

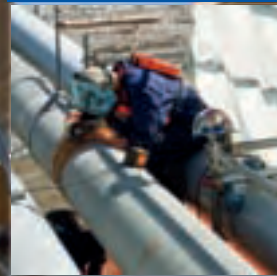


MATRIX SERVICE COMPANY

INDUSTRIAL SERVICE CONTRACTOR

STRATEGIC GROWTH

2008 ANNUAL REPORT



MATRIX SERVICE AT A GLANCE

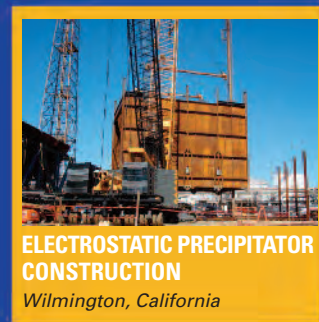
CONSTRUCTION SERVICES INCLUDE

- Turnkey Terminal Construction
- Aboveground Storage Tanks
- Specialty Vessels
- Electrical and Instrumentation
- HV Substations
- Civil and Concrete
- Structural Steel
- Mechanical Piping
- Fabrication
Steel Plate, Pipe and Vessel

REPAIR & MAINTENANCE SERVICES INCLUDE

- Refining and Petrochemical Turnarounds
- Facility and Plant Outages and Shutdowns
- Facility Maintenance
- Tank Repair and Maintenance
- Dike and Tank Liners
- ASME Code Work and Welding
- Industrial Cleaning
- Emergency Response
- Planning, Scheduling and Cost Control

- ★ Matrix Service Corporate Headquarters
- Matrix Service Inc. Regional Offices
- ◆ Matrix Service Industrial Contractors, Inc. Regional Offices
- Matrix Service Representative Projects
- Matrix Service Projects



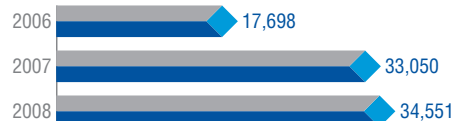
Revenues

In thousands of dollars



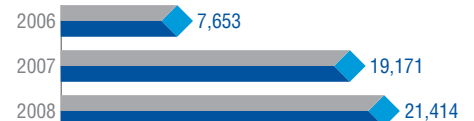
Operating Income

In thousands of dollars



Net Income

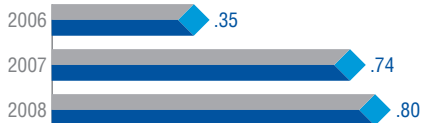
In thousands of dollars





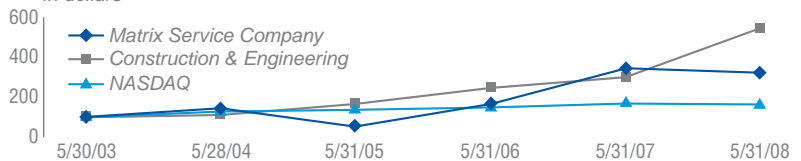
Fully Diluted Earnings Per Share

In dollars



Five-Year Cumulative Total Stockholder Returns

In dollars



The comparison assumes that \$100 was invested on June 1, 2003 in our common stock in each of the foregoing indexes.

LETTER TO SHAREHOLDERS

Fiscal 2008 was a successful year from numerous perspectives. We are pleased to report that our overall business performed well producing record revenues of \$731 million, operating income of \$35 million and fully diluted earnings per share of \$0.80. We were able to achieve these results despite the challenges with the Gulf Coast LNG project.

SAFETY

Fiscal 2008 was also another strong year from a safety perspective. We believe it is critical to provide a safe work environment to our employees, subcontractors and customers. We emphasize thorough safety training, safety awareness and accident prevention measures for all employees. Safety always has been and always will be a Core Value at Matrix Service.

POSITIONING FOR THE FUTURE

In addition to safety and financial performance, fiscal 2008 represented significant accomplishments as we worked to position ourselves for the future.

- We further strengthened our financial position. Our strong operating results allowed us to continue to improve our balance sheet and liquidity, which will allow us to capitalize on opportunities presented in fiscal 2009 and beyond. By growing our business in a controlled manner, we have maintained a strong balance sheet and financial flexibility while expanding our workforce and resources.
- We expanded our leadership position in the aboveground storage tank (AST) construction, repair and maintenance services markets. We have built a deep talent pool that allows us to continue to provide these services throughout the United States to our long-term alliance customers as well as to new customers. We also expanded our AST reach into Canada in fiscal 2008 and are poised to capitalize on significant investment over the next decade in the Alberta Oil Sands.

- We expanded our presence in the Gulf Coast region. Fiscal 2008 marked the substantial completion of the Gulf Coast LNG project. We successfully delivered all three tanks on time despite Hurricane Katrina and the other challenges that this project presented. This was an important accomplishment as it demonstrated to our clients what it means to live up to our Core Values. We want our clients to be confident that they can rely on us to deliver quality work in a timely and safe fashion. We have redeployed the talented professional staff from that project to our Gulf Coast region to expand and diversify our specialty service offerings allowing us to be one of a limited number of companies to provide sphere technology and other steel plate structures to the market place. We have also recently added key personnel to expand our Gulf Coast turnaround capabilities.
- We enhanced our fabrication and engineering capabilities. We added new leadership to fabrication, engineering and supply chain management. We also continued our capital expansion of our fabrication facility in Oklahoma. These changes have enhanced our ability to fully support the growth in our construction services as well as support future service offerings. Of specific note, we are well-positioned to deliver steel plate, engineering, procurement, fabrication and construction of the next generation of nuclear power plant structures. We are in the process of obtaining our "N" stamp, that will allow us to support the nuclear power market, which we expect will provide significant opportunities as North America seeks to reduce its dependence on fossil fuels.



Michael J. Hall
Chairman of the Board of Directors



- We commenced a number of Operating Excellence Initiatives. We evaluated our business processes, systems and personnel in an effort to identify how we can improve project execution, administration and profitability. As a result of this evaluation, we have commenced various projects designed to enhance training, support systems and processes. We have grown significantly over the last few years and the right people and processes are critical to facilitating our continued growth, achieving our strategic objectives, and ensuring our continued success.

Our strategy includes diversifying our service offerings, our customer base and geographic reach. We continue to see strong demand in the AST and Downstream Petroleum markets and with the customers we serve in both the Construction Services and Repair & Maintenance Services segments. Our bid flow is robust, we have a strong balance sheet and our staff is experienced which should allow us to capitalize on the opportunities presented in this environment. While our accomplishments in fiscal 2008 were significant, we will continue our fiscal 2008 efforts into fiscal 2009.

- We will continue to expand and diversify our services offerings. We see many opportunities to expand our services offerings and believe we have the capabilities to support each of these opportunities. The country has an aging power infrastructure and recent investment in new generation facilities and transmission systems has been limited. As demand for electric power continues to increase, the need for new and expanded infrastructure will also increase. We have the talent base and expertise to execute diverse steel

plate structure projects and we believe we can leverage this expertise to successfully expand our product offerings into the nuclear market and other steel

plate structures. We believe significant business opportunities exist in other geographic areas including the Gulf Coast and Canada.

- We will invest in equipment and systems. We believe it is critical that our employees have the resources they need to efficiently and safely provide our quality services and products to our customers. Therefore, we will continue to invest in the systems and equipment needed to efficiently manage the company as well as support our various growth initiatives.
- We will continue to add talent to our organization. The hiring, development and retention of quality employees and leadership is essential to our continued success. We strive to be an employer of choice in industrial construction by promoting our Core Values: commitment to safety, integrity, positive relationships, stewardship, community involvement and delivering the best.
- We will seek to grow through acquisitions. We view strategic acquisitions as an important element to facilitate growing our business platform. We will look for opportunities that fit with our strategy, strengths and culture. We take a disciplined approach toward acquisitions and we will continue to be patient as we evaluate opportunities and focus on opportunities that are compatible with our strategy and are accretive to earnings.
- We will explore opportunities to expand our operations internationally. We see significant opportunities in delivering out traditional competencies to the international arena. While Matrix Service is not presently pursuing services abroad, there is an increasing interest for our engineered and fabricated components and other services. Matrix Service will explore, on a case-by-case basis, support to our strategic clients which currently enjoy a global reach.

We are proud of our accomplishments in fiscal 2008. Our financial results continue to demonstrate the Company's robust growth and potential. In fiscal 2009, we will continue to expand our geographic reach and diversify our service and product offerings to achieve sustainable and profitable long-term growth. We appreciate your continued support and look forward to another profitable year.



A handwritten signature in blue ink that reads "Michael J. Bradley". The signature is fluid and cursive.

Michael J. Bradley
President and Chief Executive Officer

Matrix Service provides solutions for our clients; we view each project as a partnering relationship which encourages open communication, team building, and a commitment to achieving common goals.

CONSTRUCTION SERVICES

Matrix Service provides a wide range of construction services to our industrial clients primarily in the downstream petroleum, terminal and bulk storage, power, chemical and industrial gas industries. We routinely execute projects in these industries on a turnkey basis allowing our clients a single point of contact. Every construction project, large or small, is given the same level of commitment to meet or exceed our clients' expectations.

OUR EXPERTISE INCLUDES:

- Construction of new, and/or modifications to existing, refinery and petrochemical facilities. Demonstrated expertise in equipment setting and interconnections, revamps and upgrades.
- Engineering, fabrication, procurement and construction of aboveground storage tanks and

turnkey terminal construction for the terminal and bulk storage industry.

- Plant construction, stack/stack liners, material handling systems, nuclear containment vessels/liners, stainless steel pool liners as well as electrical transmission, distribution and HV substation construction for the power industry.
- Specialty vessel engineering, fabrication and construction, including liquefied natural gas storage, liquefied petroleum gas storage, spheres, and other pressure vessels.

In addition, we provide civil, concrete, structural steel, mechanical, process piping, fabrication, electrical, instrumentation and ASME code welding services for a variety of other industries.

Matrix Service has earned a solid reputation throughout the years as leading industrial contractor as a direct result of the Company's commitment to our highly talented work force and their individual commitment to excellence.





BUILDING FOR THE FUTURE

Matthew Vincent

Project Manager

The role of a project manager in the construction business encompasses many things, but most important is a commitment to safety. Safety is not a stand alone activity, but a value that is integrated with our day-to-day operations and our overall approach to business. Through behavioral based safety training, awareness and accountability programs, we have developed a strong and proactive safety culture. It is this culture and commitment that makes working as a project manager at Matrix Service a great place to be.

Matrix Service's objective is to tailor our repair and maintenance services to meet our clients' site specific needs in a consistently safe and reliable manner.

REPAIR & MAINTENANCE SERVICES

Providing quality repair and maintenance services can include everything from routine daily maintenance at a facility, turnarounds and outages, supplemental labor, scheduled equipment and system repairs in addition to emergency response. Matrix Service recognizes the unique repair and maintenance needs of each of our clients and as a result we tailor or bundle our service offerings accordingly. Every service we provide is executed by experienced craftsmen and managed by dedicated professionals.

OUR EXPERTISE INCLUDES:

- Onsite routine and preventative facility maintenance, unit or complete facility turnarounds, and emergency response for refineries and petro-chemical facilities.
- Repair and maintenance of aboveground storage tanks (AST) for individual tanks or complete program management for terminal and bulk

storage. In addition, we provide environmentally friendly solutions for secondary containment, leak detection and fire protection systems.

- Outages, routine as well as emergency electrical, instrumentation repairs and routine maintenance for the power industry.
- Specialty repair, maintenance and fabrication services including tower and vessel repair; fin fan retube and repair; boiler retube and repair; structural steel and pipe fabrication/installation; ASME code work and industrial cleaning to meet our client's unique needs.

Our goal is to provide effective and efficient solutions for our clients not just provide a litany of repair and maintenance services. We take tremendous pride in working with our clients, developing long term, mutually beneficial relationships.





SUPERIOR SERVICE...SUPERIOR RELATIONSHIPS

Jody Whitney

Foreman

The repair and maintenance business is all about building and sustaining positive working relationships with our customers and suppliers. By providing high quality and reliable service, we are able to develop long-standing associations that are mutually beneficial. Working on a client jobsite, you are the face to the customer for the Company every day on the job. Ensuring open communication and effective working relationships is an essential part of the job and key to our continued success.

Matrix Service is focused on positioning ourselves for continued growth well into the future through the diversification of service offerings, geographical expansion and strategic acquisitions.

GROWTH AND DIVERSIFICATION

As a leading industrial contractor, we recognize that one of the keys to our continued success is growth through diversification. We are focused on leveraging the Company's existing expertise and experience, along with the extensive knowledge base of our employees to pursue new opportunities and markets that complement our core business.

One of our core competencies is providing services to the aboveground storage tank industry. Through the years we have become a trusted partner for our clients, providing engineering, procurement, fabrication, construction, repair and maintenance of aboveground storage tanks. Leveraging this expertise, we are pursuing projects and opportunities for other specialty steel plate structures including liquefied natural gas storage, liquefied petroleum gas storage including spheres, and stacks and stack liners.

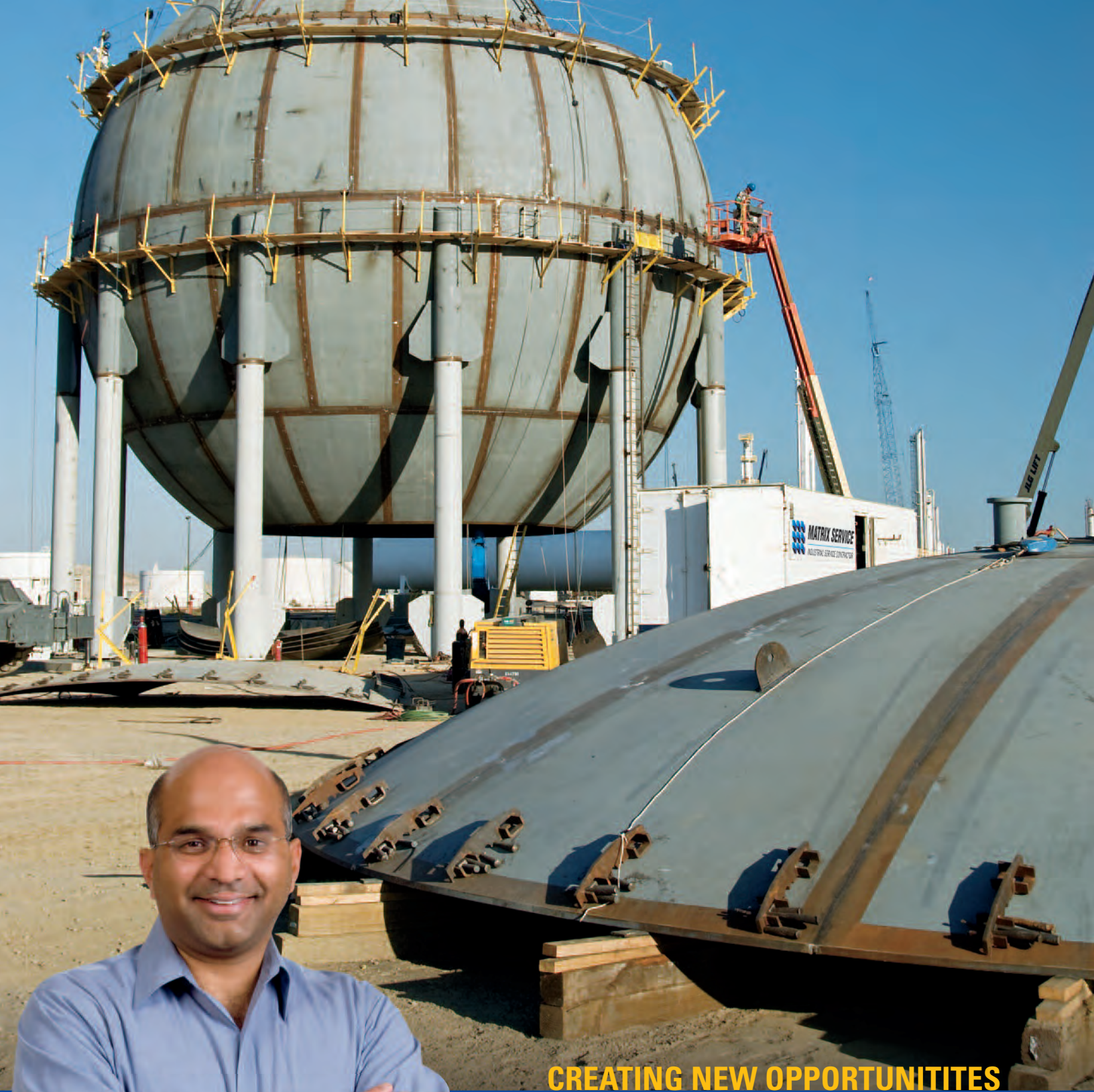


Researching new opportunities in the power industry and the changes in the industry, has led us to pursue nuclear work, specifically nuclear containment vessels/liners, stainless steel pool liners and storage. Another aspect of the power industry that Matrix Service is pursuing by leveraging our existing expertise is high voltage electrical transmission, distribution and substations.

In addition, we have been successful in entering the material handling systems market and continue to look for additional opportunities in this area and others that are aligned with our core competencies which allow us to expand our capabilities.

Another significant growth initiative for the Company is geographic expansion. We have expanded our reach into Western Canada providing aboveground storage tank construction, repair and maintenance services. In addition, we have increased our presence in the Gulf Coast and expanded our service offerings in this area to include construction of specialty steel plate structures and turnarounds.

