	58	—
Current portion of long-term debt	54,946	4,893
Current portion of acquisition payable	1,904	1,835
Total current liabilities	126,075	55,787
Long-term debt	—	64,209
Acquisition payable	5,832	5,614
Long-term capital lease obligation	112	—
Deferred income taxes	5,129	4,949
Stockholders' equity:		
Common stock - $.01 par value; 30,000,000 shares authorized and 19,285,276 shares issued as of February 28, 2005 and May 31, 2004	193	193
Additional paid-in capital	56,291	56,101
Retained earnings	482	35,585
Accumulated other comprehensive income (loss)	46	(395)
	57,012	91,484
Less: Treasury stock, at cost – 1,929,750 shares as of February 28, 2005 and 2,084,950 shares as of May 31, 2004	(5,355)	(5,769)
Total stockholders' equity	51,657	85,715
Total liabilities and stockholders' equity	$ 188,805	$216,274

See Notes to Consolidated Financial Statements

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Matrix Service Company
Consolidated Cash Flow Statements
(In Thousands)

	Nine Months Ended	
	February 28, 2005	February 29, 2004
	(unaudited)	
Cash flow from operating activities:		
Net income (loss)	$ (35,068)	$ 9,216
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,171	4,791
Deferred income tax	(2,679)	960
Impairment of goodwill	25,000	—
Contract dispute reserve	10,448	—
Gain (loss) on sale of equipment	(93)	(242)
Allowance for uncollectible accounts	125	450
Accretion of acquisition payable	287	279
Earnings of joint venture	—	(857)
Change in value of interest rate swap	(158)	(175)
Amortization of accumulated loss on interest rate swap	116	168
Amortization of debt issuance costs	468	113
Changes in current assets and liabilities increasing (decreasing) cash:		
Accounts receivable	(2,379)	(7,410)
Contract disputes receivable	33	—
Costs and estimated earnings in excess of billings on uncompleted contracts	(3,722)	4,620
Inventories	(1,920)	(212)
Prepaid expenses	(272)	117
Accounts payable	15,833	(12,961)
Billings on uncompleted contracts in excess of costs and estimated earnings	1,335	(6,575)
Accrued expenses	2,940	5,164
Income taxes receivable	1,157	2,073
Other	(28)	(108)
Net cash provided (used) by operating activities	16,594	(589)
Cash flow from investing activities:		
Capital expenditures	(1,323)	(3,953)
Distribution from joint venture	—	701
Net effect of dissolution of joint venture	—	2,738
Proceeds from other investing activities	136	2,015
Net cash provided (used) by investing activities	$ (1,187)	$ 1,501

See Notes to Consolidated Financial Statements

Matrix Service Company
Consolidated Cash Flow Statements
(In Thousands)

	Nine Months Ended	
	February 28, 2005	February 29, 2004
	(unaudited)	
Cash flows from financing activities:		
Advances under bank credit agreement	$ 124,162	$ 219,512
Repayments on bank credit agreement	(138,160)	(221,865)
Capital lease borrowings	198	—
Capital lease repayments	(28)	—
Issuance of common stock	432	2,250
Payment of debt issuance costs	(834)	(145)
Net cash used by financing activities	(14,230)	(248)
Effect of exchange rate changes on cash	43	41
Increase in cash and cash equivalents	1,220	705
Cash and cash equivalents at beginning of period	752	775
Cash and cash equivalents at end of period	$ 1,972	$ 1,480
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Income Taxes	$ (1,399)	$ 3,895
Interest	$ 3,054	$ 1,707

See Notes to Consolidated Financial Statements

Matrix Service Company
Consolidated Statements of Changes in Stockholders' Equity
(In Thousands)
(unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss) Translation	Derivative	Total
Balances, May 31, 2004	$ 193	$ 56,101	$ 35,585	$(5,769)	$ (239)	$ (156)	$ 85,715
Net loss			(35,068)				(35,068)
Other comprehensive income							
Translation adjustment					376		376
Derivative activity						65	65
Comprehensive loss							(34,627)
Exercise of stock options (155,200)		53	(35)	414			432
Tax effect of exercised stock options		137					137
Balances, February 28, 2005	$ 193	$ 56,291	$ 482	$(5,355)	$ 137	$ (91)	$ 51,657
Balances, May 31, 2003	$ 96	$ 52,527	$ 26,304	$(8,179)	$ (278)	$ (289)	$ 70,181
Net income			9,216				9,216
Other comprehensive income							
Translation adjustment					111		111
Derivative activity						104	104
Comprehensive income							9,431
Exercise of stock options (994,370)		217	(221)	2,254			2,250
Tax effect of exercised stock options		3,053					3,053
Stock Dividend	97	(97)					—
Balances, February 29, 2004	$ 193	$ 55,700	$ 35,299	$(5,925)	$ (167)	$ (185)	$ 84,915

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Matrix Service Company (“Matrix” or the “Company”) and its subsidiaries, all of which are wholly owned. All significant inter-company balances and transactions have been eliminated in consolidation. Effective July 28, 2003, a construction joint venture partnership obtained in the Hake acquisition was dissolved. From the effective date of the dissolution forward, the operations of the joint venture assumed by Matrix are included in the Company’s results of operations.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all adjustments, consisting only of normal recurring adjustments and other adjustments described herein that are, in the opinion of management, necessary for a fair statement of the results for the interim periods.

Certain amounts in prior period financial statements have been reclassified to conform to the current financial statement presentation.

The accompanying financial statements should be read in conjunction with the audited financial statements for the year ended May 31, 2004, included in Matrix’s Annual Report on Form 10-K for the year then ended. Matrix’s business is seasonal. In addition, Matrix often generates a significant portion of its revenues under a comparatively few major contracts which often do not commence or terminate in the same period from one year to the next. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

NOTE 2 – STOCK OPTION PLANS

Employee stock options are accounted for under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25) and related interpretations. Under APB 25, because the exercise price of the Company’s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123(R) (revised 2004), “Share-Based Payment”, which is a revision of FASB Statement No. 123, “Accounting for Stock-Based Compensation” (SFAS 123). Statement 123(R) supersedes APB 25. Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Statement 123(R) is effective for public companies at the beginning of the first interim or annual period beginning after June 15, 2005. The Company plans to adopt Statement 123(R) effective June 1, 2005.

Pro forma information regarding net income and earnings per share, as required by SFAS 123, will be provided until Statement 123(R) is adopted. The pro forma information has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. The fair value for employee stock options outstanding as of the end of the periods presented was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	February 28, 2005	February 29, 2004
Risk-free interest rate	3.7%	4.0%
Expected volatility	60.9%	54.4%
Expected life in years	4.8	4.8
Expected dividend yield	—	—

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following table illustrates the pro forma effect on net income (loss) and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 using the Black-Scholes option valuation model:

	Three Months Ended		Nine Months Ended	
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004
	(In Thousands)		*(In Thousands)*	
Net Income (Loss) as Reported	$ (35,469)	$ 2,259	$ (35,068)	$ 9,216
Compensation Expense from Stock Options	(118)	(145)	(298)	(352)
Pro Forma Net Income (Loss)	$ (35,587)	$ 2,114	$ (35,366)	$ 8,864
Earnings per Common Share as Reported:				
Basic	$ (2.05)	$ 0.13	$ (2.03)	$ 0.56
Diluted	$ (2.05)	$ 0.13	$ (2.03)	$ 0.52
Pro Forma Earnings per Common Share:				
Basic	$ (2.05)	$ 0.12	$ (2.04)	$ 0.53
Diluted	$ (2.05)	$ 0.12	$ (2.04)	$ 0.50

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NOTE 3 – RESTRUCTURING

On March 28, 2005, Bradley S. Vetal resigned from his positions as Chairman of the Board, President and Chief Executive Officer of the Company, effective immediately. Mr. Ed Hendrix, an independent director of the Company since 2000, was elected Chairman of the Board of Directors to replace Mr. Vetal. The Company's Board of Directors appointed Michael J. Hall, currently a member of the Board of Directors and formerly the Company's Chief Financial Officer, as the Company's interim President and Chief Executive Officer. The Company granted Mr. Hall 100,000 stock options which at the earlier of the achievement of specified objectives or one year. The remainder of Mr. Hall's compensation program has not been finalized.

In March 2005, the Company began a restructuring program to reduce its cost structure and improve operating results. This restructuring program is expected to include reductions in workforce and changes to business plans including the consolidation or closure of certain facilities or business lines. The Company expects these restructuring efforts to continue into fiscal 2006 and the Company expects to incur restructuring charges of at least $2.1 million in the fourth quarter of fiscal 2005, primarily in the Construction Services segment.

As part of the restructuring efforts, the Company has engaged a financial consultant to assist senior management with the following:

- Determining short-term and long-term liquidity needs;
- Improving forecasting tools;
- Providing oversight of all restructuring activities;
- Identifying cost reduction and operations improvement opportunities;
- Reviewing operating and financial plans and cash flow forecasts at corporate and divisional levels;
- Assessing core business, management, policy operations, facilities, equipment and operating practices;
- Conducting feasibility analyses in connection with debt restructuring efforts; and
- Interfacing with credit constituencies.

The Company also anticipates incurring approximately $1.5 million in professional fees in the fourth quarter of fiscal 2005 related to restructuring efforts.

Based upon the current status of the senior credit facility (Discussed in Note 4 – Debt), total liquidity has been constrained due to shortfalls in operating performance. As a result of the liquidity issues, the Company has extended the timing of payments to vendors until the liquidity issues improve. Management has initiated a number of steps to improve the Company's liquidity situation including the following:

- Improving overall operating performance based upon the restructuring efforts currently underway;

- Evaluating alternatives to accelerate collection of amounts due on the contract disputes; and
- Raising of additional capital through debt refinancing efforts or alternative means.

The Company has engaged an investment banking firm to assist the Board of Directors in evaluating refinancing and other strategic alternatives. These alternatives include the possible issuance of convertible subordinated securities.

As discussed in Note 4, Debt, the current bank group has amended our credit agreement and provided waivers for specified covenant violations through June 15, 2005. They have also increased our revolver from $29 million to the lesser of $32 million or 75% of the borrowing base immediately and to the lesser of $35 million or 80% of the borrowing base upon completion of a proposed private placement of convertible subordinated junior securities. The net proceeds of the convertible subordinated junior securities would be used to retire Term Loan B, which is due in August 2005 and currently bears interest at 18% per year and, if sufficient, to provide additional liquidity. The bank group has also indicated they would provide an incremental $10 million of short-term financing to provide additional liquidity primarily for trade creditors. The documentation is in process and we anticipate having these funds available simultaneously with the closing of the convertible subordinated junior securities.

We cannot assure that the private placement will be completed or that the incremental revolver will be provided. If we are successful in completing the private placement and obtaining the incremental revolver, our liquidity issues would be alleviated for the short-term and we would then focus on returning the Company to profitability and refinancing our senior debt for a longer term. If the efforts are not successful, we cannot assure that other financing can be arranged, that we would be able to meet existing debt covenants, or that the bank would not foreclose on the Company. In that event, we would be required to explore other strategic alternatives.

NOTE 4 – DEBT

Debt consists of the following:

	February 28, 2005	May 31, 2004
	(In Thousands)	
Borrowings under bank credit facility:		
Revolving credit facility	$ 11,035	$40,390
Term note	23,798	28,441
Term B note	20,000	—
Interest rate swap liability	113	271
	54,946	69,102
Less current portion:		
Revolving credit facility	11,035	—
Term note	23,798	4,643
Term B note	20,000	—
Interest rate swap liability	113	250
Long-term debt	$ —	$64,209

Credit Agreement and Revolving Credit Facility

On March 7, 2003, we replaced our prior credit agreement with an $87.5 million senior credit facility entered into with a group of banks. The credit agreement originally consisted of a five-year term loan of $32.5 million and a three-year $55 million revolving credit facility. Substantially all of our properties and assets and those of our domestic subsidiaries secure the senior credit facility. Under the original agreement, we pay LIBOR-based interest on funds borrowed under the term loan and funds borrowed on a revolving basis bear interest on a Prime or LIBOR-based option.

In August 2004, the senior credit facility was amended to convert $20 million of the revolver balance to a term loan (Term Loan B), which matures August 31, 2005 and to reduce the credit commitment on the revolver by an equal amount from $55 million to $35 million. The facility was further amended in December 2004 to provide that interest on Term Loan B would accrue at a 12.5% per annum fixed rate from November 30, 2004 until March 31, 2005, when the interest rate increased to an 18% per annum fixed rate. The interest rate further increases to a 21% per annum fixed rate on June 30, 2005.

