UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended May 31, 1997.

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 No. 0-18716

MATRIX SERVICE COMPANY
(Exact name of registrant as specified in its charter)
Delaware (State or other jurisdiction of incorporation or organization)
10701 East Ute Street
Tulsa, Oklahoma
(Address of Principal Executive Offices)
73-1352174 (I.R.S. Employer Identification No.)
74116 (Zip Code)
Registrant's telephone number, including area code: (918) 838-8822.

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act: Common Stock, par value $0.01 per share (Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The approximate aggregate market value of the registrant's common stock (based upon the August 26, 1997 closing sale price of the common stock as reported by the NASDAQ National Market System) held by non-affiliates as of August 26, 1997 was approximately $72,370,042.

The number of shares of the registrant's common stock outstanding as of August 26, 1997 was 9,491,153 shares.

Documents Incorporated by Reference

Certain sections of the registrant's definitive proxy statement relating to the registrant's 1996 annual meeting of stockholders, which definitive proxy statement will be filed within 120 days of the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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Background

Matrix Service Company (the "Company") provides specialized on-site maintenance and construction services for petroleum refining and storage facilities and water storage tanks and systems for the municipal and private industry sector. Owners of these facilities use the Company's services in an effort to improve operating efficiencies and to comply with stringent environmental and safety regulations. Through its subsidiaries Matrix Service, Inc.("Matrix"), San Luis Tank Piping Construction Co., Inc., and an affiliated company West Coast Industrial Coatings, Inc. (collectively "San Luis"), Heath Engineering, Ltd., and an affiliated company ("Heath"), Brown Steel Contractors, Inc. and affiliated companies (collectively, "Brown") and Mayflower Vapor Seal Corporation ("Mayflower"), the Company provides maintenance and construction services and related products for large aboveground storage tanks ("ASTs") holding petroleum, petrochemical and other products and piping systems located at petroleum refineries and bulk storage terminals. Also, the Company provides field-erected, elevated and ground-level water tanks for the municipal and private industry sector. Through its subsidiaries, Midwest Industrial Contractors, Inc. ("Midwest"), and Colt Construction Company ("Colt"), the Company provides maintenance and construction services for refineries. Midwest and Colt specialize in performing "turnarounds", which involve complex, time-sensitive maintenance of the critical operating units of a refinery. The Company focuses on fluid catalytic cracking units and process heaters, but has the ability to work on all units within a refinery.

The Company was incorporated in Delaware in 1989 to become a holding company for Matrix, which was incorporated in Oklahoma in 1984, and Petrotank Equipment Inc. ("Petrotank"), which was incorporated in Oklahoma in 1988. In October 1990, the Company acquired through a subsidiary substantially all of the assets and operations of Midwest. In June 1991, the Company acquired San Luis (the "San Luis Acquisition"). In December 1992, the Company acquired through a subsidiary substantially all of the assets and operations of Colt. In June 1993, the Company acquired substantially all of the assets and assumed certain liabilities of Heath. In July 1993, the Company entered into a joint venture (Al Shafai-Midwest Constructors) with a Saudi Arabian company to perform mechanical contracting services in the Kingdom of Saudi Arabia. Al Shafai-Midwest Constructors is 49% owned by Midwest International, Inc., a wholly-owned subsidiary of the Company. Al Shafai-Midwest Constructors was issued a commercial license to perform services in Saudi Arabia in June 1993. In May 1995, the Company discontinued operations in Saudi Arabia, and is in the process of liquidating the joint venture. In April 1994, the Company acquired Brown. In August 1994 the Company acquired certain assets of Mayflower Vapor Seal Corporation. Unless the context otherwise requires, all references herein to the Company include Matrix Service Company and its subsidiaries. The Company's principal executive offices are located at 10701 East Ute Street, Tulsa, Oklahoma 74116, and its telephone number at such address is (918) 838-8822.

Recent Development - The MainServ Acquisition

On June 17, 1997, the Company acquired (the "MainServ Acquisition") General Service Corporation and affiliated companies (collectively, "MainServ"). MainServ provides services and products similar to those provided by Matrix and operates primarily in the Northeast part of the United States, with products sales to U.S. and foreign customers. The aggregate consideration payable for the MainServ Acquisition is up to$7.75 million, including certain potential future payments. A portion of the consideration was payable by delivery at the closing of the transaction of (i) $4.75 million in cash, and (ii) a $250,000 promissory notes payable in 12 equal quarterly installments. In addition, the stockholders and stock appreciation rights holders of MainServ are entitled to receive in the future up to an additional $2.75 million in cash if MainServ satisfies certain earnings requirements. The MainServ Acquisition will be accounted for under the "Purchase" method of accounting and will result in the creation of approximately $2.9 million of intangibles (excluding goodwill that would be attributable to the $2.75 million contingent earnout payment if it is paid), of which $2.3 million, representing the goodwill, will be amortized by the Company over a 40-year period and $600 thousand, attributable to noncompetition covenants, will be amortized over a three-year period. See the Notes to the Company's consolidated financial statements included elsewhere in this annual report.

Aboveground Storage Tank Operations

The Company's AST operations include the maintenance, repair, inspection, design and construction of ASTs, and the equipping of these tanks with devices mandated by current and proposed environmental regulations. These devices include a variety of floating roof and seal assemblies, tank bottoms and secondary containment systems, each of which is designed to enable tank owners and operators to comply with federal and state air and water quality guidelines and regulations regarding leaks and spills of petroleum products from storage facilities.The Company manufactures and sells certain of these devices, including a line of patented floating roof seals. These seals, which are marketed under the Company's Flex-A-Seal and Flex-A-Span trademarks, reduce losses of stored petroleum products through evaporation and, consequently, reduce air pollution. In addition, the seals reduce the amount of rainwater that enters the tanks, reduce the hazards of rim fires thereby reducing product contamination, lowering waste-water disposal costs, and

reduce tank owner's overall risk. The Company's secondary containment systems allow tank owners to detect leaks in the tanks at an early stage, before groundwater or surface water contamination has occurred. In addition, the systems help to control leakage until the tank can be repaired.

AST Market and Regulatory Background

The American Petroleum Institute has estimated that there are approximately 700,000 ASTs in the United States that store crude oil, condensate, lube oils, distillates, gasolines and various other petroleum products. These tanks range in capacity from 26 barrels (42 gal/barrel) to in excess of 1,000,000 barrels. The Company's principal focus is inspecting, maintaining, repairing, designing and constructing large ASTs, with capacities ranging from approximately 50 to 1,000,000 barrels. The Company believes, based on industry statistics, that there are over 120,000 of these large tanks currently in use, accounting for more than 70% of the domestic petroleum product storage capacity. These ASTs are employed primarily by the refining and storage segments of the petroleum industry. The petrochemical industry also employs a significant number of large ASTs.

Historically, many AST owners limited capital expenditures on ASTs to new construction and periodic maintenance on an as-needed basis. Typically, these expenditures decreased during periods of depressed conditions in the petroleum and petrochemical industries, as AST owners sought to defer expenditures not immediately required for continued operations.

In the two most recent years, there has been some increased demand for AST services; however, during fiscal years 1995 and 1994 there was a decrease in the overall demand for AST services, generally related to conditions in the petroleum industry. During the last three years, several factors have shifted new responsibilities to AST service companies. First, increased safety and health requirements have caused owners of the facilities to rely on outside sources who have the safety equipment and training to provide repair and maintenance services. Second, increasingly stringent federal and state regulations regarding air, soil and water contamination from petroleum storage facilities, and the related potential liability associated with responsibility for environmental damage, have led AST owners to rely on service companies to provide more preventive maintenance and equip their ASTs with various pollution control devices. Third, many technical personnel left the petroleum and petrochemical industries resulting in a loss of in-house AST management expertise. Fourth, recent changes in the marketing of gasoline and changes in the supply of refined petroleum products resulting from the closing of certain refineries have caused an increase in demand for new tankage to provide storage facilities at new locations. Fifth, environmental requirements for oxygenated fuels has also created a demand for new tanks.

The principal environmental regulations that affect AST owners generally fall within two categories - air pollution regulations and soil and water contamination regulations. See "Business - Other Business Matters - Regulation." Regulations adopted by the United States Environmental Protection Agency ("EPA") and several states provide incentives to owners and operators of ASTs to maintain and inspect their tanks on a regular basis and, in some cases, to install double tank bottoms and other secondary containment systems to prevent contamination of soil and water and allow for early detection of leaks. The EPA and numerous states have also adopted regulations generally requiring facilities that hold petroleum products, petrochemicals and other volatile liquids be equipped with roof and seal assemblies that substantially decrease atmospheric emissions from these liquids. Because many existing ASTs were designed with a floating roof assembly that contained only a single roof seal, these regulations have required many AST owners to retrofit their tanks with new roof and seal assemblies. See "Aboveground Storage Tank Operations - AST Services and Products" and "Other Business Matters - Regulation."

On March 29, 1990, the EPA published the Toxicity Characteristic Leachate Procedure (the "TCLP") regulation, which provided new guidelines for identifying certain wastes as "hazardous" under the Resource Conservation Recovery Act of 1976 ("RCRA"). The TCLP regulation continues to be amended. The regulation generally provides that a waste will be considered hazardous if the leachate from the TCLP leaching procedure test contains any one of several identified substances at concentrations higher than prescribed levels. These substances include benzene, a common component of petroleum wastes from refineries. Benzene was not included in the prior EPA leaching procedure test, which has been replaced by the TCLP. The Company believes that regulations pursuant to the TCLP and RCRA have been, and will continue to be, beneficial to its business by requiring its customers to construct new storage tanks to replace existing surface impoundments. See "Other Business Matters - Regulation."

In January 1991, the American Petroleum Institute ("API") adopted industry standards for the maintenance, inspection and repair of existing ASTs. The API standards provide the industry for the first time with uniform guidelines for the maintenance and repair of ASTs. The Company believes that these standards have resulted, and will continue to result, in an increased level of AST maintenance and repair on the part of many AST owners.

AST Services and Products

The Company provides its customers with a comprehensive range of AST services and products. The Company specializes in maintenance and repair of ASTs and retro-fitting existing ASTs with a variety of pollution control devices as part of its general maintenance services. In addition, the Company constructs new ASTs, provides AST inspection and manufactures tank appurtenances.

New Construction

The Company designs, fabricates and constructs new ASTs to both petroleum and water industry standards and customer specifications. These tanks range in capacity from approximately 50 barrels to 1,000,000 barrels. Clients require new tanks in conjunction with expansion plans, replacement of old or damaged tanks, storage for additional product lines to meet environmental requirements, replacement of surface impoundments and changes in population.

Maintenance and Modification

The Company derives a significant portion of its revenues from providing AST maintenance, repair and modification services. The principal services in this area involve the design, construction and installation of floating roof and seal assemblies, the design and construction of secondary containment systems (double bottoms), and the provision of a variety of services for underground and aboveground piping systems. The Company also installs, maintains and modifies tank appurtenances, including spiral stairways, platforms, water drain-off assemblies, roof drains, gauging systems, fire protection systems, rolling ladders and structural supports.

Floating Roof and Seal Assemblies. Many ASTs are equipped with a floating roof and seal assembly. A floating roof consists of a circular piece of welded steel or thin aluminum that floats on the surface of the stored petroleum product. The floating roof is required by environmental regulations to minimize vapor emissions and reduce fire hazard. A floating roof also prevents losses of stored petroleum products. The seal spans the gap between the rim of the floating roof and the tank wall. The seal prevents vapor emissions from an AST by creating the tightest possible seal around the perimeter of the roof while still allowing movement of the roof and seal downward and upward with the level of stored product. In addition, the Company's seal system prevents substantially all rain water from entering the tank. The type of seal assembly the Company most commonly installs consists of a primary mechanical "shoe" seal and a secondary flexible seal mounted above the shoe seal. A mechanical shoe seal is a metal sheet connected to the outer rim of a floating roof and held vertically against the wall of the storage vessel by hangers and springs system. A flexible coated "vapor" fabric spans the space between the metal shoe and the floating roof. The secondary seal is composed of a flexible tip and an additional vapor fabric mounted on a metallic compression plate attached to the rim of the floating roof. The Company's seals are manufactured from a variety of materials designed for compatibility with specific petroleum products. All of the seals installed by the Company may be installed while the tank is in service, which reduces tank owners' maintenance, cleaning and disposal costs. In addition to a mechanical shoe seal coupled with a secondary flexible seal, the Company also installs a variety of other types of seal systems designed to meet customer specifications.

Secondary Containment Systems. The Company constructs a variety of secondary containment systems under or around ASTs according to its own design or the design provided by its customers. Secondary leak detection systems allow tank owners to detect leaks in the tanks at an early stage before groundwater contamination has occurred. In addition, the systems help to contain leakage until the tank can be repaired.

The most common type of secondary containment system constructed involves installing a liner of high-density polyethylene, reinforced polyurethane or a layer of impervious clay under the steel tank bottom. The space between the liner and elevation of the new bottom is then filled with a layer of concrete or sand. A cathodic protection system may be installed between the liner and the new bottom to help control corrosion. Leak detection ports are installed between the liner and steel bottom to allow for visual inspection while the tank is in service.

The Company believes that during the 1990's a substantial number of AST owners have installed, and will continue to install, secondary containment systems.

Elevated Tanks

In April 1994, as a result of the Company's efforts to expand its product base, the Company purchased Brown Steel, which designs, fabricates and erects elevated tanks for water storage for municipalities and industrial customers. Brown's facilities in Georgia include fabrication equipment,

and buildings containing 184,350 square feet support the elevated tank operations. The equipment gives Brown the ability to produce two-dimension roll in steel for the fabrication of spherical shaped tanks. This facility is qualified to perform services on equipment that requires American Society of Mechanical Engineering Code Stamps ("ASME Codes"). Demand for these types of tanks is expected to increase given the current upturn in housing starts resulting in a corresponding increase in the demand for water.

Manufacturing

The Company owns and operates a "state-of-the-art" fabrication facility located on 13 acres at the Tulsa Port of Catoosa. The Company owns the building and equipment. This facility has the capacity to fabricate new tanks, new tank components and all maintenance, retrofit and repair parts including fixed roofs, floating roofs, seal assemblies, shell plate and tank appurtenances. The Tulsa Port has transportation service via railroad and Mississippi River barge facilities in addition to the interstate highway system, making it economical to transport heavy loads of raw material and fabricated steel. This facility is qualified to perform services on equipment that requires ASME Codes. Many state agencies and insurance carriers require that certain equipment be ASME coded. Many of the Company's competitors are not ASME code qualified, forcing them to subcontract portions of a project, giving the Company an advantage on this type of work.

The Company leases two manufacturing facilities in California and owns a manufacturing facility in Georgia. See "Business - Aboveground Storage Tank Operations - Elevated Tanks" for a description of the facility in Georgia. The Company rents the real estate and owns the equipment in the two leased facilities in California which is used for fabricating new tanks and tank components.

Hydrocarbon Process Operations

The Company provides specialized maintenance and construction services to the domestic petroleum refining industry and, to a lesser extent, to the gas processing and petrochemical industries. The Company specializes in routine and supplemental plant maintenance, turnarounds and capital construction services, which involve complex, time-sensitive maintenance of the critical operating units of a refinery. The Company concentrates on performing these services for the more structurally complex components in a refinery. See "Hydrocarbon Process Operations - Hydrocarbon Process Components".

Hydrocarbon Process Market Overview

The domestic petroleum refining industry presently consists of approximately 163 operating refineries. To ensure the operability, environmental compliance, efficiency and safety of their plants, refiners must maintain, repair or replace process equipment, operating machinery and piping systems on a regular basis. Major maintenance and capital projects require the shutdown of an operating unit, or in some cases, the entire refinery. In addition to routine maintenance, numerous repair and capital improvement projects are undertaken during a turnaround. Depending on the type, utilization rate, and operating efficiency of a refinery, turnarounds of a refinery unit typically occur at scheduled intervals ranging from six months to four years.