Additionally, Matrix Service continues to pursue strategic acquisitions. Acquisitions can be a tremendous growth opportunity; however, prior to any acquisition we diligently assess the risks and benefits, acquiring only those companies that fit our overall growth strategy and our company culture.



CREATING NEW OPPORTUNITIES

Rama Challa

Engineering Manager

Matrix Service is dedicated to doing the best at everything we do. We are continuously working to expand our capabilities and the markets we serve, while maximizing our core competencies. Engineering talent and technology help the Company achieve strategic growth in existing markets and help position the company for expansion and diversification into broader service offerings. But regardless of what product or service we offer, we maintain an unwavering focus on quality and “best in class” approach.

Matrix Service recognizes that our continued growth and success is a direct result of the thousands of talented and dedicated professionals that we employ.

RESOURCES

As a leader in the industrial services sector, we continually seek to recruit and develop the best people the industry has to offer. Our employees are the heart of our organization and they are committed to our Company's Core Values. These values, which have been nurtured and strengthened throughout the history of the Company, are what guide us as an organization today:

- Commitment to Safety
- Integrity
- Positive Relationships
- Stewardship
- Community Involvement
- Deliver the Best



As the Company grows, management is dedicated to sustaining these values by ensuring our employees have the training and development opportunities necessary to succeed. We are committed to advancing our talent pool through the use of strong human resources programs and as an Equal Opportunity and Affirmative Action employer, we are dedicated to providing an inclusive and diverse work environment for all.

Beyond competitive pay and benefits, our leaders know the best way to hire and keep top talent is to create a culture where the best employees want to work, a culture where people are treated with respect and consideration at all times. At Matrix Service, we are committed to remaining true to these principals, as the Company continues to grow and adapt to an ever-changing workforce.

Beyond competitive pay and benefits, critical to attracting and retaining a talented workforce is a positive and rewarding corporate culture. A key component of our strong corporate culture is the Company's involvement in the communities where our employees live and work. We believe in giving back to the local towns and cities where we operate by supporting many charitable organizations and volunteering our time to help those in need. When employees get involved and make a difference in their communities, it instills a strong sense of personal accomplishment and pride in the organization. For these reasons, Matrix Service values and remains committed to ongoing community service.



OUR SUCCESS COMES FROM TEAMWORK

Jennifer Torres

Recruiter

As a national construction and construction services provider, we work in many cities, towns and rural areas across North America. Supporting the communities in which we operate is very important to Matrix Service and is one of our core values. Community involvement goes hand in hand with recruiting. We draw talent from the many local areas where we execute our projects and our ability to do so is dependent upon our reputation as a company. We are proud of our dedicated workforce, not only for what they do for us each day but for how they support the local areas where they live and work.

BOARD OF DIRECTORS



(Left to Right) **Paul K. Lackey** - CEO - The NORDAM Group; **Tom E. Maxwell** - President and CEO - The Flintco Companies, Inc.; **Michael J. Hall** - Chairman of the Board - Matrix Service Company; **Michael J. Bradley** - President and CEO - Matrix Service Company; **I. Edgar Hendrix** - Chairman and CEO - Red River Energy, Inc.; **David J. Tippeconnic** - CEO - Arrow-Magnolia International L.P.

EXECUTIVE OFFICERS



Thomas E. Long
Chief Financial
Officer,
Matrix Service
Company



Joseph P. Montalbano
Chief Operating
Officer,
Matrix Service
Company



Nancy E. Austin
V.P. Human
Resources,
Matrix Service
Company



Kevin S. Cavanah
V.P. Accounting,
Financial Reporting,
Matrix Service
Company



John S. Newmeister
V.P. Corporate
Development,
Matrix Service
Company



Lansing G. Smith
V.P. Fabrication,
Engineering, and
Procurement,
Matrix Service
Company



James P. Ryan
President,
Matrix Service Inc.



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



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



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



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



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



Vance R. Davis
V.P. AST Services,
Matrix Service
Industrial
Contractors, Inc.



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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended May 31, 2008

or

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

For the transition period from _____ to _____

Commission File No. 1-15461

MATRIX SERVICE COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

74135
(Zip Code)

Registrant's telephone number, including area code: (918) 838-8822
Securities Registered Pursuant to Section 12(b) of the Act:

(Title of class)

Common Stock, par value \$0.01 per share

Preferred Share Purchase Rights

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

Name of Each Exchange On Which Registered: NASDAQ Global Market (Common Stock)

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

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second quarter was approximately \$691 million.

The number of shares of the registrant's common stock outstanding as of August 4, 2008 was 26,062,617 shares.

Documents Incorporated by Reference

Certain sections of the registrant's definitive proxy statement relating to the registrant's 2008 annual meeting of stockholders, which definitive proxy statement will be filed within 120 days of the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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PART 1

Item 1. Business

FORWARD-LOOKING STATEMENTS

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

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

- amounts and nature of future revenues and margins from our Construction Services and Repair and Maintenance Services segments;
- our ability to generate sufficient cash from operations or to raise cash in order to meet our short and long-term capital requirements;
- our ability to comply with the covenants in our credit agreement;
- the likely impact of new or existing regulations or market forces 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 Item 1A of this Annual Report and listed from time to time in our filings with the Securities and Exchange Commission;
- economic, market or business conditions in general and in the oil and gas, power, and petrochemical industries in particular;
- changes in laws or regulations; and
- other factors, many of which are beyond our control.

Consequently, all of the forward-looking statements made in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences 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.

BACKGROUND

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

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

WEBSITE ACCESS TO REPORTS

Our public internet site is www.matrixservice.com. We make available free of charge through our internet site, via a link to Edgar Online, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

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

OPERATING SEGMENTS

We have two reportable segments, the Construction Services segment and the Repair and Maintenance Services segment. See Note 14. Segment Information in the Notes to Consolidated Financial Statements for segment, geographic and market information. We also offer services to our customers where our two business segments work together to provide a combination of services. Customers utilize our services to construct or expand operating facilities, improve operating efficiencies, maintain existing facilities and to comply with stringent environmental and safety regulations. Our services range in duration from short - term to multiple year contracts and are provided on a project by project basis or as part of long - term preferred provider relationships and alliances. We are able to provide services and respond to our customer's requirements for both union and merit shop operations.

Construction Services

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

Repair and Maintenance Services

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

MARKETS WITHIN OPERATING SEGMENTS

Within these two operating segments we serve four primary markets:

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

Aboveground Storage Tanks

One of the cornerstones of our business has been, and continues to be, aboveground storage tanks (“AST”). We offer complete engineering, procurement, fabrication, and construction (“EPFC”) services for the bulk storage / terminal industry as well as the refining, petrochemical, pipeline and power industries. We are one of the largest AST constructors in North America. Our expertise includes cone roof tanks, dome roof tanks, open top floating roof tanks, geodesic domes, and specialty tanks.

Every AST project is designed in accordance with applicable industry standards, codes and regulations. With the teams that we have assembled, we have the knowledge and experience to comply with all applicable specifications to ensure that all quality requirements are met. In response to environmental requirements for control of vapor emissions and leak containment, we have developed many unique designs and devices such as floating roof seal systems, dike liners, and other products.

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

Our tank repair and maintenance services are a key component of our core business. We are one of the largest tank repair and maintenance contractors in the United States with a reputation for quality, safety and reliability. Our personnel are well versed in American Petroleum Institute (“API”) standards and American Society of Mechanical Engineers (“ASME”) code work in both atmospheric and pressure storage vessels.

AST repair and maintenance services include replacements/repairs to tank bottoms, shells, nozzles, roof structures, steel floating roofs, seals and manways for tanks of all sizes. We provide tank cleaning, foundation repair/replacement and complete tank relocation utilizing air lifting technology.

We also provide environmentally friendly solutions for secondary containment and leak detection. Our product offerings include dikes and liners, steel internal floating roofs, tank double bottoms, and primary and secondary seals. Every product we offer is engineered to meet our customers’ quality specifications.

Downstream Petroleum

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

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

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

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

Electrical and Instrumentation

We are an experienced leader in electrical construction, instrumentation, and control systems. Our experience spans a wide range of industries including combined cycle power, refining, petrochemical and heavy industrial. In addition to ground-up construction, our management and technical teams perform expansion projects, critical path turnarounds, emergency response and staff augmentation services. We also have expertise in the design and construction of industrial fiber optic and copper cabling for voice, data, control and video systems.

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

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

Specialty

Our specialty construction services include liquefied natural gas (“LNG”) and industrial gas projects, power projects, specialty tanks and vessels and related fabrication.

LNG/Industrial Gas Projects/Liquefied Petroleum Gas

Matrix Service engineers, fabricates and constructs refrigerated and cryogenic liquefied gas storage tanks for the storage of ammonia, butane, carbon dioxide, ethane, methane, argon, nitrogen, oxygen, propane and other products. These tanks are utilized by the chemical, petrochemical and gas industries.

Power Projects

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

Specialty Tanks and Vessels

Our specialty tank and vessel expertise includes aerobic/anaerobic digesters, clarifiers, egg shaped digesters, spheres, petroleum scrubbers/absorbers, flare tips, thermal vacuum chambers and other pressure vessels. The tanks and vessels are engineered, fabricated and constructed in adherence with API standards and specifications and ASME codes. These tanks and vessels are used throughout the petroleum, chemical, power, aerospace and waste water industries.

Fabrication

We have facilities which provide large scale fabrication services for our operating units and directly for our customers throughout the United States and Canada. These facilities are staffed with qualified personnel and utilize sophisticated tooling and equipment. Our fabrication facilities specialize in steel plate, structural steel and vessel fabrication utilizing carbon steels, stainless steels and specialty alloy materials. Our largest fabrication facility is centrally located in the United States. This 160,000 sq. ft. facility in Oklahoma is located on the most inland port in the United States with barge, rail and truck access. This facility has the capacity to fabricate new tanks, new tank components and all maintenance, retrofit and repair parts, including fixed roofs, floating roofs, seal assemblies, shell plate and tank appurtenances. This facility is qualified to fabricate equipment in adherence to ASME codes and regulations including pressure vessels, stacks/stackliners, scrubbers, ducting, flare stacks and igniter tips.

OTHER BUSINESS MATTERS

Customers and Marketing

Matrix Service derives a significant portion of its revenues from performing services for major integrated oil companies, independent petroleum refiners, and pipeline, terminal and marketing companies. In fiscal 2008, these customer types accounted for 84.1% of consolidated revenues. The loss of significant work from any of these classes of customers or an overall decline in the petroleum industry would have a material adverse effect on the Company. Matrix Service also performs services for power companies, engineering firms, general contractors, and petrochemical and industrial gas companies. The Company provided services to approximately 350 customers in fiscal 2008. The following table provides a list of any customer that accounted for greater than 10% of either our Construction Services or Repair and Maintenance Services revenue for the twelve months ended May 31, 2008:

	<u>Construction Services</u>		<u>Repair and Maintenance Services</u>		<u>Total</u>	
	(In thousands, except percentages)					
Plains All American Pipeline LP	\$ 95,941	21.0 %	\$ 22,483	8.2 %	\$ 118,424	16.2 %
Bechtel Group, Inc	61,153	13.4 %	24	0.0 %	61,177	8.4 %
BP PLC	2,024	0.5 %	50,836	18.4 %	52,860	7.2 %
Total	<u>\$ 159,118</u>	<u>34.9 %</u>	<u>\$ 73,343</u>	<u>26.6 %</u>	<u>\$ 232,461</u>	<u>31.8 %</u>

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

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

Segment Financial Information

Financial information for our operating segments is provided in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 14. Segment Information of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data".

Competition

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

Backlog

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

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

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

The following table provides a rollforward of our backlog from May 31, 2007 to May 31, 2008:

	Construction Services	Repair and Maintenance Services	Total
		(In thousands)	
Backlog as of May 31, 2007	\$ 349,254	\$ 110,776	\$ 460,030
New backlog awarded	431,974	306,605	738,579
Revenue recognized on contracts in backlog	(455,887)	(275,414)	(731,301)
Backlog as of May 31, 2008	<u>\$ 325,341</u>	<u>\$ 141,967</u>	<u>\$ 467,308</u>

At May 31, 2008, the Construction Services segment had a backlog of \$325.3 million, as compared to a backlog of \$349.3 million as of May 31, 2007. The decrease of \$24.0 million is due to declines in Specialty of \$41.0 million and Downstream Petroleum of \$19.3 million, partially offset by increases in Aboveground Storage Tank and Electrical and Instrumentation of \$23.3 million and \$13.0 million, respectively. The backlog at May 31, 2008 and May 31, 2007 for the Repair and Maintenance Services segment was \$142.0 million and \$110.8 million, respectively. The increase of \$31.2 million was due to increases in Downstream Petroleum of \$16.2 million, Aboveground Storage Tank of \$10.0 million and Electrical and Instrumentation of \$5.0 million. Approximately 93% of our backlog at May 31, 2008 is expected to be completed in fiscal year 2009.

Seasonality

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

Raw Material Sources and Availability

Steel and steel pipe are the primary raw materials used by the Company. Supplies of these materials are available throughout the United States from numerous sources. We do not anticipate being unable to obtain adequate amounts of these materials in the foreseeable future. However, the price, quantity available and timing of availability of these materials could change significantly due to various factors, including producer capacity, the level of foreign imports, demand for the materials, tariffs on imported steel and other market conditions.

Insurance

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

Typically our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide for warranties for materials and workmanship. The Company may also be required to name the customer as an additional insured under certain insurance policies up to the limits of insurance available, or we may have to purchase special insurance policies or surety bonds for specific customers or provide letters of credit issued under our credit facility in lieu of bonds to satisfy performance and financial guarantees on some projects. Matrix Service currently maintains a performance and payment bonding line of \$ 140.0 million. The Company generally requires its subcontractors to indemnify the Company and the Company's customer and name the Company as an additional insured for activities arising out of the subcontractors' presence at the customer's location. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of the Company, to secure the subcontractors' work or as required by the subcontract.

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

Employees

As of May 31, 2008, we had 3,202 employees of which 430 were employed in non-field positions and 2,772 were employed in field or shop positions. The number of employees varies significantly throughout the year because of the number, type and size of projects we have in progress at any particular time.

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

Attracting and retaining high quality employees is important to our continued success. We have continued to expand our Professional Development Programs for project managers, engineers and safety professionals. Recruiting and retaining a skilled workforce continues to be a top initiative of the Company.

Patents and Proprietary Technology

Matrix Service has been issued several patents, has patents pending, and continues to pursue new ideas and innovations to better serve our customers in all areas of our business. The Matrix Service patents under the Flex-A-Span[®] and Flex-A-Seal[®] trademarks are utilized to cover seals for floating roof tanks. Our patent of our ThermoStor[®] diffuser system is for a process that receives, stores and dispenses both chilled and warm water in and from the same storage tank. The patented RS 1000 Tank Mixer[®] controls sludge build-up in crude oil tanks through resuspension. We also have a patent on our Flex-A-Swivel[®], a swivel joint for floating roof drain systems. Finally, Matrix Service holds a patent which covers a flexible fluid containment system marketed as the Valve Shield[®]. The Valve Shield[®] captures and contains fluid leaking from pipe and valve connections.

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

Regulation

Health and Safety Regulations

The operations of the Company are subject to the requirements of the United States Occupational Safety and Health Act (OSHA), comparable state laws and the Canadian Workers' Compensation Board and its Workplace Health, Safety and Compensation Commission. Regulations promulgated by these agencies require employers and independent contractors who perform construction services, including electrical and repair and maintenance, to implement work practices, medical surveillance systems and personnel protection programs in order to protect employees from workplace hazards and exposure to hazardous chemicals and materials. In recognition of the potential for accidents within various scopes of work, these agencies have enacted very strict and comprehensive safety regulations. The Company has established comprehensive programs for complying with health and safety regulations and protecting the safety of its workers, subcontractors and customers. While the Company believes that it operates safely and prudently, there can be no assurance that accidents will not occur or that the Company will not incur substantial liability in connection with the operation of its business.

Environmental

The Company's operations are subject to extensive and changing environmental laws and regulations in the United States and Canada. These laws and regulations relate primarily to air and water pollutants and the management and disposal of hazardous materials. The Company is exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or hazardous materials.

In order to limit environmental exposure in the performance of services at customer sites, the Company has purchased contractor's pollution liability insurance with coverage limits of \$10.0 million per occurrence. The Company has purchased pollution liability insurance relating to its operating locations, including fabrication facilities in Oklahoma and California, with coverage limits of \$2.0 million per occurrence.

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

Item 1A. Risk Factors

The nature of our business activities and operations subjects us to a number of risks and uncertainties. If any of the events described below were to occur, they could have a material adverse effect on our business, financial condition and operating results.

An inability to attract and retain qualified personnel, and in particular, project managers and skilled craft workers, could impact our ability to perform on our contracts, which could harm our business and impair our future revenues and profitability.

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

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

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

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

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

Our workers are subject to the normal hazards associated with providing services on construction sites and industrial facilities. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, damage to, or destruction of, property, plant and equipment, lower employee morale and environmental damage. We are intensely focused on maintaining a strong safety environment and reducing the risk of accidents to the lowest possible level. Poor safety performance may limit or eliminate potential revenue streams from many of our largest customers and may materially increase our future insurance and other operating costs.