Effective November 30, 2004, we amended our credit agreement to require mandatory prepayment of indebtedness outstanding under the credit agreement with proceeds collected by us from certain disputed accounts and claims that are currently the subject of litigation initiated by us. Pursuant to the mandatory prepayment provision, we are required to apply such proceeds, first, to the payment in full of Term Loan B, next, at our option, to the payment of remaining term loans or to the payment of amounts outstanding under the revolving credit facility.

Effective March 23, 2005, the facility was amended, reducing the credit commitment on the revolver from $35.0 million to the lesser of $29,000,000 or 70% of the borrowing base. Effective April 8, 2005, the facility was further amended to increase the credit commitment on the revolver from $29.0 million to the lesser of $32.0 million or 75% of the borrowing base. The amendment also provided that the commitment will further increase to the lesser of $35.0 million or 80% of the borrowing base upon the full and final closing and funding of either a subordinated loan to the Company or an offering of junior securities by the Company in an amount acceptable to the lenders. Finally, the amendment converted interest on the term loan to Prime plus 175 basis points and interest on the revolver borrowings to Prime plus 150 basis points. Beginning in May, the rates will increase 25 basis points per month until August at which time the rates will increase 50 basis points per month until March 2006. The amendment did not change the interest rate applicable to Term Loan B.

At February 28, 2005, $11.0 million was outstanding under the revolver, $23.8 million was outstanding under the five-year term loan and $20.0 million was outstanding under Term Loan B. In addition, $9.3 million of the revolver was utilized by outstanding letters of credit, which mature in 2005 and 2006. At February 28, 2005, remaining availability under the credit facility consisted of $14.6 million available under the revolver as the total revolver facility was $35.0 million. Had the current amendments been in place, availability would have been reduced to $11.6 million. At April 8, availability under our revolver was $6.1 million. We were paying a weighted average interest rate of 9.3% on the term loans and 6.75% on the revolver at February 28, 2005.

Our credit agreement requires us to maintain certain financial ratios, limits the amount of our capital expenditures, limits the amount of additional borrowings we may incur and prohibits the payment of cash dividends.

Financial ratios currently contained in our credit agreement are as follows:

- A fixed charge coverage ratio of not less than 1.15 to 1.0 through February 28, 2005; 1.0 to 1.0 from March 1, 2005 through May 31, 2005; and 1.25 to 1.0 thereafter. The fixed charge coverage ratio is calculated as (i) consolidated EBITDA for the then most recently ended fiscal four quarters less dividends paid in cash, taxes paid in cash and capital expenditures for the same period to (ii) scheduled current maturities of long-term debt for the following four fiscal quarters plus consolidated interest expense for the then most recently ended fiscal four quarters. Consolidated EBITDA is defined in the credit agreement as consolidated net income plus, to the extent included in determining consolidated net income, consolidated (i) interest expense, (ii) tax expense, (iii) depreciation, amortization and other non-cash charges, (iv) losses on the sale of fixed assets and (v) extraordinary losses realized other than in the ordinary course of business minus (i) gains on sales of fixed assets and (ii) extraordinary gains realized other than in the ordinary course of business.
- A total debt leverage ratio not to exceed 4.5 to 1.0 through February 28, 2005 and 3.50 to 1.0 thereafter. The total debt leverage ratio is calculated as (i) consolidated debt plus the face value of the acquisition payable to the former shareholders of Hake, to (ii) consolidated EBITDA for the then most recently ended four fiscal quarters.
- A senior debt leverage ratio not to exceed 3.0 to 1.0 through February 28, 2005 and 2.25 to 1.0 thereafter. The senior debt leverage ratio is calculated as (i) total debt outstanding under the credit facility excluding Term Loan B plus the face value of the acquisition payable to the former shareholders of Hake, to (ii) consolidated EBITDA for the then most recently ended four fiscal quarters.
- A minimum net worth of at least $75 million plus one hundred percent of quarterly positive net income less dividends paid and treasury stock purchased commencing with the fiscal quarter ended August 31, 2004.

The credit agreement also limits our capital expenditures to $8 million for fiscal 2005 and $9 million annually thereafter, limits unsecured indebtedness we may borrow for general operating purposes to $1 million, limits capital lease obligations to $15 million and limits the amount of letters of credit we may have outstanding to $15 million.

In connection with the August 2004 amendment to our Credit Agreement, we also amended the terms of our financial covenants and in October 2004, we further amended our credit agreement to ease the restrictiveness of our financial covenants. The following table presents the required and actual financial covenant measures in effect as of May 31, 2004 and February 28, 2005:

	February 28, 2005	May 31, 2004
Fixed Charge Ratio		
Minimum Ratio Required	1.15	1.40
Actual Ratio	(0.20)(A)	1.66
Total Debt Leverage Ratio		
Maximum Ratio Allowed	4.50	2.50
Actual Ratio	(51.06)(A)	3.06(B)
Senior Debt Leverage Ratio		
Maximum Ratio Allowed	3.00	N/A
Actual Ratio	(34.85)(A)	N/A
Net Worth		
Minimum Net Worth Required	$75,000,000	$66,596,000
Actual Net Worth	51,657,000(A)	85,715,000

(A) Consolidated EBITDA, as defined in the Senior Credit Facility, was a loss for the twelve-month period ended February 28, 2005. The non-compliance was primarily attributable to operating results that were significantly lower than expectations and a $10.4 million charge for disputed contracts reserve, producing negative ratios which resulted in non-compliance with the required covenants.

(B) Based on our forecasted results of operations and our amended covenants, our prospective covenant calculations indicated compliance with our covenants for the upcoming 12 months at May 31, 2004. However, we exceeded the maximum Total Debt Leverage Ratio allowed under our credit agreement at that date. The non-compliance with the Total Debt Leverage Ratio at May 31, 2004 was primarily attributable to operating results for the fourth quarter of fiscal 2004, which were negatively impacted by projects that experienced significant cost overruns during that period.

On April 8, 2005, the Company received a waiver letter and amendment from the lenders whereby the lenders agreed to waive all rights and remedies under the Credit Agreement arising from events of default specified in the waiver, which is effective through June 15, 2005. The waiver may be withdrawn upon the occurrence of certain specified events. The fee for the waiver letter and amendment will range from $0.2 million to $1.0 million. The fee increases over a period of time defined in the agreement with the full $1.0 million being payable if certain events do not occur before September 11, 2005.

If, as of the end of a fiscal quarter, we violate a financial covenant and conclude that it is probable that we would continue to violate one or more of our covenants over the next 12 months, we would be required to reclassify our indebtedness under the credit agreement as current. Because of the decline in operating results, delays in the start-up of projects included in our backlog, costs associated with contract disputes, low-margin maintenance contracts, anticipated restructuring costs and capital expenditure requirements, we have concluded that it is probable that we will continue to violate one or more of the existing covenants over the next twelve months. Therefore, our debt is classified as current at February 28, 2005.

The failure to comply with the terms of our credit agreement has required us to incur significant fees to our lenders to obtain waivers and amendments and caused us to seek alternative financing. Without acceptable waivers or amendments from our lenders or alternative financing on terms acceptable to us, our lenders would have the right, among others, to declare all amounts outstanding under the credit agreement to be immediately due and payable and foreclose upon and sell substantially all of our assets to repay such amounts.

See Note 3, Restructuring, for a discussion of Management's plans related to the Company's credit facility.

NOTE 5 – ACQUISITION PAYABLE

As part of the purchase of the Hake group of companies in Fiscal 2003, the Company entered into an acquisition payable for a portion of the purchase price. The acquisition payable is recorded at its fair value of $7.7 million and accreted for the change in its present value each period utilizing a 5.1% effective interest rate. Payments related to the acquisition payable are due annually on March 7 with $1.9 million due annually in 2005, 2006 and 2007, and $2.7 million due in 2008. The Company did not pay the $1.9 million payment due March 7, 2005 to the former shareholders of Hake as a result of the Company's exposure from certain issues with tax filings by the Hake Group of Companies. These issues relate to periods prior to the acquisition by Matrix. Because the Company was indemnified by the former shareholders for such preacquisition tax contingencies and it is not probable it will have a negative impact on the Company, no amounts have been reflected in the accompanying financial statements related to this matter.

Pursuant to the purchase agreement, the former shareholders of Hake agreed, jointly and severally, to indemnify Matrix for damages it suffers due to breaches of representations and warranties made by the shareholders with respect to, among other things, its employee benefit plans; the ownership, use and condition of its assets and the performance by Hake of its contractual obligations and its obligations under applicable laws, including employment and environmental laws. As to these matters, Matrix may recover its damages only if its claims for damages are made by March 7, 2008, the amount of damages claimed as to any single event exceeds a de minimus amount of $10,000, and only after the aggregate amount of all such claims excluding de minimus claims exceeds $250,000. In order to better assure the payment to Matrix of any claims by it for indemnity, $10 million of the purchase price for Hake was withheld in the form of a deferred purchase price payable to the former shareholders or their designee. Upon final determination that a claim for indemnity is proper, the amount of the claim can be deducted by Matrix from the deferred payments of the purchase price. The remaining deferred purchase obligations to be paid in the future total approximately $8.4 million. Since the purchase date on March 7, 2003, Matrix claims have not exceeded $250,000, and thus no adjustment to the deferred purchase price was made related to indemnifications by the former shareholders of Hake prior to March 2005.

NOTE 6 – GOODWILL IMPAIRMENT

The Company performs an annual goodwill impairment review in the fourth quarter of every year. In addition, the Company performs a goodwill impairment review whenever events or changes in circumstances indicate the carrying value may not be recoverable, such as the liquidity issues and operating results the Company is currently experiencing.

As a result, the Company performed a goodwill impairment test as of February 28, 2005. The process of evaluating the impairment of goodwill is highly subjective and requires significant judgment. Fair value of the reporting units was determined based on the probability-adjusted present value of future cash flows. A preliminary impairment charge of $25 million was recorded for the Construction Services segment in the quarter ended February 28, 2005 and is reflected in "Restructuring, impairment and abandonment" on the Consolidated Statements of Operations. The cash flow assumptions are based on the best available information, but such information is considered preliminary due to the Company's current liquidity situation and restructuring efforts. The impairment evaluation will be completed in the fourth quarter of fiscal 2005. At such time, the preliminary impairment charge recorded in the third fiscal quarter may be adjusted upward or downward.

NOTE 7– INCOME TAXES

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

In February 2005, the Company established valuation allowances of approximately $1.6 million for deferred tax assets including certain net operating loss carryforwards and tax credit carryforwards. The realization of these carryforwards is dependent on certain of our operations recognizing taxable income on a stand-alone basis in future periods which is no longer certain. Therefore, these deferred tax assets were reserved as of February 28, 2005.

The difference between the expected income tax provision applying the domestic federal statutory tax rate and the current state rates is illustrated as follows:

	Three Months Ended February 28, 2005		Nine Months Ended February 28, 2005	
	(Amounts in thousands)			
Expected provision for federal income tax benefit at the statutory rate.	$(13,565)	(35.0%)	$(13,327)	(35.0%)
Expected state income tax benefit, net of federal benefit	(2,132)	(5.5%)	(2,094)	(5.5%)
Charges without tax benefit, primarily goodwill impairment	10,125	26.1%	10,125	26.6%
Valuation allowance on tax benefit of contract dispute reserve	679	1.8%	679	1.8%
Valuation allowance on deferred tax assts	1,600	4.1%	1,600	4.2%
Other	5	—	7	—
Total	$ (3,288)	(8.5%)	$ (3,020)	(7.9%)

In fiscal 2004, the actual income tax provision did not differ from the expected federal and state income tax provision.

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NOTE 8 – CONTRACT DISPUTES

Contract Disputes Summary
(in 000's)

Dispute	Total Claim	Net Receivable As of February 28, 2005	Net Receivable As of May 31, 2004
Contract Dispute I	$26,262	$ 14,943	$ 14,926
Contract Dispute II	14,619	11,322	11,300
Contract Dispute III	6,431	4,183	4,255
Contract Dispute IV	2,054	975	975
	49,366	31,423	31,456
Contract Dispute Reserve	—	(10,448)	—
Total	$49,366	$ 20,975	$ 31,456

Contract Dispute I

Four subsidiaries of the Company performed work from March 2003 to November 2003 under several subcontracts with a general contractor (GC) to erect a combined cycle power plant. In October 2003 with the project 85% complete, the GC terminated the Company from one subcontract due to contractual disputes and claims against the GC for additional monies owed related to significant increased costs stemming from alleged mismanagement of the project by the GC. Other subcontracts were substantially completed but were consequently terminated for convenience by the GC.

