UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

(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. 2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2004 to revise Part 1, Items 1, 2 and 4 in the Form 10-Q. This amendment:

reclassifies amounts receivable for contract disputes to a separate line item on our consolidated balance sheets and our consolidated cash flow statements, and adds additional disclosure related to those contract disputes;

adds disclosure of interest paid and taxes paid to our consolidated cash flow statements; and

adds additional discussion of internal control issues identified, compensating controls and the basis of our Chief Executive Officer s and Chief Financial Officer s conclusion that our disclosure controls were effective.

This Amendment No. 2 to our Quarterly Report on Form 10-Q/A amends and restates Items 1, 2 and 4 of Part 1 of our Quarterly Report on Form 10-Q. The information included in these items has 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 - $334, May 31 - $337)	52,821	56,974
Contract disputes receivable, net	31,357	31,456
Costs and estimated earnings in excess of billings on uncompleted contracts	21,106	18,854
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	117,853	119,701
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	$ 212,126	$ 216,274

See Notes to Consolidated Financial Statements

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Matrix Service Company

Consolidated Balance Sheets

(in thousands, except share data)

	November 30, 2004	May 31, 2004
	(unaudited)	
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities:		
Accounts payable	$ 37,728	$ 27,528
Billings on uncompleted contracts in excess of costs and estimated earnings	11,289	8,115
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	85,788	55,787
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	$ 212,126	$ 216,274

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	4,153	(20,967)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,252)	4,695
Contract disputes receivable	99	
Inventories	(487)	(105)
Prepaid expenses	(398)	748
Accounts payable	10,200	(14,299)
Billings on uncompleted contracts in excess of costs and estimated earnings	3,174	(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
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Income taxes	$ (1,514)	$ 3,563
Interest	$ 1,980	$ 1,361

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, 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 anticipate completing these refinancings prior to March 31, 2005, we cannot assure you that our efforts will be successful.

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

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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.

Legion Insurance Dispute

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

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

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

On July 25, 2003, a Pennsylvania court placed Legion into liquidation. At that time, all open workers compensation claims were sent to the various state guaranty funds for handling. Many of the states have denied responsibility with respect to Matrix claims because Matrix s net worth exceeded the statutory maximum as of December 31, 2002, the year preceding the

Legion liquidation, under which claims would be handled by the individual state guaranty funds. Those states returned the claims back to Matrix for direct handling. In other states where Matrix has exposure, the state guaranty funds took over the claims. In recent months, however, some of those states have billed Matrix for reimbursement of payments made on Matrix claims.

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

All claims that are outstanding with the Legion Liquidator, state guaranty funds and Mutual are claims that originated prior to May 1, 2002, the date on which Matrix replaced the Legion insurance program with workers compensation insurance provided by A rated workers compensation carriers. 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.

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 $0.4 million and $1.5 million, respectively, and claims of approximately $0.2 million and $1.3 million, respectively. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, customers generally will not pay these amounts to Matrix until final resolution of related claims, and accordingly, collection of these amounts may extend beyond one year.

Other

The Company and its subsidiaries are named 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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NOTE 11 Contract Disputes

Contract Disputes Summary

(in 000 s)

Dispute	Total Claim	Net Receivable As of November 30, 2004	Net Receivable As of May 31, 2004
Contract Dispute I	$ 25,390	$ 14,943	$ 14,926
Contract Dispute II	14,264	11,174	11,301
Contract Dispute III	6,283	4,265	4,255
Contract Dispute IV	2,054	975	975
Total	$ 47,991	$ 31,357	$ 31,456

Contract Dispute I

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

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

The Company s total claim in this matter is approximately $25.4 million and the Company has, in accordance with SOP 81-1, a $14.9 million net receivable recorded in our balance sheet at November 30, 2004 and May 31, 2004.

Contract Dispute II

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

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

The Company s total claim in this matter is approximately $14.3 million and the Company has, in accordance with SOP 81-1, a $11.2 million and $11.3 million net receivable recorded in our balance sheet at November 30, 2004 and May 31, 2004, respectively.

Contract Dispute III

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

On September 30, 2003, the Sub filed for Chapter 11 bankruptcy protection. At the date of the bankruptcy filing, the Company s subsidiaries were substantially complete with all work at the job site. Subsequent to the Sub s bankruptcy filing, the GC assumed all of the Sub s obligations that are subject to valid liens associated with the project. The Company s subsidiaries subsequently filed valid construction lien claims totaling approximately $5.8 million against the owner, GC and Sub. These lien claims have been consolidated with six other sub-subcontractor lien claims associated with the project and the lien claims have been fully bonded by the GC, although the GC disputes the lien amounts and seeks to have a smaller lien fund fixed. Therefore, the Company is not required to proceed through the Sub s bankruptcy proceedings to collect on amounts owed. The Court has ruled that initial discovery be limited to matters relevant to the computation of

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the lien fund that is available to satisfy the liens that have been asserted against the project. Currently, the Company is in dispute with the owner and the GC as to the appropriate calculation of the available lien fund. The Company believes that we have a valid claim and that the value of the lien fund will be established at an amount adequate to fund the associated claim by the Company. Currently, there is a settlement discussion mandated by the courts scheduled for the first quarter of fiscal 2006. The Company expects a full resolution in this matter to occur in fiscal 2006.

