MATRIX SERVICE CO
Form PRE 14A
August 24, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-(e)(2)**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Under Rule 14a-12

Matrix Service Company

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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MATRIX SERVICE COMPANY

10701 East Ute Street

Tulsa, Oklahoma 74116

NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the Annual Meeting of the Stockholders of Matrix Service Company (the Company or Matrix Service), a Delaware corporation, will be held at Matrix s Regional Office, 1105 West Main Parkway, Catoosa, Oklahoma, on the 23rd day of October 2006, at 10:30 a.m., Central time, for the following purposes:

1. To elect five persons to serve as members of the Board of Directors of the Company until the annual stockholders meeting in 2007 or until their successors have been elected and qualified;

2. To ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for fiscal 2007;

3. To consider and vote upon a proposal to amend the Company s Restated Certificate of Incorporation, as amended, to increase the authorized shares of Matrix Service Company common stock from 30,000,000 shares to 60,000,000 shares;

4. To consider and vote upon a proposal to amend and restate the Company s 2004 Stock Option Plan; and

5. To act upon such other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on September 11, 2006 as the record date for the meeting (the Record Date), and only holders of record of the Company s common stock at such time are entitled to notice of and to vote at the meeting and any adjournment thereof.

By Order of the Board of Directors

/s/ George L. Austin
George L. Austin
Secretary

September 15, 2006

Tulsa, Oklahoma

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE ANNUAL MEETING REGARDLESS OF WHETHER YOU PLAN TO ATTEND. THEREFORE PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY. IF YOU ARE PRESENT AT THE MEETING AND WISH TO DO SO, YOU MAY REVOKE THE PROXY AND VOTE IN PERSON.

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MATRIX SERVICE COMPANY

10701 E. UTE STREET

TULSA, OKLAHOMA 74116

PROXY STATEMENT

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MATRIX SERVICE COMPANY

10701 East Ute Street

Tulsa, Oklahoma 74116

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

To Be Held October 23, 2006

SOLICITATION AND REVOCATION OF PROXIES

The accompanying proxy is solicited by the Board of Directors of Matrix Service Company (Matrix Service or Company) for use at the Annual Meeting of Stockholders to be held on October 23, 2006, and at any adjournments thereof for the purposes set forth in the accompanying Notice of 2006 Annual Meeting of Stockholders. The Annual Meeting will be held at 10:30 a.m., Central time, at the Company s Regional Office, 1105 West Main Parkway, Catoosa, Oklahoma. This proxy statement and accompanying proxy were first sent on or about September 15, 2006 to stockholders of record on September 11, 2006.

The approximate date on which this Proxy Statement and the accompanying proxy will first be sent to stockholders is September 15, 2006. The annual report of the Company on Form 10-K for the fiscal year ended May 31, 2006 accompanies this Proxy Statement.

If the accompanying proxy is properly executed and returned, the shares it represents will be voted at the meeting in accordance with the directions noted thereon or, if no direction is indicated, that stockholder s shares will be voted in favor of the proposals described in this proxy statement. In addition, the proxy confers authority on the persons named in the proxy to vote, in their discretion, on any other matters properly presented at the Annual Meeting. The Board of Directors is not currently aware of any other such matters. Any stockholder who has given a proxy has the power to revoke it at any time before it is voted by giving written notice to, or by executing a subsequent proxy and sending it to George L. Austin, Secretary, Matrix Service Company, 10701 East Ute Street, Tulsa, Oklahoma, 74116. The proxy also may be revoked if the stockholder is present at the meeting and elects to vote in person.

The expenses of this proxy solicitation, including the cost of preparing and mailing this Proxy Statement and accompanying proxy, will be borne by the Company. Such expenses will also include the charges and expenses of banks, brokerage firms and other custodians, nominees or fiduciaries for forwarding solicitation material regarding the Annual Meeting to beneficial owners of the Company s common stock. In addition to solicitation by mail, certain directors, officers and regular employees of the Company may solicit proxies in person or by telephone, electronic transmission and facsimile transmission. Any such directors, officers or employees will not be additionally compensated therefore, but may be reimbursed for their out-of-pocket expenses in connection therewith.

STOCKHOLDERS ENTITLED TO VOTE

At the close of business on the Record Date there were [______] shares of the Company s common stock, par value $0.01 per share (the Common Stock), outstanding. Each outstanding share of Common Stock is entitled to one vote upon each of the matters to be voted on at the meeting. There is no cumulative voting with respect to the election of directors. The presence, in person or by proxy, of at least a majority of the outstanding shares of Common Stock is required for a quorum.

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The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. Votes withheld from nominees for directors, abstentions and broker non-votes will be counted for purposes of determining whether a quorum has been reached. Votes will be tabulated by an inspector of election appointed by the Board of Directors of the Company. With regard to the election of directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld will have no effect on the vote. Abstentions, which may be specified on all proposals, except the election of directors, will have the effect of a negative vote. A broker non-vote will have no effect on the outcome of the election of directors, the approval of the amendment and restatement of the Matrix Service Company 2004 Stock Option Plan, or the ratification of the appointment of the independent registered public accounting firm. With regard to the approval of the amendment of the Company s Restated Certificate of Incorporation, a broker non-vote will have the effect of a negative vote.

If you hold your shares in street name through a broker or nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be voted upon. If you hold your shares in street name and do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum.

