UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended November 30, 2004

or

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

For the transition period from ______ to ______

Commission File number 001-15461

MATRIX SERVICE COMPANY

(Exact name of registrant as specified in its charter)

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

10701 E. Ute St., Tulsa, Oklahoma 74116-1517

(Address of principal executive offices and zip code)

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

Not Applicable

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

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

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

As of January 5, 2005, there were 19,285,276 shares of the Company s common stock, $0.01 par value per share, issued and 17,328,326 shares outstanding.

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EXPLANATORY NOTE

This Form 10-Q/A is being filed as Amendment No. 1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2004 to revise Part 1, Items 1 and 2 in the original Form 10-Q. The amendment:

- adds a discussion of the mandatory prepayment provisions included in the November 30, 2004 Amendment to the Company s credit facility;
- revises the discussion of the Company s current expectations regarding compliance with the financial covenants included in its credit agreement and adds a discussion of the potential ramifications to the Company in the event it is unable to comply with the covenants included in its credit agreement; and
- includes a discussion of recent trends in accounts receivable and costs in excess of billings to explain why accounts receivable and costs in excess of billings balances have not declined in proportion to the decline in revenues in recent periods.

This Amendment No. 1 to our Quarterly Report on Form 10-Q/A amends and restates Items 1 and 2 of Part 1 of our original Quarterly Report on Form 10-Q. Except as described above, the information included in Items 1 and 2 of Part I have not been updated to reflect events or developments which may have occurred subsequent to November 30, 2004.

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PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

Matrix Service Company

Consolidated Statements of Income

(in thousands, except share and per share data)

	Three Months Ended November 30, (unaudited)		Six Months Ended November 30, (unaudited)	
	2004	**2003**	**2004**	**2003**
Revenues	$ 113,522	$ 170,913	$ 198,461	$ 329,675
Cost of revenues	102,554	157,835	180,779	303,517
Gross profit	10,968	13,078	17,682	26,158
Selling, general and administrative expenses	7,756	7,194	14,889	14,002
Restructuring, impairment and abandonment	(27)	54	148	52
Operating income	3,239	5,830	2,645	12,104
Other income (expense):				
Interest expense	(1,080)	(737)	(1,981)	(1,441)
Interest income	1	3	1	14
Other	22	117	14	183
Income before income tax expense	2,182	5,213	679	10,860
Provision for federal, state and foreign income tax expense	889	2,121	278	4,413
Net earnings of joint venture				510
Net income	$ 1,293	$ 3,092	$ 401	$ 6,957
Earnings per share of common stock:				
Basic	$ 0.07	$ 0.19	$ 0.02	$ 0.43
Diluted	$ 0.07	$ 0.18	$ 0.02	$ 0.40
Weighted average number of common shares:				
Basic	17,319,133	16,498,412	17,294,411	16,340,145

Diluted (includes dilutive effect of stock options)	17,605,025	17,543,707	17,673,718	17,447,264

See Notes to Consolidated Financial Statements

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Matrix Service Company

Consolidated Balance Sheets

(in thousands)

	November 30, 2004	May 31, 2004
	(unaudited)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 1,152	$ 752
Accounts receivable, less allowances (November 30 - $1,034, May 31 - $1,037)	86,877	88,336
Costs and estimated earnings in excess of billings on uncompleted contracts	23,651	24,221
Inventories	5,071	4,584
Income tax receivable	1,630	3,220
Deferred income taxes	1,457	1,493
Prepaid expenses	3,259	2,368
Total current assets	123,097	124,974
Property, plant and equipment at cost:		
Land and buildings	25,210	24,518
Construction equipment	32,018	31,294
Transportation equipment	12,704	12,445
Furniture, fixtures and office equipment	8,896	8,743
Construction in progress	385	1,593
	79,213	78,593
Accumulated depreciation	36,156	32,939
Net property, plant and equipment	43,057	45,654
Goodwill	49,957	49,666
Other assets	1,259	1,253
Total assets	$ 217,370	$ 221,547

See Notes to Consolidated Financial Statements

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Matrix Service Company

Consolidated Balance Sheets

(in thousands, except share data)

