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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 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 number 001-15461

MATRIX SERVICE COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

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

5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135
(Address of principal executive offices and zip code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is 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 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of January 7, 2009 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,131,982 shares outstanding.

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PART I
FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>November 30,</u> <u>2008</u>	<u>November 30,</u> <u>2007</u>	<u>November 30,</u> <u>2008</u>	<u>November 30,</u> <u>2007</u>
	(unaudited)		(unaudited)	
Revenues	\$ 176,937	\$ 194,734	\$ 363,587	\$ 356,061
Cost of revenues	150,568	183,488	310,547	325,911
Gross profit	26,369	11,246	53,040	30,150
Selling, general and administrative expenses	11,776	11,841	23,838	19,887
Operating income (loss)	14,593	(595)	29,202	10,263
Other income (expense):				
Interest expense	(123)	(273)	(237)	(577)
Interest income	104	15	213	31
Other	175	47	911	37
Income (loss) before income taxes	14,749	(806)	30,089	9,754
Provision (benefit) for federal, state and foreign income taxes	4,621	(1,016)	10,457	3,208
Net income	<u>\$ 10,128</u>	<u>\$ 210</u>	<u>\$ 19,632</u>	<u>\$ 6,546</u>
Basic earnings per common share	\$ 0.39	\$ 0.01	\$ 0.75	\$ 0.25
Diluted earnings per common share	\$ 0.38	\$ 0.01	\$ 0.74	\$ 0.24
Weighted average common shares outstanding:				
Basic	26,102	26,625	26,087	26,609
Diluted	26,400	27,131	26,456	27,109

See accompanying notes.

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Matrix Service Company
Consolidated Balance Sheets
(In thousands)

	November 30, 2008	May 31, 2008
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,538	\$ 21,989
Accounts receivable, less allowances (November 30, 2008 - \$300 and May 31, 2008 - \$269)	98,809	105,858
Income tax receivable	1,343	—
Costs and estimated earnings in excess of billings on uncompleted contracts	52,356	49,940
Inventories	5,893	4,255
Deferred income taxes	4,954	4,399
Prepaid expenses	4,717	3,357
Other current assets	—	809
Total current assets	<u>181,610</u>	<u>190,607</u>
Property, plant and equipment at cost:		
Land and buildings	26,683	24,268
Construction equipment	50,866	47,370
Transportation equipment	17,491	16,927
Furniture and fixtures	13,675	11,781
Construction in progress	2,975	6,712
	<u>111,690</u>	<u>107,058</u>
Accumulated depreciation	<u>(52,498)</u>	<u>(49,811)</u>
Property, plant and equipment, net	59,192	57,247
Goodwill	22,166	23,329
Other assets	1,555	3,410
Total assets	<u>\$ 264,523</u>	<u>\$274,593</u>

See accompanying notes.

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

	November 30, 2008	May 31, 2008
	(unaudited)	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 45,496	\$ 53,560
Billings on uncompleted contracts in excess of costs and estimated earnings	35,140	48,709
Accrued insurance	7,866	8,451
Accrued wages and benefits	10,477	14,976
Income tax payable	—	2,028
Current capital lease obligation	1,195	1,042
Other accrued expenses	1,297	1,015
Total current liabilities	101,471	129,781
Long-term capital lease obligation	777	1,000
Deferred income taxes	4,150	5,112
Stockholders' equity:		
Common stock - \$.01 par value; 60,000,000 shares authorized 27,888,217 shares issued as of November 30, 2008 and May 31, 2008	279	279
Additional paid-in capital	110,465	108,402
Retained earnings	64,436	44,809
Accumulated other comprehensive income (loss)	(845)	1,584
	174,335	155,074
Less: Treasury stock, at cost - 1,756,235 and 1,825,600 shares as of November 30, 2008 and May 31, 2008	(16,210)	(16,374)
Total stockholders' equity	158,125	138,700
Total liabilities and stockholders' equity	<u>\$ 264,523</u>	<u>\$274,593</u>

See accompanying notes.

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

	Six Months Ended	
	November 30, 2008	November 30, 2007
	(unaudited)	
Operating activities:		
Net income	\$ 19,632	\$ 6,546
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	4,861	3,813
Deferred income tax	(1,179)	(1,475)
Gain on sale of property, plant and equipment	(51)	(9)
Allowance for uncollectible accounts	31	1,084
Stock-based compensation expense	2,173	1,384
Other	48	173
Changes in operating assets and liabilities increasing (decreasing) cash:		
Receivables	7,018	(29,876)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,416)	2,476
Inventories	(1,638)	25
Prepaid expenses and other assets	447	(208)
Accounts payable	(8,218)	9,801
Billings on uncompleted contracts in excess of costs and estimated earnings	(13,569)	17,751
Accrued expenses	(4,802)	(5,248)
Income tax receivable/payable	(3,215)	(4,060)
Net cash provided (used) by operating activities	(878)	2,177
Investing activities:		
Acquisition of property, plant and equipment	(6,590)	(8,327)
Proceeds from asset sales	955	192
Net cash used by investing activities	\$ (5,635)	\$ (8,135)

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

	Six Months Ended	
	November 30, 2008	November 30, 2007
	(unaudited)	
Financing activities:		
Advances under bank credit facility	\$ —	\$ 107,820
Repayments of bank credit facility	—	(104,570)
Capital lease payments	(588)	(416)
Issuances of common stock	131	239
Tax benefit from exercised stock options	96	428
Purchase of treasury shares	(32)	(700)
Net cash provided (used) by financing activities	(393)	2,801
Effect of exchange rate changes on cash	(1,545)	239
Net decrease in cash and cash equivalents	(8,451)	(2,918)
Cash and cash equivalents, beginning of period	21,989	9,147
Cash and cash equivalents, end of period	<u>\$ 13,538</u>	<u>\$ 6,229</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	<u>\$ 14,800</u>	<u>\$ 8,304</u>
Interest	<u>\$ 208</u>	<u>\$ 311</u>
Non-cash investing and financing activities:		
Equipment acquired through capital leases	<u>\$ 518</u>	<u>\$ 202</u>
Purchases of property, plant and equipment on account	<u>\$ 638</u>	<u>\$ 1,611</u>

See accompanying notes.

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

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Translation Adjustments</u>	<u>Total</u>
Balances, May 31, 2008	\$ 279	\$108,402	\$44,809	\$(16,374)	\$ 1,584	\$138,700
Net Income	—	—	19,632	—	—	19,632
Other comprehensive loss	—	—	—	—	(2,429)	(2,429)
Comprehensive income	—	—	—	—	—	17,203
Exercise of stock options (31,650 shares)	—	51	(5)	85	—	131
Tax effect of exercised stock options and vesting of deferred shares	—	(50)	—	—	—	(50)
Stock based compensation expense	—	2,173	—	—	—	2,173
Issuance of deferred shares (40,615 shares)	—	(111)	—	111	—	—
Purchase of treasury shares (2,900 shares)	—	—	—	(32)	—	(32)
Balances, November 30, 2008	<u>\$ 279</u>	<u>\$110,465</u>	<u>\$64,436</u>	<u>\$(16,210)</u>	<u>\$ (845)</u>	<u>\$158,125</u>
Balances, May 31, 2007	\$ 279	\$104,408	\$23,422	\$ (3,500)	\$ 967	\$125,576
Net income	—	—	6,546	—	—	6,546
Other comprehensive income	—	—	—	—	472	472
Comprehensive income	—	—	—	—	—	7,018
Exercise of stock options (42,550 shares)	—	112	(15)	142	—	239
Tax effect of exercised stock options and vesting of deferred shares	—	428	—	—	—	428
Stock based compensation expense	—	1,384	—	—	—	1,384
Issuance of deferred shares (59,590 shares)	—	(175)	—	175	—	—
Purchase of treasury shares (23,192 shares)	—	—	—	(700)	—	(700)
Balances, November 30, 2007	<u>\$ 279</u>	<u>\$106,157</u>	<u>\$29,953</u>	<u>\$(3,883)</u>	<u>\$ 1,439</u>	<u>\$133,945</u>

See accompanying notes.