PROPOSAL NUMBER 1:

Election of Directors

The Company s Certificate of Incorporation and Bylaws provide that the number of directors on the Board shall be fixed from time to time by the Board of Directors but shall not be less than three nor more than 15 persons. Effective upon Mr. Bradley s retirement from the Board at the Annual Meeting, the Board has fixed its size at five members. Directors hold office until the next annual meeting of the stockholders of the Company or until their successors have been elected and qualified. Vacancies may be filled by recommendations from the Nominating and Corporate Governance Committee and a majority vote by the remaining directors.

In accordance with the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated and urges you to vote For the election of the five nominees identified below who have been nominated to serve as directors until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified. Proxies solicited hereby will be voted For all five nominees unless stockholders specify otherwise in their proxies. The five nominees who receive the highest number of affirmative votes of the shares voting shall be elected as directors.

If, at the time of the 2006 Annual Meeting of Stockholders, any of the nominees should be unable or decline to serve, the discretionary authority provided in the proxy may be used to vote for a substitute or substitutes who may be recommended by the Nominating and Corporate Governance Committee and designated by the Board of Directors. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required.

Retiring Director

Hugh E. Bradley will retire as a director of the Board of Directors effective with the 2006 Annual Meeting of Stockholders. Mr. Bradley is retiring after serving as a director of the Company since April 1993. The Board appreciates Mr. Bradley s 13 years of faithful service to the Company and his valuable counsel and business advice over the years.

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Nominated Director Biographies

The nominees for director, and certain additional information with respect to each of them, are as follows:

Michael J. Hall, age 62, has served as President and Chief Executive Officer of the Company since coming out of retirement in March 2005. Mr. Hall previously served as Vice President Finance and Chief Financial Officer of the Company from November 1998 until his retirement in May 2004. Mr. Hall has also served as a Director of the Company since October 1998. Prior to working for Matrix, Mr. Hall was Vice President and Chief Financial Officer for Pexco Holdings, Inc. from 1994 to 1997 and Vice President Finance and Chief Financial Officer for Worldwide Sports & Recreation, Inc., an affiliate of Pexco Holding, from 1996 to 1997. From 1984 to 1994, Mr. Hall worked for T.D. Williamson, Inc., as Senior Vice President, Chief Financial and Administrative Officer and Director of Operations, Europe, Africa and Middle East Region. Mr. Hall graduated Summa Cum Laude from Boston College with a degree in Accounting and earned his MBA with honors from Stanford Graduate School of Business. Mr. Hall is an Independent Trustee and Chairman of the Board of Trustees for American Performance Funds; a Director and Chairman of the Board of Integrated Electrical Services, Inc.; a member of the Board of Directors of Alliance G.P., LLC (the general partner of Alliance Holdings, G.P., L.P.); a member of the Board of Directors of Alliance Resource Management G.P., LLC (the managing general partner of Alliance Resources Partners, L.P.); and a member of the Advisory Board of UMB Bank Oklahoma.

I. Edgar (Ed) Hendrix, age 62, was first elected as a Director of the Company effective October 2000 and was elected Chairman of the Board of Directors in March 2005. In 2005, Mr. Hendrix began serving as President of Patriot Energy Resources, LLC. Mr. Hendrix served as Executive Vice President and Chief Financial Officer of Loudfire, Inc. from 2002 to 2004. Mr. Hendrix previously served as Executive Vice President and Chief Financial Officer of Spectrum Field Services, Inc., from 2000 to 2002. Prior to 2000, Mr. Hendrix served as Vice President-Treasurer for Parker Drilling, a New York Stock Exchange company engaged in worldwide oil and gas drilling and equipment services. He also was a management consultant with Ernst & Young LLP. Mr. Hendrix has an undergraduate degree from Oklahoma Christian University and a Masters of Business Administration from the University of Oklahoma. Mr. Hendrix is a member of the Board of Trustees for American Performance Funds, and formerly served as a member of the Board of Directors of Cherokee Nation Enterprises and as a board member of Whitmar Exploration Inc., Denver, CO.

Paul K. Lackey, age 63, was first elected as a Director of the Company effective October 2000. Mr. Lackey is Chairman of the Board of Directors and Chief Executive Officer of The NORDAM Group, an aircraft component manufacturing and repair firm. Prior to joining NORDAM in July 2001, Mr. Lackey was President of The University of Oklahoma (OU) Tulsa and Senior Vice President of the OU system. Prior to joining OU in August 1999, Mr. Lackey was a key member of former Oklahoma Governor Frank Keating s administration. He was the Governor s Chief of Staff from February 1997 to July 1999. From 1995 to 1997, he served in the Oklahoma Cabinet as Secretary of Health and Human Services. Before his service in state government, Mr. Lackey was President of Flint Industries, an oil and gas services and commercial construction firm. He was appointed Chief Financial Officer for Flint in 1977, later became Chief Operating Officer and, ultimately, President. A graduate of the University of Mississippi with a B.S. in Mathematics, Mr. Lackey earned his Master s Degree in Business Administration from the University of Texas. He also served in the U.S. Army as an artillery officer. Mr. Lackey is a director of Bank South Tulsa, a director of the Tulsa Chamber of Commerce and a director of Tulsa Community College Foundation.

