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

FORM 10-Q

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

For the quarterly period ended August 31, 1995

Commission File number 0-l87l6

MATRIX SERVICE COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	73-1352l74
(State of incorporation)	(I.R.S. Employer Identification No.)

l070l E. Ute St., Tulsa, Oklahoma 74ll6-l5l7
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (9l8) 838-8822

Indicate by check mark whether the registrant (l) has filed all reports required to be filed by Section l3 or l5(d) of the Securities Exchange Act of 1934 during the preceding l2 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 [ ]

As of October 14, 1998, there were 9,649,388 shares of the Company's common stock, $.0l par value per share, issued and 9,507,388 shares outstanding.

PART I
FINANCIAL INFORMATION

ITEM 1. Financial Statements

Matrix Service Company
Consolidated Statements of Income
(in thousands, except share and per share data)
[CAPTION]

	Three Months Ended August 31 (unaudited)	
	1998	1997*
Revenues	$50,603	$48,218
Cost of revenues	45,549	43,145
Gross profit	5,054	5,073
Selling, general and administrative expenses	3,258	2,729
Goodwill and noncompete amortization	163	184
Operating income	1,633	2,160
Other income (expense):		
Interest expense	(377)	(237)
Interest income	118	39
Other income	76	8
Income from continuing operations before income tax expense	1,450	1,970

Provision for federal, state and foreign income tax expense	613	718
Income from continuing operations	837	1,252
Loss from discontinued operations, net of tax benefit of $253,000	-	(483)
Net income	$837	$769
Earnings from continuing operations per share of common stock:		
Basic	$0.09	$0.13
Diluted	0.09	0.13
Earnings per share of common stock:		
Basic	$0.09	$0.08
Diluted	0.09	0.08
Weighted average number of common shares:		
Basic	9,524,685	9,393,547
Diluted	9,661,972	9,957,173

* Certain amounts have been restated as described in Notes D & E.

See Notes to Consolidated Financial Statements

Matrix Service Company
Consolidated Balance Sheets
(in thousands)

	August 31, 1998 (unaudited)	May 31, 1998
ASSETS:		
Current assets:		
Cash and cash equivalents	$3,111	$2,606
Accounts receivable	36,419	37,165
Costs and estimated earnings in excess of billings on uncompleted contracts	12,789	15,340
Inventories	6,734	6,352
Income tax receivable	4,256	5,279
Deferred income taxes	3,010	3,252
Prepaid expenses	270	524
Total current assets	66,589	70,518
Property, plant and equipment at cost:		
Land and buildings	16,445	16,481
Construction equipment	23,592	24,092
Transportation equipment	6,154	6,108
Furniture and fixtures	3,089	3,315

Construction in progress	1,195	973
	50,475	50,969
Less accumulated depreciation	22,604	22,533
Net property, plant and equipment	27,871	28,436
Goodwill, net of accumulated amortization of $1,687 and $1,595 in 1999 and 1998, respectively	12,983	13,217
Other assets	457	570
Total assets	$107,900	$112,741

See Notes to Consolidated Financial Statements

Matrix Service Company
Consolidated Balance Sheets
(in thousands)

	August 31, 1998 (unaudited)	May 31, 1998
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$9,763	$12,250
Billings on uncompleted contracts in excess of costs and estimated earning	7,976	7,612
Accrued insurance	1,939	2,369
Earnout payable	884	884
Other accrued expenses	2,473	4,214
Income taxes payable	263	-
Current portion of long-term debt	2,104	2,105
Total current liabilities	25,402	29,434
Long-term debt	12,586	13,106
Deferred income taxes	4,949	4,949
Stockholders' equity:		
Common stock	96	96
Additional paid-in capital	51,596	51,458
Retained earnings	15,058	14,221
Accumulated other comprehensive income	(803)	(523)
	65,947	65,252
Less treasury stock, at cost	(984)	-
Total stockholders' equity	64,963	65,252

Total liabilities and stockholders' equity	$107,900	$112,741
	========	========

See Notes to Consolidated Financial Statements

Matrix Service Company
Consolidated Cash Flow Statements
(in thousands)