Matrix Service Company
Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

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

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

The accompanying financial statements should be read in conjunction with the audited financial statements for the year ended May 31, 2008, included in the Company’s Annual Report on Form 10-K for the year then ended. The Company’s business is cyclical due to the scope and timing of projects released by its customer base. In addition, Matrix Service generates a significant portion of its revenues under a comparatively few major contracts which often do not commence or terminate in the same period from one year to the next. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

Note 2 – Purchase of Engineering and Construction Assets and Technology

On December 20, 2008, the Company acquired engineering and construction resources and technology used to design, engineer and construct single and full containment LNG storage tanks, LIN/LOX storage tanks, LPG storage tanks and thermal vacuum chambers from CB&I, Inc., a subsidiary of Chicago Bridge & Iron Company N.V. (“CB&I”). The purchase included approximately 70 engineering and construction personnel, along with tools, equipment and up to \$20.0 million of backlog, which is expected to be completed over the next two years. Also included in the purchase was a perpetual license to use CB&I’s technology necessary to design, engineer and construct LNG storage tanks, LIN/LOX storage tanks, LPG storage tanks and thermal vacuum chambers. The purchase price was not material to the Company’s total assets, property, plant and equipment, or operations.

Note 3 – Recently Issued Accounting Standards

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 interim periods within those fiscal years. On June 1, 2008, the Company adopted the provisions of SFAS No. 157 related to financial and non-financial assets and liabilities measured at fair value on a recurring basis. The adoption of this accounting pronouncement did not result in a material impact to the consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position 157-2, “Effective Date of FASB Statement No. 157” which defers the effective date of SFAS No. 157 for one year for certain non-financial assets and liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We do not expect the provisions of SFAS No. 157 related to these items to have a material effect on the consolidated financial statements.

Matrix Service Company
Notes to Consolidated 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. On June 1, 2008, the Company adopted SFAS No. 159. The Company elected not to apply the fair value option permitted under SFAS No. 159 to any financial assets or liabilities.

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 the Company for any business combination that occurs after May 31, 2009.

Note 4 – Asset Held for Sale

In September 2008 the Company completed the sale of its excess land in Orange, California. The sale proceeds approximated the carrying value of \$0.8 million; therefore, no gain or loss was recognized.

Note 5 – 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:

	<u>November 30, 2008</u>	<u>May 31, 2008</u>
	(In thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	\$ 1,031,603	\$ 982,369
Billings on uncompleted contracts	1,014,387	981,138
	<u>\$ 17,216</u>	<u>\$ 1,231</u>
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 52,356	\$ 49,940
Billings on uncompleted contracts in excess of costs and estimated earnings	35,140	48,709
	<u>\$ 17,216</u>	<u>\$ 1,231</u>

Matrix Service Company
Notes to Consolidated Financial Statements

Progress billings in accounts receivable at November 30, 2008 and May 31, 2008 included retentions to be collected within one year of \$12.8 million and \$16.3 million, respectively. Contract retentions collectible beyond one year are included in Other Assets on the Consolidated Balance Sheets and totaled \$0.6 million at November 30, 2008 and \$1.7 million at May 31, 2008.

Note 6 – Debt

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

Availability under the Credit Facility is as follows:

	November 30, 2008	May 31, 2008
	(In thousands)	
Credit Facility	\$ 75,000	\$75,000
Letters of credit	4,648	4,648
Availability under the Credit Facility	<u>\$ 70,352</u>	<u>\$70,352</u>

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

The Company is currently in compliance with all affirmative, negative, and financial covenants.

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.

Matrix Service Company
Notes to Consolidated Financial Statements

Note 7 – Income Taxes

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

Note 8 – Commitments and Contingencies

Insurance Reserves

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

Typically our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide 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.

Unapproved Change Orders and Claims

As of November 30, 2008 and May 31, 2008, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts included revenues, to the extent of costs incurred, for unapproved change orders of \$0.9 million and \$0.8 million, respectively. At November 30, 2008 costs and estimated earnings in excess of billings on uncompleted contracts included revenues for other claims of \$0.1 million. There were no claims included in costs and estimated earnings in excess of billings on uncompleted contracts at May 31, 2008. 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

Capital Commitments

At November 30, 2008, expected remaining spending on capital projects that have been approved but are not yet completed total \$2.6 million.

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 – Other Comprehensive Income

Other comprehensive income and accumulated other comprehensive income consisted of foreign currency translation adjustments.

	Three Months Ended		Six Months Ended	
	November 30, 2008	November 30, 2007	November 30, 2008	November 30, 2007
	(In thousands)		(In thousands)	
Net income	\$ 10,128	\$ 210	\$ 19,632	\$ 6,546
Other comprehensive income (loss)	(1,792)	364	(2,429)	472
Comprehensive income	<u>\$ 8,336</u>	<u>\$ 574</u>	<u>\$ 17,203</u>	<u>\$ 7,018</u>

Matrix Service Company
Notes to Consolidated Financial Statements

Note 10 – Earnings per Common Share

Basic earnings per share (“EPS”) is calculated based on the weighted average shares outstanding during the period. Diluted EPS includes the dilutive effect of employee and director stock options as well as the dilutive effect of nonvested deferred shares.

The computation of basic and diluted EPS is as follows:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>November 30, 2008</u>	<u>November 30, 2007</u>	<u>November 30, 2008</u>	<u>November 30, 2007</u>
	(In thousands, except per share data)			
Basic EPS:				
Net income	\$ 10,128	\$ 210	\$ 19,632	\$ 6,546
Weighted average shares outstanding	26,102	26,625	26,087	26,609
Basic EPS	\$ 0.39	\$ 0.01	\$ 0.75	\$ 0.25
Weighted average shares outstanding - basic	26,102	26,625	26,087	26,609
Dilutive stock options	166	398	228	395
Dilutive nonvested deferred shares	132	108	141	105
Dilutive weighted average shares	26,400	27,131	26,456	27,109
Diluted EPS	\$ 0.38	\$ 0.01	\$ 0.74	\$ 0.24

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>November 30, 2008</u>	<u>November 30, 2007</u>	<u>November 30, 2008</u>	<u>November 30, 2007</u>
	(In thousands)			
Stock options	—	—	—	—
Nonvested deferred shares	136	—	109	—

Matrix Service Company
Notes to Consolidated Financial Statements

Note 11 – 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, 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 in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K. Intersegment sales and transfers are recorded at cost; therefore, no intercompany profit or loss is recognized.