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Tom E. Maxwell, age 61, was first elected as a Director of the Company effective May 2003. Mr. Maxwell is President and Chief Executive Officer of The Flintco Companies, Inc., which is one of the top fifty commercial constructor companies in the United States. He has held this position for 18 years, and prior to his election to President and Chief Executive Officer of Flintco, Mr. Maxwell was the Chief Financial Officer of Flintco for five years. Mr. Maxwell is a certified public accountant (inactive) and began his career with five years at Deloitte and Touche and was the Chief Financial Officer of a public company, Kinark Corporation, for nine years. Mr. Maxwell earned Undergraduate and Master s Degrees in Accounting at the University of Oklahoma. Mr. Maxwell is a director of Summit Bank and a director of Hillcrest Hospital. In addition, Mr. Maxwell serves as a director for the Tulsa Public Schools Foundation, the Tulsa Chamber of Commerce and the Friends of Fairgrounds Foundation.

David J. Tippeconnic, age 66, was elected as a Director of the Company effective October 2005. Mr. Tippeconnic has served as Chief Executive Officer of Arrow-Magnolia International L. P., a manufacturer of industrial cleaning and maintenance chemicals, since January 2005. Mr. Tippeconnic previously served as Chairman of the Board and acting Chief Executive Officer of Cherokee Nation Enterprises, a hospitality business, from September 2002 to November 2004. Prior to joining Cherokee Nation Enterprises, Mr. Tippeconnic served as President and Chief Executive Officer of Citgo Petroleum Corporation from July 1997 to October 2001. Mr. Tippeconnic has a Bachelor of Science degree in Chemical Engineering from Oklahoma State University and a Masters of Science degree in Chemical Engineering from the University of Arizona and attended the Advanced Management Program at Harvard University.

The Board of Directors recommends that the stockholders vote For the election of each of the above named nominees.

Corporate Governance and Board Matters

The Board of Directors and corporate management use their best efforts to adopt and implement sound corporate governance practices and believe strongly that effective corporate governance practices are an important component of their efforts to focus the entire organization on generating long-term stockholder value through conscientious and ethical operations.

The Board of Directors has adopted and implemented Corporate Governance Guidelines and a Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics applies to all of the Company s directors, officers (including its Chief Executive Officer, Chief Financial Officer, Controller and any person performing similar functions) and employees. The Corporate Governance Guidelines and Code of Business Conduct and Ethics are available in the Investors section of the Company s website at http://www.matrixservice.com.

Director Independence Standards

Pursuant to the listing standards of the Nasdaq Global Market System (Nasdaq) and the rules and regulations of the Securities and Exchange Commission (SEC), the Board of Directors has adopted a set of director independence guidelines. In accordance with these guidelines, each independent director must be determined to have no material relationship with the Company. The guidelines specify criteria by which the independence of the Company s directors will be determined, including strict guidelines for directors and their immediate families with respect to past employment or affiliation with the Company or its independent registered public accounting firm.

The Board of Directors has affirmatively determined that each of Messrs. Bradley, Hendrix, Lackey, Maxwell and Tippeconnic are independent under the guidelines. Mr. Hall is not considered to be independent because of his employment as a senior executive officer of the Company.

The full text of the Company s director independence guidelines is included in the Company s Corporate Governance Guidelines, which is available in the Investors section of the Company s website at http://www.matrixservice.com.

Meetings and Committees of the Board of Directors

The Company s Board of Directors met eight times during fiscal year 2006 and each member of the Board of Directors attended 100% of the meetings. Each Director also attended 100% of the meetings of committees of which he was a member, with the exception of Mr. Bradley who attended 92% of committee meetings of which he was a member in fiscal 2006.

The Company s Corporate Governance Guidelines provide that each Director is expected to attend the annual meetings of stockholders of the Company. All of the Company s board members attended the 2005 annual meeting.

The Board has three standing committees. The table below provides a breakdown of committee membership during the fiscal year ended May 31, 2006:

	Audit	Compensation	Nominating and Corporate Governance
Members:	Hendrix*	Bradley	Bradley
	Maxwell	Hendrix	Hendrix
	Tippeconnic	Lackey*	Lackey
			Maxwell*
			Tippeconnic

* Chairman of the Committee

The Audit Committee assists the Board of Directors in monitoring the integrity of the financial statements of the Company, the independent registered public accounting firm s qualifications and independence, the performance of the Company s internal audit function and independent registered public accounting firm and the Company s compliance with legal and regulatory requirements. In carrying out these purposes, the Audit Committee, among other things, appoints, evaluates and approves the compensation of the Company s independent registered public accounting firm, reviews and approves the scope of the annual audit and the audit fee, pre-approves all auditing services and permitted non-audit services, annually considers the qualifications of the independent registered public accounting firm and the independence of the independent registered public accounting firm, reviews the results of internal audits, compliance with any of the Company s written policies and procedures and the adequacy of the Company s system of internal accounting controls, prepares the Audit Committee report for inclusion in the annual proxy statement and annually reviews the Audit Committee charter and the committee s performance. The Audit Committee has also established procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding accounting or auditing matters. The Audit Committee operates under a written charter. The Company has also made a copy of its Audit Committee Charter available in the Investors section of the Company s website at http://www.matrixservice.com. The Audit Committee held six meetings during fiscal 2006.