The Company, through a subsidiary, consequently filed suit against the general contractor in November 2003. Other subsidiaries of the Company filed suit for non-payment in December 2003. Mediation occurred in August 2004, however, no resolution was reached. The subsidiaries of the Company, along with their independent contract forensics experts, believe the claims are valid and expect a ruling in the Company's favor regarding these matters. The three suits have been combined into one forum of litigation by the presiding judge. The Company expects a trial date to be set for some time in the first quarter of fiscal 2006 and expects full resolution in these matters to occur in fiscal 2006.

The Company's total claim in this matter is approximately $26.3 million and the Company has, in accordance with SOP 81-1, a $14.9 million net receivable recorded in our balance sheet, excluding the contract dispute reserve discussed below.

Contract Dispute II

In the fourth quarter of fiscal 2003, a subsidiary of the Company was subcontracted by a general contractor (GC) to erect two Selective Catalytic Reactor (SCR) Units for an owner. The Company subsidiary had performed all of its obligations to the GC in accordance with the parties' Subcontractor Agreement, along with significant extra work that the GC directed the Company's subsidiary to perform to cure design defects, mis-fabrications, and project delays attributable to the GC. The GC refused to sign certain change orders for the additional work performed and alleged that the services and materials provided by the Company were defective and behind schedule. In June 2004, the owner terminated the GC for cause. The owner subsequently retained the subsidiary of the Company to complete the project. The owner refused to pay the subsidiary of the Company the amounts owed by the GC because the owner had previously paid the GC for the work. The Company has subsequently completed work on the SCR units to the satisfaction of the owner.

Under the terms of the owner's original contract with the GC, the GC provided the owner with an unconditional and irrevocable guarantee of its parent, a non-USA based holding company. Under this guarantee, the parent guaranteed the GC's performance and payment obligations, including the obligations that the GC owed to the Company and other subcontractors. The Company has subsequently filed suit against the GC's parent pursuant to the contractual parental guarantee but expects the proceedings to be stayed until arbitration between the GC and the Company is completed. If the proceedings are not successful against the GC, the Company believes it can seek recovery under the parental guarantee. Currently, an arbitration date has been scheduled for the first quarter of 2006. The Company, along with our independent contract forensics firm believes that we have valid claims and expect a decision in our favor regarding this matter. The Company expects a full resolution in this matter to occur in fiscal 2006.

The Company's total claim in this matter is approximately $14.6 million and the Company has, in accordance with SOP 81-1, a $11.3 million net receivable recorded in our balance sheet, excluding the contract dispute reserve discussed below.

Contract Dispute III

In fiscal year 2003, the two of the Company's subsidiaries entered into sub-subcontract agreements with another subcontractor (Sub) to provide all necessary supervision, labor, materials, and equipment necessary to install a heater foundation, on a time and material basis at an owner's facility. The Sub was previously contracted by the general contractor (GC) on the project, to perform foundation installation, equipment, piping and steel erection, other construction work and construction management. As the project progressed, the Sub opted to increase the Company's subsidiaries scope of work.

On September 30, 2003, the Sub filed for Chapter 11 bankruptcy protection. At the date of the bankruptcy filing, the Company subsidiaries were substantially complete with all work at the job site. Subsequent to the Sub's bankruptcy filing, the GC assumed all of the Sub's obligations that are subject to valid liens associated with the project. The Company's subsidiaries subsequently filed valid construction lien claims totaling approximately $5.8 million against the owner, GC and Sub. These lien claims have been consolidated with six other sub-subcontractor lien claims associated with the project and the lien claims have been fully bonded by the GC, although the GC disputes the lien amounts and seeks to have a smaller lien fund fixed. Therefore, the Company is not required to proceed through the Sub's bankruptcy proceedings to collect on amounts owed. The Court has ruled that initial discovery be limited to matters relevant to the computation of the "lien fund" that is available to satisfy the liens that have been asserted against the project. Currently, the Company is in dispute with the owner and the GC as to the appropriate calculation of the available lien fund. The Company believes that we have a valid claim and that the value of the lien fund will be established at an amount adequate to fund the associated claim by the Company. Currently, there is a settlement discussion mandated by the courts scheduled for the first quarter of 2006. The Company expects a full resolution in this matter to occur in fiscal 2006.

The Company's total claim in this matter is approximately $6.4 million and the Company has, in accordance with SOP 81-1, a $4.2 million net receivable recorded in our balance sheet, excluding the contract dispute reserve discussed below.

Contract Dispute IV

In March 2000, the Company entered into a joint venture partnership (JV) agreement for the construction of a pulp and paper project for an owner, which was completed late in 2000. The services provided by the JV consisted primarily of a labor contract with the owner supplying the engineering and the majority of the materials to be installed. The claim arises out of a contractual dispute in which the Company believes the JV incurred substantial work because the owner's planning and engineering on the project was not adequate. The owner did not pay amounts owed and claims that the JV was not properly licensed by the Oregon Contractors Licensing Board, and therefore not eligible to file a lawsuit under Oregon law. An Oregon state court ruled in favor of the owner regarding the licensing issue and the Company appealed the decision.

Oral arguments were held in Court of Appeals on March 8, 2005. Although the appellate panel of judges is under no time constraint, the Company expects a decision in the next nine months. If the court rules in favor of the Company, the case will proceed to trial. The Company and its external counsel believe that we have valid claims under state law and expect a decision in our favor from the Court of Appeals. The Company also believes that a recent state court ruling supports our position regarding the claim. The Company expects a full resolution in this matter to occur in fiscal 2006.

The Company's total claim in this matter is approximately $2.1 million, excluding legal costs, and the Company has, in accordance with SOP 81-1, a $1.0 million net receivable recorded in our balance sheet, excluding the contract dispute reserve.

Contract Dispute Reserve

In February 2005, the Board of Directors authorized management to initiate an effort to accelerate the resolution and collection of the amounts owed on the disputed contracts, and further limit the costs of litigation to the Company arising out of the various disputes. The action by the Board was taken in connection with the Company's current liquidity situation, restructuring plans and refinancing efforts. While the Company believes that allowing these disputes to be resolved through the normal course of arbitration or litigation would result in the recovery of amounts equal to or in excess of the previously recorded balances, the Board concluded that addressing the liquidity situation was of utmost importance. Therefore, in an effort to expedite the collection of these balances, the Board authorized management to pursue resolution at amounts below that previously reflected on the balance sheet. As a result of the Company's initiative, the Company recorded a reserve of $10.4 million in the third quarter of fiscal 2005.

The Company believes it is adequately reserved for the disputes and will continue to assess the adequacy of the reserves as additional information becomes available.

NOTE 9 – CONTINGENCIES

Insurance Reserves

The Company maintains workers' compensation insurance, with statutory limits; general liability insurance; auto liability insurance in the primary amount of $2.0 million per occurrence; contractor's pollution liability insurance in the amount of $10.0 million per occurrence; and pollution legal liability for owned and leased properties in the amount of $2.0 million per occurrence. The Company has deductibles or self-insured retentions in the amount of $10,000 for damage to owned or leased properties; $250,000 for workers' compensation, $100,000 for general liability, $0 for auto liability, $50,000 for contractor's pollution liability and $25,000 for pollution legal liability. Matrix also maintains an umbrella policy with coverage limits of $25.0 million per project, policies to cover our equipment and other property with coverage limits of $16.0 million per occurrence, and policies for construction with coverage limits of $16.0 million per project. Most policies provide for coverage on an occurrence basis rather than a "claims made" basis. Matrix maintains a performance and payment bonding line of $150.0 million. However, our current liquidity and financial situation makes it difficult to utilize the bonding line for new projects.

Management estimates the reserve for self-insurance retention based on knowledge of the circumstances surrounding the claims, the nature of any injuries involved, historical experience and estimates of future costs provided by certain third parties. Changes in the assumptions underlying the accrual could cause actual results to differ from the amounts reserved.

Legion Insurance Dispute

Matrix, as plaintiff, is currently in litigation in the Tulsa County District Court in the State of Oklahoma over matters arising out of a workers' compensation program with a former insurance provider. These matters involve contests over a letter of credit ("LC") for $2.0 million, a bond for $2.1 million and a deposit of $0.5 million pledged to secure Matrix's obligations under this prior program. As a part of its insurance program with Legion Insurance Company ("Legion"), Legion used an offshore insurance company, Mutual Indemnity ("Mutual"), which was domiciled in Bermuda. Matrix purchased preferred stock in Mutual, which then reinsured part of the workers' compensation exposure that was underwritten by Legion. Matrix assumed the first $250,000 of any occurrence involving injury to Matrix employees. If there was an occurrence, Legion would process and pay all claims for all Matrix employees injured in that occurrence. On a monthly basis, Legion would then be reimbursed by Mutual for the actual claim payments made, up to $250,000 per occurrence. Matrix would then reimburse Mutual for the amount of the claims paid by Legion during that month.

Matrix funded two escrow accounts, one of which was used to administer individual claims and the other of which acted as a working escrow account to reimburse Mutual. Mutual's insurance regulators also required Matrix to post an LC for $2.0 million and a surety bond in the amount of $2.1 million as security for its potential future claim payment liability.

On April 1, 2002, the Insurance Commissioner for the State of Pennsylvania placed Legion into rehabilitation. Matrix was concerned that the security held by Mutual would be commingled with other shareholder assets and not used exclusively to pay Matrix claims. Matrix filed suit in the Tulsa County district court to require a full accounting of all funds held by Mutual and restrain Mutual from drawing on the LC or surety bond. The court granted a temporary restraining order prohibiting the use of such assets for the payment of claims other than Matrix claims.

On July 25, 2003, a Pennsylvania court placed Legion into liquidation. At that time, all open workers' compensation claims were sent to the various state guaranty funds for handling. Many of the states have denied responsibility with respect to Matrix claims because Matrix's net worth exceeded the statutory maximum as of December 31, 2002, the year preceding the Legion liquidation, under which claims would be handled by the individual state guaranty funds. Those states returned the claims back to Matrix for direct handling. In other states where Matrix has exposure, the state guaranty funds took over the claims. In recent months, however, some of those states have billed Matrix for reimbursement of payments made on Matrix claims.

Matrix is continuing to negotiate with Mutual for a reduction or elimination of the LC and surety bond. Matrix and Mutual have reached a tentative settlement in which a permanent injunction would replace the temporary restraining order prohibiting Mutual from drawing upon either the LC or bond, provided that Matrix continues to pay amounts owed directly to the Legion Liquidator or the individual state guaranty funds and works with the Liquidator to release Mutual from future liability with respect to Matrix claims. Matrix cannot predict when a final settlement will be reached due to difficulty in quantifying the precise exposure of Mutual for outstanding claims.

All claims that are outstanding with the Legion Liquidator, state guaranty funds and Mutual are claims that originated prior to May 1, 2002, the date on which Matrix replaced the Legion insurance program with workers' compensation insurance provided by "A" rated workers compensation carriers, are reserved by the Company. Although the Company believed its previous reserve of $0.8 million was adequate, recent claim settlements by state guaranty funds exceeded amounts accrued by the Company for the respective claims. In addition, during the quarter ending February 28, 2005, the Company obtained information regarding estimated settlements of open claims that were also higher than amounts previously accrued. As a result, the Company recorded an additional accrual of $1.2 million for these claims in the third quarter of fiscal 2005, increasing the Company's reserve to $2.0 million. Additionally, it is still possible that Matrix will experience some additional exposure from the total of $4.6 million of existing security, consisting of the escrow accounts, LC and surety bond, until a final settlement agreement with Mutual is signed, a permanent injunction is entered and the LC and surety bond are cancelled. Matrix does not believe resolution of this issue will have a material effect on the Company's financial position, results of operations and liquidity.

Environmental Dispute

In March 2005, the South Coast Air Quality Management District (AQMD) of the State of California settled a complaint filed in March 2003 in the Los Angeles County Superior Court for the Central District against a Matrix customer alleging multiple violations by the customer at its west coast refinery for failure to comply with certain District Rules of the AQMD that established a self-inspection and compliance reporting program for above ground stationary tanks used to store crude oil, gasoline, and other petroleum products.

Matrix was not named in the AQMD complaint; however, counsel for the customer made a formal demand upon Matrix to assume defense of the case and to indemnify the customer for any damages it may incur. The customer's demand was made pursuant to the terms of the

Master Service Agreement entered into in May 1999 between Matrix and the customer. Matrix rejected the demands of the customer based upon its own belief as to the interpretation of the Master Services Agreement and the facts developed by Matrix since the AQMD filed its complaint in March 2003. Matrix and the customer mutually agreed to toll the dispute for at least four years and until there is a resolution of the complaint filed by the AQMD against the customer.

While the existing relationship between Matrix and its customer may be positive, the customer may still assert claims against Matrix that it believes may be valid under the Master Services Agreement. There can be no assurance that Matrix will not incur costs associated with this matter. The Company currently cannot provide any estimate of possible loss or range of possible loss, if any, for this matter.