The Company s total claim in this matter is approximately $6.3 million and the Company has, in accordance with SOP 81-1, a $4.3 million net receivable recorded in our balance sheet at November 30, 2004 and May 31, 2004.

Contract Dispute IV

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

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

The Company s total claim in this matter is approximately $2.1 million, excluding legal costs, and the Company has, in accordance with SOP 81-1, a $1.0 million net receivable recorded in our balance sheet at November 31, 2004 and May 31, 2004.

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

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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

the evidence supporting the claim is objective and verifiable.

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

As of 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 $0.4 million and $1.5 million, respectively, and for other claims of approximately $0.2 million and $1.3 million, respectively. Historically, our collections for unapproved change orders and other claims have approximated the amount of revenue recognized.

The following table provides a rollforward of revenue recognized on claims and unapproved change orders.

	Claims for Unapproved Change Orders	Other Claims	Total
		(In Thousands)	
Balance at May 31, 2003	$ 377	$ 528	$ 905
Additions	1,729	160	1,889
Collections	(75)	(175)	(250)
Gain/(Loss)	(124)	(104)	(228)
Balance at November 30, 2003	$ 1,907	$ 409	$ 2,316
Balance at May 31, 2004	$ 1,457	$ 1,264	$ 2,721
Additions	329	105	434
Collections	(1,751)	(1,095)	(2,846)
Gain/(Loss)	358	(36)	322
Balance at November 30, 2004	$ 393	$ 238	$ 631

Contract Dispute Receivables

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

Loss Contingencies

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

Purchase Price Allocation

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

Debt Covenant Compliance

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

Insurance Reserves

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, coverage limits and self-insured retentions. As of May 31, 2004 and November 30, 2004, insurance reserves totaling $2.2 million and $2.9 million, respectively, are reflected on our balance sheet. These amounts represent our best estimate of our ultimate obligations for asserted claims plus claims incurred but not yet reported at the balance sheet date. We establish specific reserves for claims using case-basis evaluations of the underlying claim data and update our evaluations as further information becomes known. Judgments and assumptions are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. Additionally, the actual results of claim settlements could differ from the amounts estimated.

Goodwill

Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment. Goodwill represents the excess of the purchase price of acquisitions over the

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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 one level below or at our segment level.

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

If the carrying value of a reporting unit exceeds its fair value, a computation of the implied fair value of goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in the amount of the excess. If an impairment charge is incurred, it would negatively impact our results of operations and financial position. We perform our annual analysis during the fourth quarter of each year and in any other period in which indicators of impairment warrant an additional analysis. Upon completion of our Fiscal Year 2004 analysis, we determined that no impairment charge was necessary.

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Results of Operations

Overview

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

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

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

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

THREE MONTHS ENDED NOVEMBER 30, 2004 COMPARED TO THREE MONTHS ENDED NOVEMBER 30, 2003

Consolidated

Consolidated revenues were $113.5 million for the three months ended November 30, 2004, a decrease of $57.4 million or 33.6% from consolidated revenues of $170.9 million for the three months ended November 30, 2003. The decrease in consolidated revenues resulted from a $66.1 million decrease in Construction Services revenues partially offset by a $8.7 million increase in Repairs & Maintenance Services revenues.

Consolidated gross margins decreased from $13.1 million for the quarter ended November 30, 2003 to $11.0 million for the quarter ended November 30, 2004. The $2.1 million decrease in gross margin resulted from the 33.6% decline in quarterly revenues partially offset by higher gross margin percentages attained by operations. The consolidated gross margin percent improved from 7.7% for the three months ended November 30, 2003 to 9.7% for the three months end November 30, 2004. This 26% improvement was the result of higher gross margins in both operating segments.

Consolidated SG&A expenses were $7.8 million for the second quarter of fiscal 2005 compared to $7.2 million in the second quarter last year. This increase of $0.6 million was due to $1.0 million of additional legal costs related to collection issues previously disclosed combined with $0.2 million of additional audit and accounting fees associated with Sarbanes-Oxley compliance. These increases were partially offset by cost reduction strategies and a reduction in employee incentives, which are based on the attainment of financial goals. The recurring SG&A of approximately $6.6 million is in line with our expectations in light of the cost reduction measures implemented in the first quarter of this year. SG&A expense as a percentage of revenue increased to 6.8% for the second quarter of fiscal 2005 compared to 4.2% last fiscal year as a result of the higher SG&A expenses combined with a 33.6% decrease in revenues.

Interest expense increased to $1.1 million for the quarter ended November 30, 2004 as compared to $0.7 million for the comparable period of the prior fiscal year due to higher interest rates and the increased level of debt that resulted from collection issues and contract disputes experienced in fiscal 2004.

Income before income tax expense decreased from $5.2 million for the second quarter of fiscal 2004 to $2.2 million for the second quarter of fiscal 2005. This $3.0 million decrease was due to higher SG&A and interest expense combined with the lower gross margin resulting from the decline in consolidated revenues.