The Compensation Committee s functions include reviewing executive salary and bonus structure, approving salary and bonus awards and executive perquisites and other benefits. In addition, the Compensation Committee reviews the Company s strategic and financial plans to determine their relationship to the Company s compensation program. The Compensation Committee operates under a written charter. The Company has made a copy of its Compensation Committee Charter available in the Investors section of the Company s website at http://www.matrixservice.com. The Compensation Committee held four meetings during fiscal 2006.

The Nominating and Corporate Governance Committee was established to assist the Board in identifying qualified individuals to become directors of the Company, recommend to the Board qualified director nominees for election by the stockholders or to fill vacancies on the Board, recommend to the Board membership on Board committees, recommend to the Board proposed Corporate Governance Guidelines and report annually to the Board on the status of the CEO succession plan. The Nominating and

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Corporate Governance Committee operates under a written charter. The Company has made a copy of its Nominating and Corporate Governance Committee Charter available in the Investors section of the Company s website at http://www.matrixservice.com. The Nominating and Corporate Governance Committee has the authority under its charter to retain a professional search firm to identify candidates. The Corporate Governance Committee held five meetings during fiscal 2006.

Director Nomination Process

The Nominating and Corporate Governance Committee will consider director candidates submitted to it by other directors, employees and stockholders. In evaluating such nominations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board of Directors and to address the director qualifications discussed below.

The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board of Directors and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Committee considers various potential candidates for director. Candidates may come to the attention of the Committee through current directors, senior management, professional search firms, stockholders or other persons.

Once a prospective nominee has been identified, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. The initial determination involves an evaluation of the candidate against the qualifications set forth in the Corporate Governance Guidelines, which require broad experience, wisdom, integrity, the ability to make independent analytical inquiries, an understanding of the Company s business environment and a willingness to devote adequate time to Board duties, including service on no more than four other public company boards. The Committee also assesses the candidate s qualifications as an independent director under the Nasdaq s current director independence standards and the Company s director independence guidelines. If the Committee determines that additional consideration is warranted, it may request a professional search firm to gather additional information about the candidate. The Committee designates, after consultation with the CEO, which candidates are to be interviewed. After completing its evaluation, the Committee makes a recommendation to the full Board of Directors as to the persons who should be nominated by the Board and the Board determines the nominees after considering the recommendation of the Committee.

Holders of Common Stock wishing to recommend a person for consideration as a nominee for election to the Board can do so in accordance with the Company s Bylaws by giving timely written notice to the Secretary of the Company at 10701 East Ute Street, Tulsa, Oklahoma 74116. The written notice should give each such nominee s name, address, appropriate biographical information, a description of all arrangements or understandings between the stockholder and each such nominee and any other person or persons (naming such person or person), relating to such nominee s service on the Board of Directors, if elected, as well as any other information that would be required in a proxy statement. Any such recommendation should be accompanied by a written statement from the person recommended, giving his or her consent to be named as a nominee and, if nominated and elected, to serve as a director. The written notice must be delivered to the Secretary of the Company not later than 80 days prior to the date of any annual or special meeting; provided, however, that in the event that the date of such annual or special meeting is not publicly announced by the Company more than 90 days prior to the meeting, notice by the stockholder must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which public announcement of the date of such meeting is communicated to the stockholders. The written notice to the Secretary of the Company must also set forth the name and address of the stockholder who intends to make the nomination and a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice.

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Communications with the Board of Directors

The Board of Directors provides a process by which stockholders and other interested parties may communicate with the Board or any of the directors. Stockholders and other interested parties may send written communications to the Board of Directors or any of the directors at the following address: Board of Directors of Matrix Service Company c/o Matrix Service Company, 10701 East Ute Street, Tulsa, Oklahoma 74116-1517. Stockholders and other interested parties may also use the Company s online submission form at the FAQ section of the Investors section of the Company s website at http://www.matrixservice.com to contact the Board or any of the directors. All communications will be compiled by the Company s Corporate Secretary and submitted to the Board or the individual director on a periodic basis.

Director Compensation

Employee Directors receive no additional compensation for service on the Board of Directors or any committee thereof. Directors of the Company are reimbursed for out-of-pocket expenses incurred in attending the Board of Directors and committee meetings.

Cash compensation for non-employee directors in calendar 2006 and planned cash compensation for calendar 2007 is as follows:

	2006	2007
Annual retainer for directors	$ 38,000	$ 47,000
Additional fee for Chairman of the Board	$ 38,000	$ 11,750(1)
Additional fee for Chairman of the Audit Committee	$ 4,000	$ 6,000
Additional fee for Chairman of the Compensation Committee	$ 2,000	$ 3,000
Additional fee for Chairman of the Nominating and Corporate Governance Committee	$ 2,000	$ 3,000

(1) The additional fee is a 25% premium on the annual retainer for directors.

Each non-employee Director is also granted options to purchase 5,000 shares of Company Common Stock annually under the Matrix Service Company 1995 Non-employee Directors Stock Option Plan. A non-employee Director who is also the Chairman of the Board will receive an additional grant of 5,000 options annually. The Compensation Committee of the Board of Directors is currently evaluating the equity component of director compensation for calendar 2007.

The deferred fee plan for members of the Board of Directors permits non-employee Directors of the Company to elect to take their fees presently, in the form of cash, or to defer any right to payment of the Director fees until a future date. For those members of the Board of Directors that choose to defer their fees, and thus place those fees at substantial risk of forfeiture, the Plan permits such members to have an opportunity to earn interest on the deferred fees, or to participate in the performance and growth of the Company through an award of phantom stock.