	Three Months Ended August 31 (unaudited)	
	1998	1997
Cash flow from operating activities:		
Net income	$837	$769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,259	1,546
(Gain) loss on sale of equipment	(46)	-
Changes in current assets and liabilities increasing (decreasing) cash:		
Accounts receivable	746	4,129
Costs and estimated earnings in excess of billings on uncompleted contracts	2,551	(1,741)
Inventories	(382)	494
Prepaid expenses	254	(16)
Accounts payable	(3,371)	(2,900)
Billings on uncompleted contracts in excess of costs and estimated earnings	364	151
Taxes and other accruals	242	(2,141)
Other	(14)	(3)
	-------	-------
Net cash provided by operating activities	2,440	288
Cash flow from investing activities:		
Capital expenditures	(613)	(932)
Proceeds from sale of equipment	67	36
Acquisition of subsidiary, net of cash acquired	-	(4,129)
	-------	-------
Net cash used in investing activities	(546)	(5,025)

See Notes to Consolidated Financial Statements

Matrix Service Company
Consolidated Cash Flow Statements

(in thousands)

	Three Months Ended August (unaudited) 1998	1997
Cash flows from financing activities:		
Issuance of acquisition notes	-	197
Repayment of acquisition payables	(17)	(132)
Issuance of equipment notes	-	39
Repayment of equipment notes	(5)	(3)
Issuance of long-term debt	-	9,750
Repayments of long-term debt	(500)	(5,910)
Purchase of treasury stock	(985)	-
Issuance of stock	139	116
Net cash provided (used) in financing activities	(1,368)	4,057
Effect of exchange rate changes on cash	(21)	(13)
Increase (decrease) in cash and cash equivalents	505	(693)
Cash and cash equivalents at beginning of period	2,606	1,877
Cash and cash equivalents at end of period	$3,111	$1,184

See Notes to Consolidated Financial Statements

MATRIX SERVICE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE A - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant inter-company balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-0l 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 which are, in the opinion of management, necessary for a fair statement of the results for the interim periods.

The accompanying financial statements should be read in conjunction with the audited financial statements for the year ended May 3l, 1998, included in the Company's Annual Report on Form 10-K for the year then ended. The Company's business is seasonal; therefore, results for any interim period may not necessarily be indicative of future operating results.

NOTE B - DISCONTINUED OPERATIONS

During the third quarter of fiscal year 1998, the board of directors approved a plan whereby the Company would discontinue the operations of Midwest Industrial Contractors, Inc. ("Midwest") and discontinue to operate in the markets that Midwest had historically participated. All assets have been disposed of or absorbed by other operating units. The Company will abandon this business entirely. The cost to terminate Midwest operations resulted in a charge of $15.5 million, before income tax benefit of $6.3 million, which includes the write-off of $14.6 million of goodwill. The operating results of Midwest for the prior period is reported as discontinued operations.

Summarized operating results of the discontinued operations are as follows:

	Three Months Ended August 31, 1997
	(In Thousands)
Revenues	$1,301
Loss from discontinued operations	483
Loss from discontinued operations per share of common stock:	
Basic	($ .05)
Diluted	($ .05)

NOTE C - EARNINGS PER SHARE OF COMMON STOCK

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings per Share. Statement 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where necessary, restated to conform to the Statement 128 requirements.

NOTE D - REPORTING COMPREHENSIVE INCOME

As of June 1, 1998, the Company adopted Statement 130, Reporting Comprehensive Income. Statement 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of Statement 130 had no impact on the Company's net income or stockholders' equity. Statement 130 requires foreign currency translation adjustments, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income. Prior period financial statements have been reclassified to conform to the requirements of Statement 130.

For the three months ended August 31, 1999 and August 31, 1998, total comprehensive income was $557,000 and $748,000. Other comprehensive income and accumulated other comprehensive income consisted of foreign currency translation adjustments.

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

Results of Operations

Three Months Ended August 31, 1998 Compared to Three Months Ended August 31, 1997

Revenues for the quarter ending August 31, 1998 were $50.6 million as compared to revenues of $48.2 million for the quarter ended August 31, 1997, representing an increase of approximately $2.4 million or 5.0%. The increase is due principally to revenues from the Company's industrial service in the Northeast as compared with the same period in 1997.

Gross profit was $5.1 million for the quarterly period ending August 31, 1998. Gross profit as a percentage of revenues decreased to 9.9% for the 1998 period from 10.5% for the 1997 period. The decrease was attributable to weakness in the elevated tank market.

Selling, general and administrative expenses increased to $3.3 million for the quarterly period ending August 31, 1998 from expenses of $2.7 million for the quarterly period ended August 31, 1997, an increase of $529 thousand or approximately 19.4% and representing as a percentage of revenues, an increase to 6.4% for the 1998 period from 5.7% for the 1997 period. The increased costs represent additional supervisory and technical personnel and certain costs related to operational software and Year 2000 compliance.