The effective tax rate for each of the three-month periods ended November 30, 2004 and 2003 was 40.7%.

Construction Services

Construction Services revenues for the quarter ended November 30, 2004 were $59.9 million, compared to $126.0 million in the comparable quarter of the prior year, a decrease of $66.1 million or 52.4%. The decrease was primarily due to lower revenues from the Power Industry offset somewhat by higher revenues from Other Industries. Power Industry revenues decreased $72.2 million as a result of the completion of two large power projects performed by our Eastern operations in fiscal 2004 that were not replaced dollar for dollar in the first half of fiscal 2005. Revenue from Other Industries, which consists primarily of wastewater, food and beverage, electronics and paper industries, increased $7.4 million.

Construction Services gross margins increased from 7.2% in the second quarter of fiscal 2004 to 9.1% in the second quarter of fiscal 2005 as large low margin power projects performed by our Eastern operations in fiscal 2004 were partially replaced with higher-margin Other Industries work in fiscal 2005. This increase was partially offset by downward pressure on our margins attributable to a lower revenue base available for fixed cost absorption. Gross profit decreased from $9.0 million in the second quarter of fiscal 2004 to $5.4 million in the second quarter of fiscal 2005, a decrease of 39.7% due to the decrease in the volume of business that was partially offset by higher margins.

The operating income and income before income tax expense for the three months ended November 30, 2004 of $1.3 million and $0.6 million, respectively, were significantly lower than the operating income and income before income tax expense of $4.5 million and $4.2 million, respectively, produced for the three months ended November 30, 2003, primarily due to a lower consolidated revenue base available for fixed cost absorption in the first half of fiscal 2005 combined with higher interest expense.

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Repair & Maintenance Services

Revenues from Repair & Maintenance Services increased $8.7 million or 19.3% from $44.9 million for the second quarter of fiscal 2004 to $53.6 million for the second quarter of fiscal 2005. The improvement resulted from increased revenues from the Downstream Petroleum Industry, which increased $9.6 million for the quarter, resulting from continued strong turnaround activity.

Gross margins of 10.3% for the three months ended November 30, 2004 were higher than the gross margins of 9.0% for the three months ended November 30, 2003 as a result of a higher volume of refinery turnarounds. Gross profit increased from $4.1 million in the second quarter of fiscal 2004 to $5.5 million in the second quarter of fiscal 2005, an increase of 36.3%.

Operating income and income before tax expense for the three months ended November 30, 2004 of $1.9 million and $1.1 million, respectively, were higher than the $1.3 million and $1.0 million, respectively, produced for the three months ended November 30, 2003 primarily due to the higher gross margin attained offset somewhat by a lower consolidated revenue base available for fixed cost absorption and higher interest expenses in the second quarter of fiscal 2005.

SIX MONTHS ENDED NOVEMBER 30, 2004 COMPARED TO SIX MONTHS ENDED NOVEMBER 30, 2003

Consolidated

Consolidated revenues were $198.5 million for the six months ended November 30, 2004, a decrease $131.2 million or 39.8% from consolidated revenues of $329.7 million for the six months ended November 30, 2003. The decrease in consolidated revenues resulted from a $145.1 million decrease in Construction Services revenues partially offset by a $13.9 million increase in Repairs & Maintenance Services revenues.

Consolidated gross margins decreased from $26.2 million for the six months ended November 30, 2003 to $17.7 million for the six months ended November 30, 2004. The $8.5 million decrease in gross margin resulted from the 39.8% decline in revenues partially offset by higher gross margin percentages. Consolidated gross margin percent improved from 7.9% for the six months ended November 30, 2003 to 8.9% for the six months end November 30, 2004. This 13% improvement was the result of higher gross margins in both operating segments.

Consolidated SG&A expenses were $14.9 million for the first six months of fiscal 2005 compared to $14.0 million for the first six months of the prior year. This increase of $0.9 million was due to $1.6 million of additional legal costs related to collection issues previously disclosed combined with $0.4 million of additional audit and accounting fees associated with Sarbanes-Oxley compliance. These increases were partially offset by cost reduction strategies and a reduction in employee incentives, which are based on attainment of financial goals. SG&A expense as a percentage of revenue increased to 7.5% compared to 4.3% in the first half of the prior fiscal year as a result of the higher SG&A expenses combined with a 39.8% decrease in revenues.

Interest expense increased to $2.0 million for the six months ended November 30, 2004 as compared to $1.4 million for the comparable period for the prior fiscal year due to higher interest rates and the increased level of debt that resulted from collection issues and contract disputes experienced in fiscal 2004.

Income before income tax expense decreased from $10.9 million for the first six months of fiscal 2004 to $0.7 million for the first six months of fiscal 2005. This $10.2 million decrease was primarily due to the lower gross margin attributable to the decline in revenues combined with higher SG&A and interest expenses.

The effective tax rates for the six months ended November 30, 2004 and 2003 were 40.9% and 40.6%, respectively.