The U.S. refinery industry has undergone significant changes in the last 16 years. From 1981 to 1997, crude oil refining capacity dropped from a peak of approximately 18.6 million barrels per day in 1981, to approximately 15.3 million barrels per day by the end of 1996, due primarily to the closure of many inefficient refineries. The closings were the result of increased international competition, reduced demand for domestic petroleum products, which resulted in declining product prices during the first part of this period, and the inability of some refineries to cost effectively finance capital improvements required to produce cleaner burning fuels and meet environmental regulations.

Since 1993, a combination of increased demand for petroleum products and a stabilization in refining capacity has led to a substantial increase in refinery utilization. In addition, an improvement in refining profitability during the last two years has also provided an incentive for refiners to maintain high levels of utilization at their facilities. The high utilization rates have accelerated the physical deterioration of existing refineries, intensifying the need for repair and maintenance services. In addition, due to the high cost and environmental opposition associated with the construction of new refineries, any increase in current refining capacity is likely to involve refurbishing old refineries and expanding existing facilities, which will require specialized construction services. Increased utilization rates and increased refining profitability provide an incentive for refineries to minimize the duration of maintenance turnarounds. In addition, increased public awareness of environmental issues, potential liability for exposure to hazardous working conditions, toxic materials, and environmental contamination, have resulted in increased stringent regulations which dictate that refineries

clean, inspect and maintain process and storage facilities more frequently. Further, refineries have been subject to increasing regulatory pressure to upgrade their emission control systems.

These factors have encouraged refineries to increase their reliance on outside contractors who can perform specialized turnaround services within strict time constraints. The Company believes, for example, that substantially all fluid catalytic cracking unit turnarounds are currently performed by outside contractors. Additional specialized modifications to many existing refineries may be required to produce cleaner burning, reformulated gasolines and desulphurized diesel fuel based on amendments to the Clean Air Act. See "Other Business Matters - Regulation." Management believes that projects related to pollution control are contributing a significant part of the Company's refinery-related revenues.

Hydrocarbon Process Components

The Company's principal refinery services are related to turnaround projects at petroleum refineries. The size and complexity of a turnaround project depends on the type of refinery unit being maintained or modified and the nature of any necessary modifications. The following paragraphs describe the major units involved in a typical refinery. The Company performs turnaround services with respect to each of the units described below, all of which must be maintained on a regular basis to ensure safe and efficient refinery operations.

Crude Distillation Unit. In the refining process, hydrocarbon raw materials (primarily crude oil) are heated to approximately 275 degrees Farenheit. The crude is then treated to remove salt and then heated further, resulting in partial vaporization. The vapors are then routed to a crude distillation unit, where they are further heated. The hydrocarbon compounds that comprise crude oil separate, or "fractionate", when subjected to high temperatures. The crude distillation unit fractionates the hydrocarbons into several intermediate products, several of which undergo further processing in various downstream units, the most important of which are discussed below.

Fluid Catalytic Cracking Unit. Catalytic cracking greatly enhances the efficiency of a refinery by converting a greater percentage of hydrocarbon compounds to gasoline and other light distillates. The Fluid Catalytic Cracking Unit ("FCCU") mixes straight-run heavy gas oil with a fine powdered catalyst in the presence of extreme heat (650 degrees farenheit to 1,050 degrees farenheit). The larger hydrocarbon molecules "crack apart" under such conditions, and can then be fractionated into light gases, gasoline and light and heavy cycle oils. Spent catalyst is delivered to a regenerator where carbon deposits are burned so the catalyst can be used again.

Delayed Coker Unit. Delayed coking is a thermal cracking process in which residual substances are heated to high temperatures and allowed time to decompose into hydrocarbon vapors and a solid residue coke product. A full range of light hydrocarbon gases, including hydrogen and olefins, are produced by the coking reaction. These gases, in addition to gasoline boiling range material ("naphtha") cracked products, are compressed and cooled at sufficiently high pressure to condense the volatile light hydrocarbons. The liquified petroleum gases are then routed to an Alkylation Unit, which is described below. Coker gas oil is produced as a side product from the coker fractionator with a vaporization temperature of approximately 900 degrees Farenheit. This oil is routed to the FCCU. Petroleum coke from the Delayed Coker Unit is used for fuel, for electrodes and for special purposes such as manufacturing graphite.

Catalytic Reformer Unit. The Catalytic Reformer Unit upgrades the octane of the naphtha produced in the Delayed Coker Unit. The octane of the naphtha is approximately 52, compared with the average refinery gasoline pool octane of 87.9. Straight-run and cracked refinery naphthas boiling between 160 degres Farenheit and 390 degrees Farenheit are catalytically reformed to improve motor fuel properties. Prior to entering the Catalytic Reformer Unit, naphtha is fractionated into light, medium and heavy naphtha streams. The two lighter streams are selectively blended into gasoline and military jet fuel. The heavy naphtha fraction is routed to a naphtha hydro-treating unit prior to catalytic reforming. The principal product of the reformer is reformat, a high octane gasoline blending stock.

Alkylation Unit. The Alkylation Unit is used to alkylate or chemically combine isobutane with propylene and butylene to form high octane gasoline. The process utilizes hydrofluoric acid or sulfuric acid as the alkylation catalyst. The feedstock for the Alkylation Unit is produced by the FCCU and the Delayed Coker Unit and contains saturated propane, isobutane, and normal butane in addition to propylene and butylene. The feed stream also contains significant amounts of hydrogen sulfide, which is extracted and routed to a sulfur recovery unit. The reactor effluent is partially vaporized through a heat exchanger to provide refrigeration for the reactor-contractor. The vapors are compressed and then fractionated into propane, isobutane and normal butane, and alkylate.

Butamer Unit. A Butamer Unit converts normal butane to isobutane. A

refinery needs a source of supplemental isobutane on a year-round basis to balance the requirements of the Alkylation Unit. Most of the normal butane produced in a refinery is blended into gasoline to increase vapor pressure. During the summer months, when gasoline vapor pressure specifications are low, the refinery generally has adequate or surplus supplies of normal butane. During the winter months, when gasoline vapor pressure specifications are high, a refinery buys normal butane from outside sources.

Process Heaters. A process heater is a large, specialized furnace used to heat hydrocarbons to varying temperatures within each of the refining units described above. Each of such units includes at least one heater, and frequently includes several heaters.

Hydrocarbon Process Services

The Company's principal refinery services include turnarounds for the complete refinery with integrated process units, the FCC Units within a refinery, and complete construction and maintenance services.

Turnarounds

FCCU Turnarounds. The Company's principal refinery operations involve turnarounds of FCCUs. FCCUs require a high level of maintenance because of the extremely high temperatures inside the unit - in excess of 1000 degrees Farenheit - and due to abrasive catalysts flow and their many internal parts, which consist generally of stainless steel components and refractory lined systems. Refractory is a heat and erosion resistant lining that insulates the inner shell of the unit vessels. The main pieces of equipment in an FCCU are the reactor, the regenerator and the flue gas handling system. Most of the repair and revamp work during a turnaround is performed on this equipment. Major revamp work is required to increase efficiencies of the FCCU with changing technology and to reduce air pollution from the unit, as required by constantly changing laws. In most cases, the mechanical work - involving the disassembly and repair of the unit components - and the refractory work - involving the installation of the refractory material onto the inside of the units vessels - is performed by different contractors. The Company provides all of these services. Total Unit Turnarounds. The Company also performs total unit turnarounds involving maintenance of crude distillation units, catalytic reformer units, delayed coker units, alkylation units, reformers, FCCUs and butamer units. These services also involve the maintenance and modification of heat exchangers, heaters, vessels and piping.

Heat Exchanger Services

The Company provides heat exchanger service to the refining industry, which involves the removal, testing, repairing and reinstallation of heat exchangers. The Company owns specialized equipment to extract and reinstall heat exchangers from both ground levels and aerial installations. In addition, the Company owns retubing equipment, hydraulic bolt torquing equipment and specialized transport carriers for moving these heat exchangers throughout the facilities.

Process Heaters

The Company constructs new refinery process heaters and repairs and revamps existing heaters. These units require skilled craftsmen and supervisors and specialized construction techniques. Through associations with various heater manufacturing companies, the Company also offers turnkey fabrication and erection of process heaters. The Company has performed field erection work for most of the major heater design companies in the U.S.

Other Support Services

Emergency Response Services. The Company also performs substantial repair and revamp services in connection with refinery unit failures, fires, explosions and other accidents. The Company believes that it has enhanced its relationships with its customers by responding quickly to these types of emergencies and by providing timely repair services, returning the affected plants to normal operations without substantial delays.

Manufacturing. The Company owns and operates a 40,000 square foot fabrication shop in Tulsa, Oklahoma and operates a 30,000 square foot facility in Bellingham, Washington and a 12,000 square foot facility in Carson, California that it uses to support its turnaround projects. At these facilities, the Company constructs piping,heater coils and components, and FCCU equipment installed during turnarounds. The Company also performs emergency fabrication at these facilities when necessary to assist its customers. In many instances, the facilities are operated 24 hours per day to assist a turnaround project.

Refractory. The Company also owns and operates a 15,000 square foot shop, located at the Tulsa, Oklahoma facility used for performing refractory installation. The shop, which supports the Company's mechanical turnaround services, contains specialized equipment and is operated by the Company's refractory department.

ASME Code Stamp Services. The Company is qualified to perform services on equipment that contains American Society of Mechanical Engineer Code Stamps ("ASME codes"). Many state agencies and insurance companies require that qualified ASME code installers perform services on ASME coded equipment. Many of the Company's competitors are not ASME code qualified, which forces them to subcontract portions of a project involving work with coded equipment.

Daily and Routine Supplemental Maintenance. The Company provides supplemental and routine daily maintenance services for operating refineries. Daily work crews at the refineries range in size from 120 to over 165 per refinery. The Company provides a wide range of supplemental services including equipment operations and complete daily maintenance services and repairs. Moreover, the pressure to reduce the overall cost of maintaining the refineries has initiated a trend of restructuring the daily and routine maintenance forces. Refineries are seeking outside supplemental maintenance forces with proven programs for increasing unit and equipment reliability, and a history of performing work safely. The Company has entered into two multi-year maintenance agreements. The Company believes there is a substantial market for a quality maintenance workforce that places an emphasis on safety and that can forge partnerships with refinery personnel to reduce maintenance expenses.

Other Business Matters

Customers and Marketing

The Company derives most of its revenues from performing services for the major integrated oil companies. The Company also performs services for independent petroleum refining and marketing companies, architectural and engineering firms and for several major petrochemical companies. In addition, the Company builds water tanks for private and municipal water facilities. The Company is typically engaged by the manager of the facility at which the work is being performed, although on occasion the Company contracts with one of its customers to perform services at several facilities.

The Company did not have any one customer accounting for more than 10% of revenues in 1997 and 1995. During fiscal 1996, ARCO USA accounted for more than 10% of the Company's revenues. The Company sold its products and services to approximately 311 customers during fiscal 1997.

The Company markets its services and products primarily through its marketing personnel, senior professional staff and its management. The marketing personnel concentrate on developing new customers and assist management and staff with existing customers. The Company generally is required to bid competitively for work on a project-by-project basis. Projects are typically awarded after a bidding process spanning two weeks to four months, and are generally awarded based on price considerations, work quality, safety and efficiency. The Company bids for projects on both a fixed price basis and on a detailed time and materials basis. During 1997 the Company entered into an alliance contract with a major oil company to be the sole supplier of tank repair and maintenance services for this customer. The Company has had discussions with other customers for maintenance alliances.

Competition

The AST and refinery service industries are highly fragmented and competition is intense within these industries. Competition is based on, among other factors, work quality and timeliness of performance, safety and efficiency, availability of personnel and equipment, and price. The Company believes that its expertise and its reputation for providing timely services allow it to compete effectively. Although many companies that are substantially larger than the Company have entered the market from time to time in competition with the Company, the Company believes that the level of expertise necessary to perform complicated, on-site maintenance and construction operations presents an entry barrier to these companies and other competitors with less experience than the Company.

Backlog

At May 31, 1997, the Company had an estimated backlog of work under contracts believed to be firm of approximately $ 69.1 million, as compared with an estimated backlog of approximately $71.9 million as of May 31, 1996. Virtually all of the projects comprising this backlog are expected to be completed within fiscal year 1998. Because many of the Company's contracts are performed within short time periods after receipt of an order, the Company does not believe that the level of its backlog is a meaningful indicator of its sales activity.

Insurance

The Company maintains worker's compensation insurance, general liability insurance and auto liability insurance in the primary amount of $2.0 million, and an umbrella policy with coverage limits of $ 20.0 million in the aggregate. The Company also maintains policies to cover its equipment and other property with coverage limits of $59.9 million and policies for care, custody and control with coverage limits of $2.7 million in the

aggregate. Most of the Company's policies provide for coverage on an occurrence basis, not a "claims made" basis. The Company's liability policies are subject to certain deductibles, none of which is higher than $100,000. The Company maintains a performance and payment bonding line of $45.0 million. The Company also maintains key-man insurance policies covering certain of its executive officers, and professional liability insurance.

Many of the Company's contracts require it to indemnify its customers for injury, damage or loss arising in connection with their projects, and provide for warranties of materials and workmanship. There can be no assurance that the Company's insurance coverage will protect it against the incurrence of loss as a result of such contractual obligations.

Employees

At May 31, 1997, the Company had approximately 272 non-field, full-time employees. The Company also employed up to approximately 1,174 additional persons on a project-by-project basis during fiscal 1997. In its refinery turnaround operations, the Company employed up to approximately 830 persons at its job sites during the most active periods of 1997. Approximately 361 of the employees of Matrix Service Mid-Continent, Inc., a subsidiary of the Company, are covered by a collective bargaining agreement. In addition, substantially all of the temporary employees of Midwest are employed under collective bargaining agreements. The Company believes that its relations with its employees are good, and has not experienced any significant strikes or work stoppages.

Patents and Proprietary Technology

The Company holds two issued U.S. patents, which cover its Flex-A-Seal and Flex-A-Span roof seal products. The Company's Flex-A-Seal patent is held jointly with an English company, which markets the Flex-A-Seal products in the United Kingdom. The Flex-A-Seal patent expires in August 2000 and the Flex-A-Span patent expires in August 2008. The Company also holds the patents for Flex-A-Seal and Flex-A-Span in Holland and in Canada. The Company holds a U.S. patent which covers its ThermoStor, a diffuser system that receives, stores and dispenses both chilled and warm water in and from the same storage tank. The ThermoStor patent expires in March 2010. The Company also holds a patent for a Floating Deck Support Apparatus for aluminum roofs. This patent expires on January 24, 2001. The Company has applied for patents for two other products it has developed. The Company has developed the RS 1000 Tank Mixer which controls sludge build-up in crude oil tanks through resuspension. Also the Company has designed the Firesafe which is an environmentally safe alternative to underground storage tanks that meets the stringent requirements of UFC 77-203 (d)(2), NFPA 30, EPA and Underwriter's Laboratories. While the Company believes that the protection of its patents is important to its business, it does not believe that these patents are essential to the success of the Company.

Regulation

Various environmental protection laws have been enacted and amended during the past 20 years in response to public concern over the environment. The operations of the Company and its customers are subject to these evolving laws and the related regulations, which are enforced by the EPA and various other federal, state and local environmental, safety and health agencies and authorities. Although the Company believes that its operations are in material compliance with such laws and regulations, there can be no assurance that significant costs and liabilities will not be incurred due to increasingly stringent environmental restrictions and limitations. Historically, however, the cost of measures taken to comply with these laws has not had a material adverse effect on the financial condition of the Company. In fact, the proliferation of such laws has led to an increase in the demand for some of the Company's products and services. A discussion of the principal environmental laws affecting the Company and its customers is set forth below.