Matrix Service Company
Notes to Consolidated Financial Statements

Results of Operations
(In thousands)

	Construction Services	Repair & Maintenance Services	Other	Total
Three Months Ended November 30, 2008				
Gross revenues	\$ 108,084	\$ 77,499	\$ —	\$185,583
Less: Inter-segment revenues	7,955	691	—	8,646
Consolidated revenues	100,129	76,808	—	176,937
Gross profit	12,761	13,608	—	26,369
Operating income	5,618	8,975	—	14,593
Income before income tax expense	5,680	9,069	—	14,749
Net income	4,434	5,694	—	10,128
Segment assets	135,887	96,865	31,771	264,523
Capital expenditures	932	814	1,739	3,485
Depreciation and amortization expense	1,359	1,121	—	2,480
Three Months Ended November 30, 2007				
Gross revenues	\$ 119,443	\$ 79,420	\$ —	\$198,863
Less: Inter-segment revenues	3,170	959	—	4,129
Consolidated revenues	116,273	78,461	—	194,734
Gross profit (loss)	(1,839)	13,085	—	11,246
Operating income (loss)	(9,269)	8,508	166	(595)
Income (loss) before income tax expense	(9,432)	8,460	166	(806)
Net income (loss)	(5,240)	5,350	100	210
Segment assets	163,597	93,030	21,634	278,261
Capital expenditures	2,400	1,870	1,169	5,439
Depreciation and amortization expense	1,178	861	—	2,039
Six Months Ended November 30, 2008				
Gross revenues	\$ 230,445	\$ 149,666	\$ —	\$ 380,111
Less: Inter-segment revenues	15,558	966	—	16,524
Consolidated revenues	214,887	148,700	—	363,587
Gross profit	27,806	25,234	—	53,040
Operating income	13,110	16,092	—	29,202
Income before income tax expense	13,383	16,706	—	30,089
Net income	8,813	10,819	—	19,632
Segment assets	135,887	96,865	31,771	264,523
Capital expenditures	1,973	1,744	2,873	6,590
Depreciation and amortization expense	2,771	2,090	—	4,861
Six Months Ended November 30, 2007				
Gross revenues	\$ 222,460	\$ 143,405	\$ —	\$365,865
Less: Inter-segment revenues	7,408	2,396	—	9,804
Consolidated revenues	215,052	141,009	—	356,061
Gross profit	6,834	23,316	—	30,150
Operating income (loss)	(5,345)	15,527	81	10,263
Income (loss) before income tax expense	(5,719)	15,392	81	9,754
Net income (loss)	(3,013)	9,510	49	6,546
Segment assets	163,597	93,030	21,634	278,261
Capital expenditures	3,906	2,542	1,879	8,327
Depreciation and amortization expense	2,231	1,582	—	3,813

Matrix Service Company
Notes to Consolidated Financial Statements

Segment Revenue from External Customers by Industry Type

	<u>Construction Services</u>	<u>Repair & Maintenance Services</u> (In thousands)	<u>Total</u>
Three Months Ended November 30, 2008			
Aboveground Storage Tanks	\$ 45,024	\$ 51,309	\$ 96,333
Downstream Petroleum	42,126	21,204	63,330
Electrical and Instrumentation	8,714	4,295	13,009
Specialty	4,265	—	4,265
Total	<u>\$ 100,129</u>	<u>\$ 76,808</u>	<u>\$176,937</u>
Three Months Ended November 30, 2007			
Aboveground Storage Tanks	\$ 58,326	\$ 44,504	\$102,830
Downstream Petroleum	39,499	29,810	69,309
Electrical and Instrumentation	5,239	4,147	9,386
Specialty	13,209	—	13,209
Total	<u>\$ 116,273</u>	<u>\$ 78,461</u>	<u>\$194,734</u>
Six Months Ended November 30, 2008			
Aboveground Storage Tanks	\$ 100,893	\$ 99,206	\$200,099
Downstream Petroleum	86,514	42,449	128,963
Electrical and Instrumentation	14,347	7,045	21,392
Specialty	13,133	—	13,133
Total	<u>\$ 214,887</u>	<u>\$ 148,700</u>	<u>\$363,587</u>
Six Months Ended November 30, 2007			
Aboveground Storage Tanks	\$ 97,801	\$ 86,033	\$183,834
Downstream Petroleum	73,050	47,347	120,397
Electrical and Instrumentation	7,410	7,629	15,039
Specialty	36,791	—	36,791
Total	<u>\$ 215,052</u>	<u>\$ 141,009</u>	<u>\$356,061</u>

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

Critical Accounting Estimates

The following is a discussion of the most critical accounting policies, judgments and uncertainties that are inherent in our application of generally accepted accounting principles (“GAAP”) in the United States of America.

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.

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As of November 30, 2008 and May 31, 2008, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts included revenues, to the extent of costs incurred, for unapproved change orders of \$0.9 million and \$0.8 million, respectively. At November 30, 2008 costs and estimated earnings in excess of billings on uncompleted contracts included revenues for other claims of \$0.1 million. There were no claims included in costs and estimated earnings in excess of billings on uncompleted contracts at 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:

	<u>Claims for Unapproved Change Orders</u>	<u>Other Claims</u>	<u>Total</u>
	(In thousands)		
Balance at May 31, 2008	\$ 804	\$ —	\$ 804
Additions	498	141	639
Collections	(419)	—	(419)
Gain/(loss)	—	—	—
Balance at November 30, 2008	<u>\$ 883</u>	<u>\$ 141</u>	<u>\$ 1,024</u>
Balance at May 31, 2007	\$ 5,129	\$ 1,493	\$ 6,622
Additions	1,176	897	2,073
Collections	(1,636)	—	(1,636)
Loss	(34)	—	(34)
Balance at November 30, 2007	<u>\$ 4,635</u>	<u>\$ 2,390</u>	<u>\$ 7,025</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 and coverage limits. As of November 30, 2008 and May 31, 2008, insurance reserves totaling \$7.9 million and \$8.5 million, respectively, are included on our balance sheet. These amounts represent our best estimate of our ultimate obligations for asserted claims, insurance premium obligations, and claims incurred but not yet reported at the balance sheet dates. We establish specific reserves for known claims using a case by case evaluation of the underlying claim data and update our evaluations as further information becomes known. We establish reserves for incurred but not reported claims based on historical claim development and other factors. 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.

Certain events may 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.

At May 31, 2008 the estimated fair value of the Construction Services segment exceeded its carrying value by 220% and the estimated fair value of the Repair and Maintenance Services segment exceeded its carrying value by 74%. The unfavorable economic environment that currently exists has caused some of our customers to delay certain capital projects; therefore, we now expect fiscal 2009 revenues to be below levels assumed in our 2009 operating budget. To mitigate the impact to cash flow caused by the decreased revenue projections we are taking steps, including, but not limited to, reductions in capital spending and operating overhead. We view the anticipated revenue decline as temporary and believe that the long-term revenue and cash flow projections used to estimate the excess of estimated fair value over carrying value at May 31, 2008 are still achievable.

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 4% of revenues generated in Canada during the first six months of fiscal 2009. 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, 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.

Three Months Ended November 30, 2008 Compared to the Three Months Ended November 30, 2007

Consolidated

Consolidated revenues were \$176.9 million in fiscal 2009, a decrease of \$17.8 million, or 9.1%, from consolidated revenues of \$194.7 million for fiscal 2008. The decline in consolidated revenues was the result of decreases in the Construction Services segment of \$16.1 million and in the Repair and Maintenance Services segment of \$1.7 million.

Consolidated gross profit increased from \$11.2 million in fiscal 2008 to \$26.4 million in fiscal 2009. The improvement of \$15.2 million, or 135.7% was due to an increase in gross margins, which improved from 5.8% in fiscal 2008 to 14.9% in fiscal 2009. The gross margin improvement was due to higher margins in the Construction Services segment, where the gross margin increased to 12.7% in the current fiscal year versus (1.6)% in the prior fiscal year and higher gross margins in the Repair and Maintenance Services segment which increased to 17.7% in the current year compared to 16.7% in fiscal 2008.

Consolidated SG&A expenses were \$11.8 million during both fiscal periods. SG&A expense as a percentage of revenue increased to 6.7% in fiscal 2009 compared to 6.1% in the prior fiscal year due to the \$17.8 million decline in revenues.

Net interest expense in fiscal 2009 was negligible as the non-cash amortization of deal fees relating to the senior revolving credit facility and cash interest on our capital leases was almost entirely offset by interest income generated from the investment of excess cash. The prior year net interest expense of \$0.3 million was primarily related to the amortization of deal fees on the senior revolving credit facility and interest on short-term borrowings under the facility.