Construction Services

Construction Services revenues for the six months ended November 30, 2004 were $104.3 million, compared to $249.4 million in the comparable six months of the prior year, a decrease of $145.1 million or 58.2%. The decrease was primarily due to a $145.9 million decrease in revenues from the Power Industry, which resulted from two large power projects performed by our Eastern operations in fiscal 2004 that were not replaced dollar for dollar in the first half of fiscal 2005. In addition, revenues from the Downstream Petroleum industry decreased $9.7 million. These decreases were partially offset by higher Other Industries revenues, which increased $10.5 million.

Construction Services gross margins increased from 7.6% in the first six months of fiscal 2004 to 7.9% in the first six months of fiscal 2005 due to the completion of two large low margin power projects performed by our Eastern operations in fiscal 2004 partially offset by a lower revenue base available for fixed cost absorption. Gross profit decreased from $18.9 million in the first half of fiscal 2004 to $8.2 million in the first half of fiscal 2005, a decrease of 56.4%, due to the decrease in the volume of business, which was partially offset by slightly higher margins.

The operating income and loss before income tax expense for the six months ended November 30, 2004 of $0.3 million and $1.0 million, respectively, were lower than the operating income and income before income tax expense of $9.8 million and $9.0 million, respectively, produced for the six months ended November 30, 2003, due to a lower consolidated revenue base available for fixed cost absorption in the first half of fiscal 2005 combined with higher interest expense.

Repair & Maintenance Services

Revenues from Repair & Maintenance Services increased $13.9 million or 17.3%, from $80.3 million for the first half of fiscal 2004 to $94.2 million for the first half of fiscal 2005. The improvement resulted primarily from increased revenues from the Downstream Petroleum Industry, which increased $14.2 million for the six months resulting from strong turnaround activity.

Gross margins of 10.0% for the six months ended November 30, 2004 were higher than the gross margins of 9.1% for the six months ended November 30, 2003 as a result of a higher volume of refinery turnarounds. Gross profit increased from $7.3 million in the first half of fiscal 2004 to $9.5 million in the first half of fiscal 2005, an increase of 29.8%.

Operating income for the six months ended November 30, 2004 of $2.5 million was higher than the $2.3 million produced for the six months ended November 30, 2003 primarily due to improved gross margins partially offset by a lower consolidated revenue base available for fixed cost absorption. Income before tax expense was $1.8 million for both the six months ended November 30, 2004 and 2003 as the higher operating profit attained was offset by higher interest expense.

Non-GAAP Financial Measure

EBITDA is a supplemental, non-generally accepted accounting principle financial measure. EBITDA is defined as earnings before taxes, interest expense, depreciation and amortization. We have presented EBITDA because we believe that it is an important supplemental indicator of the operational strength of our business. EBITDA is also 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 does not necessarily represent funds available for discretionary use, and is not necessarily a measure of our ability to fund our cash needs. As EBITDA excludes certain financial information compared with net income, the most directly comparable GAAP financial measure, users of this financial information should consider the type of events and transactions which are excluded. Our non-GAAP performance measure, EBITDA, has certain material limitations as follows:

- It does not include interest expense. Because we have borrowed money to finance our operations, interest expense is a necessary and ongoing part of our costs and has assisted us in generating revenue. Therefore, any measure that excludes interest expense has material limitations.

- It does not include taxes. Because the payment of taxes is a necessary and ongoing part of our operations, any measure that excludes taxes has material limitations.

- It does not include depreciation and amortization expense. Because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue. Therefore, any measure that excludes depreciation and amortization expense has material limitations.

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EBITDA for the three and six month periods ended November 30, 2004 was $5.0 million and $6.2 million, respectively, compared to $7.6 million and $16.3 million for the three and six month periods ended November 30, 2003. A reconciliation of EBITDA to Net Income follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Net Income (loss)	$ 1,293	$ 3,092	$ 401	$ 6,957
Interest Expense, net	1,079	734	1,980	1,427
Provision (benefit) for income taxes	889	2,121	278	4,760
Depreciation and amortization	1,787	1,617	3,519	3,180
EBITDA	$ 5,048	$ 7,564	$ 6,178	$ 16,324

The $2.6 million (33.3%) decrease and $10.1 million (62.2%) decrease in EBITDA for the three months and six months ended November 30, 2004, respectively, was primarily the result of lower earnings in fiscal 2005 compared to fiscal 2004.

Financial Condition & Liquidity

Cash Flow

Historically, Matrix has financed its operations with cash from operations and from advances under its credit agreement. Matrix s cash and cash equivalents totaled approximately $1.2 million at November 30, 2004 and approximately $0.8 million at May 31, 2004. Operations of Matrix provided $17.3 million of cash for the six months ended November 30, 2004 as compared to using $15.4 million of cash for the six months ended November 30, 2003, representing an increase of approximately $32.7 million. The increase in cash provided by operations was primarily due to decreased working capital needs that resulted from the lower revenues generated in the six months ended November 30, 2004 as compared to the six months ended November 30, 2003.