Unapproved Change Orders and Claims

As of February 28, 2005 and May 31, 2004, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts included revenues, to the extent of costs incurred, for unapproved change orders of approximately $0.4 million and $1.5 million, respectively, and claims of approximately $0.4 million and $1.3 million, respectively. Amounts disclosed for unapproved change orders and claims exclude amounts associated with contract disputes disclosed in Note 8 – Disputed Contracts. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, customers generally will not pay these amounts to Matrix 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 against each of them. It is the opinion of management that none of such legal actions will have a material effect on the Company’s financial position, results of operations and liquidity.

NOTE 10 – REPORTING ACCUMULATED OTHER COMPREHENSIVE INCOME

Other comprehensive income and accumulated other comprehensive income consisted of foreign currency translation adjustments and fair value adjustments of derivative instruments.

	Three Months Ended		Nine Months Ended	
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004
	(In Thousands)		*(In Thousands)*	
Net Income (loss)	$ (35,469)	$ 2,259	$ (35,068)	$ 9,216
Other comprehensive income (loss)	(154)	(81)	441	215
Comprehensive income (loss)	$ (35,623)	$ 2,178	$ (34,627)	$ 9,431

NOTE 11 – EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated based on the weighted average shares outstanding during the period. Dilutive earnings per share includes the dilutive effect of employee stock options. Diluted earnings per share for the nine month period ending February 29, 2004 excludes 234,902 options which were antidilutive, as the exercise prices of the options exceeded the average market price of common stock for the first nine months of fiscal 2004. There were also 344,100 antidilutive options for both the three and nine month periods ending February 28, 2005. However, as the operating results of the Company are a net loss for both the three and nine month periods, the dilutive effect of stock options is not considered when reporting earnings per share.

NOTE 12 – SEGMENT INFORMATION

The Company's operating segments have been aggregated into two reportable segments, Construction Services and Repair & Maintenance Services.

The Construction Services segment includes turnkey and specialty construction services provided primarily to the downstream petroleum and power industries. These services include civil/structural, mechanical, piping, electrical and instrumentation, millwrighting, steel fabrication and erection, specialized heavy hauling and rigging, boiler work, engineering, and fabrication and construction of aboveground storage tanks (AST).

The Repair & Maintenance Services segment provides routine, preventive and emergency-required maintenance and repair services primarily to the downstream petroleum and power industries. These services include plant turnarounds, power outages, industrial cleaning, facility and AST maintenance and repair.

Other consists of items related to previously disposed of businesses.

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes. Overhead costs are allocated to the segments based upon revenue.

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

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Matrix Service Company

3rd Quarter Results of Operations
(In Thousands)

	Construction Services	Repair & Maintenance Services	Other	Combined Total
Three Months ended February 28, 2005				
Gross revenues	$ 51,618	$ 63,018	$ —	$114,636
Less: Inter-segment revenues	(2,891)	(298)	—	(3,189)
Consolidated revenues	48,727	62,720	—	111,447
Gross profit	1,727	4,147	—	5,874
Operating income (loss)	(37,474)	272	(2)	(37,204)
Income (loss) before income tax expense	(38,483)	(272)	(2)	(38,757)
Net income (loss)	(35,305)	(163)	(1)	(35,469)
Segment assets	82,831	76,767	29,207	188,805
Capital expenditures	62	69	405	536
Depreciation and amortization expense	873	795	—	1,668
Three Months ended February 29, 2004				
Gross revenues	$ 106,699	$ 40,710	$ —	$147,409
Less: Inter-segment revenues	(2,135)	(99)	—	(2,234)
Consolidated revenues	104,564	40,611	—	145,175
Gross profit	7,041	4,780	—	11,821
Operating income (loss)	2,349	1,911	(65)	4,195
Income (loss) before income tax expense	2,112	1,754	(65)	3,801
Net income (loss)	1,189	1,109	(39)	2,259
Segment assets	113,695	61,761	21,930	197,386
Capital expenditures	165	441	780	1,386
Depreciation and amortization expense	834	777	—	1,611
Nine Months ended February 28, 2005				
Gross revenues	$ 161,228	$ 157,456	$ —	$318,684
Less: Inter-segment revenues	(8,229)	(547)	—	(8,776)
Consolidated revenues	152,999	156,909	—	309,908
Gross profit	9,959	13,597	—	23,556
Operating income (loss)	(37,164)	2,771	(150)	(34,543)
Income (loss) before income tax expense	(39,466)	1,538	(150)	(38,078)
Net income (loss)	(35,893)	914	(89)	(35,068)
Segment assets	82,831	76,767	29,207	188,805
Capital expenditures	318	277	728	1,323
Depreciation and amortization expense	2,675	2,496	—	5,171
Nine Months ended February 29, 2004				
Gross revenues	$ 361,600	$ 121,033	$ —	$482,633
Less: Inter-segment revenues	(7,627)	(156)	—	(7,783)
Consolidated revenues	353,973	120,877	—	474,850
Gross profit	25,918	12,061	—	37,979
Operating income (loss)	12,185	4,179	(65)	16,299
Income (loss) before income tax expense	11,131	3,595	(65)	14,661
Net income (loss)	7,130	2,125	(39)	9,216
Segment assets	113,695	61,761	21,930	197,386
Capital expenditures	749	1,565	1,639	3,953
Depreciation and amortization expense	2,584	2,207	—	4,791

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Segment revenue from external customers by industry type are as follows:

	Construction Services	Repair & Maintenance Services	Total
Three Months Ended February 28, 2005			
Power Industry	$ 3,193	$ 8,161	$ 11,354
Downstream Petroleum Industry	38,534	52,230	90,764
Other Industries	7,000	2,329	9,329
Total	$ 48,727	$ 62,720	$ 111,447
Three Months Ended February 29, 2004			
Power Industry	$ 76,991	$ 3,115	$ 80,106
Downstream Petroleum Industry	23,949	35,018	58,967
Other Industries	3,624	2,478	6,102
Total	$ 104,564	$ 40,611	$ 145,175
Nine Months Ended February 28, 2005			
Power Industry	$ 33,761	$ 13,084	$ 46,845
Downstream Petroleum Industry	96,287	135,732	232,019
Other Industries	22,951	8,093	31,044
Total	$ 152,999	$ 156,909	$ 309,908
Nine Months Ended February 29, 2004			
Power Industry	$ 253,473	$ 9,775	$ 263,248
Downstream Petroleum Industry	91,378	104,362	195,740
Other Industries	9,122	6,740	15,862
Total	$ 353,973	$ 120,877	$ 474,850

Other Industries consists primarily of wastewater, food and beverage, electronics and paper industries.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Critical Accounting Policies

The following is a discussion of the most critical accounting policies, judgments and uncertainties that are inherent in our application of Generally Accepted Accounting Principles (GAAP).

Revenue Recognition

Matrix records profits on long-term construction contracts on a percentage-of-completion basis on the cost-to-cost method. 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. Matrix includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix determines that it is responsible for the procurement and management of such cost components on behalf of the customer.

Matrix has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Matrix 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 would ever materialize. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term 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 when estimable or finalized, which is generally during the latter stages of the contract. Contract incentives are evaluated throughout the life of the contract and are recognized on a percentage-of-completion basis when the likelihood of obtaining the incentive becomes 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.

Matrix records revenue on reimbursable and time and material contracts based on a proportional performance basis as costs are incurred.

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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 February 28, 2005 and May 31, 2004, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts included revenues, to the extent of costs incurred, for unapproved change orders of approximately $0.4 million and $1.5 million, respectively, and claims of approximately $0.4 million and $1.3 million, respectively. Historically, our collections for unapproved change orders and other claims have approximated the amount of revenue recognized.

The following table provides a rollforward of revenue recognized on claims and unapproved change orders. Amounts disclosed for unapproved change orders exclude amounts associated with contract disputes disclosed in Note 8 – Disputed Contracts.

	Claims for Unapproved Change Orders	Other Claims	Total
		(In Thousands)	
Balance at May 31, 2003	$ 377	$ 528	$ 905
Additions	1,870	188	2,058
Collections	(551)	(175)	(726)
Gain/(Loss)	(124)	(104)	(228)
Balance at February 29, 2004	$ 1,572	$ 437	$ 2,009
Balance at May 31, 2004	$ 1,457	$ 1,264	$ 2,721
Additions	329	247	576
Collections	(1,751)	(1,095)	(2,846)
Gain/(Loss)	358	(36)	322
Balance at February 28, 2005	$ 393	$ 380	$ 773

Contract Dispute Receivables

Contract Dispute Receivables are comprised of accounts receivable and cost and estimated earnings in excess of billings for which settlement is subject to legal proceedings such as mediation, arbitration or litigation. Such proceedings have resulted in delays in obtaining resolution. As a result, the balances are presented separately on the balance sheet at estimated net realizable value based upon the most current information available. Amounts ultimately received may differ from the current estimate.

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-basis 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.

Purchase Price Allocation

The purchase price for an acquisition is allocated to the net assets acquired based upon their estimated fair values on the date of acquisition. We record the excess of purchase price over fair value of the net assets acquired as goodwill. The fair value of net assets is primarily based upon estimated future cash flows associated with the net assets. Accordingly, our post-acquisition financial statements are materially impacted by and dependent on the accuracy of management’s fair value estimates at the time of acquisition. Our experience has been that the most significant of these estimates relate to the values assigned to construction contracts in progress and production backlog. These estimates can have a positive or negative material effect on future reported operating results.

Debt Covenant Compliance

We have certain financial covenants we are required to maintain under our credit facility. In the event of a financial covenant violation that is not appropriately waived by the lenders, or otherwise cured, re-payment of borrowings under the credit facility could be accelerated. Additionally, if a covenant violation has occurred (or would have occurred absent a loan modification), borrowings will be classified as current if it is probable that we will not maintain covenant compliance within the next twelve months. In this event, we are required to develop financial projections that allow us to assess the probability of whether or not we will be in covenant compliance for the subsequent 12-month period from the balance sheet date. Key assumptions utilized in the projections include estimated timing of the award and performance of work, estimated cash flows and estimated borrowing levels. These projections represent our best estimate of our operating results and financial condition for the subsequent 12-month period.

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, 2004 and February 28, 2005, insurance reserves totaling $2.2 million and $4.6 million, respectively, are reflected on our balance sheet. These amounts represent our best estimate of our ultimate obligations for asserted claims plus claims incurred but not yet reported at the balance sheet date. We establish specific reserves for claims using case-basis 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.

Goodwill

Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment. Goodwill represents the excess of the purchase price of acquisitions over the 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. 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 results in the recognition of impairment charges in the financial statements. We utilize various assumption 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.

Results of Operations

Overview

The Company's operating segments have been aggregated into two reportable segments, Construction Services and Repair & Maintenance Services.

The Construction Services segment includes turnkey and specialty construction services provided primarily to the downstream petroleum and power industries. These services include civil/structural, mechanical, piping, electrical and instrumentation, millwrighting, steel fabrication and erection, specialized heavy hauling and rigging, boiler work, engineering, and fabrication and construction of aboveground storage tanks.

The Repair & Maintenance Services segment provides routine, preventive and emergency-required maintenance and repair services primarily to the downstream petroleum and power industries. These services include plant turnarounds, power outages, industrial cleaning, facility and AST maintenance and repair.

Significant fluctuations in revenues, gross profits and operating results are discussed below on a consolidated basis and for each segment. Our revenues fluctuate from quarter to quarter 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.

THREE MONTHS ENDED FEBRUARY 28, 2005 COMPARED TO THREE MONTHS ENDED FEBRUARY 29, 2004

Consolidated

Consolidated revenues were $111.4 million for the three months ended February 28, 2005, a decrease of $33.8 million, or 23.2%, from consolidated revenues of $145.2 million for the three months ended February 29, 2004. The decrease in consolidated revenues resulted from a $55.9 million decrease in Construction Services revenues partially offset by a $22.1 million increase in Repair & Maintenance Services revenues.

Consolidated gross profit decreased from $11.8 million for the quarter ended February 29, 2004 to $5.9 million for the quarter ended February 28, 2005. The $5.9 million decrease in gross profit was primarily driven by the 23.2% decline in quarterly revenues. The consolidated gross margin declined from 8.1% for the three months ended February 29, 2004 to 5.3% for the three months ended February 28, 2005. This 34.6% decrease resulted from the decline in Construction Services' revenue, which led to a smaller consolidated revenue base available to absorb fixed costs. Also, margins were negatively impacted by the partial replacement of construction revenues with lower margin repair and maintenance work.