Our growth strategy requires that we increase the size of our workforce. While we normally target experienced personnel for employment, we also hire inexperienced employees. Even with thorough training, inexperienced employees have a higher likelihood of injury which could lead to higher operating costs and insurance rates.

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

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

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

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

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

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

Under cost-plus contracts, we perform our services in return for payment of our agreed upon reimbursable costs plus a profit. The profit component is typically expressed in the contract either as a percentage of the reimbursable costs we actually incur or is factored into the rates we charge for labor or for the cost of equipment and materials, if any, we are required to provide. Some cost-plus contracts provide for the customer's review of the accounting and cost control systems used by us to calculate these labor rates and to verify the accuracy of the reimbursable costs invoiced. These reviews could result in reductions in amounts previously billed to the customer and in an adjustment to amounts previously reported by us as our profit on the contract.

Many of our fixed-price or cost-plus contracts require us to satisfy specified progress milestones or performance standards in order to receive a payment. Under these types of arrangements, we may incur significant costs for labor, equipment and supplies prior to receipt of payment. If the customer fails or refuses to pay us for any reason, there is no assurance we will be able to collect amounts due to us for costs previously incurred. In some cases, we may find it necessary to terminate subcontracts with suppliers engaged by us to assist in performing a contract and we may incur costs or penalties for canceling our commitments to them.

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

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

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

A failure to obtain adequate compensation for these matters could require us to record in the current period an adjustment to revenue and profit recognized in prior periods under the percentage-of-completion accounting method. Any such adjustments, if substantial, could have a material adverse effect on our results of operations and financial condition, particularly for the period in which such adjustments are made. We cannot assure you that we will be successful in obtaining, through negotiation, arbitration, litigation or otherwise, approved change orders in an amount adequate to compensate us for our additional work or expenses.

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

An aspect of our business strategy is to make strategic acquisitions in markets where we currently operate as well as in markets in which we have not previously operated. We may have difficulties identifying attractive acquisition candidates or we may be unable to acquire desired businesses on economically acceptable terms during periods of elevated mergers and acquisition activity or for other reasons. Additionally, existing or future competitors may desire to compete with us for acquisition candidates that may have the effect of increasing acquisition costs or reducing the number of suitable acquisition candidates. We may not have the financial resources necessary to consummate any acquisitions or the ability to obtain the necessary funds on satisfactory terms. We may not have sufficient management, financial and other resources to integrate future acquisitions. Any future acquisitions may result in significant transaction expenses, unexpected liabilities and risks associated with entering new markets in addition to the integration and consolidation risks. In the event we are unable to complete future strategic acquisitions, we may not grow in accordance with our expectations.

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

Future events, including those associated with our growth strategy, could negatively affect our liquidity position.

We can provide no assurance that we will have sufficient cash from operations or the credit capacity to meet all of our future cash needs should we encounter significant working capital requirements or incur significant acquisition costs. Insufficient cash from operations and significant working capital requirements have in the past and could in the future reduce availability under our credit facility and impact our ability to comply with the terms of our credit agreements.

Work stoppages and other labor problems could adversely affect us.

Some of our employees are represented by labor unions. A lengthy strike or other work stoppage on any of our projects could have a material adverse effect on our business and results of operations due to an inability to complete contracted projects in a timely manner. From time to time, we have also experienced attempts to unionize certain of our merit employees. While these efforts have achieved only limited success to date, we cannot provide any assurance that we will not experience additional and more successful union activity in the future.

Demand for our products and services is cyclical and is vulnerable to downturns in the industries and markets which we serve as well as conditions in the general economy.

The demand for our products and services depends significantly upon the existence of construction and repair and maintenance projects in the downstream petroleum and power and other industries in the United States and Canada. The capital budgets of many of our energy industry customers are largely dependent on the continuation of high commodity prices. Our markets historically have been, and will likely continue to be, cyclical in nature and vulnerable to general downturns in the United States and Canadian economies and declines in commodity prices, which could adversely affect the demand for our products and services. Occasionally, the timing of the demand for our products and services in certain of these markets can also be adversely affected during periods of strong economic growth as customers may postpone closing their facilities for maintenance, repair, turnaround or expansion projects while demand for their products remains high.

As a consequence of these and other factors, our results of operations have varied and are likely to continue to vary significantly depending on the demand for future projects from these industries.

We face substantial competition in each of our business segments, which may have a material adverse effect on our business by reducing our ability to increase or maintain profitability.

We face competition in all areas of our business from regional, national and international competitors, many of which may have greater financial and other resources. Our competitors include well-established, well-financed entities, both privately and publicly held, including many major power equipment manufacturers, engineering and construction companies and internal engineering departments. The markets that we serve require substantial resources and, in particular, highly skilled and experienced technical personnel. We compete primarily on the basis of price, customer satisfaction, safety performance and programs, the quality of our products and services, and our ability to timely comply with project schedules. We may encounter increased competition from existing competitors or new market entrants in the future, which could have a material adverse effect on our business, financial condition or results of operations.

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

Our revenues are derived primarily from contracts awarded on a project-by-project basis. Generally, it is very difficult to predict whether and when we will be awarded a new contract since many potential contracts involve a lengthy and complex bidding and selection process that may be affected by a number of factors, including changes in existing or assumed market conditions, financing arrangements, governmental approvals and environmental matters. Because our revenues are derived primarily from these contracts, our results of operations and cash flows can fluctuate materially from period to period depending on the timing of contract awards.

The uncertainty associated with the timing of contract awards may increase our cost of doing business over a short period or a comparatively longer term. For example, we may decide to maintain and bear the cost of a workforce in excess of our current contract needs in anticipation of future contract awards. If an expected contract award is delayed or not received, we could incur costs to maintain an idle workforce that may have a material adverse effect on our results of operations. Alternatively, we may decide that our long term interests are best served by reducing our workforce and incurring increased costs associated with severance and termination benefits which also could have a material adverse effect on our results of operations for the period when incurred. Reducing our workforce could also impact our results of operations if we are unable to adequately staff projects that are awarded subsequent to a workforce reduction.

Our backlog is subject to unexpected fluctuations, adjustments and cancellations and is, therefore, an uncertain indicator of our future earnings.

Backlog may not be a reliable indicator of our future performance due to the timing of contract awards by our customers. We cannot guarantee that the revenue projected in our backlog will be realized or profitable. Projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the revenue and profits that we actually earn. Many of our contracts have termination for convenience provisions in them. Therefore, project terminations, suspensions or scope adjustments may occur from time to time with respect to contracts in our backlog. Finally, poor project or contract performance could also impact our backlog and profits.

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

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

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

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

Contract losses are recognized in the fiscal period when the loss is determined. Contract profit estimates are also adjusted in the fiscal period in which it is determined that an adjustment is required. No restatements are made to prior periods. Further, a number of our contracts contain various cost and performance incentives and penalties that impact the earnings we realize from our contracts, and adjustments related to these incentives and penalties are recorded in the period when estimable.

As a result of the requirements of the percentage-of-completion method of accounting, the possibility exists, for example, that we could have estimated and reported a profit on a contract over several prior periods and later determine, usually near contract completion, that all or a portion of such previously estimated and reported profits were overstated. If this occurs, the full aggregate amount of the overstatement will be reported for the period in which such determination is made, thereby eliminating all or a portion of any profits from other contracts that would have otherwise been reported in such period or even resulting in a loss being reported for such period.

Our financial loss exposure on cost-plus contracts is generally limited to a portion of our profit on the contract. However, it is possible that the customer could successfully dispute the costs we believe we incurred on the contract or assert that our costs were excessive for reasons such as poor project management or labor productivity. In addition, some cost-plus contracts contain penalty provisions for failure to achieve certain milestones or performance standards. To the extent we are not able to recover the full amount of our costs under a cost-plus contract, including adjustments under contract penalty provisions, there would be a reduction, or possibly an elimination, of previously recognized and reported earnings. In

certain circumstances, it is possible that such adjustments could be material to our operating results.

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

We are currently a defendant in legal proceedings arising from the operation of our business and it is reasonable to expect that we would be named in future actions. Most of the actions against us arise out of the normal course of performing services on project sites, and include claims for workers' compensation, personal injury and property damage. From time to time, we are also named as a defendant in contract disputes with customers relating to the timeliness and quality of the performance of our services and equipment, materials, design or other services provided by subcontractors and third-party suppliers. We also are, and are likely to continue to be, a plaintiff in legal proceedings against customers seeking to recover payment of contractual amounts due to us as well as claims for increased costs incurred by us resulting from, among other things, services performed by us at the request of a customer that are in excess of original project scope that are later disputed by the customer and customer-caused delays in our contract performance.

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

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

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

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

- contract expenses and profits and application of percentage-of-completion accounting;
- provisions for uncollectible receivables from customers for invoiced amounts;
- the amount and collectability of claims against customers, third-party suppliers, subcontractors and others for increased costs incurred by us that were caused by the actions or inactions of these parties, such as increased costs due to delays in their performance or to the failure of machinery, equipment and supplies provided by them to perform to agreed specifications;
- provisions for income taxes and related valuation allowances;
- recoverability of goodwill;
- valuation of assets acquired and liabilities assumed in connection with business combinations; and
- accruals for estimated liabilities, including litigation and insurance reserves.

Our actual results could differ from these estimates.

We are susceptible to adverse weather conditions, which may harm our business and financial results.

Our business may be adversely affected by severe weather in areas where we have significant operations. Repercussions of severe weather conditions may include:

- curtailment of services;
- suspension of operations;
- inability to meet performance schedules in accordance with contracts;
- weather related damage to our facilities;
- inability to receive machinery, equipment and materials at jobsites; and
- loss of productivity.

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

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

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

Our operations are subject to environmental laws and regulations, including those concerning:

- emissions into the air;
- discharges into waterways;
- generation, storage, handling, treatment and disposal of hazardous material and wastes; and
- health and safety.

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

In addition, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”), and comparable state laws, we may be required to investigate and remediate regulated materials. CERCLA and the comparable state laws typically impose liability without regard to whether a company knew of or caused the release, and liability for the entire cost of clean-up can be imposed upon any responsible party.

The environmental, workplace, employment and health and safety laws and regulations, among others, to which we are subject are complex, change frequently and could become more stringent in the future. It is impossible to predict the effect of any future changes to these laws and regulations on us. We cannot assure you that our operations will continue to comply with future laws and regulations or that these laws and regulations and/or a failure to comply with these laws will not significantly adversely affect our business, financial condition and results of operations.

Earnings for future periods may be affected by impairment charges.

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

Our credit facility imposes restrictions that may limit business alternatives.

Our senior revolving credit facility contains covenants that restrict or limit our ability to incur additional debt, create liens, acquire or dispose of assets, repurchase equity, or make distributions. In addition, our credit facility requires that we comply with a number of financial covenants. These covenants and restrictions may impact our ability to effectively execute operating and strategic plans. Our ability to comply with these covenants may be affected by factors or events beyond our control; therefore, our future operating performance may not be sufficient to comply with the required covenants.

Our failure to comply with one or more of the covenants in our credit facility could result in an event of default. We can provide no assurance that a default could be remedied, or that our creditors would grant a waiver or amend the terms of the credit facility. If an event of default occurs, our lenders could elect to declare all amounts outstanding under the facility to be immediately due and payable, terminate all commitments, refuse to extend further credit, and require us to provide cash to collateralize any outstanding letters of credit. If an event of default occurs and the lenders under the credit facility accelerate the maturity of any loans or other debt outstanding, we may not have sufficient liquidity to repay amounts outstanding under the existing agreement.

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

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

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

- general conditions in the security markets.

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

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

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

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

The issuance of additional common stock or securities convertible into our common stock would result in dilution of the ownership interest in us held by existing stockholders. We are authorized to issue, without stockholder approval 5,000,000 shares of preferred stock, par value \$0.01 per share, in one or more series, which may give other stockholders dividend conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Our Board of Directors has no present intention of issuing any such preferred stock series, but reserves the right to do so in the future. In addition, we are authorized to issue, without stockholder approval, a significant number of additional shares of our common stock and securities convertible into either common stock or preferred stock.

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

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

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

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The principal properties of Matrix Service at May 31, 2008 were as follows:

<u>Location</u>	<u>Description of Facility</u>	<u>Segment</u>	<u>Interest</u>
Tulsa, Oklahoma	Corporate Headquarters	Corporate	Leased
Alton, Illinois	Regional office and warehouse	Repair & Maintenance	Leased
Bellingham, Washington	Regional office and warehouse	Construction and Repair & Maintenance	Owned
Catoosa, Oklahoma	Fabrication facility, regional office and warehouse	Construction and Repair & Maintenance	Owned (1)
Eddystone, Pennsylvania	Regional office and warehouse	Construction and Repair & Maintenance	Leased
Houston, Texas	Regional office and warehouse	Construction and Repair & Maintenance	Owned (2)
Houston, Texas	Regional office	Construction and Repair & Maintenance	Leased (2)
Port Arthur, Texas	Warehouse	Construction and Repair & Maintenance	Leased (2)
Newark, Delaware	Regional office and warehouse	Construction and Repair & Maintenance	Leased
Orange, California	Fabrication facility, regional office and warehouse	Construction and Repair & Maintenance	Owned
Sarnia, Ontario, Canada	Regional office and warehouse	Repair & Maintenance	Owned
Suisun City, California	Regional office and warehouse	Repair & Maintenance	Leased
Temperance, Michigan	Regional office and warehouse	Construction and Repair & Maintenance	Owned
Leduc, Alberta, Canada	Regional office and warehouse	Construction and Repair & Maintenance	Leased

- (1) Facilities were constructed by the Company in 2002 and 2003 on land acquired through the execution of a 15 year ground lease with renewal provisions for five additional terms of five years each.
- (2) The Company is in the process of relocating its Houston regional office to a leased facility in Houston and relocating its Houston warehouse to the Port Arthur location.

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

Item 3. Legal Proceedings

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

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

None

Part II

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

Price Range of Common Stock

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

	Fiscal Year 2008		Fiscal Year 2007	
	High	Low	High	Low
First quarter	\$ 29.11	\$ 16.99	\$ 13.35	\$ 10.63
Second quarter	30.32	17.74	16.00	11.89
Third quarter	28.15	17.16	19.60	15.10
Fourth quarter	24.83	16.64	27.19	16.50

As of August 1, 2008, there were 38 holders of record of our common stock. We believe that the number of beneficial owners of our common stock is substantially greater than the number of holders of record.

Dividend Policy

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

Issuer Purchases of Equity Securities

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 our common stock outstanding at that time. To date, Matrix Service has purchased 2,846,782 shares under the program and has authorization to purchase an additional 600,724 shares. In fiscal 2008, the Company purchased 729,982 shares at an average price of \$17.59. In addition to the stock buyback program, Matrix Service may withhold shares of common stock to satisfy the tax withholding obligation upon vesting of an employee's deferred shares. The Company withheld 23,192 shares of common stock during fiscal 2008 for this obligation. In addition to shares that may be repurchased in conjunction with the future issuance of deferred shares, Matrix Service has and may continue to repurchase shares under the stock buyback program if the Company determines the purchase is accretive to earnings per share. The Company has 1,825,600 treasury shares remaining as of May 31, 2008 and intends to utilize these treasury shares solely for the satisfaction of stock issuances under the Company's stock plans.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
March 1 to March 31, 2008	-	\$ -	2,846,782	600,724
April 1 to April 30, 2008	-	-	2,846,782	600,724
May 1 to May 31, 2008	-	-	2,846,782	600,724
Total	-	\$ -		

Item 6. Selected Financial Data

The summary financial data provided for the five years ended May 31, 2004 to May 31, 2008 was derived from the audited Consolidated Financial Statements. This information should be read together with Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, including the related notes, appearing in Item 8 - Financial Statements and Supplementary Data.

	Fiscal Year Ended May 31,				
	2008	2007	2006	2005 (1)	2004
	(In thousands, except percentages and per share data)				
Revenues	\$ 731,301	\$ 639,846	\$ 493,927	\$ 439,138	\$ 607,904
Gross profit	75,117	65,886	47,079	31,019	46,313
Gross profit %	10.3 %	10.3%	9.5%	7.1%	7.6%
Operating income (loss)	34,551	33,050	17,698	(39,138)	17,519
Operating income (loss) %	4.7 %	5.2%	3.6%	(8.9)%	2.9%
Income (loss) before income taxes	33,716	31,114	11,594	(44,458)	15,213
Net income (loss)	21,414	19,171	7,653	(38,830)	9,542
Net income (loss) %	2.9 %	3.0%	1.5%	(8.8)%	1.6%
Earnings (loss) per share-diluted	0.80	0.74	0.35	(2.24)	0.54
Equity per share-outstanding	5.32	4.72	3.67	2.76	4.98
Weighted average shares outstanding diluted	26,875	26,752	25,742	17,327	17,615
Working capital	60,826	51,306	42,656	21,726	63,914
Total assets	274,593	242,909	188,276	202,380	216,274
Long-term debt (including long-term portion of acquisition payable and capital lease obligations)	1,000	836	28,116	34,400	69,823
Total debt (including acquisition payable and capital lease obligations)	2,153	4,301	30,330	79,086	76,551
Capital expenditures	18,302	13,120	5,614	1,430	4,675
Stockholders' equity	138,700	125,576	76,399	47,985	85,715
Total long-term debt to equity %	0.7 %	0.7%	36.8%	71.7%	81.5%
Cash flow provided (used) by operations	45,596	11,358	35,880	4,516	(28,099)

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

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

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

CRITICAL ACCOUNTING ESTIMATES

Revenue Recognition

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

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

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

Claims Recognition

Claims are amounts in excess of the agreed contract price (or amounts not included in the original contract price) that we seek to collect from customers or others for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price or other causes of anticipated additional costs incurred by us. Recognition of amounts as additional contract revenue related to claims is appropriate only if it is probable that the claims will result in additional contract revenue and if the amount can be reliably estimated. We must determine if:

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

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

As of May 31, 2008 and May 31, 2007, costs and estimated earnings in excess of billings on uncompleted contracts included revenues, for unapproved change orders of \$0.8 million and \$5.1 million, respectively. At May 31, 2007 costs and estimated earnings in excess of billings on uncompleted contracts included revenues for other claims of \$1.5 million. There were no claims included in costs and estimated earnings in excess of billings on uncompleted contracts as of May 31, 2008. 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. Contingencies.