Operating income decreased to $1.6 million for the quarterly period ending August 31, 1998 from income of $2.2 million for the quarterly period ended August 31, 1998, or a decrease of $527 thousand. The decline was due to lower profit margins reduced by higher selling, general and administrative expense.

Interest expense increased to $377 thousand for the quarterly period ending August 31, 1998 from $237 thousand of interest expense for the quarterly period ended August 31, 1997. The increase resulted primarily from increased borrowing of $4.8 million under the Company's credit facility. The increased borrowing resulted from the GSC acquisition over the same quarterly period ended August 31, 1997. During the period ending August 31, 1998 there was an average of $9.3 million outstanding under the term loan.

Net income from continuing operations decreased to $837 thousand for the quarterly period ending August 31, 1998 from net income of $1.3 million for the quarterly period ended August 31, 1997. The decrease was due principally to lower margins and increased selling, general and administrative expense.

During the quarter ending February 28, 1998 the directors of the Company approved a plan whereby the Company would discontinue the operations of "Midwest" - See Note B to the financial statements.

Net income for the quarterly period ending August 31, 1998 was $837 thousand as compared to net income of $769 thousand for the same period ending August 31, 1997. The increase resulted from the restructuring of the Company and discontinued operations.

Liquidity and Capital Resources

The Company has financed its operations recently with cash generated by operations and advances under the Company's credit facility. The Company has a credit facility with a commercial bank under which the Company may borrow a total of $30 million. The Company may borrow up to $20 million under a revolving credit agreement based on the level of the Company's eligible receivables. The agreement provides for interest at the Prime Rate or a LIBOR based option, and matures on October 31, 1999. At August 31, 1998, the interest rate was 6.8% and the outstanding advances under the revolver totaled $5.5 million. The credit facility also provides for a term loan up to $10 million. On March 1, 1998, a term loan of $10.0 million was made to the Company. The term loan is due on February 29, 2003, 1999 and is to be repaid in 60 equal payments beginning in March 1998 at an interest rate based upon the Prime Rate or LIBOR. At August 31, 1998, the interest rate on the term loan was 7.5%, and the outstanding balance was $9.0 million.

Operations of the Company provided $2.4 million of cash for the three months ending August 31, 1998 as compared with cash provided from operations of $288 thousand for the three months ended August 31, 1997, representing an increase of approximately $2.2 million. The increase was due to an increase in costs in excess of billings of $4.3 million and an increase in tax and other accruals of $2.4 million offset by decrease in accounts receivable of $3.4 million and a decrease in inventories of $876 thousand.

Capital expenditures during the three month period ending August 31, 1998 totaled approximately $613 thousand. Of this amount $261 thousand was used to purchase trucks for field operations and $194 thousand was used to purchase welding, construction and fabrication equipment. The Company has also invested $104 thousand in computer equipment for operations and automated drafting. The Company currently has budgeted approximately $4.6 million for the remaining fiscal 1999 for capital expenditures.

The Company believes that its existing funds, amounts available for borrowing under its credit facility, and cash generated by operations will be sufficient to meet the Company's working capital needs at least through fiscal 1999 and possibly thereafter unless significant expansions of operations not now planned are undertaken, in which case the Company anticipates it would arrange additional financing as a part of any such expansion.

Other

Year 2000 Impact

The Year 2000 issue creates a significant problem with business automation for businesses, government agencies, and all computer users. A significant number of applications in use today use two digit years and can fail between now and January 1, 2000.

State of Readiness. The Company is sensitive to the growing concern associated with the inception of the new millennium and its impact on the business marketplace. In an effort to retain its ability to provide on-going quality products and services to its customers, the Company is actively pursuing Year 2000 compliance for all of its computer systems.

Assessment. The Company has substantially completed its inventory and assessment efforts, which included a comprehensive review of its business systems. The assessment focused on the identification of automated business areas and electronic processes.

Based on assessment results, the Company has determined that it will be required to modify, upgrade or replace only a limited number of its systems so that its business areas will function properly with respect to dates in the year 2000 and thereafter.

The Company estimates the impact of Year 2000 issues on non-IT Systems to be less than 1% and will have no material impact on the operations of the business. Non-IT Systems include systems with embedded technology containing programmed instructions running via processor chips.