Consolidated SG&A expenses were $18.1 million for the third quarter of fiscal 2005 compared to $7.6 million in the third quarter last year. This increase of $10.5 million was attributable to an additional $10.4 million contract dispute reserve recorded on the previously disclosed contract disputes as a result of the Company's effort to accelerate the collection of amounts owed in order to help alleviate the Company's current liquidity situation. See the table below for a breakdown of other SG&A charges. The remaining SG&A of approximately $6.7 million is in line with expectations in light of the cost reduction measures implemented in the first quarter of 2005. SG&A expense as a percentage of revenue increased to 16.2% for the third quarter of fiscal 2005 compared to 5.2% last fiscal year due to the 23.2% decrease in revenues combined with the contract dispute reserve adjustment to SG&A.

Interest expense increased to $1.6 million for the quarter ended February 28, 2005 as compared to $0.7 million for the comparable period of the prior fiscal year due to higher interest rates and the increased level of debt that resulted from collection issues and contract disputes which carried over from fiscal 2004.

Income before income tax expense decreased from $3.8 million for the third quarter of fiscal 2004 to a loss before income tax of $38.8 million for the third quarter of fiscal 2005. This $42.6 million decrease was due to higher interest expense, lower gross margin resulting from the decline in consolidated revenues, the $10.4 million contract dispute reserve and the $25 million impairment of goodwill.

The effective tax rates for the three-month periods ended February 28, 2005 and February 29, 2004 were 8.5% and 40.6%, respectively. The unusually low effective tax rate for the quarter ended February 28, 2005 is attributable to the absence of a tax benefit for the impairment of goodwill combined with establishing a valuation allowance for certain deferred tax assets of approximately $1.6 million.

The following table provides a summary of charges impacting earnings in the current period.

	Three Months Ended February 28, 2005	
	Expense	**EPS**
	(In Thousands)	
SG&A		
Legal	$ 444	$(0.01)
Sarbanes Oxley	339	(0.01)
Contract Dispute Reserve	10,448	(0.40)
Refinancing Efforts	186	(0.01)
	11,417	(0.43)
Restructuring, Impairment & Abandonment		
Goodwill impairment	25,000	(1.44)
Provision (benefit) for Income Tax		
Deferred Tax Asset	1,600	(0.09)

Construction Services

Construction Services' revenues for the quarter ended February 28, 2005 were $48.7 million, compared to $104.6 million in the comparable quarter of the prior year, a decrease of $55.9 million, or 53.4%. The decrease was primarily due to significantly lower revenues from the Power Industry offset partially by higher revenues from both the Downstream Petroleum and Other Industries. Power Industry revenues decreased $73.8 million as a result of the completion of two large power projects performed by our Eastern operations in fiscal 2004. Revenues from Downstream Petroleum increased $14.6 million with the remaining $3.3 million increase to revenues coming from Other Industries, which consists primarily of wastewater, food and beverage, electronics and paper industries.

Construction Services gross margins decreased from 6.7% in the third quarter of fiscal 2004 to 3.5% in the third quarter of fiscal 2005 as a result of the sharp decline in revenues, which reduced our revenue base for fixed cost absorption. Gross profit decreased from $7.0 million in the third quarter of fiscal 2004 to $1.7 million in the third quarter of fiscal 2005, a decrease of 75.5% due to the decrease in the volume of business and the decline in gross margins.

The operating loss and loss before income tax expense for the three months ended February 28, 2005 of $37.5 million and $38.5 million, respectively, were significantly lower than the operating income and income before income tax expense of $2.3 million and $2.1 million, respectively, produced for the three months ended February 29, 2004, primarily due to rising interest expense, reserving an additional amount for contract disputes and the goodwill impairment.

Repair & Maintenance Services

Revenues from Repair & Maintenance Services increased $22.1 million, or 54.4%, from $40.6 million for the third quarter of fiscal 2004 to $62.7 million for the third quarter of fiscal 2005. The improvement resulted primarily from increased revenues from the Downstream Petroleum Industry, which increased $17.2 million for the quarter. Also, revenues from the Power Industry increased $5.0 million while revenues from Other Industries decreased of $0.1 million. The net increase was primarily driven by the additional maintenance contracts entered into in January 2005.

Gross margins of 6.6% for the three months ended February 28, 2005 were lower than the gross margins of 11.8% for the three months ended February 29, 2004 as a result of the decline to the consolidated revenue base available for fixed cost absorption combined with the inclusion of lower margin maintenance contracts. Gross profit declined $0.6 million in spite of the increase in revenues due to a lower consolidated revenue base available for fixed cost absorption.

Operating income and loss before income tax expense for the three months ended February 28, 2005 of $0.3 million and $0.3 million, respectively, were lower than the operating income and income before income tax expense of $1.9 million and $1.8 million, respectively, produced for the three months ended February 29, 2004 primarily due to a lower consolidated revenue base available for fixed cost absorption and higher interest expenses in the third quarter of fiscal 2005.

NINE MONTHS ENDED FEBRUARY 28, 2005 COMPARED TO NINE MONTHS ENDED FEBRUARY 29, 2004

Consolidated

Consolidated revenues were $309.9 million for the nine months ended February 28, 2005, a decrease of $165.0 million, or 34.7%, from consolidated revenues of $474.9 million for the nine months ended February 29, 2004. The decrease in consolidated revenues resulted from a $201.0 million decrease in Construction Services revenues partially offset by a $36.0 million increase in Repairs & Maintenance Services revenues.

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Consolidated gross profit decreased from $38.0 million for the nine months ended February 29, 2004 to $23.6 million for the nine months ended February 28, 2005. The $14.4 million decrease in gross profit resulted from the 34.7% decline in revenues. Consolidated gross margin declined from 8.0% for the nine months ended February 29, 2004 to 7.6% for the nine months ended February 28, 2005 primarily due to the decline in Construction Services' revenue, which led to a smaller consolidated revenue base available to absorb fixed costs. Also, negatively impacting margins were partial replacement of construction revenues coming in the form of lower margin repair and maintenance work.

Consolidated SG&A expenses were $32.9 million for the nine months of fiscal 2005 compared to $21.6 million for the nine months of the prior year. This increase of $11.3 million was primarily attributable to an additional $10.4 million contract dispute reserve recorded on the previously disclosed contract disputes as a result of the Company's effort to accelerate the collection of amounts owed in order to help alleviate the Company's current liquidity situation. See the table below for a breakdown of other SG&A charges. Partially offsetting these expenses were cost reduction strategies implemented in the first quarter of fiscal 2005 and a reduction in employee incentives, which are based on attainment of financial goals. SG&A expense as a percentage of revenue increased to 10.6% compared to 4.6% in the prior fiscal year as a result of a 34.7% decrease in revenues combined with the contract dispute reserve adjustment and the other additional SG&A charges noted in the table below.

Interest expense increased to $3.6 million for the nine months ended February 28, 2005 as compared to $2.1 million for the comparable period for the prior fiscal year due to higher interest rates and the increased level of debt that resulted from collection issues and contract disputes which carried over from fiscal 2004.

Income before income tax expense decreased from $14.7 million for the first nine months of fiscal 2004 to a loss before income tax of $38.1 million for the first nine months of fiscal 2005. This $52.8 million decrease was due to higher interest expenses, lower gross margins resulting from the decline in consolidated revenues combined with the contract dispute reserve adjustment and the impairment of goodwill.

The effective tax rates for the nine months ended February 28, 2005 and February 29, 2004 were 7.9% and 40.6%, respectively. The unusually low effective tax rate for the nine months ended February 28, 2005 is attributable to the absence of a tax benefit for the impairment of goodwill combined with establishing a valuation allowance for certain deferred tax assets of approximately $1.6 million.

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The following table provides a summary of charges impacting earnings in the current period.

	Nine Months Ended February 28, 2005	
	Expense	EPS
	(In Thousands)	
SG&A		
Legal	$ 2,034	$(0.07)
Sarbanes Oxley	723	(0.02)
Severance	312	(0.01)
Contract Dispute Reserve	10,448	(0.40)
Refinancing Efforts	186	(0.01)
	13,703	(0.51)
Restructuring, Impairment & Abandonment		
Goodwill impairment	25,000	(1.44)
Provision (benefit) for Income Tax		
Deferred Tax Asset	1,600	(0.09)

Construction Services

Construction Services' revenues for the nine months ended February 28, 2005 were $153.0 million, compared to $354.0 million in the comparable nine months of the prior year, a decrease of $201.0 million, or 56.8%. The decrease was primarily due to a $219.7 million decrease in revenues from the Power Industry, which resulted from the completion of two large power projects performed by our Eastern operations in fiscal 2004. Partially offsetting this decline was revenue from Other Industries, which increased $13.8 million and Downstream Petroleum Industries, which increased $4.9 million.

Construction Services gross margins declined from 7.3% in the first nine months of fiscal 2004 to 6.5% in the first nine months of fiscal 2005 due to a lower revenue base available for fixed cost absorption, which was partially offset by the absence of the lower margin construction projects that were completed in fiscal 2004. Gross profit decreased from $25.9 million in the third quarter of fiscal 2004 to $10.0 million in the third quarter of fiscal 2005, a decrease of 61.6% due to the decrease in the volume of business.

The operating loss and loss before income tax expense for the nine months ended February 28, 2005 of $37.2 million and $39.5 million, respectively, were lower than the operating income and income before income tax expense of $12.2 million and $11.1 million, respectively, produced for the nine months ended February 29, 2004, due to higher interest expense, adjusting our contract dispute reserve and the impairment of goodwill.

Repair & Maintenance Services

Revenues from Repair & Maintenance Services increased $36.0 million, or 29.8%, from $120.9 million for the first nine months of fiscal 2004 to $156.9 million for the first nine months of fiscal 2005. The improvement resulted primarily from increased revenues for the nine months ended February 28, 2005 from the Downstream Petroleum Industry, which increased $31.4 million as a result of strong turnaround activity combined with the addition of maintenance contracts entered into in January 2005. In addition, revenues from the Power Industry and Other Industries increased $3.3 million and $1.3 million, respectively.

Gross margins of 8.7% for the nine months ended February 28, 2005 were lower than the gross margins of 10.0% for the nine months ended February 29, 2004 due to a smaller consolidated revenue base available for fixed cost absorption. Gross profit increased from $12.1 million in the first nine months of fiscal 2004 to $13.6 million in the first nine months of fiscal 2005, an increase of 12.7%. This gross profit increase was a result of the 29.8% increase in revenues.

Operating income and income before income tax expense for the nine months ended February 28, 2005 of $2.8 million and $1.5 million, respectively, were lower than the operating income and income before income tax expense of $4.2 million and $3.6 million, respectively, produced for the nine months ended February 29, 2004 primarily due to a lower consolidated revenue base available for fixed cost absorption combined with higher interest expense.

Non-GAAP Financial Measure

EBITDA is a supplemental, non-generally accepted accounting principle financial measure. EBITDA is defined as earnings before taxes, interest expense, 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 operations entitled “net income (loss)” 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 does not necessarily represent funds available for discretionary use, and is not necessarily a measure of our ability to fund our cash needs. As EBITDA excludes certain financial information compared with net income (loss), 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 taxes. Because the payment of taxes is a necessary and ongoing part of our operations, any measure that excludes taxes has material limitations.
- It does not include depreciation and amortization expense. Because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue. Therefore, any measure that excludes depreciation and amortization expense has material limitations.

EBITDA for the three and nine month periods ended February 28, 2005 was a net loss of $35.5 million and a net loss of $29.3 million, respectively, compared to net income of $6.1 million and $22.4 million for the three and nine month periods ended February 29, 2004. A reconciliation of EBITDA to net income (loss) follows:

	Three Months Ended		Nine Months Ended	
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004
	(In Thousands)		(In Thousands)	
Net Income (loss)	$ (35,469)	$ 2,259	$ (35,068)	$ 9,216
Interest Expense, net	1,637	700	3,633	2,127
Provision (benefit) for income taxes	(3,288)	1,542	(3,010)	6,302(A)
Depreciation and amortization	1,668	1,611	5,171	4,791
EBITDA	(35,452)	6,112	(29,274)	22,436

(A) Provision for income taxes for the nine months ended February 29, 2004 included $347,000 of taxes related to net earnings of joint venture.

The $41.6 million and $51.7 million decreases in EBITDA for the three and nine months ended February 28, 2005, respectively, as compared to three and nine month period for the prior year was primarily due to an impairment charge of $25.0 million and a contract dispute reserve of $10.4 million incurred during the third quarter of fiscal 2005. In addition, operating results, primarily in the construction services segment, were lower in fiscal 2005 as compared to fiscal 2004.