	Claims for Unapproved Change Orders	Other Claims	Total
		(In thousands)	
Balance at May 31, 2006	\$ 3,845	\$ 523	\$ 4,368
Additions	5,639	1,493	7,132
Collections	(3,921)	(492)	(4,413)
Loss	(434)	(31)	(465)
Balance at May 31, 2007	5,129	1,493	6,622
Additions	3,016	897	3,913
Collections	(6,957)	(1,865)	(8,822)
Loss	(384)	(525)	(909)
Balance at May 31, 2008	<u>\$ 804</u>	<u>\$ -</u>	<u>\$ 804</u>

Loss Contingencies

Various legal actions, claims, and other contingencies arise in the normal course of our business. Contingencies are recorded in the consolidated financial statements, or are otherwise disclosed, in accordance with SFAS No. 5 "Accounting for Contingencies". Specific reserves are provided for loss contingencies to the extent we conclude their occurrence is both probable and estimable. We use a case by case evaluation of the underlying data and update our evaluation as further information becomes known. We believe that any amounts exceeding our recorded accruals should not materially affect our financial position, results of operations or liquidity. However, the results of litigation are inherently unpredictable and the possibility exists that the ultimate resolution of one or more of these matters could result in a material adverse effect on our financial position, results of operations or liquidity.

Legal costs are expensed as incurred.

Insurance Reserves

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, coverage limits and self-insured retentions. As of May 31, 2008 and May 31, 2007, insurance reserves totaling \$8.5 million and \$6.4 million, respectively, are included on our balance sheet. These amounts represent our best estimate of our ultimate obligations for asserted claims, insurance premium obligations, and claims incurred but not yet reported at the balance sheet dates. We establish specific reserves for claims using a case by case evaluation of the underlying claim data and update our evaluations as further information becomes known. Judgments and assumptions are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. Additionally, the actual results of claim settlements could differ from the amounts estimated.

Goodwill

Goodwill and intangible assets with indefinite useful lives are not amortized and are tested at least annually for impairment. We perform our annual analysis during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant an additional analysis. 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. Significant judgments and assumptions including the discount rate, anticipated revenue growth and gross margins, estimated operating and interest expense, and capital expenditures are inherent in these fair value estimates which are based on our internal operating budgets. As a result, actual results may differ from the estimates utilized in our discounted cash flow analysis. The use of alternate judgments and/or assumptions could result in a fair value that differs from our estimate and could result in the recognition of an impairment charge in the financial statements.

As a result of these uncertainties, we utilize multiple scenarios and assign probabilities to each of the scenarios in the discounted cash flow analysis. The results of the discounted cash flow analysis are then compared to the carrying value of the reporting unit. If the carrying value of a reporting unit exceeds its fair value, a computation of the implied fair value of goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in the amount of the excess. If an impairment charge is incurred, it would negatively impact our results of operations and financial position.

We did not record a goodwill impairment for either our Construction Services or Repair and Maintenance Services segments in the three year period ended May 31, 2008. However, we did record an impairment charge of \$25.0 million in fiscal 2005 due to declines in operating results at that time and significant contract disputes. Although we do not anticipate a future impairment charge, certain events could occur that might adversely affect the reported value of goodwill. Such events could include, but are not limited to, strategic decisions made in response to economic or competitive conditions, a significant change in the project plans of our customers, the economic condition of the customers and industries we serve, and a material negative change in the relationships with one or more of our significant customers. If our judgments and assumptions change as a result of the occurrence of any of these events or other events that we do not currently anticipate, our expectations as to future results and our estimate of the implied value of one or more of our reporting units also may change.

We define headroom as the percentage difference between each segments' carrying value and fair value. At May 31, 2008, headroom for the Construction Services segment was 220% and headroom for the Repair and Maintenance Services segment was 74%.

Our significant assumptions, including revenue growth, gross margins, operating and interest expense and other factors, have been reasonably accurate in recent years, but are likely to change in light of the dynamic competitive environment in which we operate. Assuming that all other components of our fair value estimate remain unchanged, a change in the following assumptions would have the following effect on headroom:

- if the growth rate of estimated revenue decreases one percent from current estimates, headroom for the Construction Services segment would be reduced from 220% to 201% and headroom for the Repair and Maintenance Services segment would be reduced from 74% to 62%;
- if assumed gross margins decrease one percent, headroom for the Construction Services segment would be reduced from 220% to 174% and headroom for the Repair and Maintenance Services segment would be reduced from 74% to 42%; and
- if the applicable discount rate increases one percent, headroom for the Construction Services segment would be decreased from 220% to 200% and headroom for the Repair and Maintenance Services segment would be reduced from 74% to 62%.

Recently Issued Accounting Standards

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

FIN 48 – Accounting for Uncertainty in Income Taxes

Effective June 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109”, as amended (“FIN No. 48”). Upon adoption of FIN No. 48 on June 1, 2007 and as of May 31, 2008, the Company had no material uncertain tax positions and no adjustments to the Company’s financial statements were required.

The Company files federal and various state income tax returns and tax returns in certain foreign jurisdictions. In the Company’s significant tax jurisdictions, the tax years 2005 through 2008 are subject to examination by federal tax authorities and the tax years 2004 through 2008 are subject to examination by state and foreign taxing authorities.

The Company accrues interest and penalties on underpayment of income taxes related to uncertain tax positions as a component of income tax expense in the consolidated statement of income. No amounts were recognized for interest and penalties upon adoption of FIN No. 48 or during the twelve months ended May 31, 2008.

SFAS No. 157 – Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). This Statement established a framework for fair value measurements in the financial statements by providing a definition of fair value, guidance on the methods used to estimate fair value and expanded disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is generally applied prospectively. We do not expect the Company’s adoption of SFAS No. 157 to have a material effect on our financial statements.

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

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

SFAS No. 141(R) – Business Combinations

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

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

	Construction Services	Repair & Maintenance Services	(1) Other	Total
Fiscal Year 2008				
Consolidated revenues	\$ 455,887	\$ 275,414	\$ -	\$ 731,301
Gross profit	33,081	42,036	-	75,117
Operating income (loss)	8,579	25,997	(25)	34,551
Income (loss) before income tax expense	7,950	25,791	(25)	33,716
Net income (loss)	5,483	15,946	(15)	21,414
Earnings per share - diluted				0.80
Weighted average shares outstanding- diluted				26,875
Fiscal Year 2007				
Consolidated revenues	\$ 366,160	\$ 273,686	\$ -	\$ 639,846
Gross profit	29,494	36,392	-	65,886
Operating income (loss)	11,567	21,556	(73)	33,050
Income (loss) before income tax expense	10,394	20,793	(73)	31,114
Net income (loss)	6,498	12,718	(45)	19,171
Earnings per share - diluted				0.74
Weighted average shares outstanding - diluted				26,752
Fiscal Year 2006				
Consolidated revenues	\$ 243,725	\$ 250,202	\$ -	\$ 493,927
Gross profit	20,392	26,687	-	47,079
Operating income (loss)	6,561	11,237	(100)	17,698
Income (loss) before income tax expense	2,536	9,158	(100)	11,594
Net income (loss)	2,168	5,547	(62)	7,653
Earnings per share - diluted				0.35
Weighted average shares outstanding - diluted				25,742
Variances 2008 to 2007				
Consolidated revenues	\$ 89,727	\$ 1,728	\$ -	\$ 91,455
Gross profit	3,587	5,644	-	9,231
Operating income (loss)	(2,988)	4,441	48	1,501
Income (loss) before income tax expense	(2,444)	4,998	48	2,602
Net income (loss)	(1,015)	3,228	30	2,243
Variances 2007 to 2006				
Consolidated revenues	\$ 122,435	\$ 23,484	\$ -	\$ 145,919
Gross profit	9,102	9,705	-	18,807
Operating income (loss)	5,006	10,319	27	15,352
Income (loss) before income tax expense	7,858	11,635	27	19,520
Net income (loss)	4,330	7,171	17	11,518

(1) Includes items associated with exited operations.

Results of Operations

Overview

The Company has two reportable segments, Construction Services and Repair and Maintenance Services. The majority of the work for both segments is performed in the United States with less than 2.0% of revenues generated in Canada during fiscal 2008. However, the Company does continue to seek opportunities for growth in both the domestic and international markets.

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

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

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

Fiscal Year 2008 versus 2007

Consolidated

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

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

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

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

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

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

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

Construction Services

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

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

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

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

Repair and Maintenance Services

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

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

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

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

Fiscal Year 2007 versus 2006

Consolidated

Consolidated revenues were \$639.8 in fiscal 2007, an increase of \$145.9 million, or 29.5%, from consolidated revenues of \$493.9 million in fiscal 2006. This large improvement in consolidated revenues resulted from an increase of \$122.4 million in Construction Services revenues combined with growth of \$23.5 million in Repair and Maintenance Services revenues.

Consolidated gross profit increased from \$47.1 million in fiscal 2006 to \$65.9 million in fiscal 2007. This improvement of \$18.8 million, or 39.9%, was due to the 29.5% growth in revenues combined with greater margins contributed by the Repair and Maintenance Services segment. Consolidated gross margins grew from 9.5% in fiscal 2006 to 10.3% in fiscal 2007 due to an improvement in the Repair and Maintenance Services segment, which grew to 13.3% in the current fiscal year versus 10.7% in the prior fiscal year. This improvement stemmed from effective project execution, more efficient absorption of fixed costs due to the larger revenue base and a continued focus by the Company on managing its contractual risks. In addition, margins were further enhanced by a favorable market and an expanding backlog which allowed Matrix Service to be more selective in its process of procuring projects. Partially offsetting these improvements was a pre-tax charge in fiscal 2007 of \$11.3 million, or \$0.25 per fully diluted share, resulting from continued cost escalations on a LNG construction project in the Gulf Coast region.

Consolidated SG&A expenses were \$32.8 million in fiscal 2007 compared to \$29.4 million for fiscal 2006. The increase of \$3.4 million was primarily due to employee-related expenses resulting from additional staff hired throughout fiscal 2007 to support our growth combined with additional expense of \$1.5 million related to the fair value recognition provisions in SFAS-123(R), "Share-Based Payment". Partially offsetting this increase was a decline in legal costs of approximately \$1.5 million as the Company settled all but one of its significant contract disputes and lower restructuring costs. SG&A expense as a percentage of revenue fell to 5.1% in fiscal 2007 compared to 5.9% in the prior fiscal year as the 29.5% growth in revenues more than offset the increase in SG&A expenses.

Interest expense declined to \$2.4 million in fiscal 2007 compared to \$7.8 million in fiscal 2006. This sharp decline of \$5.4 million was primarily due to reduced debt outstanding during the year. Current year interest expense was primarily related to the amortization of prepaid interest and fees on the convertible notes, amortization of deal fees on the senior credit facility, and interest on short-term borrowings under the revolving facility.

Other income in fiscal 2006 of \$1.6 million resulted from gains on the sale of assets identified during the restructuring effort. Other income in fiscal 2007 of \$0.3 million consisted of miscellaneous non-operating items.

Income before income tax expense increased to \$31.1 million in fiscal 2007 from \$11.6 million in fiscal 2006. This \$19.5 million improvement was due to higher gross profit combined with decreased interest expense. Partially offsetting this improvement was higher SG&A expense in fiscal 2007 along with gains on the sale of assets included in fiscal 2006 results.

The effective tax rates for fiscal 2007 and fiscal 2006 were 38.4% and 34.0%, respectively. Both fiscal 2007 and fiscal 2006 benefited from the tax recognition of losses on disputed contracts. In fiscal 2007, certain operating loss carryforwards previously reserved were utilized or deemed to be fully utilizable resulting in a benefit of \$0.8 million. In fiscal 2006, approximately \$1.4 million of previously established valuation allowances were reversed upon the utilization of the related operating loss carryforwards.

Net income for fiscal 2007 rose to \$19.2 million, or \$0.74 per fully diluted share, versus net income in fiscal 2006 of \$7.7 million, or \$0.35 per fully diluted share.

Construction Services

Revenues for the Construction Services segment rose significantly from \$243.7 million in fiscal 2006 to \$366.2 million in fiscal 2007, which represents an increase of \$122.5 million, or 50.3%. This improvement was primarily due to Aboveground Storage Tank revenues increasing \$70.9 million, but improvements were also seen throughout the segment as Downstream Petroleum revenues rose \$25.1 million, Specialty revenues grew \$16.6 million and Electrical and Instrumentation revenues climbed \$9.9 million. The substantial growth in the Aboveground Storage Tank revenues was driven by the strength of the market and capital spending from our core customer base. The growth in Downstream Petroleum revenues was primarily due to the performance of work for two additional refinery customers, while the growth in Specialty revenues was primarily related to the LNG construction project.

Backlog increased from \$230.1 million at May 31, 2006 to \$349.3 million at May 31, 2007. A change in the method used to calculate backlog that led to the inclusion of time and material contracts that had been previously excluded accounted for \$35.4 million of the increase, the remaining increase was due to significant awards for the construction of Aboveground Storage Tank capacity at new terminals and terminal expansions.

Gross profit rose from \$20.4 million in fiscal 2006 to \$29.5 million in fiscal 2007, an improvement of 44.6%. Construction Services gross margins declined from 8.4% in fiscal 2006 to 8.1% in fiscal 2007. This decrease occurred due to a pre-tax charge in fiscal 2007 of \$11.3 million on an LNG construction project in the Gulf Coast region. The charge was a result of a difficult post-Katrina labor environment, unforeseen productivity challenges and complexity of design leading to material and equipment cost increases. In addition, weather continued to affect this lump sum project resulting in a more compressed schedule. The loss recognized in fiscal 2007 reflected our best forecast of costs required to achieve our customer's schedule on the 42.5% of the work remaining to be completed at May 31, 2007.

Operating income and income before income tax expense increased to \$11.6 million and \$10.4 million, respectively, in fiscal 2007 from operating income and income before income tax expense of \$6.6 million and \$2.5 million in fiscal 2006, respectively. This significant improvement was the result of additional revenues, combined with lower interest expense.

Repair and Maintenance Services

Revenues from the Repair and Maintenance Services segment grew \$23.5 million, or 9.4%, from \$250.2 million in fiscal 2006 to \$273.7 million in fiscal 2007. This improvement resulted primarily from increases in Aboveground Storage Tank revenues of \$28.1 million and Electrical and Instrumentation revenues of \$14.2 million. Partially offsetting this growth was a reduction in Downstream Petroleum revenues of \$18.8 million as turnaround work that occurred in fiscal 2006 was not fully replaced in fiscal 2007.

Repair and Maintenance Services backlog increased from \$18.3 million at May 31, 2006 to \$110.8 million at May 31, 2007, an increase of \$92.5 million or 505.5%. An increase of \$24.3 million was driven by leveraging our AST construction customers, resulting in new and additional AST repair and maintenance projects. The remaining increase was due to a change in the method used to calculate backlog that led to the inclusion of time and material contracts that had previously been excluded.

Gross margins improved to 13.3% in fiscal 2007 as compared to gross margins of 10.7% in fiscal 2006 primarily as the result of more effective project execution and higher revenue volumes relative to the segment's overall fixed cost structure. Gross profit also improved from \$26.7 million in fiscal 2006 to \$36.4 million in fiscal 2007.

Operating income and income before income tax expense climbed to \$21.6 million and \$20.8 million, respectively, in fiscal 2007 compared to \$11.2 million and \$9.2 million produced in fiscal 2006. This improvement was primarily due to higher revenues and margins combined with reduced interest expense.

Non-GAAP Financial Measure

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

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

A reconciliation of EBITDA to net income follows:

	Fiscal Year Ended May 31,		
	2008	2007	2006
		(In thousands)	
Net income	\$ 21,414	\$ 19,171	\$ 7,653
Interest expense, net	808	2,264	7,677
Provision for income taxes	12,302	11,943	3,941
Depreciation and amortization	8,373	6,500	5,698
EBITDA	<u>\$ 42,897</u>	<u>\$ 39,878</u>	<u>\$ 24,969</u>

Outlook

We expect the strong demand for our core services in the energy market to continue into fiscal 2009. We are focused on diversifying our service offerings and expanding our geographic footprint within the energy and industrial markets. By focusing on project execution, customer service and diversification, we believe that we are well positioned to build upon our recent growth and expect record revenues and net income in fiscal 2009.