Accounts Receivable were $52.8 million and contract disputes receivable were $31.4 million as of November 30, 2004 for a combined total of $84.2 million as compared to a total of $89.8 million as of November 30, 2003. Costs in Excess of Billings were $21.1 million as of November 30, 2004 as compared to $18.7 million as of November 30, 2003. We did not experience decreases in these balances consistent with the 33.6% decrease in revenues we experienced for the three months ended November 30, 2004 compared to the three months ended November 30, 2003. The balances did not decrease in proportion to the decrease in revenues due to two primary factors. First, a customer was making significant prepayments for a project during fiscal 2004 so no accounts receivable were reflected in the November 30, 2003 balance with respect to these revenues. We did not have a project for which a customer was making significant prepayments in fiscal 2005. Second, the November 30, 2004 balances include $31.4 million that relates to contract disputes discussed in Note 11 to the financial statements included in this Form 10-Q/A. If these circumstances were not present, we believe the accounts receivable and cost in excess of billings balances would have decreased in proportion to the decrease in revenues experienced.

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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.

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, 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.

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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.

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 $2.8 million due in 2008.

Capital Expenditures

Capital expenditures during the six months ended in November 30, 2004 totaled approximately $0.8 million. Although the Company s original fiscal 2005 budget included capital expenditures of $6.3 million, the Company expects capital expenditures for the remainder of fiscal 2005 to be minimal. We do not expect the low level of capital expenditures in fiscal 2005 to result in any loss of business, but we expect our capital expenditure requirements to increase in fiscal 2006.

Conclusion

We believe that our existing funds, amounts available for borrowing under our existing credit agreement, cash generated by operations, and our anticipated refinancing of Term Loan B will be sufficient to meet our working capital needs through fiscal 2005 and for the foreseeable time thereafter unless significant expansions of operations not now planned are undertaken, in which case we would need to arrange additional financing as a part of any such expansion.

Outlook

Our second quarter results showed substantial improvement over the first quarter, although the additional costs associated with our collection efforts on the disputed contracts continues to exceed estimates. We now expect a similar quarterly impact from these disputes until the matters are settled sometime this calendar year. Our consolidated margins also improved from the first quarter, but remain lower than forecast as the prolonged industry slow-down we experienced over the previous three quarters resulted in a more competitive pricing environment than anticipated. Construction Services continues to see start dates slip into

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fiscal 2006 for our current backlog as well as projects we are bidding or following. We have mitigated this trend by replacing these revenues with low-risk, lower-margin maintenance contracts in both the Downstream Petroleum and Power Industries. These long-term contracts provide us with a continuity of work to help absorb fixed costs. This strategy should allow us to retain key personnel to support the increased Construction Services activity we anticipate over the next few years.

Our backlog continues to increase and stood at $147.9 million at November 30, 2004. We still believe our revenue guidance of $425 million to $475 million is attainable, as the Company has been awarded a number of terminal expansion and modification projects as well as longer-term maintenance contracts. However, we believe the continued financial drain related to our collection efforts and the current mix of work will result in annual earnings of $0.20 to $0.30 per fully diluted share for the fiscal year ending May 31, 2005 versus our prior guidance of $0.45 to $0.55.

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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 forward-looking statements.

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

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

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

- the risk factors discussed in our Form 10-K for the year ended May 31, 2004 and listed from time to time in our filings with the Securities and Exchange Commission;
- the impact of general economic, market or business conditions on our future revenues;
- the deferral of capital expenditures or planned maintenance by our significant customers;
- changes in laws or regulations; and
- other factors, most of which are beyond our control.

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

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PART II

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, 2004. 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, 2004.

We are currently undergoing a comprehensive effort in preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404). This effort includes the documentation, testing and review of our internal controls under the direction of senior management. During the course of these activities, we have identified certain internal control issues which senior management believes need to be improved. As a result, we are evaluating and implementing improvements to our internal controls over financial reporting and will continue to do so. These improvements include further formalization of policies and procedures, improved segregation of duties, and improved information technology system controls. For all internal control issues identified, we believe we have adequate compensating controls in place, such as reviews and reconciliations, to mitigate the risk to our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer s conclusion, that our disclosure controls and procedures were effective at the reasonable assurance level as of November 30, 2004 was based, in part, upon our evaluation of the control issues identified, including the presence of adequate compensating controls.

Control issues identified and the compensating controls relied on by management are as follows:

> Segregation of duties Due to the small size of our administrative staff at certain regional locations and certain corporate functions, there are circumstances where duties are not adequately segregated. For example, some employees currently have the ability to set up new employees and also enter time for employees. Others can set-up a new vendor and also process an invoice for payment.

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As segregation of duties issues are identified, we evaluate the circumstances, organizational structure and compensating controls when determining the appropriate remediation. For all segregation of duties issues identified to date, we believe we have compensating controls in place that are operating effectively, including general ledger account reconciliations, review of disbursements and financial analyses.

Policies and procedures During the course of our compliance effort for Section 404, we have identified instances where certain controls are performed as designed but documented evidence of the performance of the control does not exist. For example, reviews of general ledger account reconciliations, project estimates and financial analyses are performed but evidence of the review is not maintained or retained in all circumstances. Although the controls are operating effectively, remediation will be implemented to require better documentation of the performance of the controls.

Information systems controls Prior to our compliance effort for Section 404, we had identified areas within our information systems control structure that should be strengthened. The primary areas identified relate to change management controls and access controls. The Company is in the process of remediating these issues. In the meantime, the Company believes it has adequate compensating controls in place to mitigate the risk associated with these issues, including general ledger account reconciliations and financial analyses.