Financial Condition & Liquidity

Historically, Matrix has financed its operations with cash from operations and from advances under its credit facility. Matrix's cash and cash equivalents totaled approximately $2.0 million at February 28, 2005 and approximately $0.8 million at May 31, 2004. Operations of Matrix provided $16.6 million of cash for the nine months ended February 28, 2005 as compared to using $0.6 million of cash for the nine months ended February 29, 2004, representing an increase of approximately $16.7 million. The increase in cash provided by operations was primarily due to an increase in accounts payable in fiscal 2005.

Accounts payable was $43.4 million as of February 28, 2005 as compared to $27.5 million as of May 31, 2004. This increase of $15.9 million was primarily due to a strategic cash management plan implemented in order to better manage the Company's current liquidity issues. As a result of this plan, the Company extended the timing of payments to vendors. To date, this has not materially impacted the Company's ability to operate.

Accounts Receivable and Costs in Excess of Billings were $59.2 million and $22.6 million, respectively, as of February 28, 2005 as compared to $57.0 million and $18.9 million, respectively, as of May 31, 2004. We did not experience decreases in these balances consistent with the 16.2% decrease in revenues we experienced for the three months ended February 28, 2005 compared to the three months ended May 31, 2004. The Accounts Receivable balance did not decrease in proportion to the decrease in revenues due to a customer making significant prepayments for a project during fiscal 2004 such that no accounts receivable were reflected in the May 31, 2004 balance with respect to these revenues. We did not have a similar project for which a customer was making significant prepayments in the third quarter of fiscal 2005. The increase to the Costs in Excess of Billings balance is primarily due to a combination of three factors. First, the recent mix of work includes faster paced Repair & Maintenance projects, specifically Outages, which we are working diligently to keep billing up to date. Second, the balance is also impacted due to a larger government contract that has a cap on weekly release amounts, but subsequent to February 28, 2005 we were successful in obtaining contract modifications to increase this weekly release cap to a more appropriate level. Last, we have a greater percentage of contracts based on milestone billings, for which billings often occur in the quarter subsequent to the quarter in which costs were incurred.

The inventory balance as of February 28, 2005 was $6.5 million as compared to $4.6 million as of May 31, 2004, an increase of $1.9 million. This increase was primarily related to increased inventory purchases in connection with the Company's increasing backlog of projects. In addition, the sharp increase in the price of steel over the last year has contributed to the higher inventory balance.

Credit Agreement and Revolving Credit Facility

On March 7, 2003, we replaced our prior credit agreement with an $87.5 million senior credit facility entered into with a group of banks. The credit agreement originally consisted of a five-year term loan of $32.5 million and a three-year $55 million revolving credit facility. Substantially all of our properties and assets and those of our domestic subsidiaries secure the senior credit facility. Under the original agreement, we pay LIBOR-based interest on funds borrowed under the term loan and funds borrowed on a revolving basis bear interest on a Prime or LIBOR-based option.

In August 2004, the senior credit facility was amended to convert $20 million of the revolver balance to a term loan (Term Loan B), which matures August 31, 2005 and to reduce the credit commitment on the revolver by an equal amount from $55 million to $35 million. The facility was further amended in December 2004 to provide that interest on Term Loan B would accrue at a 12.5% per annum fixed rate from November 30, 2004 until March 31, 2005, when the interest rate increased to an 18% per annum fixed rate. The interest rate further increases to a 21% per annum fixed rate on June 30, 2005.

Effective November 30, 2004, we amended our credit agreement to require mandatory prepayment of indebtedness outstanding under the credit agreement with proceeds collected by us from certain disputed accounts and claims that are currently the subject of litigation initiated by us. Pursuant to the mandatory prepayment provision, we are required to apply such proceeds, first, to the payment in full of Term Loan B, next, at our option, to the payment of remaining term loans or to the payment of amounts outstanding under the revolving credit facility.

Effective March 23, 2005, the facility was amended, reducing the credit commitment on the revolver from $35.0 million to the lesser of $29,000,000 or 70% of the borrowing base. Effective April 8, 2005, the facility was further amended to increase the credit commitment on the revolver from $29.0 million to the lesser of $32.0 million or 75% of the borrowing base. The amendment also provided that the commitment will further increase to the lesser of $35.0 million or 80% of the borrowing base upon the full and final closing and funding of either a subordinated loan to the Company or an offering of junior securities by the Company in an amount acceptable to the lenders. Finally, the amendment converted interest on the term loan to Prime plus 175 basis points and interest on the revolver borrowings to Prime plus 150 basis points. Beginning in May, the rates will increase 25 basis points per month until August at which time they will increase 50 basis points per month until March 2006. The amendment did not change the interest rate applicable to Term Loan B.

At February 28, 2005, $11.0 million was outstanding under the revolver, $23.8 million was outstanding under the five-year term loan and $20.0 million was outstanding under Term

Loan B. In addition, $9.3 million of the revolver was utilized by outstanding letters of credit, which mature in 2005 and 2006. At February 28, 2005, remaining availability under the credit facility consisted of $14.6 million available under the revolver as the total revolver facility was $35.0 million. Had the current amendments been in place, availability would have been reduced to $11.6 million. At April 8, 2005, availability under our revolver was $6.1 million. We were paying a weighted average interest rate of 9.3% on the term loans and 6.75% on the revolver at February 28, 2005.

Our credit agreement requires us to maintain certain financial ratios, limits the amount of our capital expenditures, limits the amount of additional borrowings we may incur and prohibits the payment of cash dividends.

Financial ratios currently contained in our credit agreement are as follows:

- A fixed charge coverage ratio of not less than 1.15 to 1.0 through February 28, 2005; 1.0 to 1.0 from March 1, 2005 through May 31, 2005; and 1.25 to 1.0 thereafter. The fixed charge coverage ratio is calculated as (i) consolidated EBITDA for the then most recently ended fiscal four quarters less dividends paid in cash, taxes paid in cash and capital expenditures for the same period to (ii) scheduled current maturities of long-term debt for the following four fiscal quarters plus consolidated interest expense for the then most recently ended fiscal four quarters. Consolidated EBITDA is defined in the credit agreement as consolidated net income plus, to the extent included in determining consolidated net income, consolidated (i) interest expense, (ii) tax expense, (iii) depreciation, amortization and other non-cash charges, (iv) losses on the sale of fixed assets and (v) extraordinary losses realized other than in the ordinary course of business minus (i) gains on sales of fixed assets and (ii) extraordinary gains realized other than in the ordinary course of business.
- A total debt leverage ratio not to exceed 4.5 to 1.0 through February 28, 2005 and 3.50 to 1.0 thereafter. The total debt leverage ratio is calculated as (i) consolidated debt plus the face value of the acquisition payable to the former shareholders of Hake, to (ii) consolidated EBITDA for the then most recently ended four fiscal quarters.
- A senior debt leverage ratio not to exceed 3.0 to 1.0 through February 28, 2005 and 2.25 to 1.0 thereafter. The senior debt leverage ratio is calculated as (i) total debt outstanding under the credit facility excluding Term Loan B plus the face value of the acquisition payable to the former shareholders of Hake, to (ii) consolidated EBITDA for the then most recently ended four fiscal quarters.
- A minimum net worth of at least $75 million plus one hundred percent of quarterly positive net income less dividends paid and treasury stock purchased commencing with the fiscal quarter ended August 31, 2004.

The credit agreement also limits our capital expenditures to $8 million for fiscal 2005 and $9 million annually thereafter, limits unsecured indebtedness we may borrow for general operating purposes to $1 million, limits capital lease obligations to $15 million and limits the amount of letters of credit we may have outstanding to $15 million.

In connection with the August 2004 amendment to our Credit Agreement, we also amended the terms of our financial covenants and in October 2004, we further amended our credit agreement to ease the restrictiveness of our financial covenants.

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The following table presents the required and actual financial covenant measures in effect as of May 31, 2004 and February 28, 2005:

	February 28, 2005	May 31, 2004
Fixed Charge Ratio		
Minimum Ratio Required	1.15	1.40
Actual Ratio	(0.20)(A)	1.66
Total Debt Leverage Ratio		
Maximum Ratio Allowed	4.50	2.50
Actual Ratio	(51.06)(A)	3.06(B)
Senior Debt Leverage Ratio		
Maximum Ratio Allowed	3.00	N/A
Actual Ratio	(34.85)(A)	N/A
Net Worth		
Minimum Net Worth Required	$75,000,000	$66,596,000
Actual Net Worth	51,657,000(A)	85,715,000

(A) Consolidated EBITDA, as defined in the Senior Credit Facility, was a loss for the twelve month period ended February 28, 2005. The non-compliance was primarily attributable to operating results that were significantly lower than expectations and a $10.4 million charge for disputed contracts reserve, producing negative ratios which resulted in non-compliance with the required covenants.

(B) Based on our forecasted results of operations and our amended covenants, our prospective covenant calculations indicated compliance with our covenants for the upcoming 12 months at May 31, 2004. However, we exceeded the maximum Total Debt Leverage Ratio allowed under our credit agreement at that date. The non-compliance with the Total Debt Leverage Ratio at May 31, 2004 was primarily attributable to operating results for the fourth quarter of fiscal 2004, which were negatively impacted by projects that experienced significant cost overruns during that period.

On April 8, 2005, the Company received a waiver letter and amendment from the lenders whereby the lenders agreed to waive all rights and remedies under the Credit Agreement arising from events of default specified in the waiver, which is effective through June 15, 2005. The waiver may be withdrawn upon the occurrence of certain specified events. The fee for the waiver letter and amendment will range from $0.2 million to $1.0 million. The fee increases over a period of time defined in the agreement with the full $1.0 million being payable if certain events do not occur before September 11, 2005.

If, as of the end of a fiscal quarter, we violate a financial covenant and conclude that it is probable that we would continue to violate one or more of our covenants over the next 12 months, we would be required to reclassify our indebtedness under the credit agreement as current. Because of the decline in operating results, delays in the start-up of projects included in our backlog, costs associated with contract disputes, low-margin maintenance contracts, anticipated restructuring costs and capital expenditure requirements, we have concluded that it is probable that we will continue to violate one or more of the existing covenants over the next twelve months. Therefore, our debt is classified as current at February 28, 2005.

The failure to comply with the terms of our credit agreement has required us to incur significant fees to our lenders to obtain any waivers or amendments and caused us to seek alternative financing. Without acceptable waivers or amendments from our lenders or alternative financing on terms acceptable to us, our lenders would have the right, among others, to declare all amounts outstanding under the credit agreement to be immediately due and payable and foreclose upon and sell substantially all of our assets to repay such amounts.

See Restructuring, below, for a discussion of Management’s plans related to the Company’s credit facility.

Acquisition Payable

As part of the purchase of the Hake Group of Companies in Fiscal 2003, the Company entered into an acquisition payable for a portion of the purchase price. The acquisition payable is recorded at its fair value of $7.7 million and accreted for the change in its present value each period utilizing a 5.1% effective interest rate. Payments related to the acquisition payable are due annually on March 7 with $1.9 million due annually in 2005, 2006 and 2007, and $2.7 million due in 2008. The Company did not pay the $1.9 million payment due March 7, 2005 to the former shareholders of Hale as a result of the Company’s exposure from certain issues with tax filings by the Hake Group of Companies. These issues relate to periods prior to the acquisition by Matrix.

Capital Expenditures

Capital expenditures during the nine months ended in February 28, 2005 totaled approximately $1.3 million. Although the Company’s original fiscal 2005 budget included capital expenditures of $6.3 million, the Company expects capital expenditures for the remainder of fiscal 2005 to be minimal. We do not expect the low level of capital expenditures in fiscal 2005 to result in any loss of business, however we expect our capital expenditure requirements to increase in fiscal 2006.

Restructuring

On March 28, 2005, Bradley S. Vetal resigned from his positions as Chairman of the Board, President and Chief Executive Officer of the Company, effective immediately. Mr. Ed Hendrix, an independent director of the Company since 2000, was elected Chairman of the Board of Directors to replace Mr. Vetal. The Company’s Board of Directors appointed Michael J. Hall, currently a member of the Board of Directors and formerly the Company’s Chief Financial Officer, as the company’s interim President and Chief Executive Officer.

In March 2005, the Company began a restructuring program to reduce its cost structure and improve operating results. This restructuring program is expected to include reductions in workforce and changes to business plans including the consolidation or closure of certain facilities or business lines. The Company expects these restructuring efforts to continue into fiscal 2006 and the Company expects to incur restructuring charges of at least $2.1 million in the fourth quarter of fiscal 2005.

As part of the restructuring efforts, the Company has engaged a financial consultant to assist senior management with the following:

- Determining short-term and long-term liquidity needs;
- Improving forecasting tools;
- Providing oversight of all restructuring activities;
- Identifying cost reduction and operations improvement opportunities;
- Reviewing operating and financial plans and cash flow forecasts at corporate and divisional levels;
- Assessing core business, management, policy operations, facilities, equipment and operating practices;
- Conducting feasibility analyses in connection with debt restructuring efforts; and
- Interfacing with credit constituencies.