	November 30, 2004 (unaudited)	May 31, 2004
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities:		
Accounts payable	$ 37,728	$ 27,528
Billings on uncompleted contracts in excess of costs and estimated earnings	16,533	13,388
Accrued insurance	2,896	2,152
Other accrued expenses	7,163	11,264
Current capital lease obligation	58	
Current portion of long-term debt	24,773	4,893
Current portion of acquisition payable	1,881	1,835
Total current liabilities	91,032	61,060
Long-term debt	28,232	64,209
Acquisition payable	5,758	5,614
Long-term capital lease obligation	126	
Deferred income taxes	5,017	4,949
Stockholders equity:		
Common stock - $.01 par value; 30,000,000 shares authorized and 19,285,276 shares issued as of November 30, 2004 and May 31, 2004	193	193
Additional paid-in capital	56,277	56,101
Retained earnings	35,966	35,585
Accumulated other comprehensive income (loss)	200	(395)
	92,636	91,484
Less: Treasury stock, at cost 1,956,950 shares as of November 30, 2004 and 2,084,950 shares as of May 31, 2004	(5,431)	(5,769)
Total stockholders equity	87,205	85,715
Total liabilities and stockholders equity	$ 217,370	$ 221,547

See Notes to Consolidated Financial Statements

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Matrix Service Company

Consolidated Cash Flow Statements

(in thousands)

	Six Months Ended November 30,	
	2004	**2003**
	(unaudited)	
Cash flow from operating activities:		
Net income	$ 401	$ 6,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,519	3,180
Deferred income tax	104	890
Gain (loss) on sale of equipment	8	(6)
Accretion of acquisition payable	190	203
Earnings of joint venture		(857)
Change in value of interest rate swap	(104)	(190)
Amortization of accumulated loss on interest rate swap	83	114
Amortization of debt issuance costs	291	66
Changes in current assets and liabilities increasing (decreasing) cash:		
Accounts receivable	1,459	(20,967)
Costs and estimated earnings in excess of billings on uncompleted contracts	570	4,695
Inventories	(487)	(105)
Prepaid expenses	(398)	748
Accounts payable	10,200	(14,299)
Billings on uncompleted contracts in excess of costs and estimated earnings	3,145	(4,739)
Accrued expenses	(3,357)	8,086
Income taxes receivable	1,717	941
Other	(58)	(115)
Net cash provided (used) by operating activities	17,283	(15,398)
Cash flow from investing activities:		
Capital expenditures	(787)	(2,567)
Distribution from joint venture		701
Net effect of dissolution of joint venture		2,738
Proceeds from other investing activities	41	82
Net cash provided (used) by investing activities	$ (746)	$ 954

See Notes to Consolidated Financial Statements

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Matrix Service Company

Consolidated Cash Flow Statements

(in thousands)

	Six Months Ended November 30,	
	2004	2003
	(unaudited)	
Cash flows from financing activities:		
Advances under bank credit agreement	$ 92,857	$ 155,512
Repayments on bank credit agreement	(108,849)	(141,796)
Capital lease borrowings	198	
Capital lease repayments	(18)	
Issuance of common stock	367	1,777
Payment of debt issuance costs	(814)	(13)
Net cash provided (used) by financing activities	(16,259)	15,480
Effect of exchange rate changes on cash	122	74
Increase in cash and cash equivalents	400	1,110
Cash and cash equivalents at beginning of period	752	775
Cash and cash equivalents at end of period	$ 1,152	$ 1,885

See Notes to Consolidated Financial Statements

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Matrix Service Company

Consolidated Statements of Changes in Stockholders Equity

(in thousands)

(unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss) Translation	Derivative	Total
Balances, May 31, 2004	$ 193	$ 56,101	$ 35,585	$ (5,769)	$ (239)	$ (156)	$ 85,715
Net Income			401				401
Other comprehensive income							
Translation adjustment					543		543
Derivative activity						52	52
Comprehensive income							996
Exercise of stock options (128,000)		49	(20)	338			367
Tax effect of exercised stock options		127					127
Balances, November 30, 2004	$ 193	$ 56,277	$ 35,966	$ (5,431)	$ 304	$ (104)	$ 87,205
Balances, May 31, 2003	$ 96	$ 52,527	$ 26,304	$ (8,179)	$ (278)	$ (289)	$ 70,181
Net income			6,957				6,957
Other comprehensive income							
Translation adjustment					225		225
Derivative activity						71	71
Comprehensive income							7,253
Exercise of stock options (532,532)		182	(169)	1,764			1,777
Tax effect of exercised stock options		2,623					2,623
Stock Dividend	97	(97)					
Balances, November 30, 2003	$ 193	$ 55,235	$ 33,092	$ (6,415)	$ (53)	$ (218)	$ 81,834

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 - BASIS OF PRESENTATION

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

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

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

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

NOTE 2 STOCK OPTION PLANS

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

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

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

	November 30,	
	2004	**2003**
Risk-free interest rate	3.7%	4.1%
Expected volatility	60.6%	56.4%
Expected life in years	4.8	4.8
Expected dividend yield		

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

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

	Three Months Ended November 30,		**Six Months Ended November 30,**	
	2004	**2003**	**2004**	**2003**
	(in thousands)		*(in thousands)*	
Net Income as Reported	$ 1,293	$ 3,092	$ 401	$ 6,957
Compensation Expense from Stock Options	95	114	180	207
Pro Forma Net Income	$ 1,198	$ 2,978	$ 221	$ 6,750
Earnings per Common Share as Reported:				
Basic	$ 0.07	$ 0.19	$ 0.02	$ 0.43
Diluted	$ 0.07	$ 0.18	$ 0.02	$ 0.40
Pro Forma Earnings per Common Share:				
Basic	$ 0.07	$ 0.18	$ 0.01	$ 0.41
Diluted	$ 0.07	$ 0.17	$ 0.01	$ 0.39

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NOTE 3 SEGMENT INFORMATION

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

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

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

Other consists of items related to previously disposed of businesses.

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

Segment assets consist of accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, property, plant and equipment and goodwill. Goodwill related to the Hake acquisition was included in Other until it was allocated to reporting units in the third quarter of fiscal 2004.

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Matrix Service Company

2nd Quarter Results of Operations

(in thousands)

	Construction Services	Repair & Maintenance Services	Other	Combined Total
Three Months ended November 30, 2004				
Gross revenues	$ 62,831	$ 53,681	$	$ 116,512
Less: Inter-segment revenues	(2,885)	(105)		(2,990)
Consolidated revenues	59,946	53,576		113,522
Gross profit	5,440	5,528		10,968
Operating income	1,268	1,944	27	3,239
Income before income tax expense	552	1,603	27	2,182
Net income	329	948	16	1,293
Segment assets	124,722	63,389	29,259	217,370
Capital expenditures	168	120	107	395
Depreciation and amortization expense	931	856		1,787
Three Months ended November 30, 2003				
Gross revenues	$ 128,506	$ 44,915	$	$ 173,421
Less: Inter-segment revenues	(2,504)	(4)		(2,508)
Consolidated revenues	126,002	44,911		170,913
Gross profit	9,021	4,057		13,078
Operating income	4,567	1,263		5,830
Income before income tax expense	4,163	1,050		5,213
Net income	2,543	549		3,092
Segment assets	133,834	63,224	23,176	220,234
Capital expenditures	296	472	540	1,308
Depreciation and amortization expense	840	777		1,617
Six Months ended November 30, 2004				
Gross revenues	$ 109,610	$ 94,438	$	$ 204,048
Less: Inter-segment revenues	(5,338)	(249)		(5,587)
Consolidated revenues	104,272	94,189		198,461
Gross profit	8,232	9,450		17,682
Operating income	300	2,493	(148)	2,645
Income (loss) before income tax expense	(983)	1,810	(148)	679
Net income (loss)	(588)	1,077	(88)	401
Segment assets	124,722	63,389	29,259	217,370
Capital expenditures	256	208	323	787
Depreciation and amortization expense	1,812	1,707		3,519
Six Months ended November 30, 2003				
Gross revenues	$ 254,901	$ 80,323	$	$ 335,224
Less: Inter-segment revenues	(5,492)	(57)		(5,549)
Consolidated revenues	249,409	80,266		329,675