FINANCIAL CONDITION AND LIQUIDITY

Overview

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity in fiscal 2008 were cash flows from operations and borrowings under our senior revolving credit facility. Cash on hand at May 31, 2008 totaled \$22.0 million and availability under the senior revolving credit facility totaled \$70.4 million, resulting in total liquidity of \$92.4 million. Factors that routinely impact our short-term liquidity and may impact our long-term liquidity include, but are not limited to:

- Changes in working capital
- Contract terms that determine the timing of billings to customers and the collection of those billings
 - Some cost plus and fixed price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collections from our customers.
 - Time and material contracts are normally billed in arrears. Therefore, we are required to carry these costs until they can be billed and collected.
 - Some of our large construction projects require retentions.
- Capital expenditures
- Strategic investments in new operations
- Acquisitions of new businesses
- Purchases of shares under our existing or any future stock buyback program
- Contract disputes or collection issues resulting from the failure of a significant customer

In the future, we may elect to increase the revolving credit facility or raise additional capital by issuing common stock, convertible notes or term debt as necessary to fund our operations. In fiscal 2009, we expect cash flows from operations to be a significant source of liquidity, which we expect will provide funding for additional investments in capital assets. We will continue to evaluate our working capital requirements and other factors to maintain sufficient liquidity.

Cash Flows from Operating Activities

Operations generated \$45.6 million of cash in fiscal 2008 compared to \$11.4 million in fiscal 2007. The \$34.2 million increase in cash generated from operations was due primarily to a favorable change in operating assets and liabilities of \$10.0 million in fiscal 2008, compared to an unfavorable change of \$16.0 million in fiscal 2007. Also contributing to the increase was a \$2.2 million increase in net income and an increase in non-cash charges of \$6.0 million.

Cash Flows from Investing Activities

Investing activities used \$17.9 million of cash in fiscal 2008 due to capital expenditures of \$18.3 million partially offset by proceeds from asset sales of \$0.4 million. Fiscal 2008 capital expenditures were related to the replacement of existing assets, the support of growth in our business and facility expansions. Expenditures totaled \$9.4 million for the purchase of construction equipment, \$2.6 million for transportation equipment, \$2.1 million for furniture and fixtures, and \$4.2 million for land and buildings. Assets acquired through capital leases totaled \$1.2 million in fiscal 2008 and are reported as non-cash additions to Property, Plant and Equipment in the Consolidated Statement of Cash Flows.

Our Board of Directors has approved a capital budget of \$26.4 million for fiscal 2009. Capital required to complete projects in progress at May 31, 2008 totaled \$4.7 million, or 18% of the capital budget. Capital to replace, repair or maintain equipment is \$7.4 million, or 28% of the capital budget. We expect to invest \$12.0 million, or 45% of the capital budget in new assets to increase fabrication capacity and to equip additional construction and maintenance crews in targeted growth markets. The remaining \$2.3 million, or 9% of the capital budget is to purchase, expand or improve facilities to address the Company's need for additional office and shop space.

Cash Flows from Financing Activities

Financing activities used \$15.3 million of cash in fiscal 2008. This was primarily due to open market purchases of treasury shares of \$12.8 million, payments on the acquisition note of \$2.7 million, and capital lease payments of \$0.8 million, partially offset by the net proceeds received from stock option and deferred share activity of \$1.1 million.

Senior Revolving Credit Facility

The senior revolving credit facility is primarily used to fund short-term changes in working capital and issuance of letters of credit. The total capacity of the facility at May 31, 2008 was \$75.0 million with \$4.6 million outstanding for letters of credit that have been issued to support certain workers' compensation insurance programs. The facility contains provisions that allow us to increase the capacity to \$100.0 million, with the approval of the administrative agent. The Company currently believes that sufficient liquidity exists but may seek approval to increase the facility to \$100.0 million in the future if considered necessary. We believe the senior credit facility provides adequate liquidity and financial flexibility to support our expected growth in fiscal 2009 and beyond.

The facility contains customary negative covenants including limits on other indebtedness, operating and capital lease obligations, asset sales, dividends and certain other distributions. The facility also contains financial covenants that require us to maintain certain financial ratios, including a senior leverage ratio, an asset coverage ratio, a fixed charge coverage ratio and a tangible net worth requirement. Non-compliance with any of these ratios or a violation of other covenants could result in an event of default and reduce availability under the facility. We are currently in compliance with all covenants and have full availability under the facility.

Convertible Notes

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

Acquisition Payable

As part of an acquisition in fiscal 2003, we deferred a portion of the purchase price to be paid in annual installments over five years. The final payment of \$2.8 million was due in fiscal 2008. On March 7, 2008, we paid \$2.3 million to the seller. An additional \$0.4 was paid on behalf of the seller to certain taxing authorities, the remaining \$0.1 million will be paid either to or on behalf of the seller to the taxing authorities after final resolution of certain disputed sales and use tax obligations.

Dividend Policy

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

Treasury Shares

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 our common stock outstanding at that time. To date, Matrix Service has purchased 2,846,782 shares under the program and has authorization to purchase an additional 600,724 shares. In fiscal 2008, the Company purchased 729,982 shares at an average price of \$17.59. In addition to the stock buyback program, Matrix Service may withhold shares of common stock to satisfy the tax withholding obligation upon vesting of an employee's deferred shares. The Company withheld 23,192 shares of common stock during fiscal 2008 for the obligation. In addition to shares that may be repurchased in conjunction with the future issuance of deferred shares, Matrix Service has and may continue to repurchase shares under the stock buyback program if the Company determines the purchase is accretive to earnings per share. The Company has 1,825,600 treasury shares remaining as of May 31, 2008 and intends to utilize these treasury shares solely for the satisfaction of stock issuances under the Company's stock plans.

Commitments

As of May 31, 2008, the following commitments were in place to support our ordinary course obligations:

	Commitments by Expiration Period				Total
	Less than 1 Year	1 – 3 Years	3 – 5 Years (In thousands)	More than 5 Years	
Letters of credit (1)	\$ -	\$ -	\$ 4,648	\$ -	\$ 4,648
Surety bonds	41,893	5,577	-	-	47,470
Total commitments	\$ 41,893	\$ 5,577	\$ 4,648	\$ -	\$ 52,118

- (1) All letters of credit are in support of our workers' compensation insurance programs. The letters of credit are secured by our senior credit facility and are expected to renew annually through the term of the credit facility; therefore, they are reported in the same period that the credit facility expires.

Contractual obligations at May 31, 2008 are summarized below:

	Contractual Obligations by Expiration Period				Total
	Less than 1 Year	1-3 Years	3-5 Years (In thousands)	More than 5 Years	
Operating leases	\$ 1,856	\$ 3,736	\$ 3,128	\$ 2,200	\$ 10,920
Capital lease obligations	1,050	1,082	46	-	2,178
Acquisition payable	111	-	-	-	111
Total contractual obligations	\$ 3,017	\$ 4,818	\$ 3,174	\$ 2,200	\$ 13,209

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our interest rate risk results primarily from our variable rate indebtedness under our senior credit facility, which is influenced by movements in short-term rates. Borrowings under our \$75.0 million revolving credit facility are based on an alternate base rate or one, two, three or six month LIBOR as elected by the Company plus an additional margin based on our Senior Leverage Ratio. Although there were no amounts outstanding under the facility at May 31, 2008, we do routinely borrow against our revolving credit line to fund short-term working capital needs. We do not currently utilize interest rate swaps to hedge our interest rate risk; therefore, short-term interest rates could have an impact on future interest expense.

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

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

- (1) There were no outstanding borrowings under our senior credit facility at May 31, 2008. In fiscal 2008, the weighted average interest rate on our borrowings under our senior credit facility was 7.7%. At the Company's option, amounts borrowed under the revolving credit facility will bear interest at LIBOR or an alternate base rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The alternate base rate is the greater of the prime rate or the fed funds effective rate plus 0.5%. The additional margin ranges from 0.00% to 0.25% on alternate base rate borrowings and from 1.00% to 1.75% on LIBOR-based borrowings. The Senior Leverage Ratio for the quarter ended May 31, 2008 places the Company in the lowest interest rate tier, resulting in LIBOR and alternative base rate margins of 1.00% and 0.00%, respectively.
- (2) The payment included in the table represents the amount the Company is obligated to pay in the period indicated. The Acquisition payable is recorded at its present value of \$0.1 million in the financial statements, and will be paid either to or on behalf of the seller to certain taxing authorities after final resolution of disputed sales and use tax obligations.

Financial instruments with interest rate risk at May 31, 2007 are as follows:

	Maturity by Fiscal Year						Fair Value as of May 31, 2007
	2008	2009	2010	2011	2012	Total	
	(In thousands)						
Long-term debt:							
Variable rate debt (1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition payable (2)	2,820	-	-	-	-	2,820	2,653

- (1) There were no outstanding borrowings under our senior credit facility at May 31, 2007. In fiscal 2007, the weighted average interest rate on our borrowings under our senior credit facility was 8.9%. At the Company's option, amounts borrowed under the revolving credit facility will bear interest at LIBOR or an alternate base rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The alternate base rate is the greater of the prime rate or the fed funds effective rate plus 0.5%. The additional margin ranged from 0% to 0.75% on alternate base rate borrowings and from 1.50% to 2.25% on LIBOR-based borrowings. The Senior Leverage Ratio for the quarter ended May 31, 2007 placed the Company in the lowest interest rate tier, resulting in LIBOR and alternative base rate margins of 1.50% and 0%, respectively.

Effective July 6, 2007, the Company amended the senior credit facility. The amendment reduced the additional margin on alternate base rate borrowings to a range of 0% to 0.25% and reduced the additional margins on the LIBOR based borrowings to a range of 1.00% to 1.75%.

- (2) The payments included in the table represents the amount the Company was obligated to pay in the period indicated. The Acquisition Payable is recorded at its present value of \$2.7 million in the financial statements. Accretion is recorded based on an interest rate of approximately 5.1%.

Foreign Currency Risk

Matrix Service has subsidiaries with operations in Canada with the Canadian dollar as their functional currency. Historically, movements in the foreign currency exchange rate have not significantly impacted results. However, growth in our Canadian operations and fluctuations in the Canadian dollar could impact the Company's financial results in the future. Management has not entered into derivative instruments to hedge foreign currency risk, but periodically evaluates the materiality of our foreign currency exposure. A 10% change in the Canadian dollar against the U. S. dollar would not have had a material impact on the financial results of the Company for the fiscal year ended May 31, 2008.

Commodity Risk

Steel and steel pipe are the primary raw materials used by the Company. 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 price, quantity available and timing of availability 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 and other market conditions. We mitigate these risks by including standard language in our contracts, which passes the risk of increases in steel prices or unavailability of steel to our customers.

Item 8. Financial Statements and Supplementary Data

Financial Statements of the Company

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Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II – Valuation and Qualifying Accounts for the three fiscal years ended May 31, 2008, 2007, and 2006 immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Matrix Service Company (the "Company") and its wholly-owned subsidiaries are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2008. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*.

Management's assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, overall control environment and information systems control environment. Based on this assessment, the Company's management has concluded that the Company's internal control over financial reporting as of May 31, 2008 was effective.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Matrix Service Company and subsidiaries ("the Company") as of May 31, 2008 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended May 31, 2008 of the Company and our report dated August 5, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule.

Deloitte & Touche LLP

Tulsa, Oklahoma
August 5, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Matrix Service Company and subsidiaries (the "Company") as of May 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Matrix Service Company and subsidiaries as of May 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of May 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 5, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

**Tulsa, Oklahoma
August 5, 2008**

Matrix Service Company
Consolidated Balance Sheets
(In thousands)

		As of May 31,	
		2008	2007
Assets			
Current assets:			
Cash and cash equivalents	\$	21,989	\$ 9,147
Accounts receivable, less allowances (2008 - \$269; 2007 - \$260)		105,858	98,497
Costs and estimated earnings in excess of billings on uncompleted contracts		49,940	45,634
Inventories		4,255	4,891
Deferred income taxes		4,399	3,283
Prepaid expenses		3,357	2,910
Other current assets		809	929
Total current assets		190,607	165,291
Property, plant and equipment, at cost:			
Land and buildings		24,268	23,405
Construction equipment		47,370	39,958
Transportation equipment		16,927	14,380
Furniture and fixtures		11,781	10,116
Construction in progress		6,712	1,788
		107,058	89,647
Accumulated depreciation		(49,811)	(43,654)
		57,247	45,993
Goodwill		23,329	23,357
Other assets		3,410	8,268
Total assets		\$ 274,593	\$ 242,909

See accompanying notes.

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

	As of May 31,	
	2008	2007
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 53,449	\$ 52,144
Billings on uncompleted contracts in excess of costs and estimated earnings	48,709	34,243
Accrued insurance	8,451	6,422
Accrued wages and benefits	14,976	15,442
Income tax payable	2,028	956
Current capital lease obligation	1,042	753
Current portion of acquisition payable	111	2,712
Other accrued expenses	1,015	1,313
Total current liabilities	129,781	113,985
Long-term capital lease obligation	1,000	836
Deferred income taxes	5,112	2,512
Stockholders' equity:		
Common stock - \$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of May 31, 2008 and 2007	279	279
Additional paid-in capital	108,402	104,408
Retained earnings	44,809	23,422
Accumulated other comprehensive income	1,584	967
	155,074	129,076
Less treasury stock, at cost – 1,825,600 and 1,297,466 shares as of May 31, 2008 and 2007	(16,374)	(3,500)
Total stockholders' equity	138,700	125,576
Total liabilities and stockholders' equity	\$ 274,593	\$242,909

See accompanying notes.

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

	Fiscal Year Ended May 31,		
	2008	2007	2006
Revenues	\$ 731,301	\$ 639,846	\$ 493,927
Cost of revenues	656,184	573,960	446,848
Gross profit	75,117	65,886	47,079
Selling, general and administrative expenses	40,566	32,836	29,381
Operating income	34,551	33,050	17,698
Other income (expense):			
Interest expense	(890)	(2,403)	(7,765)
Interest income	82	139	88
Other	(27)	328	1,573
Income before income taxes	33,716	31,114	11,594
Provision for federal, state and foreign income taxes	12,302	11,943	3,941
Net income	<u>\$ 21,414</u>	<u>\$ 19,171</u>	<u>\$ 7,653</u>
Basic earnings per common share	<u>\$ 0.81</u>	<u>\$ 0.83</u>	<u>\$ 0.39</u>
Diluted earnings per common share	<u>\$ 0.80</u>	<u>\$ 0.74</u>	<u>\$ 0.35</u>
Weighted average common shares outstanding:			
Basic	26,427	23,056	19,652
Diluted	26,875	26,752	25,742

See accompanying notes.

Matrix Service Company

Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)		Total
					Translation	Derivative	
Balances, May 31, 2005	\$ 193	\$ 56,322	\$ (3,307)	\$ (5,201)	\$ 44	\$ (66)	\$ 47,985
Net income	-	-	7,653	-	-	-	7,653
Other comprehensive income							
Translation adjustment	-	-	-	-	770	-	770
Derivative activity	-	-	-	-	-	66	66
Comprehensive income							8,489
Conversion of convertible notes (1,002,275 shares)	10	4,291	-	-	-	-	4,301
Issuance of additional common stock (2,307,692 shares)	23	14,859	-	-	-	-	14,882
Exercise of stock options (142,364 shares)	-	74	(30)	389	-	-	433
Tax effect of exercised stock options	-	309	-	-	-	-	309
Balances, May 31, 2006	226	75,855	4,316	(4,812)	814	-	76,399
Net income	-	-	19,171	-	-	-	19,171
Other comprehensive income							
Translation adjustment	-	-	-	-	153	-	153
Comprehensive income							19,324
Conversion of convertible notes (5,292,974 shares)	53	23,623	-	-	-	-	23,676
Exercise of stock options (433,920 shares)	-	1,324	(65)	1,312	-	-	2,571
Tax effect of exercised stock options	-	2,132	-	-	-	-	2,132
Stock-based compensation expense	-	1,474	-	-	-	-	1,474
Balances, May 31, 2007	279	104,408	23,422	(3,500)	967	-	125,576
Net income	-	-	21,414	-	-	-	21,414
Other comprehensive income							
Translation adjustment	-	-	-	-	617	-	617
Comprehensive income							22,031
Exercise of stock options (165,450 shares)	-	574	(27)	494	-	-	1,041
Tax effect of exercised stock options	-	721	-	-	-	-	721
Stock-based compensation expense	-	2,874	-	-	-	-	2,874
Issuance of deferred shares (59,590 shares)	-	(175)	-	175	-	-	-
Other treasury share purchases (23,192 shares)	-	-	-	(700)	-	-	(700)
Open market purchase of treasury shares (729,982 shares)	-	-	-	(12,843)	-	-	(12,843)
Balances, May 31, 2008	\$ 279	\$108,402	\$ 44,809	\$(16,374)	\$ 1,584	\$ -	\$ 138,700

See accompanying notes.