Other income in fiscal 2009 was \$0.2 million and related primarily to higher discounts taken due to early payments to our vendors and settlement proceeds.

Income before income tax expense increased to \$14.7 million in fiscal 2009 from \$(0.8) million in fiscal 2008. This \$15.5 million increase occurred due to higher gross profits.

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The effective tax rate for fiscal 2009 was 31.3% as certain operating loss carryforwards previously reserved were utilized or deemed to be fully utilizable resulting in a benefit of \$1.0 million. The prior fiscal year included a \$0.7 million tax benefit resulting from the assessment of the realizability of state investment tax credits.

Net income for fiscal 2009 increased to \$10.1 million, or \$0.38 per fully diluted share, versus net income in fiscal 2008 of \$0.2 million, or \$0.01 per fully diluted share.

Construction Services

Revenues for the Construction Services segment were \$100.1 million, compared with \$116.2 million in the same period a year earlier. The decrease of \$16.1 million, or 13.9%, was due to lower Aboveground Storage Tank revenues, which decreased 22.8% to \$45.0 million in fiscal 2009, compared to \$58.3 million a year earlier, lower Specialty revenues, which decreased \$8.9 million to \$4.3 million in fiscal 2009, compared to \$13.2 million a year earlier, partially offset by higher Downstream Petroleum revenues, which increased 6.6% to \$42.1 million in fiscal 2009 compared to \$39.5 million a year earlier and higher Electrical and Instrumentation revenues, which improved \$3.5 million.

At November 30, 2008, the Construction Services segment had a backlog of \$282.9 million, as compared to a backlog of \$300.3 million at August 31, 2008. The decrease of \$17.4 million from August 31, 2008 was due to declines in Downstream Petroleum and Electrical and Instrumentation of \$18.2 million and \$12.4 million, partially offset by increases in Aboveground Storage Tank of \$8.1 million and Specialty of \$5.1 million.

Gross profit increased from \$(1.8) million in fiscal 2008 to \$12.8 million in fiscal 2009 due to improved gross margins, which increased from (1.6)% in fiscal 2008 to 12.7% in fiscal 2009. The prior year's gross margins of (1.6)% included a \$16.0 million pretax charge for cost overruns related to a Gulf Coast LNG project.

Operating income and income before income tax expense were \$5.6 million and \$5.7 million in fiscal 2009 compared to \$(9.3) million and \$(9.4) million in fiscal 2008.

Repair and Maintenance Services

Revenues for the Repair and Maintenance Services segment were \$76.8 million in fiscal 2009 compared to \$78.5 million in fiscal 2008. The change was due to lower Downstream Petroleum revenues, which decreased \$8.6 million to \$21.2 million in fiscal 2009, compared to \$29.8 million a year earlier. Largely offsetting this decline was an increase of \$6.8 million in Aboveground Storage Tank revenues, which increased 15.3% to \$51.3 million in fiscal 2009, compared to \$44.5 million in the prior fiscal year. Electrical and Instrumentation revenues were \$4.3 million in fiscal 2009, compared to \$4.2 million a year earlier.

Backlog at November 30, 2008 and August 31, 2008 for the Repair and Maintenance Services segment was \$171.2 million and \$158.5 million, respectively. The increase of \$12.7 million from August 31, 2008 was due to increases in Downstream Petroleum of \$13.9 million and Electrical and Instrumentation of \$2.5 million partially offset by a decrease of \$3.7 million in Aboveground Storage Tank.

Gross profit increased from \$13.1 million in fiscal 2008 to \$13.6 million in fiscal 2009 due to an increase in gross margins, which were 17.7% in fiscal 2009 compared to 16.7% in fiscal 2008.

Operating income and income before income tax expense increased to \$9.0 million and \$9.1 million, respectively, in fiscal 2009 compared to \$8.5 million and \$8.5 million in fiscal 2008.

Six Months Ended November 30, 2008 Compared to Six Months Ended November 30, 2007

Consolidated

Consolidated revenues were \$363.6 million in fiscal 2009, an increase of \$7.5 million, or 2.1%, from consolidated revenues of \$356.1 million for fiscal 2008. The improvement in consolidated revenues was the result of an increase in the Repair and Maintenance Services segment of \$7.7 million partially offset by a decline of \$0.2 million in the Construction Services segment.

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Consolidated gross profit increased from \$30.2 million in fiscal 2008 to \$53.0 million in fiscal 2009. The improvement of \$22.8 million, or 75.5% was primarily due to an increase in gross margins, which improved from 8.5% in fiscal 2008 to 14.6% in fiscal 2009. The gross margin improvement was due to higher margins in the Construction Services segment, where the gross margin increased to 12.9% in the current fiscal year versus 3.2% in the prior fiscal year. Repair and Maintenance Services segment gross margins also increased to 17.0% in the current year compared to 16.5% in fiscal 2008.

Consolidated SG&A expenses increased \$3.9 million, or 19.6%, in fiscal 2009 to \$23.8 million from \$19.9 million for fiscal 2008. The increase was primarily due to costs relating to our expansion into Western Canada and the Gulf Coast Region and higher employee related and facility costs incurred to build the infrastructure and sales force necessary to support our long-term growth plan. SG&A expense as a percentage of revenue increased to 6.6% in fiscal 2009 compared to 5.6% in the prior fiscal year.

Net interest expense in fiscal 2009 was negligible as the non-cash amortization of deal fees relating to the senior revolving credit facility and cash interest on our capital leases was almost entirely offset by interest income generated from the investment of excess cash. The prior year net interest expense of \$0.5 million was primarily related to the amortization of deal fees on the senior revolving credit facility and interest on short-term borrowings under the facility.

Other income in fiscal 2009 was \$0.9 million and related primarily to insurance proceeds received. There were no similar items in fiscal 2008.

Income before income tax expense increased to \$30.1 million in fiscal 2009 from \$9.8 million in fiscal 2008. This \$20.3 million increase occurred due to higher gross profits partially offset by higher SG&A expenses.

The effective tax rate for fiscal 2009 was 34.8% compared to 32.9% in fiscal 2008. In fiscal 2009, certain operating loss carryforwards previously reserved were utilized or deemed to be fully utilizable resulting in a benefit of \$1.0 million. The prior fiscal year included a \$0.7 million tax benefit resulting from the assessment of the realizability of state investment tax credits.

Net income for fiscal 2009 grew to \$19.6 million, or \$0.74 per fully diluted share, versus net income in fiscal 2008 of \$6.5 million, or \$0.24 per fully diluted share.

Construction Services

Revenues for the Construction Services segment were \$214.9 million, compared with \$215.1 million in the same period a year earlier. The decrease of \$0.2 million was due to lower Specialty revenues, which decreased \$23.7 million as the construction of the tanks on a Gulf Coast LNG project was completed in the fourth quarter of fiscal 2008. Largely offsetting this decline was higher Downstream Petroleum revenues, which increased \$13.5 million to \$86.5 million in fiscal 2009 compared to \$73.0 million a year earlier, higher Electrical and Instrumentation revenues, which increased \$6.9 million to \$14.3 million in fiscal 2009, compared to \$7.4 million a year earlier, and higher Aboveground Storage Tank revenues, which increased \$3.1 million to \$100.9 million in fiscal 2009, compared to \$97.8 million a year earlier.

At November 30, 2008, the Construction Services segment had a backlog of \$282.9 million, as compared to a backlog of \$325.3 million as of May 31, 2008. The decrease of \$42.4 million was due to declines in Aboveground Storage Tank, Electrical and Instrumentation, and Downstream Petroleum of \$22.8 million, \$16.7 million and \$9.7 million, respectively. Partially offsetting these declines was an increase in Specialty of \$6.8 million.