Gross profit	18,877	7,281		26,158
Operating income	9,836	2,268		12,104
Income before income tax expense	9,019	1,841		10,860
Net income	5,941	1,016		6,957
Segment assets	133,834	63,224	23,176	220,234
Capital expenditures	584	1,124	859	2,567
Depreciation and amortization expense	1,750	1,430		3,180

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

	Construction Services	Repair & Maintenance Services	Total
Three Months Ended November 30, 2004			
Power Industry	$ 19,314	$ 3,560	$ 22,874
Downstream Petroleum Industry	29,687	46,873	76,560
Other Industries	10,945	3,143	14,088
Total	$ 59,946	$ 53,576	$ 113,522
Three Months Ended November 30, 2003			
Power Industry	$ 91,463	$ 4,359	$ 95,822
Downstream Petroleum Industry	30,984	37,279	68,262
Other Industries	3,556	3,273	6,829
Total	$ 126,002	$ 44,911	$ 170,913
Six Months Ended November 30, 2004			
Power Industry	$ 30,568	$ 4,923	$ 35,491
Downstream Petroleum Industry	57,753	83,502	141,255
Other Industries	15,951	5,764	21,715
Total	$ 104,272	$ 94,189	$ 198,461
Six Months Ended November 30, 2003			
Power Industry	$ 176,482	$ 6,660	$ 183,142
Downstream Petroleum Industry	67,429	69,344	136,773
Other Industries	5,498	4,262	9,760
Total	$ 249,409	$ 80,266	$ 329,675

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

NOTE 4 INCOME TAXES

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

NOTE 5 REPORTING ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Three Months Ended November 30, (unaudited)		**Six Months Ended November 30, (unaudited)**	
	2004	**2003**	**2004**	**2003**
	(in thousands)		***(in thousands)***	
Net Income	$ 1,293	$ 3,092	$ 401	$ 6,957
Other comprehensive income	166	271	595	296
Comprehensive income	$ 1,459	$ 3,363	$ 996	$ 7,253

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NOTE 6 DEBT

Long-term debt consists of the following:

	November 30, 2004	May 31, 2004
	(In Thousands)	
Borrowings under bank credit facility:		
Revolving credit facility	$ 7,879	$ 40,390
Term note	24,959	28,441
Term B note	20,000	
Interest rate swap liability	167	271
	53,005	69,102
Less current portion		
Term note	4,643	4,643
Term B note	20,000	
Interest rate swap liability	130	250
Long-term debt	$ 28,232	$ 64,209

Credit Agreement and Revolving Credit Facility

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

In August 2004, the credit facility was amended to convert $20 million of the revolver balance to a term loan (Term Loan B), which matures August 31, 2005 and to reduce the credit commitment on the revolver by an equal amount from $55 million to $35 million. The facility was further amended in December 2004 to provide that interest on Term Loan B be calculated at a 12.5% per annum fixed rate from November 30, 2004 until March 31, 2005, when the interest rate increases to an 18% per annum fixed rate. The interest rate further increases to a 21% per annum fixed rate on June 30, 2005. Upon a full and complete refinancing of Term Loan B, the credit commitment on the revolver will increase by an amount equal to one-half of any alternative capital obtained by Matrix to refinance Term Loan B, but in no circumstances will the credit commitment on the revolver increase to an amount greater than $55 million. Therefore, a full and complete refinancing of Term Loan B would result in a $45 million revolving credit facility. We anticipate refinancing Term Loan B prior to March 31, 2005, but cannot make any assurances that we will be able to do so.

At November 30, 2004, $7.9 million was outstanding under the revolver, $24.9 million was outstanding under the five-year term loan and $20.0 million was outstanding under Term Loan B. In addition, $9.3 million of the revolver was utilized by outstanding letters of credit, which mature in 2005. At November 30, 2004, remaining availability under the credit facility consisted of $17.8 million available under the revolver. We were paying a weighted average interest rate of 5.4% on the term loans and 5.8% on the revolver at November 30, 2004. We expect the weighted average rate on the term loans to increase to approximately 9.0% in the third quarter of fiscal 2005.