Matrix Service Company
Consolidated Statements of Cash Flows

(In thousands)

	Fiscal Year Ended May 31,		
	2008	2007	2006
Operating activities:			
Net income	\$ 21,414	\$ 19,171	\$ 7,653
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,373	6,500	5,698
Deferred income tax	1,484	(1,442)	1,316
Gain on sale of property, plant and equipment	(6)	(186)	(1,554)
Allowance for uncollectible accounts	1,161	189	587
Stock-based compensation expense	2,874	1,474	-
Accretion on acquisition payable	108	206	271
Amortization of debt issuance costs	152	372	2,660
Amortization of prepaid interest	-	1,069	1,921
Changes in operating assets and liabilities increasing (decreasing) cash:			
Receivables	(2,748)	(22,957)	10,946
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,306)	(21,096)	(1,945)
Inventories	636	(1,369)	(990)
Prepaid expenses and other assets	(1,530)	(3,879)	(848)
Accounts payable	963	5,590	9,093
Billings on uncompleted contracts in excess of costs and estimated earnings	14,466	22,166	(348)
Accrued expenses	1,265	4,333	(2,075)
Income tax receivable/payable	1,290	1,217	3,412
Other	-	-	83
Net cash provided by operating activities	45,596	11,358	35,880
Investing activities:			
Acquisition of property, plant and equipment	(18,302)	(13,120)	(5,614)
Proceeds from asset sales	452	288	7,046
Net cash provided (used) by investing activities	\$ (17,850)	\$ (12,832)	\$ 1,432

See accompanying notes.

Matrix Service Company

Consolidated Statements of Cash Flows (continued)

(In thousands)

	Fiscal Year Ended May 31,		
	2008	2007	2006
Financing activities:			
Issuance of common stock	\$ 1,041	\$ 2,571	\$ 15,315
Advances under bank credit facility	183,810	126,740	142,601
Repayments of bank credit facility	(183,810)	(126,740)	(185,280)
Payment of debt issuance costs	-	(145)	(929)
Capital lease payments	(775)	(671)	(416)
Repayment of other notes	(2,709)	(1,880)	(1,862)
Tax benefit of exercised stock options and vesting of deferred shares	721	2,132	-
Open market purchase of treasury shares	(12,843)	-	-
Other treasury share purchases	(700)	-	-
Net cash provided (used) by financing activities	<u>(15,265)</u>	<u>2,007</u>	<u>(30,571)</u>
Effect of exchange rate changes on cash	361	29	348
Net increase in cash and cash equivalents	<u>12,842</u>	<u>562</u>	<u>7,089</u>
Cash and cash equivalents, beginning of year	<u>9,147</u>	<u>8,585</u>	<u>1,496</u>
Cash and cash equivalents, end of year	<u><u>\$ 21,989</u></u>	<u><u>\$ 9,147</u></u>	<u><u>\$ 8,585</u></u>
Supplemental disclosure of cash flow information			
Cash paid (received) during the period for:			
Income taxes	<u>\$ 8,750</u>	<u>\$ 10,034</u>	<u>\$ (810)</u>
Interest	<u>\$ 529</u>	<u>\$ 723</u>	<u>\$ 3,024</u>
Non-cash investing and financing activities:			
Equipment acquired through capital leases	<u>\$ 1,220</u>	<u>\$ 1,316</u>	<u>\$ 1,016</u>
Purchases of property, plant and equipment on account	<u>\$ 484</u>	<u>\$ 142</u>	<u>\$ 711</u>
Conversion of convertible notes	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 5,000</u>

See accompanying notes.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

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

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

Use of Estimates

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

Revenue Recognition

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

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

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

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

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.

Cash Equivalents

The Company includes as cash equivalents all investments with original maturities of three months or less which are readily convertible into cash. The carrying value of cash equivalents approximates fair value. Approximately \$0.3 million of cash as of May 31, 2008 and 2007 is classified as Other Assets as it is restricted for use under an alliance agreement with a customer.

Accounts Receivable

Accounts receivable are carried on a gross basis, less the allowance for uncollectible accounts. The Company grants credit without requiring collateral from its customers that consist primarily of major integrated oil companies, independent refiners and marketers, power companies, petrochemical companies, pipelines, contractors and engineering firms. Although this potentially exposes the Company to the risks of individual customer defaults or depressed cycles in these industries, our contracts require payment as projects progress or advance payment in some circumstances. In addition, in most cases the Company can place liens against the property, plant or equipment constructed or terminate the contract if a material contract default occurs. Management estimates the allowance for uncollectible accounts based on existing economic conditions, the financial condition of its customers and the amount and age of past due accounts. Accounts are written off against the allowance for uncollectible accounts only after all collection attempts have been exhausted.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Loss Contingencies

Various legal actions, claims and other contingencies arise in the normal course of our business. Contingencies are recorded in the consolidated financial statements, or are otherwise disclosed, in accordance with SFAS No. 5, "Accounting for Contingencies". Specific reserves are provided for loss contingencies to the extent we conclude their occurrence is both probable and estimable. We use a case-by-case evaluation of the underlying data and update our evaluation as further information becomes known. We believe that any amounts exceeding our recorded accruals should not materially affect our financial position, results of operations or liquidity. However, the results of litigation are inherently unpredictable and the possibility exists that the ultimate resolution of one or more of these matters could result in a material adverse effect on our financial position, results of operations or liquidity.

Legal costs are expensed as incurred.

Inventories

Inventories consist primarily of raw materials and are stated at the lower of cost or net realizable value. Cost is determined primarily using the average cost method.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Depreciable lives are as follows: buildings – 40 years, construction equipment – 3 to 15 years, transportation equipment – 3 to 5 years, and furniture and fixtures – 3 to 10 years.

Impairment of Long-Lived Assets

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

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

Goodwill

Goodwill and intangible assts with indefinite useful lives are not amortized and are tested at least annually for impairment. Goodwill represents the excess of the purchase price of acquisitions over the 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.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

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

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

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, 2008 and May 31, 2007, insurance reserves totaling \$8.5 million and \$6.4 million, respectively, are included in our consolidated balance sheet. These amounts represent our best estimate of our ultimate obligations for asserted claims, insurance premium obligations and claims incurred but not yet reported at the balance sheet dates. We establish specific reserves for claims using case-by-case evaluations of the underlying claim data and update our evaluations as further information becomes known. Judgments and assumptions are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. Additionally, the actual results of claim settlements could differ from the amounts estimated.

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.

Stock - Based Compensation

Prior to June 1, 2006, the Company accounted for stock options granted under its stock-based compensation plans ("Plans") pursuant to the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Therefore, compensation cost for stock options was not recognized in the Consolidated Statement of Income for the fiscal year ended May 31, 2006 because all options granted under the Plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. Effective June 1, 2006 the Company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"), using the modified-prospective method. Under this method, compensation cost for all share-based awards is recognized over the requisite service period. As required under the modified-prospective method, results for prior periods have not been restated.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Recent Accounting Standards

FIN 48 – Accounting for Uncertainty in Income Taxes

Effective June 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109”, as amended (“FIN No. 48”). Upon adoption of FIN No. 48 on June 1, 2007 and as of May 31, 2008, the Company had no material uncertain tax positions and no adjustments to the Company’s financial statements were required.

The Company files federal and various state income tax returns and tax returns in certain foreign jurisdictions. In the Company’s significant tax jurisdictions, the tax years 2005 through 2008 are subject to examination by federal tax authorities and the tax years 2004 through 2008 are subject to examination by state and foreign taxing authorities.

The Company accrues interest and penalties on underpayment of income taxes related to uncertain tax positions as a component of income tax expense in the consolidated statement of income. No amounts were recognized for interest and penalties upon adoption of FIN No. 48 or during the twelve months ended May 31, 2008.

SFAS No. 157 – Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). This Statement established a framework for fair value measurements in the financial statements by providing a definition of fair value, guidance on the methods used to estimate fair value and expanded disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is generally applied prospectively. We do not expect the Company’s adoption of SFAS No. 157 to have a material effect on our financial statements.

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

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

SFAS No. 141(R) – Business Combinations

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

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 2. Uncompleted Contracts

Contract terms of the Company's construction contracts generally provide for progress billings based on project milestones. The excess of costs incurred and estimated earnings over amounts billed on uncompleted contracts is reported as a current asset. The excess of amounts billed over costs incurred and estimated earnings on uncompleted contracts is reported as a current liability. Gross and net amounts on uncompleted contracts are as follows:

	As of May 31,	
	2008	2007
	(In thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$ 982,369	\$ 697,045
Billings on uncompleted contracts	981,138	685,654
	\$ 1,231	\$ 11,391
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 49,940	\$ 45,634
Billings on uncompleted contracts in excess of costs and estimated earnings	48,709	34,243
	\$ 1,231	\$ 11,391

Accounts receivable at May 31, 2008 and 2007 included retentions to be collected within one year of \$16.3 million and \$8.6 million, respectively. Contract retentions collectible beyond one year are included in Other Assets on the Consolidated Balance Sheets and totaled \$1.7 million at May 31, 2008 and \$7.5 million at May 31, 2007. Billings on uncompleted contracts in excess of costs and estimated earnings at May 31, 2008 and May 31, 2007 included an estimated accrued loss of \$0.3 million and \$3.8 million on a construction project that was partially complete at those dates.

Gulf Coast LNG Project

The Company has recorded a cumulative net loss of \$29.8 million on a Gulf Coast construction project for three LNG tanks of which \$20.8 was recorded during fiscal 2008. This charge reflects management's best estimate of the total revenues to be realized, including incentives, and total costs at completion. The current forecast includes actual cost and productivity data as of May 31, 2008 when the project was 99% complete and detailed cost projections for all remaining activity.

The Company successfully achieved the contracted completion date for tank one in February 2008, tank two in March 2008, and the third tank in April of 2008. Retentions have been billed and collected on tanks one and two. Tank three retention is \$3.6 million and is scheduled to be billed and collected in the normal course of business.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 3. Property Sales and Assets Held for Sale

Asset Sales

In fiscal 2006, the Company completed several sales of excess assets including:

- A fabrication facility in Tulsa, Oklahoma was sold for \$0.7 million. The sale proceeds approximated the book value of the asset.
- Excess construction equipment was sold for net proceeds of \$1.7 million, including \$0.2 million for services to be provided in the future. The sale resulted in a gain of approximately \$0.6 million and these services have been provided.
- A fabrication facility and land in Holmes, Pennsylvania was sold for \$0.7 million. The asset sale resulted in a gain of approximately \$0.4 million.
- A Bethlehem, Pennsylvania fabrication facility was sold for \$3.5 million, \$0.5 million of which was in the form of a promissory note bearing interest at 12% per annum. The sale resulted in a gain of \$0.4 million. In November 2006, the buyer paid the promissory note in full.
- The corporate facility at the time was sold and subsequently leased back from the buyer. The net proceeds from the sale were approximately \$0.7 million. No gain or loss was recognized on the sale, as the carrying value of the facility approximated the sale proceeds.

Assets Held for Sale

The Company holds excess land located in Orange, California, for which a sale is pending. The carrying value of the excess land at May 31, 2008 was \$0.8 million, which approximates the expected proceeds from the pending sale. The land is included in Other current assets on the Consolidated Balance Sheets and is reflected in the Company's "Other" segment in Note 14.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 4. Goodwill

The changes in the carrying amount of goodwill by segment for the fiscal years ended May 31, 2008 and 2007 follow:

	Construction Services	Repair and Maintenance Services	Total
		(In thousands)	
Balance at May 31, 2006	\$ 4,315	\$ 19,127	\$ 23,442
Purchase price adjustment	(110)	(47)	(157)
Translation adjustment	-	72	72
Balance at May 31, 2007	4,205	19,152	23,357
Purchase price adjustment	(153)	(65)	(218)
Translation adjustment	-	190	190
Balance at May 31, 2008	\$ 4,052	\$ 19,277	\$ 23,329

The translation adjustment relates to goodwill recorded as a part of a Canadian acquisition. A deferred tax asset valuation allowance relating to an acquisition was reversed that resulted in the goodwill adjustments in both fiscal 2007 and fiscal 2008.

Note 5. Debt

Effective November 30, 2006, the Company entered into a Second Amended and Restated Credit Agreement ("Credit Agreement"), for a five-year, \$75.0 million senior revolving credit facility ("Credit Facility"). On July 6, 2007, the Company entered into the First Amendment to the Second Amended and Restated Credit Agreement ("Amendment") which changed certain terms in the Credit Agreement, including extension of the Revolving Credit termination date from November 30, 2011 to November 30, 2012. The Credit Agreement is guaranteed by substantially all of the Company's subsidiaries and is secured by a lien on substantially all of the Company's assets. The Company may elect to increase the total capacity under the Credit Agreement up to \$100.0 million, with the approval of the administrative agent.

Availability under the senior credit facility is as follows:

	May 31, 2008	May 31, 2007
	(In thousands)	
Senior credit facility - revolver	\$ 75,000	\$ 75,000
Letters of credit	4,648	8,575
Availability under senior credit facility	\$ 70,352	\$ 66,425

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

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

- Senior Leverage Ratio not to exceed 2.50 to 1.00;
- Asset Coverage Ratio to be greater than 1.45 to 1.00;
- Fixed Charge Coverage Ratio to be greater than 1.25 to 1.00; and
- Tangible Net Worth must be greater than the sum of \$55.6 million plus 75% of positive net income after August 31, 2006 and net proceeds from the sale of any equity securities.

At the Company's option, amounts borrowed under the Credit Facility bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The Alternate Base Rate is the greater of the Prime Rate or the Fed Funds Effective Rate plus 0.5%. The additional margin ranges on the Alternate Base Rate loans are between 0.00% and 0.25% and from between 1.00% and 1.75% on LIBOR-based loans. The Company also pays an Unused Revolving Credit Facility Fee of between 0.175% and 0.375% based on the Senior Leverage Ratio. Since the closing date, the Company has been at the lowest additional margin tier for both LIBOR and Alternate Base Rate loans and the lowest fee tier for the Unused Revolving Credit Facility Fee.

Convertible Notes

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

Note 6. Acquisition Payable

As part of an acquisition in fiscal 2003, the former shareholders of the acquired entity agreed, jointly and severally, to indemnify Matrix Service for damages it may suffer 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 the acquired company of its contractual obligations, and its obligations under applicable laws, including employment and environmental laws. In order to better assure the payment to Matrix Service of any claims by it for indemnity, \$10.0 million of the purchase price was withheld in the form of a deferred purchase price payable to the former shareholders or their designee. As to these matters, Matrix Service may recover its damages only if its claims for damages are made by the due date of the last payment of 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.

Matrix Service did not file an indemnification claim under this provision and on March 7, 2008, \$2.3 million was paid directly to the seller. An additional \$0.4 million was paid on behalf of the seller to certain taxing authorities. The May 31, 2008 balance of \$0.1 million will be paid either to or on behalf of the seller to certain taxing authorities after final resolution of disputed sales and use tax obligations.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 7. Income Taxes

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

	Fiscal Year Ended May 31,		
	2008	2007	2006
	(In thousands)		
Current:			
Federal	\$ 9,213	\$ 11,321	\$ 1,433
State	1,280	1,786	783
Foreign	325	278	376
	10,818	13,385	2,592
Deferred:			
Federal	1,550	(1,007)	958
State	(58)	(434)	411
Foreign	(8)	(1)	(20)
	1,484	(1,442)	1,349
	\$ 12,302	\$ 11,943	\$ 3,941

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

	Fiscal Year Ended May 31,		
	2008	2007	2006
	(In thousands)		
Expected provision for Federal income taxes at the statutory rate	\$ 11,801	\$ 10,890	\$ 3,942
State income taxes, net of Federal benefit	1,206	1,120	793
Charges without tax benefit	(26)	529	562
Change in valuation allowance	2	(764)	(1,401)
State investment credits	(538)	-	-
Other	(143)	168	45
Provision for income taxes	\$ 12,302	\$ 11,943	\$ 3,941

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Significant components of the Company's deferred tax liabilities and assets as of May 31, 2008 and 2007 were as follows:

	As of May 31,	
	2008	2007
	(In thousands)	
Deferred tax liabilities:		
Tax over book depreciation	\$ 5,072	\$ 2,700
Change in tax accounting methods	761	-
Other - net	480	459
Total deferred tax liabilities	6,313	3,159
Deferred tax assets:		
Bad debt reserve	105	102
Foreign insurance dividend	132	132
Vacation accrual	354	118
Insurance reserve	2,750	1,101
Noncompete amortization	62	100
Net operating loss benefit and credit carryforwards	3,002	2,564
Valuation allowance	(2,377)	(2,149)
Accrued compensation and pension	550	-
Stock compensation expense on nonvested deferred shares	806	288
Accrued losses	166	1,618
Other - net	50	56
Total deferred tax assets	5,600	3,930
Net deferred tax asset (liability)	\$ (713)	\$ 771

As reported in the consolidated balance sheets:

	As of May 31,	
	2008	2007
	(In thousands)	
Current deferred tax assets	\$ 4,399	\$ 3,283
Non-current deferred tax liabilities	(5,112)	(2,512)
Net deferred tax asset (liability)	\$ (713)	\$ 771

The Company has state operating loss carryforwards, state investment tax credit carryforwards and federal foreign tax credit carryforwards of which a portion relates to an acquisition. The valuation allowance at May 31, 2008 and May 31, 2007 reduces the recognized tax benefit of these carryforwards to an amount that will more likely than not be realized. The carryforwards generally expire between 2017 and 2027.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 8. Contingencies

Insurance Reserves

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

Typically our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide for warranties for materials and workmanship. The Company may also be required to name the customer as an additional insured under certain insurance policies up to the limits of insurance available, or we may have to purchase special insurance policies or surety bonds for specific customers or provide letters of credit issued under our credit facility in lieu of bonds to satisfy performance and financial guarantees on some projects. Matrix Service currently maintains a performance and payment bonding line of \$ 140.0 million. The Company generally requires its subcontractors to indemnify the Company and the Company's customer and name the Company as an additional insured for activities arising out of the subcontractors' presence at the customer's location. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of the Company, to secure the subcontractors' work or as required by the subcontract.