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AUDIT COMMITTEE MATTERS

Report of the Audit Committee of the Board of Directors

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the associated system of internal controls. The Company s independent registered public accounting firm is responsible for performing an independent audit of the Company s financial statements and internal control over financial reporting in accordance with the Public Company Accounting Oversight Board Standards and to issue reports thereon. The Audit Committee monitors these processes. The Audit Committee s role does not provide any special assurance with regard to the Company s financial statements, nor does it involve a professional evaluation of the quality of the audits performed by the independent registered public accounting firm. As part of its oversight responsibilities, the Audit Committee has:

- reviewed and discussed with the Company s internal auditors and independent registered public accounting firm, with and without management present, their evaluations of the Company s internal accounting controls, including internal control remediation of the material weakness reported in the annual report on Form 10-K for the fiscal year ended May 31, 2005, and the overall quality of the Company s financial reporting;

- reviewed and discussed with management and the independent registered public accounting firm the Company s audited financial statements as of and for the year ended May 31, 2006;

- discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended and supplemented; and

- received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended and supplemented, and has discussed with the independent registered public accounting firm its independence.

Based on the reviews and discussions above, the Audit Committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2006 for filing with the Securities and Exchange Commission. The Audit Committee, subject to ratification by the stockholders, has selected Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ended May 31, 2007.

The Audit Committee is governed by a written charter and the Board of Directors has determined that the members of the Audit Committee are independent.

Members of the Audit Committee:

I. Edgar Hendrix, Audit Committee Chairman

Tom E. Maxwell, Audit Committee Member

David J. Tippeconnic, Audit Committee Member

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference the proxy statement into any filing by the Company under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically and expressly incorporates this report by reference into any such filing, and shall not otherwise be deemed filed under such acts.

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Audit Committee Financial Expert

The Board of Directors has determined that each of the audit committee members are financially literate under the current Nasdaq listing standards. The Board also determined that I. Edgar Hendrix qualifies as an audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002.

Fees of Independent Registered Public Accounting Firm

Effective January 6, 2006, Deloitte & Touche LLP replaced Ernst & Young LLP as the Company s independent registered public accounting firm.

Audit Fees

Fees for audit services paid by the Company to Deloitte & Touche LLP totaled $729,829 for the fiscal year ended May 31, 2006, including fees associated with the annual audit, the annual audit of internal controls and the review for the third quarter of fiscal 2006.

Fees for audit services paid to Ernst & Young LLP for the fiscal year ended May 31, 2006 totaled $70,000 for quarterly reviews and $37,923 for other audit services. Fees paid to Ernst & Young LLP for audit services totaled $1,167,487 for the fiscal year ended May 31, 2005, including fees associated with the annual audit, quarterly reviews and the annual internal control audit.

Audit-Related Fees

No fees for audit-related services were paid to Deloitte & Touche LLP during the fiscal year ended May 31, 2006.

Fees for audit-related services paid to Ernst & Young LLP totaled $2,500 for each of the fiscal years ended May 31, 2006 and 2005 for an accounting research tool.

Tax and Other Fees

No fees for tax-related or other services were paid during the fiscal years ended May 31, 2006 and 2005 by the Company to Deloitte & Touche LLP or Ernst & Young LLP.

Audit Committee Pre-Approval Policy

The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm in order to assure that the provision of such services does not impair the auditor s independence. The Company has also made the Audit Committee s pre-approval policies, which are included in the Audit Committee Charter, available in the Investors section of the Company s website at http://www.matrixservice.com.

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PROPOSAL NUMBER 2:

Ratification of Selection of Independent Registered Public Accounting Firm

Pursuant to the Sarbanes-Oxley Act of 2002, the Audit Committee of the Board of Directors of the Company has been charged with the exclusive power and authority to engage or terminate the independent registered public accounting firm. The Audit Committee of the Board of Directors has reappointed the firm of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending May 31, 2007. Deloitte & Touche LLP has served as independent auditors for the Company since January 2006.

A proposal will be presented at the Annual Meeting asking the stockholders to ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm. If the stockholders do not ratify the appointment of Deloitte & Touche LLP, the Audit Committee will reconsider the appointment.

The affirmative vote of holders of a majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting is required for the adoption of this proposal. ***The Board of Directors recommends that the stockholders vote For ratification of Deloitte & Touche LLP s appointment.***

Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting of Stockholders and will have an opportunity to make a statement, if they desire to do so, and to respond to appropriate questions from those attending the meeting.

Replacement of Former Independent Auditors

At a meeting held on January 3, 2006, the Audit Committee of the Board of Directors of the Company, approved the engagement of Deloitte & Touche LLP as its independent registered public accounting firm for the fiscal year ending May 31, 2006 to replace the firm of Ernst & Young LLP, which was dismissed as the independent registered public accounting firm of the Company, each effective January 6, 2006.

The reports of Ernst & Young LLP on the Company s financial statements for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

In connection with the audits of the Company s financial statements for each of the two fiscal years ended May 31, 2005, and in the subsequent interim period preceding their dismissal, there were no disagreements with Ernst & Young LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to the satisfaction of Ernst & Young LLP would have caused Ernst & Young LLP to make reference to the matter in their report.