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

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

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

A fixed charge coverage ratio of not less than 1.15 to 1.0 through February 28, 2005; 1.0 to 1.0 from March 1, 2005 through May 31, 2005; and 1.25 to 1.0 thereafter. The fixed charge coverage ratio is calculated as (i) consolidated EBITDA for the then most recently ended fiscal four quarters less dividends paid in cash, taxes paid in cash and capital expenditures for the same period to (ii) scheduled current maturities of long-term debt for the following four fiscal quarters plus consolidated interest expense for the then most recently ended fiscal four quarters. Consolidated EBITDA is defined in the credit agreement as consolidated net income plus, to the extent included in determining consolidated net income, consolidated (i) interest expense, (ii) tax expense, (iii) depreciation, amortization and other non-cash charges, (iv) losses on the sale of fixed assets and (v) extraordinary losses realized other than in the ordinary course of business minus (i) gains on sales of fixed assets and (ii) extraordinary gains realized other than in the ordinary course of business.

A total debt leverage ratio not to exceed 4.5 to 1.0 through February 28, 2005 and 3.50 to 1.0 thereafter. The total debt leverage ratio is calculated as (i) consolidated debt plus the face value of the acquisition payable to the former shareholders of Hake, to (ii) consolidated EBITDA for the then most recently ended four fiscal quarters.

A senior debt leverage ratio not to exceed 3.0 to 1.0 through February 28, 2005 and 2.25 to 1.0 thereafter. The senior debt leverage ratio is calculated as (i) total debt outstanding under the credit facility excluding Term Loan B plus the face value of the acquisition payable to the former shareholders of Hake, to (ii) consolidated EBITDA for the then most recently ended four fiscal quarters.

A minimum net worth of at least $75 million plus one hundred percent of quarterly positive net income less dividends paid and treasury stock purchased commencing with the fiscal quarter ended August 31, 2004.

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

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In connection with the August 2004 amendment to our Credit Agreement, we also amended the terms of our financial covenants and in October 2004, we further amended our credit agreement to ease the restrictiveness of our financial covenants. The following table presents the required and actual financial covenant measures in effect as of May 31, 2004, August 31, 2004 and November 30, 2004:

	May 31, 2004	August 31, 2004	November 30, 2004
Fixed Charge Ratio			
Minimum Ratio Required	1.40	1.15	1.15
Actual Ratio	1.66	1.28	1.44
Total Debt Leverage Ratio			
Maximum Ratio Allowed	2.50	3.25	4.50
Actual Ratio	3.06*	3.43*	3.99
Senior Debt Leverage Ratio			
Maximum Ratio Allowed	N/A	3.25	3.00
Actual Ratio	N/A	2.31	2.68
Net Worth			
Minimum Net Worth Required	$ 66,596,000	$ 75,000,000	$ 76,293,000
Actual Net Worth	85,715,000	85,436,000	87,205,000

* Based on our forecasted results of operations and our amended covenants, our prospective covenant calculations indicated compliance with those covenants for the upcoming 12 months at both May 31, 2004 and August 31, 2004. However, we exceeded the maximum Total Debt Leverage Ratio allowed under our credit agreement on both those dates. The non-compliance with the Total Debt Leverage Ratio at May 31, 2004 was primarily attributable to operating results for the fourth quarter of fiscal 2004, which were negatively impacted by projects that experienced significant cost overruns during that period. The non-compliance at August 31, 2004 was primarily attributable to results of operations for our first quarter of fiscal 2005 being less than projected due primarily to lower than anticipated revenues, which resulted in under absorption of our fixed costs. The decrease in actual revenues as compared to the projection was attributable to the timing of revenue recognition and award of contracts. In addition, our actual legal costs exceeded our estimates, which were based on estimates provided by our outside counsel.

If, as of the end of a fiscal quarter, we were to violate a financial covenant and conclude that it was probable that we would continue to violate one or more of our covenants over the next 12 months, we would be required to reclassify our indebtedness under the credit agreement as current. As of the quarter ended November 30, 2004, we were in compliance with our financial covenants and did not believe it was probable that we would violate those covenants over the next 12 months. This assessment took into account the negative factors described elsewhere in this Quarterly Report on Form 10-Q/A and our other periodic reports, including delays in the start-up of projects included in our backlog, the level of our backlog, costs associated with contract disputes, low-margin maintenance contracts and capital expenditure requirements.