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

Refinery Accident

On November 6, 2005, two employees of the Company were fatally injured in an accident that occurred at a customer jobsite in Delaware City, Delaware. The estates of both employees have filed liability claims against the property owner. These claims have been tendered by the property owner to the Company for defense. The Company believes that it is adequately reserved or insured for this incident and any losses incurred are not expected to be significant.

Unapproved Change Orders and Claims

As of May 31, 2008 and May 31, 2007, costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders of \$0.8 million and \$5.1 million, respectively. At May 31, 2007 costs and estimated earnings in excess of billings on uncompleted contracts included revenues for other claims of \$1.5 million. There were no claims included in costs and estimated earnings in excess of billings on uncompleted contracts at May 31, 2008. Amounts disclosed for unapproved change orders and claims exclude amounts associated with the contract dispute disclosed elsewhere in this Note 8. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, customers generally will not pay these amounts until final resolution of related claims, and accordingly, collection of these amounts may extend beyond one year.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Contract Disputes

At May 31, 2006, the Company had recorded net receivables of approximately \$11.7 million under four contracts which were in dispute. In fiscal 2007, the Company settled three of the four disputes, comprising \$10.7 million of the recorded net receivables, and collected \$11.3 million under the settlements resulting in a \$0.6 million pre-tax net gain.

At May 31, 2007, the Company had one remaining contract dispute, with a recorded value of \$1.0 million. 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. The Company had planned on continuing its collection efforts through arbitration. However, on November 18, 2007, the owner filed for Chapter 11 bankruptcy protection. The Company's arbitration has been stayed and will not move forward until an order is received from the bankruptcy court to proceed. Based on those events, the Company now believes that collection is unlikely and charged off the receivable in fiscal 2008. The Company will continue to evaluate all available collection alternatives.

Other

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

Note 9. Leases

Operating Leases

The Company is the lessee under operating leases covering real estate, office equipment and vehicles under non-cancelable operating lease agreements that expire at various times. Future minimum lease payments under non-cancelable operating leases that were in effect at May 31, 2008 total \$10.9 million and are payable as follows: fiscal 2009 - \$1.9 million; fiscal 2010 - \$2.0 million; fiscal 2011 - \$1.7 million; fiscal 2012 - \$1.6 million; fiscal 2013 - \$1.5 million and thereafter - \$2.2 million. Operating lease expense was \$1.9 million, \$ 1.2 million and \$1.4 million for the years ended May 31, 2008, 2007 and 2006, respectively. Operating lease expense associated with related party leases was \$0.3 million for the year ended May 31, 2008, \$0.3 million for the year ended May 31, 2007 and \$0.4 million for the year ended May 31, 2006.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Capital Leases

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

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

	Minimum Lease Payments
	(In thousands)
For the year ending May 31:	
2009	\$ 1,050
2010	710
2011	372
2012	46
2013 and thereafter	-
Total Payments	<u>2,178</u>
Amount representing interest	<u>(136)</u>
Total obligation	2,042
Current portion	<u>(1,042)</u>
Long-term capital lease obligation	<u><u>\$ 1,000</u></u>

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

Note 10. Stockholders' Equity

Preferred Stock

The Company has 5.0 million shares of preferred stock authorized, none of which was issued or outstanding at May 31, 2008 or 2007.

Preferred Share Purchase Rights

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

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

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Private Placement of Common Stock

On October 3, 2005, the Company completed a private placement of approximately 2.3 million shares of common stock. The common stock was sold at \$6.50 per share. The net proceeds from the issuance were approximately \$14.9 million. The Company used the proceeds to repay a portion of the then outstanding balance on the Company's revolving line of credit.

In connection with the private placement of common stock, on October 3, 2005, the Company entered into a registration rights agreement with the purchasers of the common stock. The registration rights agreement required us to file a registration statement with respect to the resale of the shares of the common stock issued in the private placement. The registration statement was filed with the SEC on October 20, 2005 and was declared effective by the SEC on October 28, 2005. The registration rights agreement also requires the use of our best efforts to keep the registration statement continuously effective until the earlier of (a) the date on which all of the common stock covered by such registration statement has been sold or may be sold without volume restrictions pursuant to Rule 144(k) under the Securities Act of 1933, as amended, or (b) the fifth anniversary of the date the registration statement is declared effective by the SEC. If we fail to satisfy our obligations under the registration rights agreement, we will owe the holders of the common stock as partial liquidated damages an amount in cash equal to 1% of the aggregate amount paid for the common stock for each such event, and an additional 1% thereafter on each monthly anniversary of each such event (if the applicable failure shall not have been cured by such date) until the applicable failure is cured.

Treasury Shares

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 our common stock outstanding at that time. To date, Matrix Service has purchased 2,846,782 shares under the program and has authorization to purchase an additional 600,724 shares. In fiscal 2008, the Company purchased 729,982 shares at an average price of \$17.59. In addition to the stock buyback program, Matrix Service may withhold shares of common stock to satisfy the tax withholding obligation upon vesting of an employee's deferred shares. The Company withheld 23,192 shares of common stock during fiscal 2008 for the obligation. In addition to shares that may be repurchased in conjunction with the future issuance of deferred shares, Matrix Service has and may continue to repurchase shares under the stock buyback program if the Company determines the purchase is accretive to earnings per share. The Company has 1,825,600 treasury shares remaining as of May 31, 2008 and intends to utilize these treasury shares solely for the satisfaction of stock issuances under the Company's stock plans.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 11. Stock-Based Compensation

Total stock-based compensation expense for the years ended May 31, 2008 and 2007 was \$2.9 million and \$1.5 million, respectively. Measured but unrecognized stock-based compensation expense at May 31, 2008 was \$9.8 million, of which \$0.8 million related to stock options and \$9.0 million related to nonvested deferred shares. These amounts are expected to be recognized as expense over a weighted average period of 2.2 years.

The following table illustrates the pro forma effect on net income and earnings per share for the year ended May 31, 2006 as if the Company had applied the fair value provisions of SFAS No. 123:

	Fiscal Year Ended May 31, 2006
	(In thousands, except per share amounts)
Net Income as reported	\$ 7,653
Pro forma compensation expense from stock options, net of tax effects	(853)
Pro forma net income	<u>\$ 6,800</u>
Earnings per common share as reported	
Basic	\$ 0.39
Diluted	\$ 0.35
Pro forma earnings per common share:	
Basic	\$ 0.35
Diluted	\$ 0.32

Plan Information

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

The Company terminated the 1995 Plan in fiscal 2007. The termination of the 1995 Plan did not affect options outstanding at the time of termination. At May 31, 2008, there were approximately 527,000 shares available for grant under the 2004 Plan. There were no shares available for grant under either the 1990 or 1991 Plans.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Stock Options

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

Stock option activity and related information for the year ended May 31, 2008 is as follows:

	<u>Number of Options</u>	<u>Weighted- Average Remaining Contractual Life</u> (Years)	<u>Weighted- Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u> (In thousands)
Outstanding at May 31, 2007	669,880		\$ 7.09	
Granted	-		-	
Exercised	(165,450)		\$ 6.17	<u>\$ 2,536</u>
Cancelled	<u>(46,600)</u>		\$ 7.41	
Outstanding at May 31, 2008	<u>457,830</u>	5.9	\$ 7.39	<u>\$ 7,665</u>
Vested or expected to vest at May 31, 2008	<u>453,856</u>	5.9	\$ 7.39	<u>\$ 7,588</u>
Exercisable at May 31, 2008	<u>268,410</u>	5.2	\$ 7.01	<u>\$ 4,590</u>

The Company uses the Black-Scholes option pricing model to estimate grant date fair value for each stock option granted. Expected volatility is based on the historic volatility of the Company's stock. The risk-free rate is based on the applicable United States Treasury Note rate. The expected life of the option is based on historical and expected future exercise behavior.

There were no options granted in fiscal 2008 or 2007. Assumptions used to calculate the fiscal 2006 grant date fair value and the fair value calculated was as follows:

	<u>2006</u>
Grant date fair value	\$ 5.62
Risk-free interest rate	3.76%
Expected life in years	4.56
Expected volatility	68.14%
Expected dividend yield	-

The total intrinsic value of stock options exercised during fiscal 2008, 2007, and 2006 were \$2.5 million, \$6.2 million and \$1.0 million, respectively.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

The following table summarizes information about stock options at May 31, 2008:

Range of Exercise Price	Stock Options Outstanding			Stock Options Exercisable		
	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Options Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)
\$ 2.13 - \$ 2.41	34,300	\$ 2.22	1.8	34,300	\$ 2.22	1.8
3.03 - 3.70	58,200	3.41	4.0	58,200	3.41	4.0
4.60 - 5.49	134,750	4.81	6.6	51,950	4.72	6.5
8.93 - 12.20	230,580	10.68	6.5	123,960	10.97	6.2
<u>\$ 2.13 - \$ 12.20</u>	<u>457,830</u>	<u>\$ 7.39</u>	<u>5.9</u>	<u>268,410</u>	<u>\$ 7.01</u>	<u>5.2</u>

Nonvested Deferred Shares

The Company issued nonvested deferred shares in fiscal 2008 and fiscal 2007. A portion of the shares awarded to employees vest after three years if certain performance conditions are satisfied and the remaining shares vest in one to five equal annual installments beginning one year after the grant. All shares awarded to non-employee directors vest after three years if certain performance conditions are satisfied. Based on the actual performance as measured against the performance criteria, the performance-based portion of the award can range from zero to one hundred percent of the original award grant for both the fiscal 2007 and fiscal 2008 grants. The Company's policy is to issue shares upon vesting from its treasury shares, if available. The fiscal 2008 grant also provides for an additional award of up to 50% of the original performance-based award in the form of phantom shares. This phantom share award is based on the achievement of certain stretch financial targets and will be settled in cash.

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

The following table reflects nonvested deferred share activity and related information for the year ended May 31, 2008:

Deferred Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at May 31, 2007	263,130	\$ 14.79
Shares granted	319,370	\$ 25.77
Shares released	(59,590)	\$ 14.82
Shares cancelled	(25,830)	\$ 23.33
<u>Nonvested shares at May 31, 2008</u>	<u>497,080</u>	<u>\$ 21.41</u>

There were 263,130 deferred shares issued in fiscal 2007 with an average grant date fair value of \$14.79. There were no deferred shares issued in fiscal 2006. There were no deferred shares released in fiscal 2007 or fiscal 2006.

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 12. Earnings per Common Share

Basic earnings per share (EPS) is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share includes the dilutive effect of employee and director stock options, as well as the dilutive effect of convertible securities. Stock options are considered antidilutive whenever the exercise prices of the options exceed the average market price of the common stock during the period. Convertible debt is considered antidilutive whenever its interest (net of tax) per common share obtainable on conversion exceeds basic earnings per share. Stock options are considered dilutive whenever the exercise price is less than the average market price of the stock during the period. Dilutive convertible securities are calculated using the "if converted" method, in which all unconverted securities are assumed to be converted as of the beginning of the period. The "if converted" method also requires that any interest charges, net of tax, applicable to the securities be added back to net income for purposes of computing diluted earnings per share. Both stock options and convertible debt are considered antidilutive in the event of a net loss.

There were no antidilutive options for the years ended May 31, 2008 and May 31, 2007. Antidilutive options for the year ended May 31, 2006 totaled 358,267. These options were not included in the calculation of diluted earnings per share.

The computation of basic and diluted EPS is as follows:

	Fiscal Year Ended May 31,		
	2008	2007	2006
	(In thousands, except per share data)		
Basic EPS:			
Net income	\$ 21,414	\$ 19,171	\$ 7,653
Weighted average shares outstanding	26,427	23,056	19,652
Basic EPS	\$ 0.81	\$ 0.83	\$ 0.39
Diluted EPS:			
Net income	\$ 21,414	\$ 19,171	\$ 7,653
Convertible notes interest expense (net of tax)	-	731	1,314
Adjusted net income	\$ 21,414	\$ 19,902	\$ 8,967
Weighted average shares outstanding - basic	26,427	23,056	19,652
Dilutive stock options	352	430	393
Dilutive nonvested deferred shares	96	24	-
Dilutive convertible note shares	-	3,242	5,697
Dilutive weighted average shares	26,875	26,752	25,742
Diluted EPS	\$ 0.80	\$ 0.74	\$ 0.35

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Note 13. Employee Benefit Plan

The Company sponsors a defined contribution 401(k) savings plan (the "Plan") for all eligible employees meeting length of service requirements. Participants may contribute an amount up to 25% of pretax annual compensation as defined in the Plan, subject to certain limitations in accordance with Section 401(k) of the Internal Revenue Code. For calendar years 2005 and 2006, the Company's matching contribution was discretionary and the Company elected to match 50% of the first 6% of employee contributions. The Company match vested ratably beginning after 2 years of service with full vesting occurring after 6 years of service. Effective January 1, 2007, the Plan was amended to include; 1) immediate vesting on all employer matching contributions, 2) make the employer matching contribution mandatory, and 3) modify the matching contribution to 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions.

The Company recognized cost relating to the Plan of \$2.8 million, \$1.5 million and \$1.0 million for the fiscal years ended May 31, 2008, 2007 and 2006, respectively.

Note 14. Segment Information

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

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

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

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

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

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

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Annual Results of Operations

(In thousands)

	<u>Construction Services</u>	<u>Repair & Maintenance Services</u>	<u>Other</u>	<u>Total</u>
Fiscal Year 2008				
Gross revenues	\$ 472,696	\$ 278,818	\$ -	\$ 751,514
Less: inter-segment revenues	16,809	3,404	-	20,213
Consolidated revenues	455,887	275,414	-	731,301
Gross profit	33,081	42,036	-	75,117
Operating income (loss)	8,579	25,997	(25)	34,551
Income (loss) before income tax expense	7,950	25,791	(25)	33,716
Net income (loss)	5,483	15,946	(15)	21,414
Segment assets	150,174	93,052	31,367	274,593
Capital expenditures	9,272	4,363	4,667	18,302
Depreciation and amortization expense	4,966	3,407	-	8,373
Fiscal Year 2007				
Gross revenues	\$ 376,849	\$ 277,556	\$ -	\$ 654,405
Less: inter-segment revenues	10,689	3,870	-	14,559
Consolidated revenues	366,160	273,686	-	639,846
Gross profit	29,494	36,392	-	65,886
Operating income (loss)	11,567	21,556	(73)	33,050
Income (loss) before income tax expense	10,394	20,793	(73)	31,114
Net income (loss)	6,498	12,718	(45)	19,171
Segment assets	136,780	98,737	7,392	242,909
Capital expenditures	6,850	4,319	1,951	13,120
Depreciation and amortization expense	3,586	2,914	-	6,500
Fiscal Year 2006				
Gross revenues	\$ 254,382	\$ 250,832	\$ -	\$ 505,214
Less: inter-segment revenues	10,657	630	-	11,287
Consolidated revenues	243,725	250,202	-	493,927
Gross profit	20,392	26,687	-	47,079
Operating income (loss)	6,561	11,237	(100)	17,698
Income (loss) before income tax expense	2,536	9,158	(100)	11,594
Net income (loss)	2,168	5,547	(62)	7,653
Segment assets	91,079	69,981	27,216	188,276
Capital expenditures	3,945	383	1,286	5,614
Depreciation and amortization expense	2,796	2,902	-	5,698

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Geographical information is as follows:

	Revenues		
	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
		(In thousands)	
Domestic	\$ 718,276	\$ 624,002	\$ 478,154
International	13,025	15,844	15,773
	<u>\$ 731,301</u>	<u>\$ 639,846</u>	<u>\$ 493,927</u>

	Long-Lived Assets		
	May 31, 2008	May 31, 2007	May 31, 2006
		(In thousands)	
Domestic	\$ 77,897	\$ 66,473	\$ 59,134
International	4,352	3,379	3,341
	<u>\$ 82,249</u>	<u>\$ 69,852</u>	<u>\$ 62,475</u>

Segment revenue from external customers by market is as follows:

	Construction Services	Repair & Maintenance Services	Total
	(In thousands)		
Fiscal Year 2008			
Aboveground Storage Tanks	\$ 201,446	\$ 167,970	\$ 369,416
Downstream Petroleum	156,371	89,001	245,372
Electrical and Instrumentation	19,975	18,443	38,418
Specialty	78,095	-	78,095
Total	<u>\$ 455,887</u>	<u>\$ 275,414</u>	<u>\$ 731,301</u>
Fiscal Year 2007			
Aboveground Storage Tanks	\$ 159,274	\$ 125,236	\$ 284,510
Downstream Petroleum	120,828	120,557	241,385
Electrical and Instrumentation	32,439	27,893	60,332
Specialty	53,619	-	53,619
Total	<u>\$ 366,160</u>	<u>\$ 273,686</u>	<u>\$ 639,846</u>
Fiscal Year 2006			
Aboveground Storage Tanks	\$ 88,368	\$ 97,157	\$ 185,525
Downstream Petroleum	95,789	139,371	235,160
Electrical and Instrumentation	22,517	13,674	36,191
Specialty	37,051	-	37,051
Total	<u>\$ 243,725</u>	<u>\$ 250,202</u>	<u>\$ 493,927</u>

Matrix Service Company

Notes to Consolidated Financial Statements (continued)

Information about Significant Customers

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

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

One customer accounted for approximately 14% of the Company's consolidated revenues and approximately 27% of Repair and Maintenance Services revenues for the year ended May 31, 2006. One customer represented 13% of Construction Services revenues and another customer represented 13% of Repair and Maintenance Services revenues.