Project Timetable. The Company believes that with the planned modifications to existing software and conversions to new software, the Year 2000 issue will not pose significant operation problems for its computer systems.

The Company has minimal third party interface systems; however, communications have been initiated with significant suppliers and large customers to determine the extent to which the Company's systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues.

The Company has substantially completed its inventory and assessment activities. Of the systems identified, 25% have been remediated, and 15% solutions implemented into the production environment. The Company expects that the remaining systems will be upgraded, tested and implemented by the second quarter of 1999, which is prior to any anticipated impact on its operating systems.

Anticipated Cost. The anticipated costs of the Year 2000 project has been estimated at $200 thousand, of which approximately 40% will be capitalized. The remaining 60% is being expensed as incurred and is not expected to have a material effect on the results of operations. Any non-compliant hardware is dated and would ordinarily be scheduled for replacement.

Contingency Plans. Despite the best planning and execution efforts, the Company is working from the premise that some issues will not be uncovered, and that some issues that are uncovered will not be successfully resolved. In an effort to manage and mitigate this risk exposure, the Company is developing a risk management and contingency plan for its critical operations. The Company anticipates completion of this task no later than November 30, 1998.

In addition to the upgrade strategy, the Company has recently completed a requirements study for the selection and implementation of a new enterprise-wide management information system. The scope of this project has been maintained separately and independent of the Year 2000 efforts. The project is designed to be a full replacement for the financial and operational systems, and is scheduled for implementation in mid-1999. If the existing "upgrade" strategy fails, this project could be escalated to mitigate any material business disruptions.

While the Company believes its efforts are adequate to address its Year 2000 issues, there can be no guarantee that all Year 2000 issues will be anticipated and corrected and that the systems of other companies on which the Company's systems and operations rely will be converted on a timely basis; failure of all significant Year 2000 issues to be corrected could have a material adverse effect on the Company.

Certain Factors Influencing Results and Accuracy of Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Discussions containing such forward-looking statements may be found in the material set forth under "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as within the Quarterly Report generally. In addition, when used in this Quarterly Report, the words "believes", "anticipates", "expects" and similar expressions are intended to identify forward-looking statements.

In the normal course of its business, the Company, in an effort to help keep it stockholders and the public informed about the Company's operations, may from time to time issue certain statements, either in writing or orally, that contain or may contain forward-looking information.

Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, or projections involving anticipated revenues, earnings or other aspects of operating results. Such forward-looking statements are subject to a number of risks and uncertainties. As noted elsewhere in this Quarterly Report, all phases of the Company's operations are subject to a number of uncertainties, risks and other influences, many of which are beyond the control of the Company, and any one of which, or a combination of which, could materially affect the results of the Company's operations and whether forward-looking statements made by the Company ultimately prove to be accurate.

Fluctuations in Quarterly Results. The operating results of hydrocarbon process services may be subject to significant quarterly fluctuations, affected primarily by the timing of planned maintenance projects at customers' facilities. Generally, the Company's turnaround projects are undertaken in two primary periods-February through May and September through November-when refineries typically shut down certain operating units to make changes to adjust to seasonal shifts in product demand. As a result, the Company's quarterly operating results can fluctuate materially. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company."

PART II

OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K:

A. Exhibit 11 - Computation of earnings per share.

B. Reports on Form 8-K: None

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: October 15, 1998

By: /s/ C. William Lee

C. William Lee
Vice President-Finance
Chief Financial Officer
Signing on behalf of the registrant and
as the registrant's chief financial officer.

[ARTICLE]	5
[MULTIPLIER]	1,000
[PERIOD-TYPE]	3-MOS
[FISCAL-YEAR-END]	May-31-1999
[PERIOD-START]	Jun-01-1998
[PERIOD-END]	Aug-31-1998
[COMMON]	9,525
[NET-INCOME]	837
[EPS-PRIMARY]	0.09
[COMMON]	9,662
[NET-INCOME]	837
[EPS-DILUTED]	0.09
[FISCAL-YEAR-END]	May-31-1998
[PERIOD-START]	Jun-01-1997
[PERIOD-END]	Aug-31-1997
[COMMON]	9,394
[NET-INCOME]	769
[EPS-PRIMARY]	0.08
[COMMON]	9,957
[EPS-DILUTED]	0.08

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1,000
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MAY-31-1999
AUG-31-1998
3,111
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6,734
66,589
50,475
22,604
107,900
25,402
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96
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64,963
107,900
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377
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