PART II

OTHER INFORMATION

ITEM 6. Exhibits:

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: June 3, 2005

By: /s/ George L. Austin

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

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EXHIBIT INDEX

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-0.13%
5.68%
0.36%

-35.29%
5.68%
0.36%

A collective trust is an investment fund that is exempt from registration with the Securities and Exchange Commission as an investment company under the Investment Company Act of 1940 and unit holders are not entitled to the protections of the 1940 Act. Collective trusts may only hold the assets of qualified retirement and government plans, including 401(k) plans, Taft-Hartley plans, profit sharing and cash balance plans, and governmental 457 plans. An investment in a collective trust is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Investment values will fluctuate with changes in market conditions so that upon withdrawal your investment may be worth more or less than the amount originally invested. In addition to the quoted expense ratios, other collective trust expenses, including legal, auditing, custody service and tax form preparation, investment and reinvestment expenses may apply. The collective trusts are maintained by AST Capital Trust Company of Delaware, a Delaware state chartered trust company. AST is an independent trust company and is not an affiliate of Lincoln Financial Group.

Participation in the collective trusts is governed by the terms of the trust and participation materials. An investor should carefully consider the investment objectives, risks, and charges and expenses of the collective trusts before investing. The disclosure statement contains this and other important information and should be read carefully before investing or sending money. For disclosure statements, please contact your Lincoln Representative.

Performance quoted represents past performance and is no guarantee of future results. Investment values will fluctuate with changes in market conditions so that when you withdraw your investment it may be worth more or less than the original amount invested. Results from a current investment may differ substantially from the historical performance shown. Be aware that there are significant differences in risk among investment asset classes.

With respect to a mutual fund investment option, an investor should carefully consider the investment objectives, risks, and charges and expenses of the investment company before investing. The prospectus contains this and other important information and should be read carefully before investing or sending money. Investment values will fluctuate with changes in market conditions, so that upon withdrawal, your investment may be worth more or less than the amount originally invested. Prospectuses for any of the mutual funds are available by calling your Lincoln Representative.

*Average annual total return for period specified or since inception if the fund's age is less than the number of years shown.

**When the fund's inception date is less than 10 years, historical performance may not be available. When this is the case, performance has been calculated based on the performance of similar shares of the same fund.

Expressed in percentage terms, Morningstar's calculation of total return is determined by taking the change in price, reinvesting, if applicable, all income and capital-gains distributions during that month, and dividing by the starting price. Reinvestments are made using the actual reinvestment price, and daily payoffs are reinvested monthly.

The performance returns shown do not reflect the deduction of sales charges or transaction fees that may apply if shares were bought or traded outside the program. If sales charges or transaction fees were reflected, performance may be lower. The actual performance of your account will vary based upon account activity.

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Mutual Fund Investment Options

American Funds Growth Fund of America R5
Columbia Acorn Z
Delaware Aggressive Allocation Portfolio I
Delaware Moderate Allocation Portfolio I
Delaware Conservative Allocation Portfolio I
Delaware Mid Cap Value I
Dodge & Cox International Stock
Harbor International Growth Institutional
Vanguard Extended Market Index Institutional
Vanguard Institutional Index

Following are some of the risks you assume by investing in the Mutual Fund options offered in the Lincoln Financial 401(k) Retirement Plan:

American Funds Growth Fund of America®
The fund seeks to make your investment grow by investing primarily in common stocks of companies that appear to offer superior opportunities for growth of capital. The fund is designed for investors seeking capital appreciation through stocks. Investors in the fund should have a long-term perspective and be able to tolerate potentially wide price fluctuations. Your investment in the fund is subject to risks, including the possibility that the value of the fund's portfolio holdings may fluctuate in response to events specific to the companies or markets in which the fund invests, as well as economic, political or social events in the United States or abroad. Your investment in the fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, entity or person. You may lose money by investing in the fund. The likelihood of loss may be greater if you invest for a shorter period of time.

Columbia Acorn Z
Including stock market fluctuations due to economic and business developments, Investments in small- and mid-cap companies may be subject to greater volatility and price fluctuations because they may be thinly traded and less liquid. The fund may invest in foreign securities, which may be subject to greater volatility than domestic investments.

Delaware Aggressive Allocation Portfolio I
This portfolio may invest in international mutual funds, which are exposed to certain risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Note that funds investing in small- and/or medium-sized company stocks typically involve greater risk, particularly in the short term, than those investing in larger, more established companies. The Fund investments are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds ("junk bonds") involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. A rise/fall in the interest rates can have a significant impact on bond prices and the NAV (net asset value) of the fund.

On May 22, 2008, the Board of Trustees of the Delaware Group Foundation Funds (the "Board") unanimously approved a proposal to replace the current "fund of funds" structure for each Portfolio with a multiple portfolio manager approach. Please see the attached Prospectus Supplement dated June 2, 2008 for additional information.