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During the two most recent fiscal years and the subsequent interim period preceding their dismissal, there were no reportable events as defined by Item 304(a)(1)(v) of Regulation S-K, except that Ernst & Young LLP noted that Management s Report on Internal Control Over Financial Reporting included in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2005 identified the following deficiencies which together constituted a material weakness related to revenue recognition at the Company s Eastern Business Unit:

- Change orders were inappropriately or inaccurately included in or, in certain instances, excluded from reports utilized in the Company s percentage of completion computations.

- Job forecasts were inadequately prepared and supported or inadequately reviewed by appropriate members of project management and financial accounting.

- Preparation of invoices for a material contract lacked appropriate reconciliations to information recorded in the Company s financial accounting system.

The material weakness described above affected the Company s revenue, accounts receivable, cost and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings financial statement accounts. As a result, management concluded that the Company s internal control over financial reporting as of May 31, 2005 was ineffective. Ernst & Young LLP s opinion indicated that management s assessment was fairly stated in all material respects and that because of the effect of the material weakness, Matrix Service did not maintain effective internal control over financial reporting as of May 31, 2005.

During the Company s two most recent fiscal years and the subsequent interim period preceding Ernst & Young LLP s dismissal, the Company did not consult with Deloitte & Touche LLP with respect to the application of accounting principles to a specified transaction, either contemplated or proposed, or the type of audit opinion that might be rendered on the Company s financial statements, or any other matters or reportable events described in Items 304(a)(2)(i) and (ii) of Regulation S-K.

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COMPENSATION COMMITTEE MATTERS

Report of the Compensation Committee of the Board of Directors

The Compensation Committee (Committee) of the Board of Directors of the Company currently consists of Hugh E. Bradley, I. Edgar Hendrix and Paul K. Lackey, all of whom are independent directors who are not employees and who qualify as non-employee directors for purposes of Rule 16b-3 adopted under the Securities Exchange Act of 1934. The Committee is responsible for evaluating the performance of the Chief Executive Officer, determining the compensation of the CEO, reviewing and approving the compensation of the CFO and other executive officers as recommended by the CEO, and administering the Company s stock incentive plans under which grants may be made to employees of the Company. The Committee has furnished the following report on executive compensation for the fiscal year ending May 31, 2006.

In determining and approving the level and composition of compensation for each of the CEO and the CFO, the Committee takes into account various qualitative and quantitative indicators of each officer s performance. The Committee s objectives in determining compensation are to allow the Company to attract, motivate and retain the executive personnel necessary for the Company s success and to provide an executive compensation program comparable to that offered by the companies with which the Company competes for such management personnel. Although no specific target has been established, the Committee generally seeks to set salaries based upon the experience of the CEO and CFO and at approximately the average of a range of salaries paid to chief executive officers and chief financial officers of a peer group of companies. In setting salaries, the Compensation Committee considers the peer group to be certain companies with market capitalizations similar to that of the Company. This peer group does not necessarily include the companies comprising the Standard & Poor s Engineering & Construction Index reflected in the performance graph in this Proxy Statement, which is the industry categorization in which the Company has been placed. In evaluating the performance of the CEO and CFO, the Committee takes into consideration such factors as established financial goals, including the fiscal budget, which is reviewed by the Committee.

Base compensation is initially established through negotiation between the Company and the officer at the time the executive is hired or named to the executive position. Thereafter such officer s base compensation is subject to review or reconsideration, generally on an annual basis after review of the officer s performance. In establishing or reviewing base compensation levels for each of the CEO and CFO, the Committee, in accordance with its general compensation policy, considers numerous factors, including the responsibilities relating to the position, the qualifications of the executive and the relevant experience the individual brings to the Company, strategic goals for which the executive has responsibility and compensation levels of other companies at a comparable stage of development that compete with the Company for business and executive talents. No predetermined weights are given to any such factors. The salaries for the CEO and CFO in fiscal year 2006 were set taking into account these factors in accordance with the Company s general compensation policy discussed above.

In addition to each officer s base compensation, the Committee may award cash bonuses and/or grant awards under the Company s stock option plans depending on the extent to which certain pre-determined personal and corporate performance goals are achieved.

The annual compensation package of the CFO primarily consists of (i) a cash salary which reflects the responsibilities relating to the position and individual performance, (ii) variable performance bonus awards payable in cash and tied to the individual s performance and the Company s performance against pre-established financial measures and (iii) long-term stock-based incentive awards which the Committee believes aligns the interests of the CFO and the interests of the Company s stockholders.

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The annual compensation package of the CEO for the fiscal year ended May 31, 2006 consisted of (i) a cash salary which reflects the responsibilities relating to the position and individual performance, (ii) performance bonus awards payable in cash and tied to accomplishing certain milestones, including refinancing the Company s senior credit facility and hiring of a successor CEO, and (iii) stock-based incentive awards which the Committee believes aligned the interest of the CEO and the interest of the Company s stockholders.