The Company also anticipates incurring approximately $1.5 million in professional fees in the fourth quarter of fiscal 2005 related to restructuring efforts.

Based upon the current status of the senior credit facility described above, total liquidity has been constrained due to shortfalls in operating performance. As a result of the liquidity issues, the Company has extended the timing of payments to vendors until the liquidity issues improve. Management has initiated a number of steps to improve the Company's liquidity situation including the following:

- Improving overall operating performance based upon the restructuring efforts currently underway;
- Evaluating alternatives to accelerate collection of amounts due on the contract disputes; and
- Raising of additional capital through debt refinancing efforts or alternative means.

The Company has engaged an investment banking firm to assist the Board of Directors in evaluating refinancing and other strategic alternatives. These alternatives include the possible issuance of convertible subordinated securities.

As discussed previously, the current bank group has amended our credit agreement and provided waivers for specified covenant violations through June 15, 2005. They have also increased our revolver from $29 million to the lesser of $32 million or 75% of the borrowing base immediately and to the lesser of $35 million or 80% of the borrowing base upon completion of a proposed private placement of convertible subordinated junior securities. The net proceeds of the convertible subordinated junior securities would be used to retire Term Loan B, which is due in August 2005 and currently bears interest at 18% per year and, if sufficient, to provide additional liquidity. The bank group has also indicated they would provide an incremental $10 million of short term financing to provide additional liquidity primarily for trade creditors. The documentation is in process and we anticipate having these funds available simultaneously with the closing of the convertible subordinated junior securities.

We cannot assure that the private placement will be completed or that the incremental revolver will be provided. If we are successful in completing the private placement and obtaining the incremental revolver, our liquidity issues would be alleviated for the short-term and we would then focus on returning the Company to profitability and refinancing our senior debt for a longer term. If the efforts are not successful, we cannot assure that other financing can be arranged, that we would be able to meet existing debt covenants, or that the bank would not foreclose on the Company. In that event, we would be required to explore other strategic alternatives.

Outlook

Our fourth quarter will be focused on improving Matrix's overall operating performance with emphasis on improving relationships with our core customer and vendor base who have been supportive over these last few difficult months, on completing our plans to restructure our unprofitable businesses, and to begin execution of these plans. Because these changes are being made and executed in a dynamic and changing environment, we are not in a position at this time to provide any meaningful earnings guidance for the fourth quarter of 2005.

FORWARD-LOOKING STATEMENTS

This Form 10-Q 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 Form 10-Q which address activities, events or developments which we expect, believe or anticipate will or may occur in the future are forward-looking statements. The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts" and similar expressions are also intended to identify forward-looking statements.

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

- amounts and nature of future revenues and margin from our Construction Services and Repair & Maintenance Services segments;
- our expected compliance with the financial covenants included in our credit agreement;
- the likely impact of new or existing regulations on the demand for our services; and
- expansion and other development trends of the industries we serve.

These statements are based on certain assumptions and analyses we made in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. 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 our Form 10-K for the year ended May 31, 2004 and listed from time to time in our filings with the Securities and Exchange Commission;

- our ability to obtain a permanent waiver or modification of any financial covenants we may have violated under the existing credit agreement, and our ability to refinance Term Loan B and the remainder of our long-term debt;
- the impact of general economic, market or business conditions on our future revenues;
- the deferral of capital expenditures or planned maintenance by our significant customers;
- changes in laws or regulations; and
- successful implementation of our turnaround measures; and
- other factors, most of which are beyond our control.

Consequently, all of the forward-looking statements made in this Form 10-Q 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 to or effects on us or our business or operations. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Steel Supply and Price Risk

Steel and steel pipe are the primary raw materials used by our Construction Services and Repair & Maintenance Services segments. Supplies of these materials are available throughout the United States. We do not anticipate being unable to obtain adequate amounts of these materials in the foreseeable future. However, the availability and pricing of these materials could change significantly due to various factors, including producer capacity, the level of foreign imports, demand for the materials, the imposition or removal of tariffs on imported steel, our current financial position and other market conditions. We seek to mitigate these risks by including, whenever possible, standard language in our construction contracts, which passes the risk of increases in steel prices or unavailability of steel on to our customers.

Other

There have been no material changes in market risk faced by us from those reported in our 2004 Annual Report on Form 10-K filed with the Securities Exchange Commission. For more information on market risk, see Part II, Item 7A in our 2004 Annual Report on Form 10-K.

ITEM 4. 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 any 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 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 February 28, 2005. 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.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended February 28, 2005.

We are currently undergoing a comprehensive effort in preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. This effort includes the documentation, testing and review of our internal controls under the direction of senior management. During the course of these activities, we have identified certain internal control issues which senior management believes need to be improved. As a result, we are evaluating and implementing improvements to our internal controls over financial reporting and will continue to do so. These improvements include further formalization of policies and procedures, improved segregation of duties, and improved information technology system controls. For all internal control issues identified, we believe we have adequate compensating controls in place, such as reviews and reconciliations, to mitigate the risk to our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer's conclusion stated above, that our disclosure controls and procedures were effective at the reasonable assurance level as of February 28, 2005 was based, in part, upon our evaluation of the control issues identified, including the presence of adequate compensating controls.

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PART II

OTHER INFORMATION

ITEM 1. Legal Proceedings

For information regarding legal proceedings, see Notes 8 and 9 in Item 1 of Part 1 of this Quarterly Report on Form 10-Q, which information is incorporated by reference into this item.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

In October 2000, the Board of Directors authorized a stock buyback program, which permitted the purchase of up to 20% (i.e., 3,447,506 shares) of the common stock outstanding at that time. To date, Matrix has purchased 2,116,800 shares under the program and has authorization to purchase an additional 1,330,706 shares.

It is Matrix's intent to utilize these purchased treasury shares solely for the satisfaction of stock issuance under the 1990, 1991 and 2004 Stock Option Plans and the 1995 Nonemployee Director Stock Option Plan.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Shares That May Yet Be Purchased Under the Plans or Programs
June 1, 2004 to June 30, 2004	**0**	**$ —**	**2,116,800**	1,330,706
July 1, 2004 to July 31, 2004	**0**	**$ —**	**2,116,800**	1,330,706
August 1, 2004 to August 31, 2004	**0**	**$ —**	**2,116,800**	1,330,706
Total	**0**	**$ —**	**2,116,800**	1,330,706
September 1, 2004 to September 30, 2004	**0**	**$ —**	**2,116,800**	1,330,706
October 1, 2004 to October 31, 2004	**0**	**$ —**	**2,116,800**	1,330,706
November 1, 2004 to November 30, 2004	**0**	**$ —**	**2,116,800**	1,330,706
Total	**0**	**$ —**	**2,116,800**	1,330,706
December 1, 2004 to December 31, 2004	**0**	**$ —**	**2,116,800**	1,330,706
January 1, 2005 to January 31, 2005	**0**	**$ —**	**2,116,800**	1,330,706
February 1, 2005 to February 28, 2005	**0**	**$ —**	**2,116,800**	1,330,706
Total	**0**	**$ —**	**2,116,800**	1,330,706

ITEM 3. Defaults Upon Senior Securities

Not applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable

ITEM 5. Other Information

Senior Credit Facility - Waiver Letter and Amendment

On April 8, 2005, the Company received a waiver letter and amendment (the "Amendment"), to the Credit Agreement, dated as of March 7, 2003, by and among Matrix, certain of its subsidiaries, the various lenders party thereto (the "Lenders"), and JPMorgan Chase Bank, N.A. (successor by merger to Bank One, N.A.), as a Lender, LC Issuer and as Agent for the Lenders (the "Credit Agreement"). Pursuant to the Amendment, the lenders agreed to waive all rights and remedies under the Credit Agreement arising from events of default specified in the waiver, which is effective through June 15, 2005. The waiver may be withdrawn upon the occurrence of certain specified events. The facility was also amended to increase the credit commitment on the revolver from $29.0 million to the lesser of $32.0 million or 75% of the borrowing base. The amendment also provided that the commitment will further increase to the lesser of $35.0 million or 80% of the borrowing base upon the full and final closing and funding of either a subordinated loan to the Company or an offering of junior securities by the Company in an amount acceptable to the lenders. Finally, the amendment converted interest on the term loan to Prime plus 175 basis points and interest on the revolver borrowings to Prime plus 150 basis points. Beginning in May, the rates will increase 25 basis points per month until August at which time they will increase 50 basis points per month until March 2006. The amendment did not change the interest rate applicable to Term Loan B.

The fee for the waiver letter and amendment will range from $0.2 million to $1.0 million. The fee increases over a period of time defined in the agreement with the full $1.0 million being payable if certain events do not occur before September 11, 2005.

Other than in respect of the Credit Agreement and the Amendment, there are no material relationships between Matrix, its subsidiaries, the Lenders and their respective affiliates, except that some of the Lenders and their affiliates have engaged and may engage in commercial and investment banking transactions with Matrix in the ordinary course of business, and also provide or have provided advisory and financial services to Matrix.

A copy of the Amendment is attached to this Quarterly Report on Form 10-Q as Exhibit 10.1 and is incorporated by reference as though fully set forth herein. The foregoing summary description of the Amendment and the transactions contemplated therein is not intended to be complete and is qualified in its entirety by the complete text of the Amendment.

Goodwill Impairment

The Company performs an annual goodwill impairment review in the fourth quarter of every year. In addition, the Company performs a goodwill impairment review whenever events or changes in circumstances indicate the carrying value may not be recoverable, such as the liquidity issues and operating results the Company is currently experiencing.

The Company performed a goodwill impairment test as of February 28, 2005. Fair value of the reporting units was determined based on the probability-adjusted present value of future cash flows. On April 8, 2005, the Company concluded that a preliminary impairment charge of $25 million was required for the Construction Services segment. The charge was recorded in the quarter ended February 28, 2005 and is reflected in "Restructuring, impairment and abandonment" on the Consolidated Statements of Operations. The cash flow assumptions are based on the best available information, but such information is considered preliminary due to the Company's current liquidity situation and restructuring efforts. The impairment evaluation will be completed in the fourth quarter of fiscal 2005. At such time, the preliminary impairment charge recorded in the third fiscal quarter may be adjusted upward or downward.

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ITEM 6. Exhibits:

Exhibit 10.1:	Senior Credit Facility Waiver Letter and Amendment dated April 8, 2005.
Exhibit 31.1:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – Interim CEO.
Exhibit 31.2:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
Exhibit 32.1:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – Interim CEO.
Exhibit 32.2:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.

Signature

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

MATRIX SERVICE COMPANY

Date: April 11, 2005

By: /s/ George L. Austin

George L. Austin Vice President-
Finance and Chief Financial Officer
signing on behalf of the registrant and
as the registrant's chief accounting
officer.

EXHIBIT INDEX

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Exhibit 32.2:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.

Exhibit 10.1

CHASE

JPMorgan Chase Bank, N. A.

April 8, 2005

Matrix Service Company
Attn: Michael J. Hall, Chief Executive Officer
10701 East Ute Street
Tulsa, OK 74116

All Other Loan Parties Under the Credit
Agreement Described Below

Re: Credit Agreement dated as of March 7, 2003 among Matrix Service Company, as "Borrower," the Lenders described therein, and J. P. Morgan Chase Bank, N.A. (successor by merger to Bank One, N.A. (Main Office, Chicago)), as a Lender, LC Issuer, and as Agent for the Lenders, and others, as amended (as amended, the "Credit Agreement")

Gentlemen:

This is in regard to the above-referenced Credit Agreement. Capitalized terms not defined in this letter have the same meanings as in the Credit Agreement.

Borrower has advised the Agent (i) about certain aspects of Borrower's projected quarter-end financial results (for the fiscal quarter ending February 28, 2005) that will cause Borrower to breach certain financial covenants in Section 6.27 of the Credit Agreement and that reflect financial performance below Borrower's previous projections and (ii) that Borrower failed to make the payment due March 7, 2005 in the amount of $1,905,853.00 due under the Hake Group Acquisition Documents, and has entered into certain amendments to certain of the Hake Group Acquisition Documents that address such payment (the "Particular Facts"). As a result of the Particular Facts, Borrower has also breached Section 6.1(i) with respect to the fiscal year that ended May 31, 2004, Section 6.4, Section 6.19, and Section 7.4 of the Credit Agreement, which in turn has caused Borrower to breach Section 7.15 of the Credit Agreement. Due to the circumstances described above in this paragraph, at this time there exist an "Unmatured Default" and certain "Defaults" under the Credit Agreement (such Unmatured Default and Defaults being referred to herein as the "Specified Default"). Among other things, the Specified Default would prevent Borrower from meeting the conditions set forth in Section 4.2 of the Credit Agreement necessary for Borrower to receive any Credit Extension and could, under certain circumstances, ripen into a Default under the Credit Agreement.