Delaware Moderate Allocation Portfolio I
This portfolio may invest in international mutual funds, which are exposed to certain risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Note that funds investing in small- and/or medium-sized company stocks typically involve greater risk, particularly in the short term, than those investing in larger, more established companies. The Fund investments are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds (“junk bonds”) involve higher risk than investment grade bonds. Adverse conditions may affect the issuer’s ability to pay interest and principal on these securities. A rise/fall in the interest rates can have a significant impact on bond prices and the NAV (net asset value) of the fund.

On May 22, 2008, the Board of Trustees of the Delaware Group Foundation Funds (the "Board") unanimously approved a proposal to replace the current "fund of funds" structure for each Portfolio with a multiple portfolio manager approach. Please see the attached Prospectus Supplement dated June 2, 2008 for additional information.

Delaware Conservative Allocation Portfolio I
This portfolio may invest in international mutual funds, which are exposed to certain risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Note that funds investing in small- and/or medium-sized company stocks typically involve greater risk, particularly in the short term, than those investing in larger, more established companies. The Fund investments are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds (“junk bonds”) involve higher risk than investment grade bonds. Adverse conditions may affect the issuer’s ability to pay interest and principal on these securities. A rise/fall in the interest rates can have a significant impact on bond prices and the NAV (net asset value) of the fund.

On May 22, 2008, the Board of Trustees of the Delaware Group Foundation Funds (the "Board") unanimously approved a proposal to replace the current "fund of funds" structure for each Portfolio with a multiple portfolio manager approach. Please see the attached Prospectus Supplement dated June 2, 2008 for additional information.

Delaware Mid Cap Value I
Note that funds investing in small- and/or medium-sized company stocks typically involve greater risk, particularly in the short term, than those investing in larger, more established companies.

Dodge & Cox International Stock
You should carefully consider the Fund’s investment objectives, management fees, risks and expenses before investing. Foreign investing, especially in developing countries, has special risks such as currency and market volatility and political and social instability. These and other risk considerations are discussed in the Fund’s prospectus.

Harbor International Growth
Harbor International Growth Fund's policy of investing in a narrowly focused selection of stocks may expose the Fund to the risk that a substantial decrease in the value of a stock may cause the net asset value of the Fund to fluctuate more than if the Fund were invested in a greater number of stocks. The Fund may also be subject to greater risks and higher brokerage and custodian expenses than funds invested only in the U.S. Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions.

Vanguard Extended Market Index Fund
Vanguard funds classified as aggressive are subject to extremely wide fluctuations in share prices. The unusually high volatility associated with these funds may stem from one or more of the following strategies: a concentration of fund holdings in a relatively low number of individual stocks, or in a particular sector of the stock market, or in a particular

geographical region of the world; a heavy emphasis on small-capitalization stocks or growth stocks with relatively high market valuations; holdings of international stocks or bonds, which are subject to price declines caused by changes in the value of the U.S. dollar against foreign currencies; or investments in bonds that have exceptionally long average durations, whose prices are highly sensitive to changes in interest rates.

Vanguard Institutional Index
Vanguard funds classified as moderate to aggressive are broadly diversified but are subject to wide fluctuations in share price because they hold virtually all of their assets in common stocks. In general, such funds are appropriate for investors who have a long-term investment horizon (ten years or longer), who are seeking growth in capital as a primary objective, and who are prepared to endure the sharp and sometimes prolonged declines in share prices that occur from time to time in the stock market. This price volatility is the trade-off for the potentially high returns that common stocks can provide. The level of current income produced by funds in this category ranges from moderate to very low.

Mutual funds in the Lincoln Financial 401(k) Retirement are sold by prospectus. An investor should carefully consider the investment objectives, risks, and charges and expenses of the investment company before investing. The prospectus contains this and other important information about the investment company and should be read carefully before investing or sending money. Investment values will fluctuate with changes in market conditions, so that upon withdrawal, your investment may be worth more or less than the amount originally invested. Prospectuses for any of the mutual funds are available at 800 234-3500.

Collective Investment Trust (CIT) Options

Delaware Diversified Income Trust

Delaware International Equity Trust

Delaware Large Cap Growth Trust

Delaware Large Cap Value Trust

Delaware Small Cap Growth Trust

Like mutual funds, collective trusts are pooled assets invested in securities according to a particular strategy to meet a specific objective, but typically with lower expenses than mutual funds. Collective trusts are not registered with the Securities Exchange Commission and therefore not subject to the same fees, expenses or regulatory requirements as mutual funds.

An investor should carefully consider the investment objective, risks and charges and expenses of a collective investment trust before investing. The Disclosure Statement for each collective investment trust contains this and other important information and should be read carefully before investing in the collective investment trust. Investment values will fluctuate with changes in market conditions so that upon withdrawal, your investment may be worth more or less than the amount originally invested. Disclosure Statements for any of the collective investment trusts are available by calling 800 234-3500.

The decision to invest in a collective investment trust (CIT) and the risks involved in doing so should be carefully considered. A CIT should be considered a long-term investment. Consult your plan fiduciary to determine whether an investment in a CIT is appropriate for you.

Investing involves market risk, including the possible loss of principal. There is no assurance that the stated investment objectives of the CITs will be achieved. You could lose all your money invested in a CIT.