Gross profit increased from \$6.8 million in fiscal 2008 to \$27.8 million in fiscal 2009 due to improved gross margins, which increased from 3.2% in fiscal 2008 to 12.9% in fiscal 2009. The prior year's gross margins of 3.2% included \$17.5 million in pretax charges for cost overruns related to a Gulf Coast LNG project.

Operating income and income before income tax expense were \$13.1 million and \$13.4 million in fiscal 2009 compared to \$(5.3) million and \$(5.7) million in fiscal 2008.

Repair and Maintenance Services

Revenues for the Repair and Maintenance Services segment were \$148.7 million in fiscal 2009 compared to \$141.0 million in fiscal 2008. The improvement was due to higher Aboveground Storage Tank revenues, which increased 15.3% to \$99.2 million in fiscal 2009, compared to \$86.0 million in the prior fiscal year. This increase was partially offset by lower Downstream Petroleum revenues, which decreased \$4.9 million to \$42.4 million in fiscal 2009 from \$47.3 million during fiscal 2008 and lower Electrical and Instrumentation revenues, which decreased \$0.6 million to \$7.0 million in fiscal 2009 from \$7.6 million during fiscal 2008.

Backlog at November 30, 2008 and May 31, 2008 for the Repair and Maintenance Services segment was \$171.2 million and \$142.0 million, respectively. The increase of \$29.2 million was due to increases in Downstream Petroleum of \$25.8 million, Electrical and Instrumentation of \$2.5 million and Aboveground Storage Tank of \$0.9 million.

Gross profit increased from \$23.3 million in fiscal 2008 to \$25.2 million in fiscal 2009 due to an increase in revenues combined with improved gross margins, which were 17.0% in fiscal 2009 versus 16.5% in fiscal 2008.

Operating income and income before income tax expense increased to \$16.1 million and \$16.7 million, respectively, in fiscal 2009, compared to \$15.5 million and \$15.4 million in fiscal 2008.

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Backlog

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

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

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

The following provides a rollforward of our backlog for the three-months ended November 30, 2008:

	<u>Construction Services</u>	<u>Repair and Maintenance Services</u> (In thousands)	<u>Total</u>
Backlog as of August 31, 2008	\$ 300,290	\$ 158,471	\$ 458,761
New backlog awarded	82,707	89,490	172,197
Revenue recognized on contracts in backlog	(100,129)	(76,808)	(176,937)
Backlog as of November 30, 2008	<u>\$ 282,868</u>	<u>\$ 171,153</u>	<u>\$ 454,021</u>

The following provides a rollforward of our backlog for the six-months ended November 30, 2008:

	<u>Construction Services</u>	<u>Repair and Maintenance Services</u> (In thousands)	<u>Total</u>
Backlog as of May 31, 2008	\$ 325,341	\$ 141,967	\$ 467,308
New backlog awarded	172,414	177,886	350,300
Revenue recognized on contracts in backlog	(214,887)	(148,700)	(363,587)
Backlog as of November 30, 2008	<u>\$ 282,868</u>	<u>\$ 171,153</u>	<u>\$ 454,021</u>

[Table of Contents](#)**Non-GAAP Financial Measure**

EBITDA is a supplemental, non-GAAP financial measure. We define EBITDA as earnings before net interest expense, income 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 that are excluded. Our non-GAAP performance measure, EBITDA, has certain material limitations as follows:

- It does not include interest income or expense. Because we borrow money from time to time 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:

	Three Months Ended		Six Months Ended	
	November 30, 2008	November 30, 2007	November 30, 2008	November 30, 2007
	(In thousands)		(In thousands)	
Net income	\$ 10,128	\$ 210	\$ 19,632	\$ 6,546
Interest expense, net	19	258	24	546
Provision (benefit) for income taxes	4,621	(1,016)	10,457	3,208
Depreciation and amortization	2,480	2,039	4,861	3,813
EBITDA	<u>\$ 17,248</u>	<u>\$ 1,491</u>	<u>\$ 34,974</u>	<u>\$ 14,113</u>

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Financial Condition & 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 source of liquidity in the first six months of fiscal 2009 was cash on hand at the beginning of the fiscal year. Cash on hand at November 30, 2008 totaled \$13.5 million and availability under the senior revolving credit facility totaled \$70.4 million resulting in total liquidity of \$83.9 million.

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

- Changes in working capital
- Contract terms that determine the timing of billings to customers and the collection of those billings
 - Some cost plus and fixed price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collecting from our customers.
 - Time and material contracts are normally billed in arrears. Therefore, we are routinely required to carry these costs until they can be billed and collected.
 - Some of our large construction projects 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 raise additional capital by issuing common stock, convertible notes or term debt as necessary to fund our operations or to fund the acquisition of new businesses. In fiscal 2009, we expect cash flows from operations and our existing cash balance to be significant sources of liquidity, which we expect will provide funding for additional investments in capital assets and the acquisition of the engineering and construction assets and technology from CB&I. We will continue to evaluate our working capital requirements and other factors to maintain sufficient liquidity.

Cash Flows from Operating Activities

Operations used \$0.9 million in cash in the first six months of fiscal 2009. The cash used in operations was due primarily to profitable operating results offset by an unfavorable change in working capital. The unfavorable change in working capital primarily relates to a decrease in accounts payable of \$8.2 million, a decrease in billings in excess of costs and estimated earnings of \$13.6 million, and a decrease in accrued expenses of \$4.8 million, partially offset by an decrease in accounts receivable of \$7.0 million.

Cash Flows from Investing Activities

Investing activities used \$5.6 million in cash in the first six months of fiscal 2009. This was due to capital expenditures of \$6.6 million partially offset by proceeds from asset sales of \$1.0 million. The asset sale proceeds relate primarily to the sale of excess property discussed in Note 4 of the Notes to Consolidated Financial Statements. Capital expenditures included \$2.7 million for the purchase of construction equipment, \$1.5 million for transportation equipment, \$0.7 million for furniture and fixtures, and \$1.7 million for land and buildings. We also routinely acquire assets utilizing capital leases. Assets acquired through capital leases totaled \$0.5 million in the first six months of fiscal 2009 and are reported as non-cash additions to Property, Plant and Equipment.

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Cash Flows from Financing Activities

Financing activities used \$0.4 million in cash in the first six months of fiscal 2009 primarily due to capital lease payments of \$0.6 million partially offset by proceeds from stock option activity of \$0.2 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 November 30, 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 and remaining availability of \$70.4 million. We believe the facility provides adequate liquidity and financial flexibility to support our expected growth.

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 the tangible net worth requirement or a violation of other covenants could result in an event of default and reduce the availability or eliminate our borrowing capacity under the facility. We are currently in compliance with all covenants and have full availability under the facility.

Dividend Policy

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

Stock Repurchase Program

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. The Company did not purchase any common shares under the program during the first six months of fiscal 2009. Matrix Service intends to repurchase shares in future periods if accretive to earnings per share. The Company has 1,756,235 treasury shares as of November 30, 2008 and intends to utilize these treasury shares solely for the satisfaction of stock issuances under the Company's stock plans.

Outlook

Even in this challenging economic environment, we will continue to focus on continuing our long-term strategies to grow and diversify our business while producing quality earnings. We have invested in our infrastructure to ensure we are positioned to execute on this strategy and develop additional business opportunities. As a result, we have been able to maintain backlog and believe there is opportunity for long-term future growth. Our bid flow remains strong and we are currently tracking more than \$2 billion of projects.

As evident in the economy, we experienced a slow down toward the end of the year with anticipated capital awards and maintenance pushed into calendar 2009. Furthermore, there has been a lack of guidance from some of our customers on their capital and maintenance plans as they assess the impact of the economic turmoil on their businesses. While we remain committed to growing and diversifying our business, we have taken steps to reduce costs. We are actively managing our liquidity to maintain our strong financial position in this environment and to be able to be opportunistic in the future.