Air Emissions Requirements. The EPA and many state governments have adopted legislation and regulations subjecting many owners and operators of storage vessels and tanks to strict emission standards. The regulations prohibit the storage of certain volatile organic liquids ("VOLs") in open-top tanks and require tanks which store VOLs to be equipped with primary and/or secondary roof seals mounted under a fixed or floating roof. Related regulations also impose continuing seal inspection and agency notification requirements on tank owners and prescribe certain seal requirements. Under the latest EPA regulations, for example, floating roofs on certain large tanks constructed or modified after July 1984 must be equipped with one of three alternative continuous seals mounted between the inside wall of the tank and the edge of the floating roof. These seals include a foam or liquid-filled seal mounted in contact with the stored petroleum product; a combination of two seals mounted one above the other, the lower of which may be vapor mounted; and a mechanical shoe seal, composed of a metal sheet held vertically against the inside wall of the tank by springs and connected by braces to the floating roof. The EPA is in the process of

developing further regulations regarding seals and floating roofs.

Though Company facilities themselves are generally not subject to such requirements, these and other similar regulations have resulted in the implementation of ongoing tank maintenance and inspection programs by many owners and operators of ASTs. These programs also generally result in additional tank repairs, maintenance and modifications which provide a market for the Company's services.

Amendments to the federal Clean Air Act adopted in 1990 require, among other things, that refineries produce cleaner burning gasoline for sale in certain large cities where the incidence of volatile organic compounds in the atmosphere exceeds prescribed levels leading to ozone depletion. Refineries are undergoing extensive modifications to develop and produce acceptable reformulated fuels that satisfy the Clean Air Act Amendments. Such modifications are anticipated to cost refineries several billion dollars, and require the use of specialized construction services such as those provided by the Company. A significant number of refineries have completed changes to produce "reformulated fuels", principally refineries serving specific areas of the U.S.; however, there are a substantial number of refineries that have not made the change.

Water Protection Regulations. Protection of groundwater and other water resources from spills and leakage of hydrocarbons and hazardous substances from storage tanks and pipelines has become a subject of increasing legislative and regulatory attention, including releases from ASTs. Under federal Clean Water Pollution Control Act regulations, owners of most ASTs are required to prepare spill prevention, control and countermeasure ("SPCC") plans detailing steps that have been taken to prevent and respond to spills and to provide secondary containment for the AST to prevent contamination of soil and groundwater. These plans are also subject to review by the EPA, which has authority to inspect covered ASTs to determine compliance with SPCC requirements. Various states have also enacted groundwater legislation that has materially affected owners and operators of petroleum storage tanks. The adoption of such laws has prompted many companies to install double bottoms on their storage tanks to lessen the chance that their facilities will discharge or release regulated chemicals. State statutes regarding protection of water resources have also induced many petroleum companies to excavate product pipelines located in or near marketing terminals, to elevate the pipelines aboveground and to install leak detection systems under the pipelines. These laws and regulations have generally led to an increase in the demand for some of the Company's products and services.

In the event hydrocarbons are spilled or leaked into groundwater or surface water from an AST that the Company has constructed or repaired, the Company could be subject to lawsuits involving such spill or leak. To date, the Company has not suffered a material loss resulting from such litigation.

Hazardous Waste Regulations. The Resource Conservation and Recovery Act of 1976 ("RCRA") provides a comprehensive framework for the regulation of generators and transporters of hazardous waste, as well as persons engaged in the treatment, storage and disposal of hazardous waste. Under state and federal regulations, many generators of hazardous waste are required to comply with a number of requirements, including the identification of such wastes, strict labeling and storage standards, and preparation of a manifest before the waste is shipped off site. Moreover, facilities that treat, store or dispose of hazardous waste must obtain a RCRA permit from the EPA, or equivalent state agency, and must comply with certain operating, financial responsibility and site closure requirements.

In 1990, the EPA issued its Toxicity Characteristic Leaching Procedure ("TCLP") regulations. Under the TCLP regulations, which have been amended from time to time, wastes containing prescribed levels of any one of several identified substances, including organic materials found in refinery wastes and waste-waters (such as benzene), will be characterized as "hazardous" for RCRA purposes. As a result, some owners and operators of facilities that produce hazardous wastes are being required to make modifications to their facilities or operations in order to remain outside the regulatory framework or to come into compliance with the Subtitle C requirements. Many petroleum refining, production, transportation and marketing facilities are choosing to replace existing surface impoundments with storage tanks and to equip certain of the remaining impoundments with secondary containment systems and double liners. Accordingly, the Company believes that the promulgation of the TCLP regulations are having a positive impact on its tank construction and modification business.

Amendments to RCRA require the EPA to promulgate regulations banning the land disposal of hazardous wastes, unless the wastes meet certain treatment standards or the particular land disposal method meets certain waste containment criteria. Regulations governing disposal of wastes identified as hazardous under the TCLP, for example, could require water drained from the bottom of many petroleum storage tanks to be piped from the tanks to a separate facility for treatment prior to disposal. Because the TCLP regulations can, therefore, provide an incentive for owners of petroleum storage tanks to reduce the amount of water seepage in the tanks, the Company believes that the regulations have and will continue to positively

influence sales of its Flex-A-Seal roof seals, which materially reduce the amount of water seepage into tanks.

CERCLA. The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), also known as "Superfund", authorizes the EPA to identify and clean up sites contaminated with hazardous substances and to recover the costs of such activities, as well as damages to natural resources, from certain classes of persons specified as liable under the statute. Such persons include the owner or operator of a site and companies that disposed or arranged for the disposal of hazardous substances at a site. Under CERCLA, private parties which incurred remedial costs may also seek recovery from statutorily responsible persons.

Liabilities imposed by CERCLA can be joint and several where multiple parties are involved. Many states have adopted their own statutes and regulations to govern investigation and cleanup of, and liability for, sites contaminated with hazardous substances or petroleum products.

Although the liabilities imposed by CERCLA (and other environmental legislation) are more directly related to the activities of the Company's clients, they could under certain circumstances give rise to liability on the part of the Company if the Company's efforts in completing client assignments were considered arrangements related to the transport or disposal of hazardous substances belonging to such clients. In the opinion of management, however, it is unlikely that the Company's activities will result in any liability under either CERCLA or other environmental regulations in an amount which will have a material adverse effect on the Company's operations or financial condition, and management is not aware of any current liability of the Company based on such a theory.

Oil Pollution Act. The Oil Pollution Act of 1990 ("OPA") established a new liability and compensation scheme for oil spills from onshore and offshore facilities. Section 4113 of the OPA directed the President to conduct a study to determine whether liners or other secondary means of containment should be used to prevent leaking or to aid in leak detection at onshore facilities used for storage of oil. The Company believes that its business would be positively affected by any regulations eventually promulgated by EPA that required liners and/or secondary containment be used to minimize leakage from ASTs. While the regulation has not, to date, been enacted, the industry designs secondary containment in all new tanks being built and, in general, secondary containment is installed in existing tanks when they are taken out of service for other reasons, in anticipation of this regulation.

Health and Safety Regulations. The operations of the Company are subject to the requirements of the Occupational Safety and Health Act ("OSHA") and comparable state laws. Regulations promulgated under OSHA by the Department of Labor require employers of persons in the refining and petrochemical industries, including independent contractors, to implement work practices, medical surveillance systems, and personnel protection programs in order to protect employees from workplace hazards and exposure to hazardous chemicals. In addition, in response to recent accidents in the refining and petrochemical industries, new legislation and regulations including OSHA's Process Safety Management Standard ("PSM") requiring stricter safety requirements have been enacted. Under PSM, employers and contractors must ensure that their employees are trained in and follow all facility work practices and safety rules and are informed of known potential hazards. The Company has established comprehensive programs for complying with health and safety regulations. While the Company believes that it operates safely and prudently, there can be no assurance that accidents will not occur or that the Company will not incur substantial liability in connection with the operation of its business.

The State of California has promulgated particularly stringent laws and regulations regarding health and safety and environmental protection. The Company's operations in California are subject to strict oversight under these laws and regulations and the failure to comply with these laws and regulations could have a negative impact on the Company.

Executive Officers of the Company

The executive officers of the Company and their ages and positions are listed below.

Name	Age	Position
Doyl D. West	55	Chairman, President & Chief Executive Officer
C. William Lee	57	Vice President-Finance, Chief Financial Officer
Bradley S. Vetal	41	President, Matrix Service, Inc.
Martin L. Rinehart	59	Assistant to President, Matrix Service, Inc.
Robert B. Wagoner	54	Vice President-Engineering, Matrix Service,Inc.
James D. Baker	49	President, Midwest Industrial Contractors, Inc.
Tim S. Selby	49	President, San Luis Tank Piping Construction, Inc.
Bruce M. Lierman	37	President, Colt Construction Co., Inc.
Robert A. Heath	50	President, Heath Engineering, Ltd.
Sample D. Brown	62	Chief Executive Officer, Brown Steel

		Contractors, Inc.
Mark A. Brown	40	President, Brown Steel Contractors, Inc.

Doyl D. West is a founder of the Company and has served as a director since the Company's inception in 1984. Mr. West served as President of the Company from 1984 to November 1992. Mr. West reassumed the duties of President and Chief Executive Officer in September 1994. Prior to founding the Company, Mr. West served in various capacities with Tank Service, Inc., most recently as President. Tank Service, Inc. was engaged in repair and maintenance of the tankage in refineries and marketing and pipeline terminals.

C. William Lee is a founder of the Company and has served as its Vice President-Finance and as a director since the Company's inception. Prior to 1984, Mr. Lee served as Vice President-Finance and Secretary/Treasurer of Tank Service, Inc.

Bradley S. Vetal has been with the Company since January 1987 and has served as President of Matrix Service, Inc. since June 1, 1992. From June 1991 through May 1992, he served as Vice President of Eastern Operations of Matrix Service Mid-Continent, Inc. From January 1987 to June 1991, Mr. Vetal served in various capacities within Matrix. Effective June 1, 1996 Mr. Vetal assumed a newly created position of Vice President-Tank Division of Matrix Service Company. This position is responsible for all AST operations.

Martin L. Rinehart is a founder of the Company and served as the Vice President-Operations of the Company from its inception to June 1992. Since June 1992, he has served as Assistant to the President of Matrix Service, Inc. From 1980 until 1984, Mr. Rinehart served as Executive Vice President of Tank Service, Inc.

Robert B. Wagoner has served as Matrix Service, Inc.'s Vice President-Engineering since 1985. From 1979 to 1984, Mr. Wagoner served as Vice President-Operations and Manager of Operations Services for Tank Service, Inc.

James D. Baker served as President of Midwest Industrial Contractors since June 1, 1995. From 1993 to June 1995, Mr. Baker has served as Manager of Engineering and Estimating for Midwest. From 1988 to 1993, Mr. Baker served as Manager of Capital Construction and Maintenance-Turnaround Planning for Sun Refining & Marketing Company. Prior to working for Sun, Mr. Baker worked for Edecon, Inc. and Refractory Construction, Inc. as an engineer and estimator involved in maintenance and capital work for the petrochemical industry. Mr. Baker holds a BSME degree from Lawrence Institute of Technology.

Tim Selby is a founder of San Luis Tank Piping Construction, Inc. and has served as its President since 1975. Mr. Selby graduated from Fresno State University in 1970 with a degree in Business Administration.

Bruce M. Lierman has served as President of Colt Construction Company since March 1997. Mr. Lierman held numerous positions with Colt since its formation in 1984. His diversified experience within Colt includes developing and managing turnaround, construction and maintenance work groups for the company. After attending Washington State University, Mr. Lierman went to work for Crown Zellerbach Corporation of Portland, Oregon in January 1982. From June 1983 to September 1985, Mr. Lierman worked for the family owned electrical construction business, Lierman Electric.

Robert A. Heath has served as President of Heath Engineering, Ltd. since 1976. He graduated in 1971 from Queen's University in Kingston, Ontario Canada with a degree of Bachelor Science in Electrical Engineering. Upon graduation, Mr. Heath worked with his father, William Heath in management of William R. Heath Company. When his father retired, Mr. Heath became President and started Heath Engineering Ltd. He has been registered with the Association of Professional Engineers since July 19, 1973.

Sample D. Brown has served as Chief Executive Officer of Brown Steel Contractors, Inc. since 1992. After graduating from Auburn University in 1956, Mr. Brown joined the company and has served in various management positions, including President and Chairman of the Board. Mr. Brown is a son of Mr. & Mrs. E.W. Brown, Sr., the co-founders of Brown Steel.

Mark A. Brown has served as President of Brown Steel Contractors, Inc. since 1992. After graduating from Auburn University in 1979, Mr. Brown joined the company and has served in various management capacities in all phases of company operations. Mr. Brown is a grandson of the original company founders, and the son of Sample D. Brown.

Item 2. Properties

The executive offices of the Company are located in a 20,400 square foot facility owned by the Company and located in Tulsa, Oklahoma. A 3,000 square foot warehouse and engineering testing shop is located on the premises and is also owned by the Company. The Company also owns a 13,500 square foot facility in Tulsa where its Midwest operations are headquartered,

a 40,000 square foot fabrication shop and 25,000 square feet of warehouse and maintenance shop space adjacent to Midwest's executive offices. The Company owns a 64,000 square foot facility located on 13 acres of land leased from the Tulsa Port of Catoosa which is used for the fabrication of tanks and tank parts. The Company also owns a 22,000 square foot facility located on 14 acres of land in Tulsa, Oklahoma for Tulsa regional operations, a 13,300 square foot facility in Temperance, Michigan for the Michigan regional operations and a 8,800 square foot facility in Houston, Texas for Houston regional operations. The Company owns 143,300 square foot and 41,000 square foot facilities, located on 6.5 acres and 31.8 acres, respectively, in Newnan, Georgia which are used for the fabrication of elevated tanks. The Company owns a 30,000 square foot facility located on 5.0 acres of land in Bellingham, Washington. Also, the Company owns a 1,806 square foot facility located in Sarnia, Ontario, Canada. The Company leases offices in Anaheim, Bay Point, Carson and Paso Robles, California and Bristol, Pennsylvania. The aggregate lease payments for these leases during fiscal 1997 were approximately $592 thousand. The Company believes that its facilities are adequate for its current operations.

Item 3. Legal Proceedings

The Company and its subsidiaries are named defendants in several lawsuits arising in the ordinary course of their business. While the outcome of lawsuits cannot be predicted with certainty, management does not expect these lawsuits to have a material adverse impact on the Company.

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

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the Company's fiscal year ended May 31, 1997.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Price Range of Common Stock

The Common Stock has traded on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System since the Company's initial public offering on September 26, 1990. The trading symbol for the Common Stock is "MTRX". The following table sets forth the high and low closing sale prices for the Common Stock on the National Market System as reported by NASDAQ for the periods indicated:

	Fiscal Year 1997		Fiscal Year 1996	
	High	Low	High	Low
First Quarter	$6.75	$5.00	$4.63	$3.00
Second Quarter	6.63	5.25	5.38	3.88
Third Quarter	7.81	5.50	4.88	4.00
Fourth Quarter	9.75	7.00	7.13	4.38

	Fiscal Year 1998	
	High	Low
First Quarter through August 26, 1997)	$8.75	$6.63

As of August 27, 1997 there were approximately 110 holders of record of the Common Stock. The Company believes that the number of beneficial owners of its Common Stock is substantially greater than 110.

Dividend Policy

The Company has never paid cash dividends on its Common Stock. The Company currently intends to retain earnings to finance the growth and development of its business and does not anticipate paying cash dividends in the foreseeable future. Any payment of cash dividends in the future will depend upon the financial condition, capital requirements and earnings of the Company as well as other factors the Board of Directors may deem relevant. Certain of the Company's credit agreements restrict the Company's ability to pay dividends.

Item 6. Selected Financial Data

The following table sets forth selected historical financial information for the Company covering the five years ended May 31, 1997. See the Notes to the Company's consolidated financial statements.