Securities in a particular industry or market sector may underperform securities in other industries or sectors in the market. Funds that invest a substantial portion of their assets in related industries or sectors may have greater risk because companies in these industries may share common characteristics and may react similarly to market developments.

The value of your investment in a CIT will increase and decrease over time in accordance with changes in the value of the securities held in the CIT.

The Trustee and/or sub-advisor of a CIT may change the investment objective of the CIT at any time without prior notice or approval. Either the Trustee or the sub-advisor may terminate the sub-advisory arrangement.

A participating plan is not entitled to participate in the management of a CIT or the conduct of its business.

The CITs are not registered as investment companies under the Investment Company Act of 1940. Investments in the CITs are not insured or guaranteed by any bank, the FDIC, or any other governmental entity.

The following is a brief summary of certain other principal risks affecting each particular CIT. For more information on these and other risks, please request and read the Disclosure Statement for each CIT.

Delaware Diversified Income Trust
Investments in this CIT are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, noninvestment grade bonds (“junk bonds”) involve higher risk than investment grade bonds. Adverse conditions may affect the issuer’s ability to pay interest and principal on these securities. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Securities of issuers from emerging market countries may be more volatile, less liquid, and generally more risky than investments in issuers from more developed foreign countries. Diversification does not ensure a profit or guarantee against a loss. The CIT will also be affected by prepayment risk due to its holdings of mortgage-backed securities. With prepayment risk, when homeowners prepay mortgages during periods of low interest rates, the CIT may be forced to redeploy its assets in lower yielding securities. If, and to the extent that, the CIT invests in forward foreign currency contracts or uses other investments to hedge against currency risks, the CIT will be subject to the special risks associated with those activities.

Delaware International Equity Trust
Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Securities of issuers from emerging market countries may be more volatile, less liquid, and generally more risky than investments in issuers from more developed foreign countries.

Delaware Large Cap Growth Trust
Because this CIT expects to hold a more concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the CIT’s overall value to decline to a greater degree than a less concentrated portfolio. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards.

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Delaware Large Cap Value Trust
Because this CIT expects to hold a more concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the CIT's overall value to decline to a greater degree than a less concentrated portfolio. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Securities of issuers from emerging market countries may be more volatile, less liquid, and generally more risky than investments in issuers from more developed foreign countries.

Delaware Small Cap Growth Trust
Funds that invest in stocks of small- and/or medium-size companies typically involve greater risk, particularly in the short term, than those investing in larger, more established companies. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards.

This information is only a summary of some of the risks involved with investing in the CITs offered to the participants in the Lincoln Financial 401(k) Retirement plans. For more information on the principal and general risks of a specific CIT in the Plan or to obtain a copy of a CIT Disclosure Statement, call 800 234-3500.

Participation in the collective trusts is governed by the terms of the trust and participation materials. An investor should carefully consider the investment objectives, risks and charges and expenses of the collective trusts before investing. The Disclosure Statement for the CIT contains this and other important information and should be read carefully before investing.

The collective trusts in the Lincoln Financial 401(k) Retirement plans are offered by AST Capital Trust Company (AST), which services more than 6 million shareholder accounts on behalf of more than 2,500 public-company equity issuers. The collective trusts are available through a participation agreement between AST and the plan sponsor.

AST is an independent trust company and is not an affiliate of Lincoln Financial Advisors Corp. or Lincoln Financial Group.

Securities offered through Lincoln Financial Advisors Corp., a broker/dealer, 1300 Clinton St., Fort Wayne, IN 46802.

Delaware Group Foundation Funds

Delaware Aggressive Allocation Portfolio
Delaware Moderate Allocation Portfolio
Delaware Conservative Allocation Portfolio
(each, a “Portfolio” and, collectively, the “Portfolios”)
Supplement to the Portfolios’ Prospectuses
Dated January 28, 2008

On May 22, 2008, the Board of trustees of the Delaware Group Foundation Funds (the “Board”) unanimously approved a proposal to replace the current “fund of funds” structure for each Portfolio with a multiple portfolio manager approach (the “Restructuring”).

The Restructuring would eliminate certain expenses associated with the fund of funds structure while generally maintaining the Portfolios’ other investment strategies and policies, except as described below. In connection with the proposed Restructuring, the Board:

- Approved an increase in each Portfolio’s investment management fee payable to Delaware Management Company, the Portfolios’ investment manager, which also introduces a breakpoint fee structure and includes replacing the current total expense limitation of each Portfolio with a new expense limitation that will continue for one year from the effective date of the proposed Restructuring; and

- Approved changes to each Portfolio’s investment policies to accommodate additional investments in foreign securities.

Completion of the proposed Restructuring, including changes to the Portfolios’ investment policies on foreign investments, is subject to shareholder approval of the proposed changes in investments management fees and replacement of the existing expense limitations. Portfolio shareholders will receive a proxy statement providing them with further information about the Restructuring and the proposed increase in management fees and changes in expense limitations and requesting their votes on such proposal at a special meeting of shareholders expected to be held on or about September 16, 2008. The transition for the Restructuring will commence as soon as the appropriate shareholder approvals have been obtained.