FORWARD-LOOKING STATEMENTS

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

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

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

These statements are based on certain assumptions and analyses we made in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including:

- the risk factors discussed in our Form 10-K for the fiscal year ended May 31, 2008 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 Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us or our business or operations. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended May 31, 2008, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2008 Annual Report on Form 10-K.

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of November 30, 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.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended November 30, 2008.

PART II
OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

Except as set forth below, there were no material changes in our Risk Factors from those reported in Item 1A. of Part I of our Annual Report on Form 10-K for the fiscal year ended May 31, 2008.

Our Construction Services segment's performance is highly dependent upon the level of capital expenditures by oil, gas and power companies on infrastructure.

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

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

[Table of Contents](#)**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds****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 the common stock outstanding at that time. The Company did not purchase any common shares during the three months ended November 30, 2008 under this program but may repurchase additional shares in future periods. To date, Matrix Service has purchased 2,846,782 shares under the program and has authorization to purchase an additional 600,724 shares. The Company purchased 2,900 shares in the three months ended November 30, 2008 at an average price of \$10.92 related to the statutory tax withholding on the net share settlement provisions on the issuance of deferred shares. The Company has 1,756,235 treasury shares as of November 30, 2008 and intends to utilize these shares solely for the satisfaction of stock issuances under the Company's stock plans.

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Shares That May Yet Be Purchased Under the Plans or Programs</u>
September 1 to 30, 2008	—	\$ —	2,846,782	600,724
October 1 to 31, 2008	2,436	\$ 11.65	2,846,782	600,724
November 1 to 30, 2008	464	\$ 7.13	2,846,782	600,724
Total	<u>2,900</u>	<u>\$ 10.92</u>		

Dividend Policy

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

ITEM 3. Defaults Upon Senior Securities

Not applicable

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

The Company's annual meeting of stockholders was held in Tulsa, Oklahoma at 10:30 a.m. local time on Monday, October 21, 2008. Proxies for the meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. There was no solicitation in opposition to the nominees for election as directors as listed in the proxy statement, and all nominees were elected.

Out of a total of 26,082,067 shares of the Company's common stock outstanding and entitled to vote, 24,411,948 shares were present at the meeting in person or by proxy, representing approximately 93.6 percent. Matters voted upon at the meeting were as follows:

- Six directors to serve on the Company's Board of Directors. Messrs. Michael J. Bradley, Michael J. Hall, I. Edgar (Ed) Hendrix, Paul K. Lackey, Tom E. Maxwell and David J. Tippeconnic were elected to serve until the 2009 Annual Meeting. The vote tabulation with respect to each nominee was as follows:

<u>Nominee</u>	<u>For</u>	<u>Authority Withheld</u>
Michael J. Bradley	24,167,778	244,170
Michael J. Hall	24,086,531	325,417
I. Edgar (Ed) Hendrix	24,222,679	189,269
Paul K. Lackey	24,220,311	191,637
Tom E. Maxwell	21,980,725	2,431,223
David J. Tippeconnic	24,176,245	235,703

- Ratified the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for fiscal 2009.

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
24,250,453	145,700	15,795	—

ITEM 5. Other Information

Not applicable

[Table of Contents](#)

ITEM 6. Exhibits:

- Exhibit 10.1: Amended and Restated Deferred Compensation Plan for Members of the Board of Directors.
- Exhibit 10.2: Form of Amendment to Severance Agreement (Senior Executives).
- Exhibit 10.3: Form of Amendment to Severance Agreement (Key Employees).
- Exhibit 31.1: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
- Exhibit 31.2: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
- Exhibit 32.1: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
- Exhibit 32.2: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.

Signature

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

MATRIX SERVICE COMPANY

Date: January 8, 2009

By: /s/ Thomas E. Long

Thomas E. Long, Vice President Finance and
Chief Financial Officer signing on behalf of the
registrant and as the registrant's principal financial officer

EXHIBIT INDEX

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**AMENDED AND RESTATED
MATRIX SERVICE COMPANY
DEFERRED COMPENSATION PLAN
FOR MEMBERS OF THE BOARD OF DIRECTORS**

I. Introduction

This Matrix Service Company Deferred Compensation Plan for Members of the Board of Directors (“Plan”) was adopted effective December 31, 2006 (“Effective Date”) and is amended and restated effective December 31, 2008. This Plan also amends in part the Matrix Service Company Deferred Compensation Plan for Members of the Board of Directors adopted effective January 1, 2005 (the “2005 Plan”) and the Deferred Fee Plan for Members of the Board of Directors of Matrix Service Company adopted effective October 18, 2000 (the “2000 Plan”).

This Plan is intended to comply in all material aspects with Code¹ § 409A and the Treasury Regulations promulgated thereunder. The amendment and restatement of the Plan as of December 31, 2008 is intended to confirm compliance with Code § 409A and applicable Treasury guidance.

The purpose of this Plan is to: (1) permit members of the Board of Directors of Matrix Service Company (“Matrix”) to defer compensation earned for services rendered from the Effective Date, forward, under the terms and conditions therein and (2) bring the 2000 Plan and the 2005 Plan into compliance with the provisions of Code § 409A and the applicable Treasury Regulations.

The terms and conditions set forth herein govern in all aspects the rights and obligations of Matrix Service Company and the “Participants” as defined herein in Article II, below. The terms and conditions set forth herein govern all Elections to defer compensation and all payments due under such Elections under the 2000 Plan and the 2005 Plan from December 31, 2006, forward. However, Elections made and vesting dates established under the 2000 Plan and 2005 Plan shall remain in full force and effect, and the vesting dates under these prior arrangements shall not be accelerated on account of the amendments provided by this Plan.

II. Definitions

Capitalized terms appearing in this Plan have the meanings set forth below.

A. “Beneficiary” means the person or persons the Participant has designated to receive the Units, Phantom Stock or Compensation in the event of the Participant’s death. The term “Beneficiary” includes any trust established by the Participant and designated by the Participant as the Beneficiary under this Plan.

¹ “Code” means the Internal Revenue Code of 1986, as amended.

B. “Board” means the Board of Directors of Matrix Service Company.

C. “Change of Control” means (i) a “change in ownership” of Matrix of greater than fifty percent (50%) of Matrix’ outstanding voting stock within a six (6) month period; (ii) a “change in the effective control” of Matrix, as determined by a change of greater than thirty-five percent (35%) of the ownership of Matrix outstanding voting stock by a person or persons acting as a group within a twelve (12) month period; or (iii) a “change in the ownership of a substantial portion of the assets” of Matrix Service Company as these terms are defined under Code § 409A(a)(2)(A)(v) and Treasury Regulations § 1.409A-3(g)(5) or other then existing and applicable Treasury Regulations promulgated under Code § 409A that define the terms “change of control” for deferred compensation arrangements.

Upon identification and notice to the Board of the occurrence of one of the above events, the Board shall consider all the facts and circumstances at its next meeting, and, on an objective basis and without the exercise of discretion, shall confirm or deny by resolution or majority vote, whether a “Change of Control” exists within the meaning of this Agreement. Any similar determination by the Board that a “Change of Control” has occurred under the terms of any other deferred compensation or stock option plan offered by Matrix to executives or Board members shall also constitute a determination that a “Change of Control” has occurred under this Plan.

D. “Compensation” means all payments, as applicable, of Units, Phantom Stock or Deferred Fees as indicated by an Election Agreement made under this Plan, the 2000 Plan or the 2005 Plan.