[CAPTION]

(In thousands, except per share data)

	Matrix Service Company				
	Years Ended				
Income Statement Data:	May 31, 1997	May 31, 1996	May 31, 1995	May 31, 1994	May 31, 1993
Revenues	$183,144	$183,725	$177,516	$133,480	$103,776
Gross profit	17,440	16,618	13,914	16,488	15,688
Operating income	5,496	4,719	1,456	4,566	6,518
Income (loss) before income tax expens	5,114	4,398	(455)(1)	4,655	6,886
Net income (loss)	2,984	2,449	(189)	2,717	4,060
Earnings (loss) per common and common equivalent shares	.31	.26	(.02)	.29	.42
Primary weighted average common and common equivalent shares outstanding	9,744	9,529	9,283	9,467	9,683

	Matrix Service Company				
Balance Sheet Data:	May 31, 1997	May 31, 1996	May 31, 1995	May 31, 1994	May 31, 1993
Working capital	$28,213	$26,370	$26,800	$20,070	$26,549
Total assets	116,872	105,757	105,729	100,902	83,374
Long-term obligations	6,362	4,847	8,467	5,194	4,141
Deferred tax liability	4,757	5,088	4,698	4,145	899
Stockholders' equity	76,212	73,034	70,820	69,487	66,400

(1) Includes a $1.4 million loss from the Company's investment in Al-Shafai - -Midwest Constructors, Ltd., which is being liquidated. See "Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company was organized in October 1989 to become a holding company of Matrix and Petrotank. The discussion and analysis presented below is of the consolidated financial statements of these companies and the Company's other subsidiaries since the date of acquisition, including (i) Tank Supply, Inc., (ii) after October 3, 1990, Midwest, (iii) after June 1, 1991, San Luis, (iv) after December 30, 1992, Colt, (v) after June 10, 1993, Heath, (vi) after April 1, 1994, Brown, and (vii) after August 26, 1994, Mayflower.

The Company recognizes revenues from fixed price contracts using the percentage of completion accounting method which measures progress on an uncompleted contract based on the amount of costs incurred for such project compared with the total amount of costs expected to be incurred through the completion of the project. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred plus the estimated fee earned.

The Company has experienced an increase in revenues during two of the last three fiscal years. For fiscal 1995, Mayflower was included for nine months. All acquired companies were included for the full year for fiscal 1997 and 1996. Incremental revenues, gross profit and selling, general and administrative expenses attributable to the results of operations of acquired companies not included in the prior year are as follows:

(in thousands)

	Year ended May 31, 1995
Revenues	$765
Gross Profit	44
Selling, general & administrative expenses	35

The Company expects a continued demand for its services in the foreseeable future. Management believes that the percentage growth of its revenues for fiscal 1998 will be stronger than fiscal year 1997. The limitation to growth for the last three fiscal years was due to decreased demand for the Company's services. Limitations on growth capacity also reflect the seasonal nature of the Company's refinery turnaround activities, which creates pressure to expand the supervisory staff during the turnaround seasons. The Company continues to recruit, hire and train additional project engineers and project managers, and the Company's ability to continue to grow will depend, in part, on its ability to continue this process, and a stronger demand for the Company's services.

The Company's quarterly results may tend to fluctuate from period to period, due primarily to the timing of turnarounds performed by the Company. Generally, the Company performs a substantial percentage of its turnaround projects in two periods February through May and September through November. Historically, these are the time periods when most refiners temporarily shutdown certain operating units for maintenance, repair or modification prior to changing their product mix in anticipation of a seasonal shift in product demand. Consequently, the Company's second quarter ending November 30 and its fourth quarter ending May 31 will typically include greater revenues from turnarounds than its first quarter or its third quarter.

Results of Operations

The following table presents, for the periods indicated, the percentage relationship which certain items in the Company's statement of operations bear to revenues, and the percentage increase or decrease in the dollar amount of such items. The following data should be read in conjunction with the financial statements of the Company and the notes thereto contained elsewhere in this Form 10-K. Revenues for fiscal year ending May 31, 1995 were positively affected by the inclusion of Mayflower for nine months.

[CAPTION]

	Percentage of Revenues Years ended May 31,			Period-to-Period Change	
	1997	1996	1995	1997 vs. 1996	1996 vs. 1995
Revenues	100.0 %	100.0 %	100.0 %	(0.3)%	3.5 %
Cost of revenues	90.5	91.0	92.2	(0.8)	2.1
Gross profit	9.5	9.0	7.8	5.0	19.4
Selling, general and administrative expenses	6.0	5.9	6.2	2.7	(1.3)
Operating income	3.0	2.6	0.8	16.5	224.1
Interest income	0.1	0.2	0.1	(60.1)	175.8
Income before income tax expense	2.8	2.4	(0.3)	16.3	1067.0
Net income	1.6 %	1.3 %	(0.1) %	21.8 %	1396.0 %

Fiscal 1997 Compared to Fiscal 1996

Revenues for the year ended May 31, 1997 were $183.1 million as compared to revenues of $183.7 million for the year ended May 31, 1996, representing a decrease of approximately $581 thousand or 0.3%. The decrease was primarily due to decreased revenues for the Company's services in aboveground storage tank markets primarily on the West and Gulf Coasts. The Company believes that the decrease in activity on the West Coast was due primarily to additional expenditures in the two prior years to comply with state environmental regulations with a compliance date of January 1, 1996. Gross profit increased to $17.4 million for the year ended May 31, 1997

from gross profit of $16.6 million for the year ended May 31, 1996, an increase of approximately $822 thousand or 5.0%. Gross profit as a percentage of revenues increased to 9.5% in the 1997 period from 9.0% for the 1996 period. The Company continues to experience pricing pressure as a result of intense competition in its established markets; however, the demand for the Company's services for capital projects has improved during the year. Customer inquiry levels and the available projects for repairs and maintenance and new construction of AST's and refinery maintenance have been improving during the year.

Selling, general and administrative expenses increased to $11.1 million for the year ended May 31, 1997 from expenses of $10.8 million for the year ended May 31, 1996, an increase of $296 thousand or approximately 2.7%. The increase was due to an increase of certain administrative personnel and facilities in line with the increased revenues at the Company's Colt and Brown operations. Selling, general and administrative expenses as a percentage of revenues increased to 6.0% for fiscal 1997 from 5.9% for fiscal 1996.

Operating income increased to $5.5 million for the year ended May 31, 1997 from $4.7 million for the year ended May 31, 1996, an increase of $777 thousand or approximately 16.5%. The increase was due to improved gross profit margin and a decrease in amortization of intangible assets.

Due to changes in the economic conditions in Saudi Arabia, there is a shortage of work available of the nature performed by the foreign joint venture Al Shafai-Midwest Constructors, Ltd. It is management's opinion that those conditions will last for several years. The venture partners, Saud Al Shafai and Sons Contractors and the Company, are in the process of liquidating the joint venture. At May 31, 1995, the Company had reduced its carrying value of the investment in this joint venture to the estimated recovery amount upon completion of the liquidation. The Company recorded a loss of $1.4 million for the year ended May 31, 1995. The Company had no expenses related to the joint venture for the year ended May 31, 1997 and 1996.

Interest income decreased to $164 thousand for the year ended May 31, 1997 from $411 thousand for the year ended May 31, 1996. This decrease resulted from interest earned on the refund of certain state and federal income taxes received during the previous year. Interest expense decreased to $536 thousand for the year ended May 31, 1997 from $815 thousand of interest expense for the year ended May 31, 1996. The decrease resulted primarily from decreased borrowing under the Company's revolving credit facility. Under this facility, a $4.9 million term loan was made to the Company on October 5, 1994, and $2.4 million remains outstanding at May 31, 1997.

Net income increased to $3.0 million for the 1997 period from $2.4 million for the 1996 period. The increase was due to improved gross profit margin, and decreased amortization of intangible assets, as compared with the prior year.

Fiscal 1996 Compared to Fiscal 1995

Revenues for the year ended May 31, 1996 were $183.7 million as compared to revenues of $177.5 million for the year ended May 31, 1995, representing an increase of approximately $6.2 million or 3.5%. The increase was primarily due to increased revenues for the Company's services in both refinery maintenance and aboveground storage tank markets.

Gross profit increased to $16.6 million for the year ended May 31, 1996 from gross profit of $13.9 million for the year ended May 31, 1995, an increase of approximately $2.7 million or 19.4%. Gross profit as a percentage of revenues increased to 9.0% in the 1996 period from 7.8% for the 1995 period.

Selling, general and administrative expenses decreased to $10.8 million for the year ended May 31, 1996 from expenses of $10.9 million for the year ended May 31, 1995, a decrease of $143 thousand or approximately 1.3%. The decrease was due to areduction of certain administrative personnel. Selling, general andadministrative expenses as a percentage of revenues decreased to 5.9% for fiscal 1996 from 6.2% for fiscal 1995.

Operating income increased to $4.7 million for the year ended May 31, 1996 from $1.5 million for the year ended May 31, 1995, an increase of $3.2 million or approximately 224.1%. The increase was due to increased revenue, improved gross profit margin, and decreases in selling, general and administrative expenses.

Due to changes in the economic conditions in Saudi Arabia, there is a shortage of work available of the nature performed by the foreign joint venture Al Shafai-Midwest Constructors, Ltd. It is management's opinion that those conditions will last for several years. The venture partners, Saud Al Shafai and Sons Contractors and the Company, are in the process of liquidating the joint venture. At May 31, 1995, the Company had reduced its carrying value of the investment in this joint venture to the estimated recovery amount upon completion of the liquidation. The Company recorded a loss of $1.4 million for the year ended May 31, 1995. The Company had no

expenses related to the joint venture for the year ended May 31, 1996.

Interest income increased to $411 thousand for the year ended May 31, 1996 from $149 thousand for the year ended May 31, 1995. This increase resulted from interest earned on the refund of certain state and federal income taxes received during the year. Interest expense decreased to $815 thousand for the year ended May 31, 1996 from $897 thousand of interest expense for the year ended May 31, 1995. The decrease resulted primarily from decreased borrowing under the Company's revolving credit facility and a term loan established thereunder. Under this facility, a $4.9 million term loan was made to the Company on October 5, 1994, and $3.5 million remains outstanding at May 31, 1996.

Net income increased to $2.4 million for the 1996 period from a net loss income of $189 thousand for the 1995 period. The increase was due to improved gross profit margin, decreased selling, general and administrative expenses, and no losses from investment in foreign joint venture as compared with the prior year.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled approximately $1.9 million at May 31, 1997 and 1996.

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 $20.0 million. The Company may borrow up to $15.0 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 minus one-half of one percent (1/2 of 1%), or a LIBOR based option, and matures on October 31, 1999. At May 31, 1997, the outstanding advances under the revolver totaled $5.0 million. The interest rate for this facility at May 31, 1997 was: 1) Prime Option 8% on $2.0 million and 2) LIBOR Option 7.2% on $3.0 million. The credit facility also provides for a term loan up to $5.0 million. On October 5, 1994, a term loan of $4.9 million was made to the Company. The term loan is due on August 31, 1999 and is to be repaid in 54 equal payments beginning in March 1995 at an interest rate based upon the Prime Rate or a LIBOR Option. At May 31, 1997 the balance outstanding on this facility was $2.45 million. The interest rate at May 31, 1997 was 1) Prime Option of 8.5% on $450 thousand and 2) LIBOR Option of 7.8% on $2.0 million.

Operations of the Company provided $6.2 million of cash for the year ended May 31, 1997 as compared with providing $9.6 million of cash for the year ended May 31, 1996, representing a decrease of approximately $3.4 million. The decrease was due to a decrease of $6.3 million from the collection of accounts, a decrease of $1.9 million from prepaid expenses and inventory, a decrease related to income taxes and other accrued liabilities of $5.5 million, and a decrease of $486 thousand from depreciation and amortization. These decreases are net of increased net income of $535 thousand, a net increase of $5.2 million of costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings, and a $5.0 million increase from accounts payable.

Capital expenditures during the year ended May 31, 1997 totaled approximately $5.8 million. Of this amount, approximately $998 thousand was used to purchase trucks for field operations, and approximately $1.9 million was used to purchase welding, construction, and fabrication equipment. The Company has expended $2.5 million on land and construction of a new facility in the Northwest. The Company has invested approximately $426 thousand in furniture and fixtures during the year, which includes approximately $319 thousand invested in computer equipment for operations and automated drafting. The Company has currently budgeted approximately $5.6 million for capital expenditures for fiscal 1998. The Company expects to be able to finance these expenditures with working capital and borrowings under the Company's credit facility.

The Company believes that its existing funds, amounts available from borrowings under its existing credit facility, and cash generated by operations will be sufficient to meet the Company's working capital needs at least through fiscal 1998 and possibly thereafter unless significant expansions of operations not now planned are undertaken, in which case the Company would arrange additional financing as a part of any such expansion.

Other

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which required impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted Statement 121 in the first

quarter of 1997. The adoption of Statement 121 did not have a significant impact on the Company's financial statements.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share," which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact on earnings per share for the year ended May 31, 1997 would have been an increase of $0.01 per share for both basic and diluted shares.

Certain Factors Influencing Results and Accuracy of Forward-Looking Statements

This Annual 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 Annual Report generally. In addition, when used in this Annual 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 shareholders 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 Annual 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.

The following discussion outlines certain factors that in the future could affect the Company's consolidated results and cause them to differ materially from those that may be set forth in any forward-looking statement made by or on behalf of the Company. The Company cautions the reader, however, that this list of risk factors may not be exhaustive.

Competition. The Company competes with numerous large and small companies, some of which have greater financial and other resources than the Company. Competition within both the aboveground storage tank and hydrocarbon process services business is intense and is based on quality of service, price, safety considerations and availability of personnel. See "Business-Other Business Matters-Competition."

Market Factors. The Company is dependent on the petroleum storage operations of the petroleum industry, and a downturn in that industry could negatively affect its operations. The Company's hydrocarbon processing operations focus primarily on the refining industry. The refining industry has undergone significant changes in the past decade with respect to product composition, costs of petroleum products, and refinery capacity and utilization. Although the Company believes that these changes in the industry have positively affected its business, changes could occur that decrease the industry's dependence on the type of services the Company provides. See "Business-Aboveground Storage Tank Operations-Hydrocarbon Process Services."

Availability of Supervisory Personnel. The Company employs in its operations project supervisors with substantial experience and training. The growth of the business will depend on, and may be restricted by, its ability to retain these personnel and to recruit and train additional supervisory employees. The competition to recruit qualified supervisor staff is intense.

Labor Markets. The operations of the Company are labor intensive. The Company has employed up to 650 workers for a single project, and many of the workers employed by the Company are represented by labor unions and covered by collective bargaining agreements. Although the Company has to date been able to employ sufficient labor to complete its projects, changes in labor market conditions could restrict the availability of workers or increase the cost of such labor, either of which could adversely affect the Company. In addition, the operations of the Company could be adversely affected by a strike or work stoppage. See "Business-Other Business Matters-Employees."

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."

Environmental Regulation. The operations of the Company have been affected positively by the promulgation of more stringent environmental laws and more stringent enforcement of existing laws. Although the Company's future business success is not dependent on increased environmental regulation, decreased regulation and enforcement could adversely affect the demand for the services provided by the Company. See "Business-AST Market and Regulatory Background-Other Business Matters."

Potential Liability and Insurance. The operations of the Company involve the use of heavy equipment and exposure to construction hazards, with attendant significant risks of liability for personal injury and property damage. While the Company believes that it operates safely and prudently, there can be no assurance that accidents will not occur or that the Company will not incur substantial liability in connection with the operation of its business. In addition, recent accidents within the refining and petrochemical industries may result in additional regulation of independent contractors serving those industries. See "Business-Other Business Matters-Regulation." The Company maintains workers compensation insurance, general liability insurance and auto liability insurance, but such insurance is subject to coverage limits of $2.0 million per accident or occurrence. The Company also maintains an umbrella policy with coverage limits of $20.0 million in the aggregate. Such insurance includes coverage for losses or liabilities relating to environmental damage or pollution. Although the Company believes that it conducts its operations prudently and that it minimizes its exposure to such risks, the Company could be materially adversely affected by a claim that was not covered or only partially covered by insurance. See "Business-Other Business Matters-Insurance."