The Chief Executive Officer s compensation is the responsibility of the Compensation Committee. As previously disclosed, Mr. Hall was appointed as the Company s Chief Executive Officer in March 2005 to lead the Company through its turnaround. The Compensation Committee determined that Mr. Hall s compensation package should align with the Company s restructuring efforts and therefore established a compensation package to include the following: (i) annual base salary of $500,000, (ii) a grant of 100,000 stock options, (iii) bonus of $125,000 upon the successful refinancing of the Company s senior credit facility, and (iv) a bonus of $125,000 upon the hire of Mr. Hall s successor as Chief Executive Officer. For the year ended May 31, 2006, Mr. Hall s cash compensation consisted of salary of $500,000 and the payment of the $125,000 bonus for the successful refinancing of the Company s senior credit facility. In recognition of the improvement in the Company s financial condition and results of operations in fiscal 2006, the Compensation Committee also awarded Mr. Hall a discretionary bonus of $62,500, which was paid in fiscal year 2007. The remaining $125,000 bonus will be paid upon the earlier of hiring a new CEO or Mr. Hall s continued services as President and CEO through March 20, 2007.

Equity incentives are not limited to executive officers. Grants of equity incentives are made to management and staff of the Company in amounts determined by the Compensation Committee. The amounts of such grants are determined based on the individual employee s position with the Company and his or her potential ability to beneficially impact the performance of the Company. By giving management and staff a stake in the financial performance of the Company, the Compensation Committee s goal is to provide incentives to these employees of the Company to enhance the financial performance of the Company and, thus, stockholder value.

Salaried employees of the Company with grade levels of 27 or greater, including the CEO and CFO, are eligible to receive long-term stock-based incentive awards under the Company s stock incentive plans as a means of providing such individuals with a continuing proprietary interest in the Company. Such grants further the mutual interests of the Company s employees and its stockholders by providing significant incentives for such employees to achieve and maintain high levels of performance. The Company s stock incentive plans enhance the Company s ability to attract and retain the services of qualified individuals. Factors considered in determining whether such awards are granted include the employee s position in the Company, his or her performance and responsibilities, the number of options, if any, currently held and the vesting schedule of any such options. The Committee has adopted an established schedule for the issuance of options with designated option grants for specific salary grades over a five-year period. However, the committee approves all stock option grants on the award date and will revaluate the type and amount of equity incentive awards to be granted to key employees if the amendments to the 2004 Stock Option Plan are approved by the stockholders.

The Compensation Committee and the Board of Directors believe that the executive compensation policies promote the interests of the stockholders and the Company effectively, and the various compensation opportunities afforded the CEO, CFO and other executive officers are appropriately balanced to provide motivation for the executives to contribute to the profitability and overall success of the Company.

This report on Executive Compensation shall not be deemed incorporated by reference by any general statement incorporating by reference the Proxy Statement into any filing by the Company under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically and expressly incorporates this report by reference into any such filing, and shall not otherwise be deemed filed under such acts.

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Members of the Compensation Committee:

Paul K. Lackey, Compensation Committee Chairman

Hugh E. Bradley, Compensation Committee Member

I. Edgar Hendrix, Compensation Committee Member

Compensation Committee Interlocks and Insider Participation

During fiscal 2006, the Compensation Committee was composed of Hugh E. Bradley, I. Edgar Hendrix and Paul K. Lackey, all of whom are non-employee directors of the Company. During fiscal 2006, none of the Company s executive officers served on the board of directors or on the compensation committee of any other entity who had an executive officer that served either on the Company s Board of Directors or on its Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s directors and executive officers, and persons who own more than 10 percent of the Company s Common Stock, to report their initial ownership of the Common Stock and any subsequent changes in ownership (Forms 3, 4 and 5) of the Common Stock with the SEC and the Nasdaq Stock Market and to furnish the Company with a copy of each such report.

To the Company s knowledge, based solely on the Company s review of the copies of such reports received by the Company and on written representations by certain reporting persons that no other reports were required during and with respect to fiscal 2006, all Section 16(a) filing requirements applicable to its executive officers, directors and more than 10 percent stockholders were satisfied on a timely basis, except that one transaction involving the grant of stock options to David Tippeconnic was not reported timely due to the process of establishing Mr. Tippeconnic as a Section 16(a) filer.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information concerning the Company s Common Stock that may be issued upon the exercise of options, warrants and rights under all of Matrix s existing approved equity compensation plans as of May 31, 2006, including the Company s 1990, 1991 and 2004 stock option plans and the 1995 Nonemployee Directors Stock Option Plan.

Plan Category	**(a)** # of securities to be issued upon exercise of outstanding options, warrants and rights	**(b)** Weighted-average exercise price of outstanding options, warrants and rights	**(c)** Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	1,111,800	$ 6.66	1,114,242
Equity compensation plans not approved by shareholders	0	N/A	0
Total	1,111,800	$ 6.66	1,114,242

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EXECUTIVE OFFICER INFORMATION

Executive Officer Biographies

In addition to Mr. Hall, the Company s President and Chief Executive Officer who serves on the Board of Directors and whose biographical information is set forth under the caption, Nominated Director Biographies , the executive officers of the Company are:

George L. Austin, age 40, has served as Vice President Finance and Chief Financial Officer since June 2004. Mr. Austin previously served the Company as Vice President, Accounting & Administration, East Coast from March 2003 to May 2004, Vice President of Financial Reporting & Technology from June 2002 to March 2003 and as Vice President of Financial Planning and Reporting from April 1999 to May 2002. Prior to joining the Company, Mr. Austin served as Vice President of Finance for Flint Energy Construction Company from February 1994 to March 1999 and prior to February 1994, as an Audit Manager with Ernst & Young LLP. Mr. Austin has a Bachelor of Science Degree from Oklahoma State University. Mr. Austin is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants and the Financial Executives International. In addition, Mr. Austin is a director on the Advisory Board of Oklahoma State University School of Business.