E. “Deferred Fees” means Fees deferred under an Election Agreement and payable as Compensation under such Election Agreement. The term “Fees” includes the term “Unit(s)” under the 2000 and 2005 Plans.

F. “Disability” means

1. That the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months as certified to the Board by the Participant’s attending physician; or
2. That the Participant is, by reason of such certified medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant’s employer; or

3. That the Participant has been determined to be totally disabled by the Social Security Administration.

G. "Election" means the designation to defer Fees.

H. "Election Agreement" means the individual agreements executed by Matrix Service Company and each Participant under this Plan, the 2000 Plan or the 2005 Plan. The term "Election Agreement" includes the term "Deferred Fee Agreement" as defined by the 2000 Plan.

I. "Effective Date" means December 31, 2006.

J. "Fees" means all money provided to a Member by Matrix Service Company each Plan Year in exchange for the Member's service to the Board.

K. "Matrix" means Matrix Service Company or any successor to Matrix Service Company as provided in Section VI.B., herein below.

L. "Member" means any individual person who serves on the Board.

M. "Participant" means a Member who has executed an Election Agreement.

N. "Plan Year" means the 12-month period from January 1st to December 31st each calendar year.

O. "Payment Date" means the date the Participant is entitled to Compensation under the terms of this Plan. The terms of this Plan supercede the terms of the 2000 Plan and 2005 Plan as to the Payment Date.

P. "Termination Date" means the date that the Participant separates from service and Matrix does not anticipate, in good faith, that the Participant will return to service on the Board or will, in the future, ever be hired by Matrix as an employee or independent contractor in some other capacity.

Q. "Unit" means "Phantom Stock" as defined under the 2000 Plan and "Unit" as defined under the 2005 Plan and includes that unitary measure, having a monetary value equal to one share of Matrix' common stock traded at the close of the Nasdaq Exchange on the effective date of the Participant's Election Agreement or Payment Date (as applicable). If the effective date of the Participant's Election Agreement or Payment Date falls on a weekend or holiday, the value of the Unit shall be calculated as of the close of the Nasdaq Exchange on the first business day after the Payment Date.

III. Eligibility, Elections and Participation

A. Eligibility. Any person who is a Member is eligible to be a Participant in this Plan, so long as the Member has not received Compensation as a Participant in this Plan, the 2000 Plan or the 2005 Plan within the twelve (12) months prior to the date the Participant first became a Member. For purposes of the initial Plan Year of this Plan, a Member is eligible to become a Participant on the first day of the month following the Board's resolution or consent to adopt the Plan.

B. Authority to Execute the Election Agreement. The Board will delegate to a Matrix officer the authority to execute an Election Agreement on behalf of Matrix with any Member who is eligible under subsection III.A.

C. Election and Participation. An eligible Member must execute an initial Election Agreement as to Fees earned during the first year of services to the Board within thirty (30) days of becoming a Member. A Member who timely signs an Election Agreement under this Plan, the 2000 Plan or the 2005 Plan is a Participant under this Plan and is bound by the terms of the Plan.

D. Annual Elections.

1. Outstanding Elections. Election Agreements executed under the 2000 Plan and 2005 Plan shall constitute binding Election Agreements under this Plan, so long as the terms of such Election Agreements do not conflict with the terms of this Plan. Where the terms of the Election Agreements executed under the 2000 Plan or 2005 Plan may conflict with the terms of this Plan, the terms of this Plan shall control. Election Agreements executed under the 2000 Plan and 2005 Plan are hereby amended to conform to the terms of this Plan.

2. Elections Under This Plan. Each eligible Member who desires to elect to receive Deferred Fees for an upcoming PlanYear pursuant to this Plan, and therefore become a Participant, must execute an Election Agreement on or prior to December 31st of the Plan Year prior to the calendar year in which Fees will be earned. For example, a Participant who desires to defer Fees in 2007 must execute an Election Agreement covering such Fees no later than December 31, 2006. If no Election is made, the Member will be compensated for Fees in cash according to the regular and customary method and payment schedule adopted by the Board.

E. Fees Covered by an Election. An eligible Member may specify a portion of Fees to be covered by an Election Agreement, at the Member's discretion.

F. Nature of the Election/Form of Payment. A Participant may make an Election to receive Deferred Fees that are to be paid Compensation under this Plan only as described in Article IV herein. Elections to receive Deferred Fees and be paid Compensation in Units under the 2000 Plan or 2005 Plan shall apply under this Plan and payments of Compensation shall be made in amounts specified by the 2000 Plan or 2005 Plan, as applicable.

G. Binding Nature of Elections. Once an Election Agreement is executed by a Member and Matrix, the Election Agreement may not be modified, amended or revoked for any reason whatsoever.

IV. Terms and Conditions Governing Deferred Fees and Payments of Compensation.

A. Duration of Deferral. Each Election Agreement shall defer Fees covered by the Election Agreement to the date of the triggering event that is the *first* to occur as follows (the “Triggering Event”):

1. The Termination Date;
2. The “Vesting Date” defined under an Election Agreement entered into by a Participant under the 2000 Plan (but only if entered into prior to December 31, 2005);
3. Five (5) years following the Effective Date of the Participant’s Election Agreement;
4. The date of a Change of Control;
5. The date of the Participant’s Disability; or
6. The date of the Participant’s death.

Neither the Participant, nor any Beneficiary or assignee of the Participant, shall have any right to Compensation until the occurrence of the Triggering Event described above. The amount of Compensation due any Participant under this Plan and the applicable Election Agreement shall be calculated as of the date of the applicable Triggering Event. Participants, and any Beneficiary of any Participant, are unsecured, general creditors of Matrix as to all amounts of Compensation payable under the Plan up to and including the Payment Date. In no event shall a Participant’s right to Compensation, the Triggering Event, or the Payment Date be accelerated.

B. Time of Payment: The Payment Date. The Payment Date for Compensation under this Plan shall be:

1. Within thirty (30) calendar days of the expiration of twelve (12) months from the Participant’s Termination Date, so long as the Participant has not become a Member of the Board within that twelve (12) month period and has not contracted with Matrix or become an employee of Matrix within that period. Notwithstanding the foregoing, in the event that Compensation is payable with respect to deferrals under the 2000 Plan or

2005 Plan, then if the application of the foregoing provision would cause a payment which would otherwise have been made in 2008 to be paid in 2009, such payment shall be made on December 31, 2008. Any change of time or payment under this Plan with respect to amounts deferred under the 2000 Plan or 2005 Plan shall conform with the transition rules of Internal Revenue Service Notice 2007-86;

2. Within thirty (30) calendar days of the date the Participant has a Disability and has ceased being a Member as a result of the Disability;
3. Within thirty (30) days after the end of the five (5) year period following the date of the Participant's Election;
4. Within thirty (30) calendar days of the Change of Control of Matrix;
5. Within thirty (30) calendar days of the Vesting Date defined under an Election Agreement entered into by a Participant under the 2000 Plan (but only if entered into prior to December 31, 2005); or
6. Within thirty (30) calendar days of the date of the Participant's death, where death is the Triggering Event under subsection IV.A., above;

In the event a Participant becomes a Member of the Board, an independent contractor or employee of Matrix within the twelve (12) month period following the Participant's Termination Date, the Participant shall not be deemed to have incurred a Termination Date and no payment will be made at that time. In such an event, the Triggering Event for payment of Compensation to the Participant shall not be deemed to have occurred until the *first* to occur of one of the other Triggering Events specified above or the occurrence of a subsequent Termination Date.