Item 8. Financial Statements and Supplementary Data

Reference is made to the financial statements, the report thereon, the notes thereto and supplementary data commencing at page 1 of this Annual Report on Form 10-K, which financial statements, report, notes and data are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable

PART III

Item 10. Directors and Executive Officers of the Registrant

The information relating to the identification, business experience and directorships of each director and nominee for director of the Company required by Item 401 of Regulation S-K will be presented in the section entitled "Election of Directors - Nominees" of the Company's definitive proxy statement for the annual meeting of stockholders for fiscal 1997, and is hereby incorporated by reference; if the definitive proxy statement for the 1997 annual stockholders' meeting is not filed with the Securities and Exchange Commission within 120 days of the end of the Company's 1997 fiscal year, the Company will amend this Annual Report and include such information in the amendment. See Item 1. "Business - Executive Officers of the Company" for information relating to the identification and business experience of the Company's executive officers.

Item 11. Executive Compensation

The information relating to the compensation of directors and officers required by Item 402 of Regulation S-K will be presented in the section entitled "Election of Directors-Executive Compensation" of the Company's definitive proxy statement for the annual meeting of stockholders for fiscal 1997 and is hereby incorporated by reference; if the definitive proxy statement for the 1997 annual stockholders' meeting is not filed with the Securities and Exchange Commission within 120 days of the end of the Company's 1997 fiscal year, the Company will amend this Annual Report and include such information in the amendment.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information relating to security ownership required by Item 403 of Regulation S-K will be presented in the sections entitled "Voting Securities and Principal Stockholders" and "Election of Directors Nominees" of the Company's definitive proxy statement for the annual meeting of stockholders for fiscal 1997 and is hereby incorporated by reference; if the definitive proxy statement for the 1997 annual stockholders' meeting is not filed with the Securities and Exchange Commission within 120 days of the end of the Company's 1997 fiscal year, the Company will amend this Annual Report and include such information in the amendment.

Item 13. Certain Relationships and Related Transactions

The information relating to relationships and transactions required by Item 404 of Regulation S-K will be presented in the section entitled "Election of Directors - Certain Transactions" of the Company's definitive proxy statement for the annual meeting of stockholders for fiscal 1997, and is hereby incorporated by reference; if the definitive proxy statement for the 1997 annual stockholders' meeting is not filed with the Securities and Exchange Commission within 120 days of the end of the Company's 1997 fiscal year, the Company will amend this Annual Report and include such information in the amendment.

PART IV

Item 14.

Exhibits, Financial Statement Schedules and Reports on Form 8-K

All schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule.

3. List of Exhibits

2.1

Stock Purchase Agreement, dated February 22, 1994, by and among Matrix Service Company and the shareholders of Georgia Steel Fabricators, Inc. (Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 0-18716) filed March 7, 1994, is hereby incorporated by reference).

3.1

Restated Certificate of Incorporation (Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 33-36081), as amended, filed July 26, 1990 is hereby incorporated by reference).

3.2

Bylaws, as amended (Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-36081) as amended, filed July 26, 1990 is hereby incorporated by reference).

4.1

Specimen Common Stock Certificate (Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-36081), as amended, filed July 26, 1990 is hereby incorporated by reference).

+ 10.1

Matrix Service Company 1990 Incentive Stock Option Plan (Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No.33-36081), as amended, filed July 26, 1990 is hereby incorporated by reference.

+ 10.2

Matrix Service Company 1991 Stock Option Plan (Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991 (File No. 0-18716) is hereby incorporated by reference).

10.3

Standard Industrial Lease, dated June 30, 1989, between Matrix Service, Inc. and the Kinney Family Trust (Exhibit 10.16 to the Company's Registration Statement on Form S-1 (No. 33-36081), as amended, filed July 26, 1990 is

hereby incorporated by reference).

10.4

Lease Agreement, dated May 30, 1991, between Tim S. Selby and Stephanie W. Selby as Co-Trustees of the Selby Living Trust dated October 20, 1983, Tim S. Selby and Stephanie W. Selby, and Richard Chafin, Trustee of the Selby Children's Trust 1 dated December 12, 1983 and San Luis Tank Piping Construction Co., Inc. (Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 33-48373) filed June 4, 1992 is hereby incorporated by reference).

+ 10.5

Employment and Noncompetition Agreement, dated June 1, 1991, between West Coast Industrial Coatings, Inc. and San Luis Tank Piping Construction Co., Inc., and Tim S. Selby (Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 33-48373) filed June 4, 1992 is hereby incorporated by reference).

10.6

Revolving Credit Agreement, dated August 30, 1994, by and among the Company and its subsidiaries, and Liberty Bank & Trust Company of Tulsa, N.A. (Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1995 (File No. 0-18716) is hereby incorporated by reference).

10.7

Security Agreement, dated August 30, 1994, by and among the Company and its subsidiaries, and Liberty Bank & Trust Company of Tulsa, N.A. (Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1995 (File No. 0-18716) is hereby incorporated by reference).

10.8

Promissory Note, dated December 30, 1992, by and between the Company, Colt Acquisition Company and Colt Construction Company and Duncan Electric Company. (Exhibit 10.17 to the Company's Annual Report on Form 10-K (File No. 0-18716), filed August 27, 1993, is hereby incorporated by reference).

+ 10.9

Employment and Noncompetition Agreement dated February 22, 1994, between Brown Steel Contractors, Inc. and Mark A. Brown (Exhibit 99.2 to the Company's Current Report on Form 8-K, (File No. 0-18716), filed March7, 1994, is hereby incorporated by reference).

+ 10.10

Employment and Noncompetition Agreement dated February 22, 1994, between Brown Steel Contractors, Inc. and Sample D. Brown (Exhibit 99.3 to the Company's Current Report on Form 8-K, (File No. 0-18716), filed March 7, 1994, is hereby incorporated by reference).

+ 10.11

Matrix Service Company 1995 Nonemployee Directors' Stock Option Plan (Exhibit 4.3 to the Company's Registration Statement on Form S-8 (File No. 333-2771), filed April 24, 1996 is hereby incorporated by reference).

* 10.12

Stock Purchase Agreement, dated June 17, 1997, by and among Matrix Service Company and the shareholders of General Service Corporation.

* 10.13

First Amendment to Credit Agreement, dated June 19, 1997, by and among the Company and its subsidiaries, and Liberty Bank & Trust Company of Tulsa, N.A.

* 10.14

Security Agreement, dated June 19, 1997, by and among the Company and its subsidiaries, and Liberty Bank & Trust Company of Tulsa, N.A.

* 10.15

Promissory Note (Revolving Note) dated June 19, 1997 by and between the Company and its subsidiaries, and Liberty Bank & Trust Company of Tulsa, N.A.

* 10.16

Promissory Note (Term Note, due August 31, 1999), by and between the Company

and its subsidiaries, and Liberty Bank & Trust Company of Tulsa, N.A.

* 10.17

Promissory Note (Term Note, due June 19, 2002), dated June 19, 1997 by and between the Company and its subsidiaries, and Liberty Bank & Trust Company, N.A.

* 11.1

Computation of Per Share Earnings.

* 21.1

Subsidiaries of Matrix Service Company.

* 23.1

Consent of Ernst & Young LLP.

* Filed herewith.

\+ Management Contract or Compensatory Plan.

(b) Reports on Form 8-K: None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Matrix Service Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Matrix Service Company

Date: August 29, 1997 By: /s/Doyl D. West
Doyl D. West, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/Doyl D. West Doyl D. West	Doyl D. West President and Director (Principal Executive Officer)	August 29, 1997
/s/C. William Lee C. William Lee	C. William Lee Chief Financial Officer and Director (Principal Financial and Accounting Officer)	August 29, 1997
/s/Hugh E. Bradley Hugh E. Bradley	Director	August 29, 1997
/s/Robert L. Curry Robert L. Curry	Director	August 29, 1997
/s/William P. Wood William P. Wood	Director	August 29, 1997
/s/John S. Zink John S. Zink	Director	August 29, 1997

Matrix Service Company

Index to Consolidated Financial Statements

Item 14(a)

Report of Independent Auditors

The Stockholders and Board of Directors Matrix Service Company

We have audited the accompanying consolidated balance sheets of Matrix Service Company and subsidiaries as of May 31, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1997.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Matrix Service Company and subsidiaries at May 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 1997, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Tulsa, Oklahoma
August 15, 1997

1,000

[DESCRIPTION] Consolidated Balance Sheets

Matrix Service Company

Consolidated Balance Sheets

	May 31 1997	1996
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,877	$ 1,899
Accounts receivable	37,745	29,205
Costs and estimated earnings in excess of billings on uncompleted contracts	11,349	12,122
Inventories	4,989	4,149
Prepaid expenses	456	179
Deferred taxes	1,021	995

Income tax receivable	317	609
Total current assets	57,754	49,158
Investment in undistributed equity of foreign joint venture	174	374
Property, plant and equipment, at cost:		
Land and buildings	15,097	14,528
Construction equipment	24,444	23,414
Transportation equipment	5,504	4,990
Furniture and fixtures	3,164	2,806
Construction in progress	2,614	189
	50,823	45,927
Accumulated depreciation	20,861	17,065
	29,962	28,862
Goodwill, net of accumulated amortization of $4,894 and $4,114 in 1997 and 1996, respectively	28,721	27,033
Other assets	261	330
Total assets	$116,872	$105,757

See accompanying notes.

[MULTIPLIER] 1,000

[DESCRIPTION] Consolidated Balance Sheets

Matrix Service Company

Consolidated Balance Sheets

	May 31 1997	1996
	(in thousands)	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 12,307	$ 9,026
Billings on uncompleted contracts in excess of costs and estimated earnings	6,325	4,353
Accrued insurance	3,308	3,004
Earnout payable	2,400	1,606
Other accrued expenses	3,275	3,170
Income taxes payable	431	-
Current portion of long-term debt	1,495	1,629
Total current liabilities	29,541	22,788
Long-term debt	6,362	4,847
Deferred income taxes	4,757	5,088
Stockholders' equity:		
Common stock - $.01 par value; 15,000,000 shares authorized; 9,491,153 shares issued in 1997 and 1996	95	95
Additional paid-in capital	50,903	50,927
Retained earnings	26,269	23,617
Cumulative translation adjustment	(145)	(107)
	77,122	74,532
Less treasury stock, at cost - 115,228 and 177,467 shares in 1997 and 1996, respectively	910	1,498
Total stockholders' equity	76,212	73,034
Total liabilities and stockholders'equity	$116,872	$105,757

See accompanying notes.

1,000

[DESCRIPTION] Consolidated Statements of Income

Matrix Service Company

Consolidated Statements of Income

(In thousands, except share and per share amounts)

	Year ended May 31		
	1997	1996	1995
Revenues	$183,144	$183,725	$177,516
Cost of revenues	165,704	167,107	163,602
Gross profit	17,440	16,618	13,914
Selling, general and administrative expenses	11,080	10,784	10,927
Goodwill and noncompete amortization	864	1,115	1,531
Operating income	5,496	4,719	1,456
Other income (expense):			
Loss from investment in foreign joint venture:			
Equity in losses from operations	-	-	(349)
Impairment of investment	-	-	(1,017)
Interest expense	(536)	(815)	(897)
Interest income	164	411	149
Other	(10)	83	203
Income (loss) before income tax expense	5,114	4,398	(455)
Provision (benefit) for federal, state and foreign income taxes:			
Current	2,486	1,683	(327)
Deferred	(356)	266	61
	2,130	1,949	(266)
Net income (loss)	$ 2,984	$ 2,449	$ (189)
Net income (loss) per common and common equivalent share:			
Primary	$ .31	$ .26	$ (.02)
Fully diluted	.30	.26	(.02)
Weighted average common and common equivalent shares outstanding:			
Primary	9,744,338	9,529,481	9,283,442
Fully diluted	9,979,644	9,578,112	9,283,442

See accompanying notes.

[MULTIPLIER] 1,000

[DESCRIPTION] Consolidated Statements of Change in Stockholders' Equity

Matrix Service Company

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Cumulative Translation Adjustment	Total
			(In thousands)			

Balances, May 31, 1994	95	49,364	21,712	(1,597)	(87)	69,487
Treasury stock purchased (50,000 shares)	-	-	-	(294)	-	(294)
Exercise of stock options (7,235 shares)	-	-	(59)	65	-	6
Tax effect of exercised stock options	-	1,824	-	-	-	1,824
Cumulative translation adjustment	-	-	-	-	(14)	(14)
Net loss	-	-	(189)	-	-	(189)
Balances, May 31, 1995	95	51,188	21,464	(1,826)	(101)	70,820
Exercise of stock options (36,408 shares)	-	-	(296)	328	-	32
Tax effect of exercised stock options	-	(261)	-	-	-	(261)
Cumulative translation adjustment	-	-	-	-	(6)	(6)
Net income	-	-	2,449	-	-	2,449
Balances, May 31, 1996	$95	$50,927	$23,617	$(1,498)	$(107)	$73,034
Exercise of stock options (62,239 shares)	-	-	(332)	588	-	256
Tax effect of exercised stock options	-	(24)	-	-	-	(24)
Cumulative translation adjustment	-	-	-	-	(38)	(38)
Net income	-	-	2,984	-	-	2,984
Balances, May 31, 1997	$95	$50,903	$26,269	$ (910)	$(145)	$76,212

See accompanying notes.

[MULTIPLIER] 1,000

[DESCRIPTION] Consolidated Statements of Cash Flows

Matrix Service Company

Consolidated Statements of Cash Flows

	Year ended May 31		
	1997	1996	1995
	(In thousands)		
Operating activities			
Net income (loss)	$2,984	$2,449	$ (189)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,365	5,851	6,019
Deferred income tax provision	(356)	266	61
(Gain)loss on sale of equipment	(70)	248	(17)
Loss on sale of marketable securities	-	-	65
Loss from investment in foreign joint venture	-	-	1,366
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisition of subsidiaries:			
Accounts receivable	(8,540)	(2,257)	(2,703)
Costs and estimated earnings in excess of billings on uncompleted contracts	773	(2,540)	353
Inventories	(840)	566	(1,784)
Prepaid expenses	(277)	247	211
Accounts payable	3,281	(1,746)	3,139

Billings on uncompleted contracts in excess of costs and estimated earnings	1,972	40	(3,296)
Accrued expenses	1,203	3,632	(1,060)
Income taxes receivable/payable	699	2,846	(1,626)
Other assets	(15)	11	85
Net cash provided by operating activities	6,179	9,613	624
Investing activities			
Acquisition of property, plant and equipment	(5,802)	(3,410)	(5,182)
Acquisition of subsidiaries and investment in foreign joint venture, net of cash acquired	(2,353)	(1,931)	(724)
Proceeds from sale of marketable securities	-	-	285
Return of investment in foreign joint venture	200	-	-
Proceeds from other investing activities	155	116	100
Net cash used in investing activities	(7,800)	(5,225)	(5,521)

[MULTIPLIER] 1,000

[DESCRIPTION] Consolidated Statements of Cash Flows

Matrix Service Company

Consolidated Statements of Cash Flows (continued)

	Year ended May 31		
	1997	1996	1995
	(In thousands)		

See accompanying notes.

[DESCRIPTION] Matrix Service Company
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

The consolidated financial statements present the accounts of Matrix Service Company ("MSC") and its subsidiaries (collectively referred to as "the Company"). Subsidiary companies include Matrix Service, Inc., ("Matrix"), Midwest Industrial Contractors, Inc. ("Midwest"), Matrix Service Mid-Continent, Petrotank Equipment, Inc. ("Petrotank"), Tank Supply, Inc., San Luis Tank Piping Construction Co., Inc. ("San Luis"), Colt Construction Co. ("Colt"), Midwest International, Inc., Heath Engineering Ltd. ("Heath"), Brown Steel Contractors, Inc. ("Brown") and Mayflower Vapor Seals Corp. ("Mayflower"). Intercompany transactions and balances have been eliminated in consolidation. Mayflower was acquired on August 26, 1994 by MSC (see Note 3).

The Company operates primarily in the United States but has operations in Canada and Mexico through Heath and San Luis. The Company's one industry segment is maintenance, construction services and products for petroleum refining and storage facilities and water storage tanks and systems for municipalities and private industry.