In order to comply with the financial covenants for the next twelve months and specifically to comply with the Total Debt Leverage Ratio at May 31, 2005, which decreases to a maximum of 3.50 at May 31, 2005, we would be required to generate EBITDA of approximately $10.8 million in the last six months of fiscal 2005, based upon projected debt levels similar to November 30, 2004. If our debt level in the second half of fiscal 2005 exceeds our debt level at November 30, 2004, we would be required to generate a higher level of EBITDA in order to comply with the Total Debt Leverage Ratio. The Company generated EBITDA of approximately $6.2 million in the first six months of fiscal 2005, of which approximately $5.1 million was generated in the three months ended November 30, 2004. Based on the most recent information available to us, we believe there is considerable risk that we will violate our financial covenants in the third quarter of fiscal 2005 and over the next 12 months.

The failure to comply with the terms of our credit agreement could require us to incur significant fees to our lenders to obtain any waivers or amendments or cause us to seek alternative financing, which would divert the time and attention of our management away from operations. If we were unable to obtain acceptable waivers or amendments from our lenders or alternative financing on terms acceptable to us, our lenders would have the right, among others, to declare all amounts outstanding under the credit agreement to be immediately due and payable and foreclose upon and sell substantially all of our assets to repay such amounts.

We are currently evaluating various proposals to refinance Term Note B and our existing credit facility. Although we anticipate completing these refinancings prior to March 31, 2005, we cannot assure you that our efforts will be successful.

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NOTE 7 ACQUISITION PAYABLE

As part of the purchase of the Hake group of companies in Fiscal 2003, the Company entered into an acquisition payable for a portion of the purchase price. The acquisition payable is recorded at its fair value of $7.6 million and accreted for the change in its present value each period utilizing a 5.1% effective interest rate. Payments related to the acquisition payable are due annually on March 7 with $1.9 million due in each of 2005, 2006 and 2007, and $2.7 million due in 2008.

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

NOTE 8 CONTINGENCIES

Insurance Reserves

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

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

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Legion Insurance Dispute

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

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

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

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

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

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All claims that are outstanding with the Legion Liquidator, state guaranty funds and Mutual are claims that originated prior to May 1, 2002, the date on which Matrix replaced the Legion insurance program with workers compensation insurance provided by A rated workers compensation carriers. Matrix has accrued approximately $0.8 million for these claims. Matrix believes that this accrual is adequate to cover all remaining claims which Matrix may be required to pay as a result of its net worth exceeding the statutory maximum. It is still possible that Matrix will experience some additional exposure from the total of $4.6 million of existing security, consisting of the escrow accounts, LC and surety bond, until a final settlement agreement with Mutual is signed, a permanent injunction is entered and the LC and surety bond are cancelled. Matrix believes that it is adequately reserved for this matter and does not believe resolution of this issue will have a material effect on the Company s financial position, results of operations and liquidity.

Environmental Dispute

In March 2003, the South Coast Air Quality Management District (AQMD) of the State of California filed a complaint in the Los Angeles County Superior Court for the Central District against a Matrix customer alleging multiple violations by the customer at its west coast refinery for failure to comply with District Rules 203, 463, 1173, 1176 and 2004 of the AQMD that established a self-inspection and compliance reporting program for above ground stationary tanks used to store crude oil, gasoline and other petroleum products.

Matrix is not named in the AQMD complaint; however, counsel for the customer has made a formal demand upon Matrix to assume defense of the case and to indemnify the customer for any damages it may incur. The customer s demand was made pursuant to the terms of a Master Services Agreement entered into in May 1999 between Matrix and the customer. Matrix rejected the demands of the customer based upon its own belief as to the proper interpretation of the Master Services Agreement and the facts developed by Matrix since the AQMD filed its complaint in March 2003. Matrix and the customer mutually agreed to toll the dispute for at least four years and until there is resolution of the complaint filed by the AQMD against the customer. The customer continues to provide Matrix with opportunities for work and new projects.