C. Amount of Compensation. Compensation for Deferred Fees under this Plan shall be calculated as follows:

1. Where a Participant has executed an Election Agreement under this Plan on or after December 31, 2006, Compensation shall be equal to the amount of Deferred Fees commencing on the date of the Election, plus the rate of interest or earnings otherwise payable upon such Deferred Fees as specified in the Election Agreement for the period from the date of the Election to the date of the Triggering Event. Any interest or earnings upon Deferred Fees shall be payable at the same time and in the same form as the payment of the Compensation to which they relate.
2. Where a Participant has executed an Election Agreement under the 2000 Plan or 2005 Plan, the amount of Compensation shall be equal to the value of the Units or Compensation (including accrued interest) as

specified by those Plans and defined by this Plan for the period from the date of Election to the date of the Triggering Event. Any accrued interest with respect to Units or Compensation shall be payable at the same time and in the same form as the payment of the Units or Compensation to which they relate.

V. Forfeitures Notwithstanding any provision of this Plan, a Participant who has executed an Election Agreement will permanently forfeit his or her right to Deferred Fees and Compensation when, before any Payment Date, a unanimous vote of the Board is taken (the affected Participant abstaining) and it is determined by the Board that one of the following events has occurred:

A. Activity Adverse to Matrix. The Participant has engaged in activity that is adverse to Matrix' interests in connection with the Participant's obligation to service Matrix as a Member;

B. Fraudulent Activity. The Participant has engaged in activity that is willfully fraudulent and the activity has caused Matrix significant economic harm;

C. Conviction of a Felony. The Participant has been convicted of a felony under state or federal law, and the conviction has had an adverse impact upon Matrix.

The Board's determination that any one of these events has occurred is final and not reviewable or appealable under any administrative or judicial proceeding.

VI. Miscellaneous Provisions

A. Right to Terminate or Amend the Plan. The Board may amend or terminate this Plan at any time. However, the termination of this Plan shall not void Election Agreements then outstanding and shall not accelerate Triggering Events or Payment Dates specified herein as to such Election Agreements. Amendments to the Plan shall also not accelerate Triggering Events or Payment Dates specified herein for Election Agreements in force as of the date of the amendment.

B. Successors to Matrix Service Company. The Plan shall be deemed assigned to and binding upon any successor entity to Matrix, and shall remain in effect as provided by Section II. K, above.

C. Governing Law. This Plan shall be construed and governed by the laws of the State of Oklahoma, except when superceded by federal law.

D. No Trust. Neither this Plan, nor any Election Agreement under this Plan, shall be deemed to create a trust in favor of any Member, Participant or Beneficiary.

E. No Assignment. The Participant's rights under this Plan may not be transferred, assigned or otherwise subject to alienation, except with respect to a designation of Beneficiary or Beneficiaries. The rights created under this Plan are not subject to the claims of any Participant's creditors.

F. Payment of Taxes. In the even that the terms of this Plan or any Election Agreement is deemed by any state or federal taxing authority to create a presently ascertainable value constructively received by the Participant on the effective date of the Election Agreement, Matrix shall pay to the Participant the amount of any interest or penalties assessed specifically on account of the Plan's terms or a Participant's failure to include amounts of Deferred Fees into gross income in the tax year the Election is made. Notwithstanding the foregoing, any such interest or penalties shall be paid no later than the December 31 of the year following the year in which the payments are remitted by the Participant to the taxing authority.

G. Headings. Headings contained in this Plan are for the convenience of Matrix and the Participants and do no alter, supplement or amend the terms and conditions of the Plan.

H. No Contract for Services. The terms of this Plan do not create a contract for services for any specific duration between the Member and Matrix.

I. Entire Plan. This Plan contains the entire agreement between Matrix and the Participants and Members. Unless expressly referenced herein, the terms of any prior arrangement governing the same subject matter, including the terms of the 2000 Plan and 2005 Plan do not survive the adoption of this Plan. This Plan may not be amended absent a resolution or consent passed and/or executed by a majority of the Board. This Plan may be executed in one or more counterparts.

MATRIX SERVICE COMPANY

By: /s/ Nancy E. Austin

Its: **V.P. Human Resources**

BOARD OF DIRECTORS OF MATRIX SERVICE COMPANY

/s/ Michael J. Hall - Chairman of the Board of Directors

/s/ Michael J. Bradley - Director

/s/ I. Edgar Hendrix - Director

/s/ Paul K. Lackey - Director

/s/ Tom E. Maxwell - Director

/s/ David E. Tippeconnic - Director

MATRIX SERVICE COMPANY

AMENDMENT TO SEVERANCE AGREEMENT

This Amendment to Severance Agreement (the "Amendment") is by and between the undersigned Executive and Matrix Service Company (the "Company") and amends the Severance Agreement (the "Agreement") previously entered into between them. The purpose of this Amendment is to confirm that the Agreement does not constitute a deferred compensation arrangement subject to Section 409A of the Internal Revenue Code of 1986, as amended, because it falls within the "short-term deferral" exception of Treas. Reg. § 1.409A-1.

The Executive and the Company hereby amend the Agreement as follows:

1. Subparagraph 1 of Paragraph II.B. of the Agreement is hereby amended and restated in its entirety to read as follows:

"1. Notwithstanding the above, the Executive shall forfeit the severance benefit described in Paragraph II.A. only if the Executive shall fail to execute and return a non-interference, non-solicitation, waiver and release of claims and confidentiality agreement in a form satisfactory to the Company on or before the payment date. Failure of the Executive to timely execute and return such agreement shall constitute an absolute forfeiture of such severance benefit."

2. Except to the extent amended by this Amendment, the Agreement shall continue in full force and effect.

DATED this __ day of December, 2008, to be effective as of January 1, 2009.

"EXECUTIVE"

By: _____

"COMPANY"

MATRIX SERVICE COMPANY

By: _____

Its: _____

MATRIX SERVICE COMPANY

AMENDMENT TO SEVERANCE AGREEMENT

This Amendment to Severance Agreement (the "Amendment") is by and between the undersigned Employee and Matrix Service Company (the "Company") and amends the Severance Agreement (the "Agreement") previously entered into between them. The purpose of this Amendment is to confirm that the Agreement does not constitute a deferred compensation arrangement subject to Section 409A of the Internal Revenue Code of 1986, as amended, because it falls within the "short-term deferral" exception of Treas. Reg. § 1.409A-1.

The Employee and the Company hereby amend the Agreement as follows:

1. Subparagraph 3(a) of Paragraph II.B. of the Agreement is hereby amended and restated in its entirety to read as follows:

"1. Notwithstanding the above, the Employee shall forfeit the severance benefit described in Paragraph II.A. only if the Employee shall fail to execute and return a non-interference, non-solicitation, waiver and release of claims and confidentiality agreement in a form satisfactory to the Company on or before the payment date. Failure of the Employee to timely execute and return such agreement shall constitute an absolute forfeiture of such severance benefit."

2. Except to the extent amended by this Amendment, the Agreement shall continue in full force and effect.

DATED this __ day of December, 2008, to be effective as of January 1, 2009.

"EMPLOYEE"

By: _____

"COMPANY"

MATRIX SERVICE COMPANY

By: _____

Its: _____

CERTIFICATIONS

I, Michael J. Bradley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Matrix Service Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 officer 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: January 8, 2009

/s/ Michael J. Bradley

Michael J. Bradley
President and Chief Executive Officer

CERTIFICATIONS

I, Thomas E. Long, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Matrix Service Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 officer 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: January 8, 2009

/s/ Thomas E. Long

Thomas E. Long

Vice President Finance and Chief Financial Officer

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

In connection with the Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending November 30, 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: January 8, 2009

/s/ Michael J. Bradley

Michael J. Bradley
President and Chief Executive Officer

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

In connection with the Quarterly Report of Matrix Service Company (the "Company") on Form 10-Q for the period ending November 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Long, Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that based on 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: January 8, 2009

/s/ Thomas E. Long

Thomas E. Long
Vice President Finance and Chief Financial Officer