Cash Equivalents

The Company includes as cash equivalents all investments with original maturities of three months or less which are readily convertible into cash. The carrying value of cash equivalents approximates fair value.

Inventories

Inventories consist primarily of raw materials and are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out or average cost method.

Revenue Recognition

Revenues from fixed-price contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to estimated total costs for each contract. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred plus the estimated fee earned. Anticipated losses on uncompleted contracts are recognized in full when they become known. Losses from the investment in the undistributed equity of the foreign joint venture were recognized in accordance with the equity method of accounting in 1995.

Depreciation and Amortization

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Goodwill and noncompete agreements are being amortized over 40 and 5 years, respectively, using the straight-line method.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, the deferred tax provision is determined under the liability method whereby deferred tax assets and liabilities are recognized based on differences between financial statement and tax bases of assets and liabilities using presently enacted tax rates.

Net Income per Common and Common Equivalent Share

Primary net income per common and common equivalent share is computed using the weighted average number of shares of common stock and common stock equivalents. Common stock equivalents consist of stock options (calculated using the treasury stock method). Fully diluted net income per common and common equivalent share is computed using the higher of year-end or average market price under the treasury stock method.

Stock Option Plans

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its employee stock options because, as discussed in Note 6, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Uncompleted Contracts

Contract terms generally provide for progress billings based on completion of certain phases of the work. The excess of costs incurred and estimated earnings recognized for construction contracts over amounts billed on uncompleted contracts is reported as a current asset and the excess of amounts billed over costs incurred and estimated earnings recognized for construction contracts on uncompleted contracts is reported as a current liability as follows:

	May 31	
	1997	1996
	(In thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	$104,746	$97,683
Billings on uncompleted contracts	109,770	89,914
	$ 5,024	$ 7,769
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$11,349	$12,122
Billings on uncompleted contracts in excess of costs and estimated		

earnings	6,325	4,353
	$ 5,024	$ 7,769

Approximately $4.2 million and $3.5 million of accounts receivable at May 31, 1997 and 1996, respectively, relate to billed retainages under contracts.

3. Acquisitions

Mayflower Vapor Seals

On August 26, 1994, the Company acquired certain assets of Mayflower Vapor Seals Corp. for $660,000. The transaction was accounted for as a purchase and resulted in approximately $442,000 of goodwill, which is being amortizedon a straight-line basis over a 40-year period. The operations of the newsubsidiary have been included in the accompanying financial statements subsequent to August 26, 1994.

Pro forma results of operations for the year ended May 31, 1995, assuming Mayflower transaction occurred on June 1, 1994, were not significantly different from the results reported.

Noncash Investing Activities

At May 31, 1997, the Company has an earnout payable of $2.4 million for distributions which will be made pursuant to contingent consideration provisions of various business acquisition agreements. The earnout payable represents final settlement of the earnout agreement.

4. Long-Term Debt

Long-term debt consists of the following:

	1997	1996
	(In thousands)	
Notes payable to former shareholders of Colt requires quarterly principal payments of $132,315, interest at the prime rate, commencing March 31, 1993	$ 397	$ 926
Borrowings under bank credit facility:		
Revolving note payable	5,000	2,000
Term note payable	2,450	3,539
Other	10	11
	7,857	6,476
Less current portion	1,495	1,629
	$6,362	$4,847

In August 1994, the Company established a credit facility with a commercial bank under which the Company may borrow a total of $20 million. The Company may borrow up to $15 million under a revolving credit agreement based on the level of the Company's eligible accounts receivable, which was $31,769,000 at May 31, 1997. The agreement provides for interest at the Prime Rate (8.5% at May 31, 1997) minus one-half of one percent, or a LIBOR based option, (7.3% at May 31, 1997) and matures on October 31, 1999. The agreement requires maintenance of certain financial ratios, limits the amount of additional borrowings and prohibits the payment of dividends. Advances of $5 million were outstanding under this agreement at May 31, 1997. The credit facility also provides for a term loan up to $5 million. On October 5, 1994, a term loan of $4.9 million was made to the Company. The term loan is due on August 31, 1999 and is to be repaid in 54 equal payments beginning in March 1995 at an interest rate based upon the Prime Rate or LIBOR option. At May 31, 1997, the interest rates for this credit facililty were Prime Rate option of 8.0% on $2.0 million and LIBOR option of 7.2% on $3.0 million. At May 31, 1997, the balance outstanding on the term loan was $2,450,000 at Prime Rate option of 8.5% on $450 thousand and LIBOR option of 7.8% on $2.0 million. The credit facility is secured by all accounts receivable, inventory, intangibles, and proceeds related thereto.

The Company has outstanding letters of credit and letters of guarantee totaling $3,337,718 which mature during 1997, 1998 and 1999.

Aggregate maturities of long-term debt excluding the revolving note are as follows (in thousands): 1998 - $1,495; 1999 - $1,090; 2000 - $272; and 2001 - $0.

The carrying value of debt approximates fair value.

5. Income Taxes

The components of the provision for income taxes are as follows:

	1997	1996	1995
	(In thousands)		
Current:			
Federal	$1,825	$1,145	$ (83)
State	443	373	(10)
Foreign	218	165	(234)
	2,486	1,683	(327)
Deferred:			
Federal	(121)	(21)	48
State	(180)	368	11
Foreign	(55)	(81)	2
	(356)	266	61
	$2,130	$1,949	$(266)

The difference between the expected tax rate and the effective tax rate is indicated below:

	1997	1996	1995
	(In thousands)		
Expected provision (benefit) for federal Income taxes at the statutory rate	$1,739	$1,495	$(155)
State income taxes, net of federal benefit	290	257	(8)
Charges without tax benefit, primarily goodwill amortization	225	246	246
Life insurance proceeds	-	-	(255)
Other	(124)	(49)	(94)
Provision for income taxes	$2,130	$1,949	$(266)

The Company incurred pretax losses from foreign operations of $1,449,000 in 1996.

Significant components of the Company's deferred tax liabilities and assets as of May 31, 1997 and 1996 are as follows:

	1997	1996
	(In thousands)	
Deferred tax liabilities:		
Tax over book depreciation	$4,713	$5,055
Other - net	44	33
Total deferred tax liabilities	4,757	5,088
Deferred tax assets:		
Foreign insurance dividend	275	287
Vacation accrual	205	203
Colt & Brown noncompete amortization	423	483
Other - net	118	(22)
Total deferred tax assets	1,021	995
Net deferred tax liability	$3,736	$4,093

The Company had operating loss carryforwards at May 31, 1995 attributable to foreign operations totaling $694,000 that were fully utilized during 1996. The Company has unused state job tax credit carryforwards of $369,000 at May 31, 1997.

6. Stockholders' Equity

The Company has adopted a 1990 Incentive Stock Option Plan (the "1990 Plan") and a 1991 Incentive Stock Option Plan (the "1991 Plan") to provide additional incentives for officers and other key employees of the Company to promote the success of the business and to enhance the Company's ability to attract and retain the services of qualified persons. The Company has adopted a 1995 Nonemployee Directors' Stock Option Plan (the "1995 Plan") to promote the interests of the Company and its stockholders by helping to attract and retain highly qualified independent directors and allowing them to develop a sense of proprietorship and personal involvement in the development and financial success of the Company. Under the 1990 and 1991 Plans, incentive and nonqualified stock options may be granted to the Company's key employees and nonqualified stock options may be granted to nonemployees who are elected for the first time as directors of the Company after January 1, 1991. Options generally become exercisable over a five-year period from the date of the grant. Under the 1995 Plan, qualified stock options are granted annually to nonemployee directors. Stock options granted under the 1995 Plan generally become exercisable over a two-year period from the date of the grant. Under each plan, options may be granted with durations of no more than ten years. The option price per share may not be less than the fair market value of the common stock at the time the option is granted. Shareholders have authorized an aggregate of 1,250,000, 620,000, and 250,000 options to be granted under the 1990, 1991, and 1995 Plans, respectively. Options exercisable total 681,279 and 497,618 at May 31, 1997 and 1996, respectively.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at that date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 5.70% to 6.62%; dividend yield of 0%; volatility factors of the expected market price of the Company's stock of .376 to .690; and an expected life of the options of 3.5 to 5 years.

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 the expected stock price volatility. Because the Company's employee stock options have characeristics 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 effect on pro forma net income from the options is as follows:

	1997	1996
	(in thousands)	
Income before stock options	$2,984	$2,449
Compensation expense from stock options:		
1996 grant	231	78
1997 grant	38	-
Net income	$2,715	$2,371
Pro forma earnings per share:		
Primary	.28	.25
Fully diluted	.27	.25

The effect of compensation expense from stock options on 1996 pro forma net income reflects only the vesting of 1996 awards. However, 1997 pro forma net income reflects the second year of vesting of the 1996 awards and the first year of vesting of 1997 awards.

The following summary reflects option transactions for the past three years:

	Shares	Option Price Per Share
Shares under option:		
Balance at May 31, 1994	1,244,104	$ .67 - $11.25
Granted	1,390,525	3.63 - 11.25
Exercised	(7,235)	.67 - .80
Canceled	(1,195,189)	.80 - 11.25
Balance at May 31, 1995	1,432,205	.67 - 11.25
Granted	391,500	3.63 - 6.25
Exercised	(36,408)	.67 - 3.63
Canceled	(265,741)	.80 - 5.75
Balance at May 31, 1996	1,521,556	.67 - 6.25
Granted	113,000	5.88 - 7.875
Exercised	(62,239)	.67 - 6.250
Canceled	(47,313)	3.63 - 6.25
Balance at May 31, 1997	1,525,004	$ .67 - $ 7.875

7. Commitments

The Company is the lessee under operating leases covering real estate in Tulsa, Oklahoma; Bristol, Pennsylvania; Anaheim, California; Bay Point, California; Paso Robles, California; Bellingham, Washington; and Carson, California. The Paso Robles lessors are former stockholders of San Luis, now a stockholder of the Company and parties related to him. In 1995 and 1994, the Bellingham lessors were former stockholders of Colt, who became a stockholder of the Company and parties related to him. The Company is also the lessee under operating leases covering office equipment. Future minimum lease payments are as follows (in thousands): 1998 - $517; 1999 - $372; 2000 - $279; 2001 - $239; 2002 - $89 and thereafter $154. Rental expense was $516,000, $646,000 and $663,000 for the years ended May 31, 1997, 1996 and 1995, respectively. Rental expense related to the Paso Robles lease was $149,000 for the year ended May 31, 1997 and 1996 and $120,000 for the years ended May 31, 1995. Rental expense related to the Bellingham lease was $57,000 for the years ended May 31, 1997, 1996 and 1995.

8. Discontinued Foreign Operations

During 1993 the Company invested $662,000 to establish a joint venture (Al Shafai - Midwest Constructors) with a Saudi Arabian company to perform mechanical contracting services in the Kingdom of Saudi Arabia. Al Shafai-Midwest Constructors is 49% owned by Midwest International, Inc. The Company invested another $1,404,000 in the joint venture in 1994 and received $46,000 from the joint venture in 1995. The Company's 49% share of the losses was $349,000 and $200,000 for 1995 and 1994, respectively. Due to changes in economic conditions in Saudi Arabia, the Company and the Saudi Arabian company are in the process of liquidating the joint venture. The Company reduced the carrying value of its investment in this joint venture by $1,017,000 in 1995 to the estimated recovery upon completion of the liquidation.

Effective February 29, 1996, the Company discontinued the operations of its United Kingdom tank maintenance subsidiary. As a result, assets totaling $426,000 were sold or written off. Remaining assets of $556,000 were transferred to other Company locations for use in operations.

9. Other Financial Information

The Company provides specialized on-site maintenance and construction services for petrochemical processing and petroleum refining and storage facilities. The Company grants credit without requiring collateral to customers consisting of the major integrated oil companies, independent refiners and marketers, and petrochemical companies. Although this potentially exposes the Company to the risks of depressed cycles in oil and petrochemical industries, the Company's receivables at May 31, 1997 have not been adversely affected by such conditions and historical losses have been minimal.

Sales to one customer accounted for approximately 11% of the Company's revenues for the year ended May 31, 1996. There were no sales to one customer in excess of 10% of for the years ended May 31, 1997 and 1995.

Depreciation expense for the years ended May 31, 1997, 1996 and 1995 was $4.5 million, $4.7 million and $4.5 million, respectively. Amortization of goodwill and noncompete for the years ended May 31 ,1997, 1996 and 1995 was $864,000, $1.1 million and $1.5 million, respectively.

10. Employee Benefit Plan

On June 1, 1993, the Company established a defined contribution 401(k)

savings plan (the "Plan"). All employees meeting length of service requirements are eligible to participate in the Plan. Participants may contribute an amount up to 15% of pretax annual compensation as defined in the Plan, subject to certain other limitations in accordance with Section 401(k) of the Internal Revenue Code. The Company may match contributions at a percentage determined by the Company, but not to exceed 100% of the elective deferral contributions made by participants during the Plan year. The Company has made no matching contributions to the Plan for the years ended May 31, 1997, 1996, and 1995.

11. New Accounting Standard

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement 121 in the first quarter of 1997. The adoption of Statement 121 did not have a significant impact on the Company's financial statements.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share," which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact on earnings per share for the year ended May 31, 1997 would have been an increase of $.01 per share for both basic and diluted shares.

12. Contingent Liabilities

The Company is self-insured for worker's compensation, auto, and general liability claims with stop loss protection at $250,000, $100,000, and $50,000 per incident, respectively. Management estimates the reserve for such 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. Accrued insurance at May 31, 1997 represents management's estimate of the Company's liability at that date. Changes in the assumptions underlying the accrual could cause actual results to differ from the amounts reported in the financial statements.

13. Subsequent Events

On June 17, 1997, Matrix Service Company acquired the stock of General Service Corporation ("GSC") and it's affiliated companies, Maintenance Services Inc., Allentech, and Environmental Protection Services, Inc. for up to $7.8 million, subject to certain adjustments. The purchase price was payable in cash of $4.8 million, a $250,000 note payable in 12 quarterly installments. In addition, the stockholders of GSC are entitled to receive in the future up to an additional $2.75 million in cash if GSC satisfies certain earnings requirements. The transaction will be accounted for as a purchase and is expected to result in the creation of approximately $2.9 million of goodwill and noncompetition covenants of which $2.3 million, representing the goodwill, will be amortized over a 40-year period and the remaining balance will be amortized over a three-year period. GSC is engaged in the same line of business as Matrix Service Company.

[MULTIPLIER] 1,000
[DESCRIPTION] Quarterly Financial Data

Matrix Service Company

Quarterly Financial Data (Unaudited)

Summarized quarterly financial data are as follows:

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share amounts)			
Revenues	$39,630	$48,212	$42,242	$53,060
Gross profit	3,965	4,638	4,018	4,819
Net income	632	954	644	754
Net income per share -				
Primary	.07	.10	.07	.08
Fully diluted	.07	.10	.07	.08

1996				
Revenues	$43,162	$48,262	$39,951	$52,350
Gross profit	4,325	4,321	3,986	3,986
Net income	551	670	457	771
Net income per share -				
Primary	.06	.07	.05	.08
Fully diluted	.06	.07	.05	.08

STOCK PURCHASE AGREEMENT

AMONG

MATRIX SERVICE COMPANY,

GENERAL SERVICE CORPORATION,

JAMES D. HAMMOND,

JAMES D. HAMMOND, AS TRUSTEE,

TIMOTHY E. HAMMOND,

VICTORIA A. HAMMOND

AND

DEBORAH E. HAMMOND

Dated: June 17, 1997

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STOCK PURCHASE AGREEMENT

ANNEXES

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is made and entered into as of this 17th day of June, 1997 by and among MATRIX SERVICE COMPANY, a Delaware corporation ("Purchaser"), JAMES D. HAMMOND, JAMES D. HAMMOND, as Trustee under a Voting Trust Agreement dated February 1, 1991, TIMOTHY E. HAMMOND, VICTORIA A. HAMMOND and DEBORAH E. HAMMOND (the "Sellers"), and GENERAL SERVICE CORPORATION, a Delaware corporation ("Seller Corp.").