Despite what appears to be a favorable outcome to Matrix to date, the claim made by the AQMD against the customer remains outstanding. And while the existing relationship between Matrix and its customer may be positive, the possibility of incurring a significant civil penalty may still cause the customer to assert claims against Matrix that it believes may be valid under the Master Services Agreement. Matrix has conducted no discovery to date other than a review of its own records. There can be no assurance that Matrix will not become a party in litigation relating to this matter or what the outcome of any such litigation would be given the inherent uncertainty as to the outcome of any litigation. The Company currently cannot provide any estimate of possible loss or range of possible loss for this matter.

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Joint Venture Dispute

In March 2000, the Company entered into a joint venture partnership agreement for the construction of a pulp and paper project. In May 2001, the joint venture became impaired and Matrix fully reserved the net investment amount. As of May 31, 2004 and November 30, 2004, trade receivables include a $1.3 million balance from this affiliated joint venture, which is believed to be fully recoverable. The joint venture is currently in litigation with the owner of the pulp and paper project and has indicated to Matrix that recoveries sought are in excess of the amount payable to Matrix.

Bankrupt Customer

On September 30, 2003, a customer of Matrix filed for Chapter 11 bankruptcy protection. Matrix has accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts from the customer of approximately $5.8 million at November 30, 2004. As a result of the customer s bankruptcy, the Company has provided a reserve for its estimated potential loss, which management believes is adequate. Matrix will continue to assess the adequacy of the reserve as additional information becomes available.

Contract Disputes

In November and December 2003, three Matrix subsidiaries filed lawsuits in U. S. District Court for the Eastern District of Pennsylvania against a significant customer for claims totaling in excess of $20 million related to disputed and undisputed amounts owed to these subsidiaries under separate contracts for the construction of a combined cycle power plant. Matrix believes it is adequately reserved for any potential loss related to these disputes and will continue to assess the adequacy of the reserve as additional information becomes available.

In May 2004, Matrix initiated a lawsuit in the Superior Court of New Jersey, Mercer County, against the former general contractor of a project for claims totaling in excess of $10 million. Matrix has also filed a lien against the owner and has a guaranty of the general contractor s parent corporation upon which the Company has also instituted litigation in the U.S. District Court for the Southern District of New York. The lawsuits are in their early stages and no discovery has occurred to date. Matrix believes it is adequately reserved for any potential loss related to the dispute and will continue to assess the adequacy of the reserve as additional information becomes available.

Unapproved Change Orders and Claims

As of November 30, 2004 and May 31, 2004, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts included revenues, to the extent of costs incurred, for unapproved change orders of approximately $7.9 million and $9.4 million, respectively, and claims of approximately $5.5 million and $4.4 million, respectively. Amounts disclosed for unapproved change orders and claims include amounts associated with contract disputes discussed above. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, customers generally will not pay these amounts to Matrix until final resolution of related claims, and accordingly, collection of these amounts may extend beyond one year.

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Other

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

NOTE 9 Stock Dividend

During the second quarter of fiscal 2004, the Company declared a two-for-one stock split payable on November 21, 2003 in the form of a one-for-one stock dividend to shareholders of record on October 31, 2003. All shares and earnings per share amounts have been restated for all periods presented to reflect the change in the capital structure.

NOTE 10 Earnings per Common Share

Basic earnings per common share is calculated based on the weighted average shares outstanding during the period. Dilutive earnings per share includes the dilutive effect of employee stock options. Diluted earnings per share excludes 368,300 options which were antidilutive at November 30, 2004, as the exercise prices of the options exceeded the average market price of common stock for the first six months of fiscal 2005. There were no antidilutive options in the first six months of fiscal 2004.

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

Critical Accounting Policies

The following is a discussion of our most critical accounting policies, judgments and uncertainities that are inherent in our application of GAAP.

Revenue Recognition

Matrix records profits on long-term construction contracts on a percentage-of-completion basis on the cost-to-cost method. Contracts in process are valued at cost plus accrued profits less billings on uncompleted contracts. Contracts are generally considered substantially complete when field construction is completed. Matrix includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when Matrix determines that it is responsible for the procurement and management of such cost components on behalf of the customer.

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

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