To the extent it is affected by the Specified Default, Borrower has requested that the Required Lenders waive the requirements of Section 4.2(i) of the Credit Agreement, which provides that no Credit Extension shall be made unless there exists no Unmatured Default and no Default, and that the Required Lenders waive certain other requirements and provisions of the Credit Agreement and the other Loan Documents.

This is to advise that, upon execution and delivery of this waiver letter and amendment by the Loan Parties, the Agent and Lenders constituting the Required Lenders, the Lenders shall have agreed to waive (the “Waiver”) all rights and remedies under the Credit Agreement and the other Loan Documents arising from the Specified Default, from the date hereof through the end of the Business Day on June 15, 2005 (such date and time the “Waiver Termination Date”), provided that the Waiver shall not be effective until Borrower has paid all currently invoiced legal fees of Agent and Lenders and all currently invoiced fees of Capstone Corporate Recovery, LLC. The Waiver is limited to the Specified Default only and shall not waive such condition as it may relate to any other Unmatured Default or Default.

By executing and delivering this letter, Borrower, Agent and the undersigned Required Lenders hereby agree as follows:

(i) as long as the Waiver is in effect and not withdrawn as provided in subparagraph (ii) below, and provided all conditions of such Revolving Loans set forth in the Credit Agreement are met (except as specifically waived hereby), the Lenders agree to make Revolving Loans to the Borrower or participate in Facility LCs in accordance with the provisions of Section 2.19 of the Credit Agreement (Facility LCs not to exceed $15,000,000.00 in the aggregate at any one time) from time to time prior to the Waiver Termination Date, in amounts so that at any one time the aggregate amount of all Revolving Loans and Facility LCs shall not exceed the lesser of:

(A) an amount equal to 75% of the Borrowing Base (provided that this amount shall be increased to 80% after the full and final closing and funding, under terms and subject to documentation acceptable to Required Lenders, of either a subordinated loan to Borrower or an offering of junior securities by Borrower in an amount acceptable to Required Lenders),

(B) $32,000,000.00 (provided that this amount shall be $35,000,000.00 after the full and final closing and funding, under terms and subject to documentation acceptable to Required Lenders, of either a subordinated loan to Borrower or an offering of junior securities by Borrower in an amount acceptable to Required Lenders), or

(C) the Aggregate Revolving Loan Commitment; and

(ii) the Waiver shall be withdrawn without any further action required on the part of the Agent or any of the Lenders, and be of no force or effect, if any one of the following occurs:

(a) any Unmatured Default or Default occurs or exists other than the Specified Default,

(b) Borrower does not, on a weekly basis on or before the end of the Business Day on Wednesday of each week, provide to Agent a report in a form and covering such topics as are reasonably acceptable to Agent, describing the status of Borrower’s efforts to both (1) obtain new funding in the form of both subordinated debt or equity and a replacement senior credit facility and (2) other alternatives,

(c) Borrower does not, on a weekly basis on or before the end of the Business Day on Wednesday of each week, provide to Agent a written 13-week cash flow projection covering the immediately subsequent thirteen (13) weeks, in a form acceptable to Agent, or

(d) Borrower does not, on a weekly basis on or before the end of the last Business Day of each week, provide to Agent a Borrowing Base Certificate for Borrower on a consolidated basis, dated as of the last Business Day of the immediately preceding week (provided this shall not limit, affect or modify any of the obligations of Borrower described in Section 6.1(xi) of the Credit Agreement).

By executing and delivering this waiver letter and amendment, Borrower, Agent and the undersigned Required Lenders further agree as follows:

1. Borrower shall pay to Agent, on or before the earlier of (A) the Facility Termination Date, (B) March 31, 2006 or (C) any payment in full of the Term Loan (for purposes of clarity, "Term Loan" does not include Term Loan B) (such earlier date the "Fee Due Date"), a fee in the amount set forth below that Agent will apply ratably among the Lenders, which fee is and shall be considered a part of and included within the Obligations. The applicable amount of the fee will be as follows:

(i) if the Fee Due Date occurs prior to May 11, 2005, $166,667,00;

(ii) if the Fee Due Date occurs on or after May 11 but before June 11, 2005, $333,333.00;

(iii) if the Fee Due Date occurs on or after June 11, 2005 but before July 11, 2005, $500,000.00;

(iv) if the Fee Due Date occurs on or after July 11, 2005 but before August 11, 2005, $666,667.00;

(v) if the Fee Due Date occurs on or after August 11, 2005 but before September 11, 2005, $833,333.00; and

(v) if the Fee Due Date occurs on or after September 11, 2005, $1,000,000.00.

2. As to the Specified Default, any applicable requirement for notice in Section 7.3(ii) of the Credit Agreement is hereby deemed to be satisfied;

3. (a) effective as of the end of the Interest Period applicable thereto, all Eurodollar Advances (including but not limited to the Term Loan (but excluding Term Loan B, as to which the applicable interest rate is set forth in Section 2.1.4 of the Credit Agreement)) shall be converted into Floating Rate Advances without any further action necessary on the part of Borrower, Agent or any Lender, (b) effective as of the date of this letter and continuing until the conversion thereof to Floating Rate Advances as provided in paragraph 3(a) above, all Eurodollar Advances shall bear interest at a rate per annum equal to .50% greater than otherwise provided in the Credit Agreement, (c) notwithstanding anything to the contrary in the Credit Agreement, Borrower shall have no further right to convert Floating Rate Advances to Eurodollar Advances, and (d) the Pricing Schedule is hereby replaced with, and shall be, the following:

PRICING SCHEDULE

Starting Date of Applicable Margin, Continuing Until Next Starting Date	Applicable Margin All Floating Rate Advances Except the Term Loan (bps)	Applicable Margin (Term Loan) (bps)	Letters of Credit Fee (bps)	Commitment Fee (bps)
11-Apr-05	150	175	425	62.5
1-May-05	175	200	425	62.5
1-Jun-05	200	225	425	62.5
1-Jul-05	225	250	425	62.5
1-Aug-05	275	300	425	62.5
1-Sep-05	325	350	425	62.5
1-Oct-05	375	400	425	62.5
1-Nov-05	425	450	425	62.5
1-Dec-05	475	500	425	62.5
1-Jan-06	525	550	425	62.5
1-Feb-06	575	600	425	62.5
1-Mar-06 and thereafter	625	650	425	62.5

This waiver letter and amendment shall constitute a supplement and amendment to the Credit Agreement. From and after the date hereof, references in the Credit Agreement to “this Agreement” and like terms shall be deemed to be references to the Credit Agreement as supplemented by this waiver, and as otherwise amended, supplemented, restated or otherwise modified from time to time in accordance with the Loan Documents. References in the other Loan Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as supplemented by this waiver letter and amendment and as further amended, supplemented, restated or otherwise modified from time to time. This waiver letter and amendment is a Loan Document executed pursuant to the Credit Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with the terms and provisions of the Credit Agreement. The Credit Agreement as supplemented by this waiver letter and amendment is ratified and confirmed in all respects, and all other Loan Documents are hereby ratified and confirmed in all respects.

Except as expressly provided hereby, all of the representations, warranties, terms, covenants and conditions of the Credit Agreement and the other Loan Documents shall remain unamended and unwaived and shall continue to be, and shall remain, in full force and effect in accordance with their respective terms, including express limitations therein relating to the date on which such representations and warranties were made. The waiver and agreements set forth herein shall be limited precisely as provided for herein, and shall not be deemed to be a waiver of, amendment to, consent to or modification of any other term or provision of the Credit Agreement or of any event, condition, or transaction on the part of the Borrower or any other Person which would require the consent of the Agent or any of the Lenders.

The Borrower and each Loan Party, for itself and on behalf of all its predecessors, successors, assigns, agents, employees, representatives, officers, directors, general partners, limited partners, joint shareholders, beneficiaries, trustees, administrators, subsidiaries, affiliates, employees, servants and attorneys (collectively the “Releasing Parties”), hereby releases and forever discharges

Agent and each Lender and their respective successors, assigns, partners, directors, officers, agents, attorneys, and employees from any and all claims, demands, cross-actions, controversies, causes of action, damages, rights, liabilities and obligations, at law or in equity whatsoever, known or unknown, whether past, present or future, now held, owned or possessed by the Releasing Parties, or any of them, or which the Releasing Parties or any of them may, as a result of any actions or inactions occurring on or prior to the date hereof, hereafter hold or claim to hold under common law or statutory right, arising, directly or indirectly out of any Loan or any of the Loan Documents or any of the documents, instruments or any other transactions relating thereto or the transactions contemplated thereby. Borrower and each Loan Party understands and agrees that this is a full, final and complete release and agrees that this release may be pleaded as an absolute and final bar to any or all suit or suits pending or which may hereafter be filed or prosecuted by any of the Releasing Parties, or anyone claiming by, through or under any of the Releasing Parties, in respect of any of the matters released hereby, and that no recovery on account of the matters described herein may hereafter be had from anyone whomsoever, and that the consideration given for this release is no admission of liability.

Please indicate your approval of the terms and provisions hereof by executing this letter in the space provided below.

This letter may be executed in any number of counterparts, all of which together shall constitute a single instrument, and it shall not be necessary that any counterpart be signed by all the parties hereto. A facsimile copy of this letter and signatures thereon shall be considered for all purposes as originals.

Yours very truly,

J. P. MORGAN CHASE BANK, N.A., as Agent

By: /s/ Hal E. Fudge

Hal E. Fudge, First Vice President

ACCEPTED AND AGREED TO:

Borrower:

MATRIX SERVICE COMPANY

By: /s/ Michael J. Hall

Michael J. Hall, Chief Executive Officer

Loan Parties:

MATRIX SERVICE INC., an Oklahoma corporation; **MATRIX SERVICE INDUSTRIAL CONTRACTORS, INC. (formerly known as MATRIX SERVICE MID-CONTINENT, INC.),** an Oklahoma corporation; **MATRIX SERVICE, INC. CANADA,** an Ontario, Canada corporation; **HAKE GROUP, INC.,** a Delaware corporation; **BOGAN, INC. (including Fiberspec, a division),** a Pennsylvania corporation; **MATRIX SERVICE SPECIALIZED TRANSPORT, INC. (formerly known as FRANK W. HAKE, INC.),** a Pennsylvania corporation; **HOVER SYSTEMS, INC.,** a Pennsylvania corporation; **I & S, INC.,** a Pennsylvania corporation; **MCBISH MANAGEMENT, INC.,** a Pennsylvania corporation; **MECHANICAL CONSTRUCTION, INC.,** a Delaware corporation; **MID-ATLANTIC CONSTRUCTORS, INC.,** a Pennsylvania corporation; **TALBOT REALTY, INC.,** a Pennsylvania corporation; **BISH INVESTMENTS, INC.,** a Delaware corporation; **I & S JOINT VENTURE, L.L.C.,** a Pennsylvania limited liability company

By: /s/ George L. Austin

George L. Austin, Vice President

Lenders:

J. P. MORGAN CHASE BANK, N.A., as Agent

By: /s/ Hal E. Fudge

Hal E. Fudge, First Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Patrick McGovern

Patrick McGovern, Senior Vice President

UMB BANK, N.A.

By: /s/ Richard J. Lehrter

Richard J. Lehrter, Community Bank President

WELLS FARGO BANK, NA
(formerly known as Wells Fargo Bank Texas, NA)

By: /s/ Roger Fruendt

Roger Fruendt, Senior Vice President

INTERNATIONAL BANK OF COMMERCE, successor in interest to
LOCAL OKLAHOMA BANK,
an Oklahoma Banking Corporation
formerly known as LOCAL OKLAHOMA BANK, NA,

By: /s/ David G. Moore

David G. Moore, Senior Vice President

Member FDIC

Exhibit 31.1

CERTIFICATIONS

I, Michael J. Hall, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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. 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
    c. 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 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: April 11, 2005

Michael J. Hall
Interim President and Chief Executive Officer

CERTIFICATIONS

I, George L. Austin, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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. 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
    c. 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 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: April 11, 2005

George L. Austin
Vice President – Finance
and Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Matrix Service Company (the “Company”) on Form 10-Q for the period ending February 28, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael J. Hall, Interim 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 our 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: April 11, 2005

Michael J. Hall
Interim President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report of Matrix Service Company (the “Company”) on Form 10-Q for the period ending February 28, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, George L. Austin, Vice President, Finance 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 our 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: April 11, 2005

George L. Austin
Vice President – Finance
and Chief Financial Officer