WHEREAS, Seller Corp. is engaged in the business of (i) the construction, repair and maintenance of above ground storage tanks ("ASTs"), (ii) the fabrication and installation of liners for ASTs, and (iii) the design, fabrication, installation, repair and maintenance of aluminum roof products for ASTs (the "Business"); and

WHEREAS, the Sellers own, or as of the Closing Date will own, all of the issued and outstanding shares of capital stock of Seller Corp. (together with all shares of the capital stock of Seller Corp. issued from the date hereof through the Closing Date (as defined herein), the "Shares"); and

WHEREAS, Purchaser desires to purchase the Shares from the Sellers, and the Sellers desire to sell the Shares to Purchaser, in each case upon the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual benefits to be derived and the representations and warranties, conditions and promises herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I

GENERAL

Section 1.1 Definitions. Unless otherwise stated in this Agreement, the following terms shall have the following meanings (the following definitions to be equally applicable to both the singular and plural forms of any of the terms herein defined):

"Accounts": All accounts receivable of Seller Corp. and all other rights of Seller Corp. to payment for goods sold or leased or for services rendered, including without limitation those which are not evidenced by instruments or chattel paper, whether or not they have been earned by performance or have been written off or reserved against as a bad debt or doubtful account in any Financial Statements; together with all instruments and all documents of title representing any of the foregoing, all rights in any merchandise or goods which any of the same represent, and all rights, title, security and guaranties in favor of Seller Corp. with respect to any of the foregoing, including, without limitation, any right of stoppage in transit.

"Affiliate": Any Person that, directly or indirectly, controls, or is controlled by or under common control with, another Person. For the purposes of this definition, "control" (including the terms "controlled by" and "under common control with"), as used with respect to any Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or by contract or otherwise.

"Agreement": As defined in the first paragraph hereof.

"Assets": The Vehicles, the Equipment, the Permits, the Intangible Assets, the Scheduled Contracts, the Inventories, the Backlog Orders, the Accounts, Seller Corp.'s cash, bank accounts, marketable securities and other cash equivalents, the Records and all other assets of Seller Corp.

"Audited Balance Sheet": As defined in Section 2.1(d)(1).

"Audited Financial Statements": As defined in Section 2.1(d)(1).

"Backlog Orders": All of Seller Corp.'s backlog of orders for products manufactured or sold by Seller Corp., which are (i) accepted by Seller Corp. in the ordinary course of business as of the Closing or (ii) listed in Appendix 1.1(a) to the Sellers' Disclosure Letter and, in each case, not invoiced or shipped or canceled as of the Closing.

"Balance Sheets": As defined in Section 2.1(d).

"Bank Debt": The indebtedness of Seller Corp. to PNC Bank, Delaware described on Appendix 1.1(b) to the Sellers' Disclosure Letter.

"Business": As defined in the recitals of this Agreement.

"CERCLA": The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq.

"Claim": As defined in Section 6.2(a).

"Closing": As defined in Section 5.1(a).

"Closing Date": As defined in Section 5.1(a).

"Code": The Internal Revenue Code of 1986, as amended.

"Customer Data": All of Seller Corp's customer lists, sales records and other customer data (including credit data) relating to the Business.

"Damages": As defined in Section 6.1(a).

"Defined Benefit Plan": As defined in Section 2.1(k)(1).

"Department": As defined in Section 3.6.

"Earnout": As defined in Section 1.4(c).

"Earnout Companies": As defined in Section 1.4(c).

"EBIT": As defined in Section 1.4(c).

"Employees": As defined in Section 2.1(k)(1).

"Employment and Non-Competition Agreements": As defined in Section 1.6.

"Environmental Event": As defined in Section 2.1(r).

"Environmental Laws": As defined in Section 2.1(r).

"Environmental Material": As defined in Section 2.1(r).
"Equipment": All of Seller Corp.'s furniture, equipment, machinery, apparatus, tools, dies, appliances, vehicles, implements, spare parts, supplies and all other tangible personal property of every kind and description (other than the Vehicles and the Inventories) insofar as any of the foregoing relates to the Business. The Equipment includes, without limitation, all of the items listed in Appendix 1.1(c) to the Sellers' Disclosure Letter.

"ERISA": Employee Retirement Income Security Act of 1974, as amended.

"Financial Statements": As defined in Section 2.1(d).

"FTC": As defined in Section 3.6.

"GAAP": As defined in Section 2.1(d).

"Governmental Approval": As defined in Section 2.1(r).

"Governmental Authority": As defined in Section 2.1(r).

"Governmental Body": Any court or any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign.

"HSR Act": As defined in Section 3.6.

"Indemnitee": As defined in Section 6.2(a).

"Indemnitor": As defined in Section 6.2(a).

"Instruments": As defined in Section 2.1(j).

"Intangible Assets": All right, title and interest of Seller Corp. in, to and under all patents, trademarks, technology, know-how, data, copyrights, tradenames, servicemarks, licenses, covenants by others not to compete, rights and privileges used in the conduct of the Business and the right to recover for infringement thereon and all goodwill associated with the Business in connection with which the marks are used. The Intangible Assets include, without limitation, all of the items listed in Appendix 1.1(d) to the Sellers' Disclosure Letter.

"Inventories": All of Seller Corp.'s inventories insofar as any of the foregoing relates to the Business, including, without limitation, finished goods, work-in-progress, raw materials, supply inventories, and other inventories.

"IRS": The Internal Revenue Service.

"Lien": All mortgages, deeds of trust, liens, security interests, pledges, leases, conditional sale contracts, claims, rights of first refusal, options, charges, liabilities, obligations, agreements, privileges, liberties, easements, rights-of-way, limitations, reservations, restrictions and other encumbrances of any kind.

"Material Adverse Effect": (a) Any change, development or effect (individually or in the aggregate) in the general affairs, management, business, results of operations, condition (financial or otherwise), assets or liabilities that would be material and adverse to Seller Corp. and Subsidiary, taken as whole, after giving effect to the Transaction, or (b) any fact or development that would (individually or in the aggregate), after giving effect to the Transaction, impair Seller Corp.'s ability or obligations to perform on a timely basis all material obligations it has under this Agreement; provided, however, that if the result thereof is covered by insurance, such insurance shall be taken into account.

"Maximum Earnout Payment": As defined in Section 1.4(c).

"Multi-Employer Plan": As defined in Section 2.1(k)(1).

"Notes": As defined in Section 1.4(b).

"Operative Documents": This Agreement and all other agreements, instruments, documents, and certificates executed and delivered by or on behalf of Seller Corp., Sellers, or Purchaser at or before the Closing pursuant to this Agreement.

"Order": Any order, writ, injunction, decree, judgment, award or determination of any Governmental Body.

"PBGC": The Pension Benefit Guaranty Corporation.

"Permits": All permits, authorizations, certificates, approvals, registrations, variances, exemptions, rights-of-way, franchises,

privileges, immunities, grants, ordinances, licenses and other rights of every kind and character (a) under any (1) federal, state, local or foreign statute, ordinance or regulation, (2) Order or (3) contract with any Governmental Body or (b) granted by any Governmental Body.

"Permitted Encumbrances": (a) The Liens described or referred to in Appendix 1.1(e) to the Sellers' Disclosure Letter, (b) Liens for current Taxes and assessments not yet due and payable, including, but not limited to, Liens for nondelinquent ad valorem Taxes, nondelinquent statutory Liens arising other than by reason of any default on the part of Seller Corp. or Subsidiary, (c) purchase money Liens if incurred in the ordinary course of business, and (d) such liens, minor imperfections of title, or easements on real property, leasehold estates, or personalty as do not in any material respect detract from the value thereof and do not interfere with the present use of the property subject thereto.

"Person": An individual, partnership, joint venture, corporation, bank, trust, unincorporated organization or a Governmental Body.

"Plan": As defined in Section 2.1(k).

"Products": All products manufactured, produced, marketed or distributed by Seller Corp.

"Purchase Price": As defined in Section 1.3.

"Purchaser": As defined in the opening paragraph of this Agreement.

"Purchaser Indemnitees": As defined in Section 6.1(a).

"Records": All of Seller Corp's books, records, papers and instruments of whatever nature and wherever located that relate to the Business or the Assets or which are required or necessary in order for Purchaser to conduct the Business from and as of the Closing in the manner in which it is presently being conducted, including, without limitation, corporate minute books and stock records, blueprints, specifications, plats, maps, surveys, building and machinery diagrams, accounting and financial records, maintenance and production records, personnel and labor relations records, environmental records and reports, income, sales and property Tax records and returns, sales records, the Customer Data and the Supplier Data.

"Scheduled Contracts": All right, title and interest of Seller Corp. in, to and under the contracts and agreements described in Appendix 1.1(f) to the Sellers' Disclosure Letter and all rights (including rights of refund and offset), privileges, deposits, claims, causes of action and options relating or pertaining to the Scheduled Contracts or any thereof.

"Seller Corp.": As defined in the opening paragraph of this Agreement.

"Seller Corp. Sites": As defined in Section 2.1(r)(1).

"Seller Indemnitees": As defined in Section 6.1(b).

"Sellers": As defined in the opening paragraph of this Agreement.

"Sellers' Disclosure Letter": The disclosure letter delivered by Sellers to Purchaser prior to the execution and delivery of this Agreement, and a "Supplement" thereto means a supplemental disclosure letter delivered pursuant to Section 3.7.

"Shares": As defined in the recitals of this Agreement.

"Subsidiary": As defined in Section 2.1(o).

"Supplement": As defined in Section 3.7.

"Supplier Data": All of Seller Corp.'s supplier lists and other supplier data relating to the purchase of raw materials, utilities and other supplies used in connection with the Business.

"Tax Returns": As defined in Section 2.1(h)(1).

"Taxes": Any federal, state, local, foreign or other net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, customs, duties, or other taxes, fees, assessments or charges of any nature whatsoever (including without limitation interest, penalties, additions to tax, or additional amounts with respect thereto) imposed by any law, rule or regulation which are attributable or relating to the Assets or the business of Seller Corp. for any periods ending on or as of the Closing.

"Territory": All states that are located north of Tennessee and North Carolina and east of Minnesota, Iowa and Missouri,

"Transaction": The sale and purchase of the Shares and performance of

covenants, in each case as contemplated by this Agreement.

"U.S.": The United States of America.

"Unaudited Balance Sheet": As defined in Section 2.1(d)(2).

"Unaudited Financial Statements": As defined in Section 2.1(d)(2).

"Vehicles": All the trucks, trailers and other certificated vehicles described in Appendix 1.1(g) to the Sellers' Disclosure Letter.

Section 1.2 Agreement to Purchase and Sell. On the Closing Date and upon the terms and subject to the conditions set forth in this Agreement, the Sellers shall sell, assign, transfer, convey and deliver the Shares to Purchaser, free and clear of all Liens, and Purchaser shall purchase and accept the Shares from the Sellers.

Section 1.3 Purchase Price. The aggregate purchase price for the Shares (the "Purchase Price") shall be up to $6,258,927 payable as set forth in Section 1.4.

Section 1.4 Payment of Purchase Price. The Purchase Price shall be allocated pro rata among the Sellers in proportion to the number of Shares beneficially owned by each Seller as of the Closing Date as set forth on Appendix 2.1(c) to the Sellers' Disclosure Letter and shall be payable to the Sellers as follows:

(a) At the Closing Purchaser shall deliver to the Sellers $3,889,259 in cash, to be paid by certified or cashier's checks.

(b) At the Closing Purchaser shall deliver to the Sellers promissory notes in the aggregate principal amount of $197,472 (the "Notes") in the form of Exhibit 1.4 hereto.

(c) Sellers shall also be entitled to receive from Purchaser an aggregate amount of cash (the "Earnout") equal to 50% of the amount, if any, by which the earnings before taxes and interest expense (the "EBIT") of Seller Corp., the Michigan Regional Operations of Matrix Service Mid Continent, Inc. and the New Jersey Regional Operations of Matrix Service Mid Continent, Inc. and to the extent not included in any of the foregoing (i) all earnings before taxes and interest from the aluminum roof operations of the Purchaser and Seller Corp., both domestic and international, including future aluminum product introductions by the Purchaser and Seller Corp. such as, but not limited to, geodesic dome products, but not including any such aluminum roof operations and aluminum products of companies, businesses or assets acquired by the Purchaser after the Closing; (ii) all earnings before taxes and interest from the field erection portion of elevated water tanks constructed by the Earnout Companies (excluding the estimating, contracting, design, purchasing and shop fabrication of such projects performed by Brown Steel) and (iii) all earnings before taxes and interest from the flat bottom new tanks constructed by merit shop operations of Purchaser inside the Territory (collectively, the "Earnout Companies"), combined in the fiscal years set forth below exceeds the amount indicated below as the Earnout threshold for that year. In no event shall the cumulative amount of all cash payments made pursuant to this subparagraph (c) exceed $2,172,196 (the "Maximum Earnout Payment").

Fiscal Year Ending May 31	Earnout Threshold
1998	2,000,000
1999	2,250,000
2000	2,500,000
2001	2,500,000
2002	2,500,000
2003	2,500,000
2004	2,500,000

For purposes of calculating EBIT, the EBIT from the Michigan Regional Operations will be the greater of (a) $1,209,000 or (b) the EBIT from the Michigan Regional Operations for the fiscal year in which the Earnout is to be calculated.

For purposes of calculating EBIT, no reduction shall be made for (1) interest charges on any indebtedness, (2) costs attributable to the acquisition of Seller Corp., (3) any federal, state or local income taxes, (4) any management fees charged by Purchaser to the Earnout Companies that are not normal and customary, (5) adjustments related to the business and activities of the Earnout Companies that under GAAP should have been made in fiscal years prior to fiscal year 1998 or (6) payments made to the holders of the stock appreciation rights relating to the shares of Seller Corp. Common Stock. In addition, the parties agree that earnings shall be equivalent to "operating income" as that term is defined and calculated pursuant to GAAP.

The Earnout Companies shall have a right of first refusal on (i) all tank maintenance, repair and seal jobs located in the Territory and (ii) all jobs in the facilities currently owned and operated by British Petroleum, Ashland Oil, IMTT, Mobil Team East, Citgo and Colonial Pipe Line.

In the event (i) that the Purchaser merges with or is acquired by another company that is not an Affiliate of Purchaser or (ii) of the divestiture of a material portion of the assets of the Earnout Companies, whether directly or indirectly (through a transfer of such assets, a sale of stock, a merger or otherwise), so as to, in the reasonable judgment of Sellers, have an adverse effect on their receipt of the Maximum Earnout Payment (a "Change in Control"), each Seller may, at such Seller's option, either:

(a) continue the Earnout as outlined in Section 1.4(c), or

(b) receive, at the time of a Change in Control, an amount equal to 70% of the sum of (a) such Seller's pro rata portion of the Maximum Earnout Payment less (b) all prior Earnout Payments paid by the Purchaser to such Seller.

The amount, if any, payable in respect of each of the fiscal years set forth shall be payable, without interest, as soon as practicable after the completion of the audit for such fiscal year, but in any event within 120 days following the end of such fiscal year.

Section 1.5 Earnout Procedures. (a) Purchaser agrees to maintain accounting records sufficient to allow the computation and verification of the computation of the payments by the Purchaser to the Sellers under Section 1.4(c) (each, an "Earnout Payment").