James A. Bogan, age 50**,** has served as President of Matrix Service Industrial Contractors, Inc. since June 2005. Mr. Bogan served as Vice President of Matrix Service Industrial Contractors, Inc. from April 2003 to May 2005. Prior to the Company s acquisition of the Hake Group of Companies, Mr. Bogan served as Vice President of Hake from September 1980 until April 2003. Mr. Bogan graduated from West Chester University with a Bachelor of Science Degree in Economics.

Philip C. Chappelle, age 47, has served as Vice President, Risk Management since June 1997. Mr. Chappelle served as Director of Risk Management from 1993 to 1997. From 1990 to 1993, Mr. Chappelle served as Director of Safety and Risk. Prior to joining the Company, Mr. Chappelle was a regional safety manager and field engineer for Enclean, Inc. and a power plant operator for Public Service Co. of Oklahoma. Mr. Chappelle holds a Bachelor of Science Degree in Engineering & Technology from Oklahoma State University and a Masters of Business Administration from the University of Tulsa. Mr. Chappelle is an Associate of Risk Management.

Vance R. Davis, age 46, has served as Vice President of Matrix Service Industrial Contractors, Inc. since May 2005, as President of Eastern Operations from June 2004 to May 2005 and as Vice President of Eastern Operations from June 1997 to June 2004. Mr. Davis served as Regional Manager from June 1994 to June 1997. Mr. Davis was a Project Manager and Operations Manager for the Houston Region from April 1988 to June 1994. Prior to joining the Company, Mr. Davis worked in various capacities for Pasadena Erectors, Advance Tank & Construction Company, Kamyr Installations, Graver Tank & Manufacturing and Tank Service, Inc.

Nancy E. Downs, age 39, has served as Vice President Human Resources since January 2006. Ms. Downs served as Director of Human Resources from September 2000 to January 2006. Prior to joining the Company, Ms. Downs worked for TV Guide, Samson Resources and Villareal & Associates specializing in human resource management, employee relations, and consulting. Ms. Downs holds a Bachelor of Science Degree in Political Science from Oklahoma State University and is a certified Professional in Human Resources (PHR). She is also a member of the Society for Human Resource Management, World-at-Work and Tulsa Area Human Resources Association.

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Albert D. Fosbenner, age 51, has served as Vice President, Matrix Service Industrial Contractors, Inc. since June 2004. Mr. Fosbenner previously served as Vice President of Finance, Treasurer and Acting CFO for Western Integrated Networks LLC from December 2001 through 2003, President & CEO of CCS Fitness, Inc. from January 2000 through December 2001 and Senior Vice President & Treasurer of Frontiervision Partners LLP during 1998 and 1999. Mr. Fosbenner has a Bachelor of Science Degree in Accounting from Philadelphia University. He is a Certified Public Accountant (inactive) and is a Certified Management Accountant (inactive). Mr. Fosbenner is a member of the Financial Executives International and the Association for Corporate Growth.

John S. Newmeister, age 58, has served as Vice President of Marketing and Business Development for the Company since May 2000 and previously as Vice President of Tank Construction. Prior to joining the Company in February 1995, Mr. Newmeister worked for Pitt-Des Moines, Inc. for 24 years holding numerous positions, including President of Hydrostorage, Inc. Mr. Newmeister holds a Bachelor of Science Degree in Civil Engineering from the University of Iowa and has attended the Executive Development Program at the University of Iowa.

Bradley J. Rinehart, age 42, has served as Vice President of Matrix Service Inc. since May 1997; Regional Manager Michigan Region from April 1991 to April 1997; Operations Manager Michigan Region from January 1990 to March 1991; and as a Project Manager Michigan Region from January 1988 to December 1989. Mr. Rinehart holds a Bachelor of Science Degree in Construction Science from the University of Oklahoma. Mr. Rinehart is a director of the Tulsa Ronald McDonald House.

James P. Ryan, age 51, has served as President of Matrix Service Inc. since August 2005. Mr. Ryan previously served the Company as Chief Operating Officer from October 2004 to August 2005. Prior to this, Mr. Ryan served as Vice President of Matrix Service Inc. since October 1999. Prior to joining Matrix Service, Mr. Ryan worked for Gibraltar Construction Company from January 1993 to September 1999 providing construction management services. Previous employers include MW Kellogg, Kiewit Industrial Co. and Hoffman Construction Company. Mr. Ryan also previously provided independent consulting services to the power industry. Mr. Ryan graduated from Purdue University with a degree in Civil Engineering in 1979.

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EXECUTIVE COMPENSATION

The following table summarizes certain information regarding compensation paid or accrued to the Chief Executive Officer and each of the Company s four other most highly compensated executive officers who were serving as executive officers at the end of fiscal 2006 (the Named Officers), based on salary and bonus earned during fiscal 2006, for services in all capacities to the Company and its subsidiaries during each of the Company s last three fiscal years:

SUMMARY COMPENSATION TABLE

	Long-Term Compensation	
	Awards	Payouts
Name and **Principal Position**		