Matrix Service Company Quarterly Financial Data (Unaudited) Fiscal Years Ended May 31, 2008 and 2007

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Fiscal Year 2008	(In thousands, except per share amounts)			
Revenues	\$ 161,327	\$ 194,734	\$ 181,120	\$ 194,120
Gross profit	18,904	11,246	21,001	23,966
Net income	6,336	210	6,002	8,866
Earnings per common share:				
Basic	0.24	0.01	0.23	0.34
Diluted	0.23	0.01	0.22	0.34
Fiscal Year 2007				
Revenues	\$ 126,859	\$ 166,366	\$ 168,700	\$ 177,921
Gross profit	13,307	21,902	18,924	11,753
Net income	3,008	8,074	6,150	1,939
Earnings per common share:				
Basic	0.14	0.35	0.27	0.08
Diluted	0.12	0.31	0.24	0.08

The Company recorded a pretax charge of \$10.9 million in the fourth quarter of fiscal 2007 and \$16.0 million in the second quarter of fiscal 2008 relating to a Gulf Coast LNG construction project.

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

Matrix Service Company

Schedule II – Valuation and Qualifying Accounts

May 31, 2008, 2007 and 2006

(In thousands)

<u>COL. A</u>	<u>COL. B</u>	<u>COL. C ADDITIONS</u>	<u>COL. D</u>	<u>COL. E</u>	
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts – Describe	Deductions – Describe	Balance at End of Period
Fiscal Year 2008					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 260	\$ 1,161	\$ -	\$ (1,152) ^(A)	\$ 269
Valuation reserve for deferred tax assets	2,149	467 ^(B)	-	(239) ^(C)	2,377
Total	<u>\$ 2,409</u>	<u>\$ 1,628</u>	<u>\$ -</u>	<u>\$ (1,391)</u>	<u>\$ 2,646</u>
Fiscal Year 2007					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 190	\$ 189	\$ -	\$ (119) ^(A)	\$ 260
Contract disputes reserve	5,390	-	-	(5,390) ^(A)	-
Valuation reserve for deferred tax assets	3,431	-	-	(1,282) ^(D)	2,149
Total	<u>\$ 9,011</u>	<u>\$ 189</u>	<u>\$ -</u>	<u>\$ (6,791)</u>	<u>\$ 2,409</u>
Fiscal Year 2006					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 461	\$ 587	\$ -	\$ (858) ^(A)	\$ 190
Contract disputes reserve	10,333	-	-	(4,943) ^(A)	5,390
Valuation reserve for deferred tax assets	5,139	-	-	(1,708) ^(E)	3,431
Total	<u>\$ 15,933</u>	<u>\$ 587</u>	<u>\$ -</u>	<u>\$ (7,509)</u>	<u>\$ 9,011</u>

(A) Receivables written off against allowance for doubtful accounts and contract dispute reserve. The write off in fiscal 2008 relates to a receivable previously classified as a contract dispute receivable.

(B) An excess foreign tax credit was generated in fiscal 2008 for which the current and future utilization is doubtful. Therefore, a valuation allowance for the full amount of the credit was recorded.

(C) Operating loss carryforwards previously reserved were utilized resulting in an adjustment to goodwill and a reduction to the valuation reserve of \$218. The remaining reduction was due to certain miscellaneous adjustments.

(D) Operating loss carryforwards previously reserved were utilized or deemed utilizable resulting in a reduction in the valuation reserve of \$921. The recognition of the operating loss carryforward resulted in a \$157 charge to goodwill and \$764 reduction of the fiscal 2007 tax provision. The remaining reduction was due to miscellaneous adjustments.

(E) Represents recognition of operating loss carryforwards and tax credits previously reserved. Of the reversal, \$202 was charged to goodwill, \$1,401 reduced the current year tax provision and \$105 related to rate adjustments.

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

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of May 31, 2008. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at May 31, 2008.

Management's Report on Internal Control over Financial Reporting

See "Management's Report on Internal Control over Financial Reporting" set forth in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

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

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to the Company's directors and corporate governance is incorporated herein by reference to the sections entitled "Proposal Number 1: Election of Directors" and "Corporate Governance and Board Matters" in the Company's definitive Proxy Statement for 2008 Annual Meeting of Stockholders ("Proxy Statement"). The information required by this item with respect to the Company's executive officers is incorporated herein by reference to the section entitled "Executive Officer Information" in the Proxy Statement. The information required by this item with respect to the Section 16 ownership reports is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

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

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the sections entitled "Proposal Number 1: Election of Directors" and "Executive Officer Compensation" in the Proxy Statement.

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

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

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

The information required by this item is incorporated herein by reference to the section entitled "Proposal Number 1: Election of Directors" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements of the Company

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

Financial Statements of the Company

Management’s Report on Internal Control Over Financial Reporting.....	40
Reports of Independent Registered Public Accounting Firm (Deloitte & Touche LLP).....	41
Consolidated Balance Sheets as of May 31, 2008 and 2007.....	43
Consolidated Statements of Income for the Years Ended May 31, 2008, 2007 and 2006.....	45
Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended May 31, 2008, 2007 and 2006.....	46
Consolidated Statements of Cash Flows for the Years Ended May 31, 2008, 2007 and 2006.....	47
Notes to Consolidated Financial Statements.....	49
Quarterly Financial Data (Unaudited).....	71
Schedule II – Valuation and Qualifying Accounts.....	72

Financial Statement Schedules

The financial statement schedule is filed as a part of this report under Schedule II – Valuation and Qualifying Accounts for the three fiscal years ended May 31, 2008, 2007, and 2006 immediately following Quarterly Financial Data (Unaudited). All other schedules are omitted because they are not applicable or the required information is shown in the financial statements, or notes thereto, included herein.

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

- 3.1 Restated Certificate of Incorporation (Exhibit 3.1 to the Company's Registration Statement on Form S-3 (File No. 333-117077) filed July 1, 2004 (the "S-3 Registration Statement") is hereby incorporated by reference).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation dated October 31, 2000 (Exhibit 3.3 to the S-3 Registration Statement is hereby incorporated by reference).
- 3.3 Form of Certificate of Amendment of Restated Certificate of Incorporation (Appendix A to the Company's Proxy Statement filed on September 15, 2006 (File No. 1-15461) is hereby incorporated by reference).
- 3.4 Certification of Designations, Preferences and Rights of Series B Junior Preferred Stock dated November 12, 1999 (Exhibit 3.2 to the S-3 Registration Statement is hereby incorporated by reference).
- 3.5 Bylaws, as amended (Exhibit 3 to the Company's current report on Form 8-K, filed December 4, 2007, is hereby incorporated by reference).
- 3.6 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated May 1, 2005 (Exhibit 3.5 to the Company's Annual Report on Form 10-K (File No. 1-15461), filed August 17, 2005, is hereby incorporated by reference).
- 3.7 Certificate of Increase of Authorized Number of Shares of Series B Junior Participating Preferred Stock pursuant to Section 151 of the General Corporation Law of the State of Delaware dated October 23, 2006 (Exhibit 3.7 to the Company's annual report on Form 10-K (File No. 1-15461) filed August 14, 2007, is hereby incorporated by reference).
- 4.1 Specimen Common Stock Certificate (Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-36081), filed July 26, 1990, is hereby incorporated by reference).
- 4.2 Securities Purchase Agreement dated April 22, 2005, including form of Note (Exhibit 10.1 to the Company's current report on Form 8-K (File No. 1-15461), filed April 25, 2005, is hereby incorporated by reference).
- + 10.1 Matrix Service 1990 Incentive Stock Option Plan (Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-56945), as amended, filed June 12, 1990, is hereby incorporated by reference).
- + 10.2 Matrix Service 1991 Incentive Stock Option Plan (Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 33-36081), filed July 26, 1990, is hereby incorporated by reference).
- + 10.3 Matrix Service 1995 Nonemployee Directors' Stock Option Plan (Exhibit 4.3 to the Company's Registration Statement on Form S-8 (File No. 333-2771), filed April 24, 1996, is hereby incorporated by reference).
- + 10.4 Matrix Service 2004 Stock Incentive Plan (Exhibit A to the Company's Proxy Statement filed on September 15, 2006 (File No. 1-15461), is hereby incorporated by reference).
- + 10.5 Amendment No. 1 to Matrix Service Company 2004 Stock Incentive Plan (Exhibit 10 to Amended Schedule 14A filed on October 4, 2006 (File No. 1-15461) is hereby incorporated by reference).
- * + 10.6 Amendment No.2 to Matrix Service Company 2004 Stock Incentive Plan.
- * + 10.7 Form of Restricted Stock Award Agreement for non-employee directors (2004 Stock Incentive Plan).
- * + 10.8 Form of Restricted Stock Award Agreement for employees (2004 Stock Incentive Plan).
- + 10.9 Matrix Service Company Deferred Compensation Plan for members of the Board of Directors effective December 31, 2006 (Exhibit 10.5 to the Company's current report on Form 8-K (File No. 1-15461), filed October 27, 2006 is hereby incorporated by reference).

- + 10.10 Form of Severance Agreement (Exhibit 10.6 to the Company's current report on Form 8-K (File No. 1-15461), filed on October 27, 2006 is hereby incorporated by reference).
- + 10.11 Form of Management Retention Agreement (Exhibit 10.7 to the Company's current report on Form 8-K (File No. 1-15461), filed October 27, 2006 is hereby incorporated by reference).
- + 10.12 Form of Stock Option Award Agreement (2004 Stock Incentive Plan) (Exhibit 10.5 to the Company's annual report on Form 10-K (File No. 1-15461) filed August 4, 2006 is hereby incorporated by reference).
- + 10.13 Form of Stock Option Award Agreement (1995 Directors Plan) (Exhibit 10.6 to the Company's annual report on Form 10-K (File No. 1-15461) filed August 4, 2006 is hereby incorporated by reference).
- + 10.14 Amendment No. 1 to the Matrix Service 1995 Nonemployee Directors' Stock Option Plan (Exhibit B to the Company's 2005 Proxy Statement filed on September 16, 2005, is hereby incorporated by reference herein).
- 10.15 Rights Agreement (including a form of Certificate of Designation of Series B Junior Participating Preferred Stock as Exhibit A thereto, a form of Rights Certificate as Exhibit B thereto and a summary of Rights to Purchase Preferred Stock as Exhibit C thereto) dated November 2, 1999, (Exhibit 1 to the Company's current report on Form 8-K (File No. 0-18716), filed November 9, 1999, is hereby incorporated by reference).
- 10.16 Amendment No. 1 to Rights Agreement effective April 21, 2005 (Exhibit 10.4 to the Company's current report on Form 8-K (File No. 1-15461), filed April 25, 2005, is hereby incorporated by reference).
- 10.17 Equity Interests Purchase Agreement dated as of March 7, 2003 by and among Hake Acquisition Corp., Matrix Service Company, and the Holders of the Equity Interests of The Hake Group of Companies (Exhibit 99.1 to the Company's current report on Form 8-K (File No. 1-15461), filed March 24, 2003, is hereby incorporated by reference).
- 10.18 Second Amended and Restated Credit Agreement dated as of November 30, 2006, among the Company, as Borrower, the Lenders party thereto, J.P. Morgan Chase Bank, N.A., as Administrative Agent and J.P. Morgan Securities Inc. as Sole Bookrunner and Sole Lead Arranger (filed as Exhibit 10 to the Company's current report on Form 8-K (File No. 1-15461), filed on December 6, 2006, is hereby incorporated by reference).
- 10.19 First Amendment to Second Amended and Restated Credit Agreement dated as of July 6, 2007 (Exhibit 10 to the Company's current report on Form 8-K (File No. 1-15461), filed July 11, 2007 is hereby incorporated by reference).
- 10.20 Securities Purchase Agreement dated October 3, 2005 (Exhibit 10.1 to the Company's Current Report on Form 8-K filed (File No. 1-15461), filed on October 4, 2005, is hereby incorporated by reference).
- 10.21 Registration Rights Agreement dated October 3, 2005 (Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 1-15461), filed on October 4, 2005, is hereby incorporated by reference).
- 10.22 Amendment No. 2 to Rights Agreement effective as of October 3, 2005 (Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 1-15461), filed on October 4, 2005, is hereby incorporated by reference).
- 10.23 Lump Sum Turnkey Agreement dated May 6, 2005 among the Company, Diamond LNG LLC and Bechtel Corporation (Exhibit 10.34 to the Company's Annual Report on Form 10-K (File No. 1-15461) filed August 17, 2005 is hereby incorporated by reference).

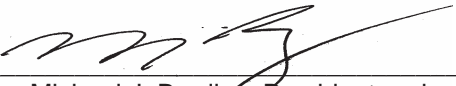
- * 21 Subsidiaries.
- * 23 Consent of Independent Registered Public Accounting Firm – Deloitte & Touche LLP.
- * 31.1 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
- * 31.2 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
- * 32.1 Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
- * 32.2 Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
- * Filed herewith.
- + Management Contract or Compensatory Plan.

SIGNATURES

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


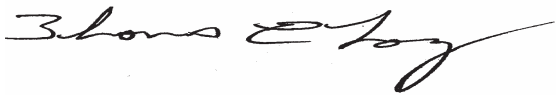

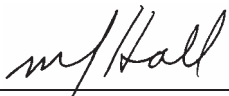



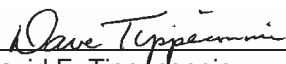
Matrix Service Company

Date: August 5, 2008

By: 

Michael J. Bradley, President and
Chief Executive Officer

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

Signatures	Title	Date
 Mike Bradley	President, Chief Executive Officer and Director (Principal Executive Officer)	August 5, 2008
 Thomas E. Long	Vice President and Chief Financial Officer (Principal Financial Officer)	August 5, 2008
 Kevin S. Cavanah	Vice President – Accounting and Financial Reporting (Principal Accounting Officer)	August 5, 2008
 Michael J. Hall	Chairman of the Board of Directors	August 5, 2008
 I. Edgar Hendrix	Director	August 5, 2008
 Paul K. Lackey	Director	August 5, 2008
 Tom E. Maxwell	Director	August 5, 2008
 David E. Tippeconnic	Director	August 5, 2008

Matrix Service Company

Subsidiaries

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

CERTIFICATIONS

I, Michael J. Bradley, certify that:

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

Date: August 5, 2008



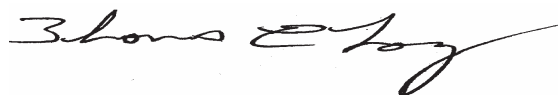
Michael J. Bradley
President and Chief Executive Officer

CERTIFICATIONS

I, Thomas E. Long, certify that:

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

Date: August 5, 2008



Thomas E. Long
Vice President 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 Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending May 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Bradley, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss 1350, as adopted pursuant to ss. 906 of the Sarbanes Oxley Act of 2002, that based on my knowledge:

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

Date: August 5, 2008



Michael J. Bradley
President and Chief Executive Officer

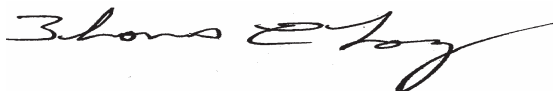
EXHIBIT 32.2

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

In connection with the Annual Report of Matrix Service Company (the "Company") on Form 10-K for the period ending May 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Long, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss 1350, as adopted pursuant to ss. 906 of the Sarbanes Oxley Act of 2002, that based on my knowledge:

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

Date: August 5, 2008



Thomas E. Long
Vice President and Chief Financial Officer

SHAREHOLDER INFORMATION

CORPORATE OFFICES

5100 E. Skelly Drive - Suite 700
Tulsa, Oklahoma 74135
Ph: 918-838-8822
Fx: 918-838-8810
Website: www.matrixservice.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

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

STOCK TRANSFER AGENT & REGISTRAR

Computershare Trust Company, N.A.
Canton, Massachusetts

INVESTOR AND MEDIA RELATIONS

Truc Nguyen
Grayling Global
22 Cortlandt Street, 14th Floor
New York, New York 10007
Ph: 646-284-9418
tnguyen@hfgcg.com

COMMON STOCK DATA

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

NOTICE OF ANNUAL MEETING

The Annual Meeting of Stockholders will be at Matrix Service's Regional offices
1105 West Main Parkway
Catoosa, Oklahoma
October 21, 2008 at 10:30 a.m. CDT.

STOCKHOLDER RELATIONS & AVAILABLE INFORMATION

Matrix Service Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained by stockholders without charge by writing to:

Thomas E. Long
Vice President & Chief Financial Officer
Matrix Service Company
5100 E. Skelly Drive - Suite 700
Tulsa, Oklahoma 74135



Leticia Garcia

Sr. Staff Attorney

As a company, we strive to provide quality products and services to our customers and superior returns to our stockholders. We deliver cost-effective and value-added solutions to the companies we do business with which results in strong, positive relationships. To be successful, it is important that we execute our work in a prudent, responsible and environmentally-conscious manner. These are particularly important characteristics when you look at the Company from a legal perspective. This consistent focus on stewardship is one of the things that set Matrix Service apart.



MATRIX SERVICE COMPANY

INDUSTRIAL SERVICE CONTRACTOR

To learn more about Matrix Service,
visit our web site at www.matrixservice.com,
or contact us at 1-866-FOR-MTRX (367-6879).

CORPORATE HEADQUARTERS
5100 E. Skelly Drive, Suite 700, Tulsa, OK 74135
NASDAQ symbol: MTRX

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