(b) In connection with the making of each Earnout Payment the Purchaser shall deliver to the Sellers a copy of the audited consolidated financial statements of Matrix Service Company, together with certain supplemental income data of the Earnout Companies, a schedule setting forth the computation of such payment and a copy of any other financial information used in making such computation. The Sellers shall have the right following their receipt of an Earnout Payment to cause an accounting firm chosen by the Sellers (the "Sellers' Accountants") to conduct an accounting audit of the Earnout Companies at Sellers' expense (except as provided below) solely for the purpose of determining the amount of such Earnout Payment, provided that such audit shall be conducted upon reasonable advance notice at Matrix Service Company at 10701 East Ute Street, Tulsa, Oklahoma 74116, during normal business hours and in a manner which does not unduly interfere with the business operations of the Earnout Companies. The Sellers shall give the Purchaser written notice of such an accounting audit within twenty days following Sellers' receipt of the Earnout Payment and the accompanying required schedule and financial information (the "Delivery Date"). The Purchaser's computation of any Earnout Payment shall be conclusive and binding upon the parties hereto unless, within twenty days following the Delivery Date or, if Sellers have elected to have an accounting audit conducted, within ten days of Sellers' receipt of the report from Sellers' Accountants regarding the Earnout Payment, any Seller notifies the Purchaser in writing (the "Seller's Notice") that such Seller, either individually or on behalf of such Seller and the other Sellers identified in the Seller's Notice (individually or collectively, as the case may be, the "Notifying Seller"), disagrees with the Purchaser's computation of the Earnout Payment. The Seller's Notice shall include a schedule setting forth the Notifying Seller's computation of the Earnout Payment, together with a copy of any financial information, other than that previously supplied by the Purchaser to the Sellers, used in making the Notifying Seller's computation. The Notifying Seller shall send a copy of the Seller's Notice to each Seller who is not a Notifying Seller.

The Notifying Seller's computation of the Earnout Payment under this Section 1.5(b) shall be conclusive and binding upon the parties hereto unless, within twenty days following the Purchaser's receipt of the Seller's Notice, the Purchaser notifies the Sellers in writing that it disagrees with the Notifying Seller's computation of the Earnout Payment. If the Purchaser disagrees with the Notifying Seller's computation of the Earnout Payment, the Purchaser and the Notifying Seller shall request a national firm of independent certified public accountants mutually agreeable to the Purchaser and the Notifying Seller to compute the amount of the Earnout Payment as promptly as possible, which computation shall be conclusive and binding upon the Purchaser and the Notifying Seller. In the event that the Purchaser and the Notifying Seller cannot agree on such a national firm of independent certified public accountants, then the names of the national accounting firms, exclusive of any such firm which is rendering or has within the past three years rendered services to the Purchaser or the Notifying Seller or their Affiliates, shall be selected by lottery until one such firm is willing to compute the disputed payment for purposes of this Agreement. The expenses of any computation by any such national accounting firm selected by the Purchaser and the Notifying Seller to resolve computational disputes hereunder shall be borne half by the Purchaser and half by the Notifying Seller.

In the event the amount of Earnout Payment to be paid by the Purchaser to

the Sellers in accordance with Section 1.4(c) is recomputed in accordance with this Section 1.5, the adjustment to the amount of the Earnout Payment shall be paid by the Purchaser to the Notifying Sellers within ten business days after the date of final recomputation of such payment. If any final determination of the Earnout Payment shall exceed the Purchaser's original computation of such Earnout Payment by more than ten percent (10%), then the Earnout Payment shall also include interest on such difference from the date upon which the original computation was delivered by the Purchaser to the Sellers to the date of payment of the Earnout Payment, at a per annum rate equal to the rate of the Note and the Purchaser shall reimburse the Notifying Sellers or pay directly for the fees and expenses of Sellers' accountants.

Sellers who are not Notifying Sellers may become Notifying Sellers by delivering a written request to be treated as such to the Notifying Seller and the Purchaser within ten days of receipt of the Seller's Notice given by the Notifying Seller, whereupon such Seller shall be deemed to have been a Notifying Seller identified in the Seller's Notice, with all rights and obligations of a Notifying Seller provided in this Section 1.5.

Each of the Sellers hereby appoints James D. Hammond to serve as the Notifying Seller on his or her behalf with full power and authority to make the determinations and to take or refrain from taking the actions within the authority of the Notifying Seller. Each Seller shall have the right to withdraw said appointment upon written notice to the Purchaser and each of the other Sellers.

Section 1.6 Delivery of Certificates Representing the Shares. At the Closing, the Sellers shall deliver to Purchaser stock certificates representing the Shares, duly endorsed in blank for transfer or accompanied by appropriate stock powers duly executed in blank with all taxes, direct or indirect, attributable to the transfer of such Shares paid or provided for.

Section 1.7 Employment and Non-Competition Agreements. At the Closing, James D. Hammond, James W. Buhler, Tor F. Larson, and Douglas P. Leh shall enter into employment and non-competition agreements (the "Employment and Non-Competition Agreements") with Purchaser in the form of Exhibit 1.7 hereto.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations and Warranties of Sellers. Sellers severally represent and warrant to Purchaser that the following are true and correct on and as of the date of this Agreement and will be true and correct in all material respects as of the Closing as if made on and as of that date:

(a) Organization and Good Standing of Seller Corp. Seller Corp. and each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is qualified to transact business and is in good standing as a foreign corporation in the jurisdictions (which are listed in Appendix 2.1(a) to the Sellers' Disclosure Letter) where it is required to qualify in order to conduct its businesses as presently conducted. Seller Corp. and each Subsidiary has the corporate power and authority to own, lease or operate all properties and Assets now owned, leased or operated by it and to carry on its businesses as now conducted except where the failure to be qualified would not have a Material Adverse Effect. Seller Corp. and each Subsidiary has heretofore delivered to Purchaser complete and correct copies of its Certificate of Incorporation and Bylaws, as amended and in effect on the date hereof.

(b) Consents, Authorizations and Binding Effect.

(1) Sellers and Seller Corp. may execute, deliver and perform this Agreement (including without limitation execution, delivery and performance of the Operative Documents to which each of them is a party) without the necessity of any of Sellers or Seller Corp. obtaining any consent, approval, authorization or waiver or giving any notice or otherwise, except for such consents, approvals, authorizations, waivers and notices which (i) have been, or prior to Closing will be, obtained and are unconditional and are in full force and effect and such notices which have been given; (ii) are described on Appendix 2.1(b) to the Sellers' Disclosure Letter; or (iii) the failure to have will not have a Material Adverse Effect.

(2) Seller Corp. has the corporate power and authority to enter into this Agreement and the Operative Documents to which it is a party and to carry out its obligations hereunder and thereunder. Sellers have the power, authority and capacity to enter into this Agreement and the Operative Documents to which they are a party and to carry out their obligations hereunder and thereunder. This Agreement has been duly authorized, executed and delivered by Seller Corp. and each Seller and constitutes the legal, valid and binding obligation of Seller Corp. and each Seller, enforceable against each of them in accordance with its terms, except as

the enforceability thereof may be limited by bankruptcy, reorganization, fraudulent conveyance, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors or general principles of equity.

(3) The execution, delivery and performance of this Agreement by Seller Corp. and Sellers do not and will not:

(i) constitute a violation of the Certificate of Incorporation, as amended, or Bylaws, as amended, of Seller Corp.;

(ii) result in any Lien against the Shares or the Assets;

(iii) constitute a violation of any statute, judgment, order, decree or regulation or rule of any Governmental Body applicable or relating to Seller Corp., any of Sellers, the Assets or the business of Seller Corp. or the Shares; or

(iv) conflict with, or constitute a breach or default under, or give rise to any right of termination, cancellation or acceleration under, any term or provision of any contract, agreement, lease, mortgage, deed of trust, commitment, license, franchise, Permit, authorization or any other instrument or obligation to which Seller Corp. or any of Sellers is a party or by which their respective assets are bound, or an event which with notice, lapse of time, or both, would result in any such conflict, breach, default or right, except as are described on Appendix 2.1(b) to the Seller's Disclosure Letter or as would not, singly or in the aggregate, have a Material Adverse Effect.

(4) Without limiting the foregoing, the execution, delivery and performance of the Operative Documents to which Seller Corp is a party, and consummation of the transactions contemplated thereby, have been duly authorized and approved by the Board of Directors and stockholders of Seller Corp. without dissent.

(c) Capitalization of Seller Corp.; Title to the Shares. The authorized capital stock of Seller Corp. consists of 120,000 shares of common stock, no par value, of which 6,000 shares are issued and outstanding; and the capital stock listed on Appendix 2.1(c) to the Sellers' Disclosure Letter will constitute all of the issued and outstanding capital stock of Seller Corp. as of the Closing Date and is held of record and beneficially by the Persons identified thereon. All of the issued and outstanding shares of capital stock of the Subsidiaries are held of record and beneficially by Seller Corp. The Shares and the outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable, and no personal liability attaches to the ownership thereof. Except for this Agreement and as set forth in Appendix 2.1(c) to the Sellers' Disclosure Letter, there are no outstanding options, warrants, rights, agreements, conversion rights, preemptive rights or other rights to subscribe for, purchase or otherwise acquire any of the Shares, any unissued or treasury shares of capital stock of Seller Corp. or any shares of capital stock of any Subsidiary. Appendix 2.1(c) to the Sellers' Disclosure Letter contains a true, correct and complete list of all holders of stock appreciation rights, the number of performance units held by each such holder and the payments which each such holder is entitled to as a result of the consummation of the transactions contemplated by this Agreement. The Sellers have, and will have at the Closing, valid and marketable title to all the Shares, free and clear of any Liens.

(d) Financial Statements, Etc. The following audited and draft unaudited financial statements of Seller Corp. have been delivered to Purchaser and are attached as Appendix 2.1(d)-l to the Sellers' Disclosure Letter:

(1)the audited consolidated balance sheets of Seller Corp. as of March 31, 1996 (the "Audited Balance Sheet") and 1995 and the related audited statements of operations, of stockholder's equity and of cash flows for the three-year period ended March 31, 1996 (together with related notes and schedules), which financial statements contain a report of independent auditors, reporting thereon (such balance sheets, the related statements of operations, of stockholder's equity and of cash flows, and the related notes and schedules being hereinafter together referred to as the "Audited Financial Statements"); and

(2) the draft unaudited consolidated balance sheet of Seller Corp. as of March 31, 1997 (the "Unaudited Balance Sheet") and the related draft unaudited statement of operations, of stockholder's equity and of cash flows for the twelve-month period then ended (together with related notes and schedules) (such draft balance sheet, the related statement of operations, of stockholder's equity and of cash flows, and the related notes and schedules being hereinafter together referred to as the "Unaudited Financial Statements").

The Audited Financial Statements and the Unaudited Financial Statements (collectively, the "Financial Statements"), including the related notes and schedules, have been prepared from the books and records of Seller Corp. in conformity with generally accepted accounting principles applied on a basis

consistent with preceding years and throughout the periods involved ("GAAP") and present fairly the financial position of Seller Corp. as of the dates of such statements, subject to year-end adjustments made consistent with GAAP with respect to the Unaudited Financial Statements.

The trade accounts and other receivables of Seller Corp. which are classified as current assets on the Audited Balance Sheet, the Unaudited Balance Sheet (collectively, the "Balance Sheets") or the accounting records of Seller Corp. as of Closing are bona fide receivables, were acquired in the ordinary course of business, are stated in accordance with GAAP and, subject to the reserve for doubtful accounts, need not be written off as uncollectible.

The inventories of Seller Corp. reflected on the Balance Sheets have been valued in accordance with GAAP, and the value of obsolete materials and materials of below standard quality has been written down or reserved against in accordance with GAAP. There have been no write-ups of inventories or other assets.

Seller Corp. has no liabilities other than:

(i) those set forth or reserved against in the Unaudited Balance Sheet;

(ii) those incurred since the date of the Unaudited Balance Sheet in the ordinary course of business; and

(iii) those disclosed on Appendix 2.1(d)-2 to the Sellers' Disclosure Letter.
As of the Closing the aggregate amount of receivables of Seller Corp. owed by Affiliates of Seller Corp. will not exceed the amount thereof shown in the Unaudited Balance Sheet.

Seller Corp.'s books of account have been kept accurately in all material respects in the ordinary course of business, the transactions entered therein represent bona fide transactions, and the revenues, expenses, assets and liabilities of Seller Corp. have been properly recorded in such books in all material respects.

(e) Title and Condition of Assets. Seller Corp. has good and marketable title to the tangible and intangible personal property owned by it that comprise the Assets, free and clear of Liens, other than:

(1) Permitted Encumbrances; or

(2) Liens which will be released or discharged at or as of the Closing.

No improvement or structure on any real property leased by Seller Corp. encroaches on any adjacent property. No improvement or structure on any real property leased by Seller Corp. has been damaged by any casualty or act of God, or been subject to any condemnation proceedings which, singly or in the aggregate, would have a Material Adverse Effect.

The Equipment (i) is in good operating condition, order and repair, subject to ordinary wear and tear, (ii) is capable of being used in the Business as presently being conducted without present need for repair or replacement except in the ordinary course of the Business, (iii) conforms in all material respects with all applicable legal requirements, and (iv) in the aggregate provides the capacity to enable Seller Corp. to engage in commercial operation on a continuous basis (subject to normal maintenance and repair outages in the ordinary course).

Since the date of the Unaudited Balance Sheet, Seller Corp. has not sold, transferred, leased, distributed or otherwise disposed of any of its Assets, or agreed to do so except for the disposition of Assets in the ordinary course of business or which in the reasonable judgment of management are not necessary or advisable to the efficient operations of Seller Corp.

All items of raw materials, work-in-process and finished goods included in the Inventories are in such condition that they can be readily converted into merchantable finished goods by industry standard processing procedures currently used by Seller Corp., all items of finished goods are of good standard and merchantable quality, and none of the items is obsolete or defective, except in each case for items which have been written off and so reflected on the Unaudited Balance Sheet. The quantities of each category and type of the Inventories not written off or reserved against are reasonable and warranted in the present circumstances of Seller Corp. and are not excessive. The Assets constitute all material assets and properties, real, personal, tangible and intangible, that are necessary for the continued conduct of the Business as presently being conducted.

Appendix 2.1(e) to the Sellers' Disclosure Letter contains a true and correct list of the names of each bank, savings and loan or other financial institution in which Seller Corp. or Subsidiary has an account, including cash contribution accounts, safe deposit boxes and lock box arrangements, and the names of all Persons authorized to draw thereon or to have access

thereto.

All temporary cash investments reflected in the Unaudited Balance Sheet constitute time deposits or checking accounts with PNC Bank, Delaware.
(f) Insurance. Appendix 2.1(f) to the Sellers' Disclosure Letter contains a list of all policies of insurance maintained as of the date of this Agreement by Seller Corp., or maintained by Sellers in respect of the business and Assets of Seller Corp., including without limitation insurance providing benefits for employees, in effect as of the date of this Agreement. No Seller has received notice from any insurance carrier of the intention of such carrier to discontinue any insurance coverage afforded to Seller Corp.

(g) Litigation and Compliance With Laws, Etc. There are no claims, actions, suits or proceedings, whether in equity or at law, or governmental or administrative investigations pending or, to the knowledge of any Seller, threatened against Seller Corp. or any Asset, except: (1) as described on Appendix 2.1(g) to the Sellers' Disclosure Letter, or as may arise with respect to any of the matters described thereon; (2) for any claims, actions, suits or proceedings which pertain to routine claims by Persons other than Governmental Bodies that are covered by insurance (subject to the applicable insurance deductibles); (3) for minor product or service warranty claims arising in the usual and ordinary course of business for repair of products manufactured by Seller Corp. which in the aggregate may be satisfied at nominal cost to Seller Corp.; and (4) for any other claims, actions, suits or proceedings which, singly or in the aggregate, would not have a Material Adverse Effect.

Except as described on Appendix 2.1(g) to the Sellers' Disclosure Letter, as of the date of this Agreement:

(1) Seller Corp. is in compliance in all material respects with, has conducted for the past two years and does conduct its business and operations in compliance in all material respects with, and is not in default or violation in any respect under any law, regulation, writ, injunction, decree or order applicable to Seller Corp. or its Assets, including without limitation all safety and health, antitrust, consumer protection, labor, equal opportunity or discrimination laws, rules and regulations;

(2) there are no judgments outstanding and unsatisfied against Seller Corp. or its Assets; and

(3) to its knowledge, there is no valid claim against or liability of Seller Corp. on account of product or service warranties or with respect to the manufacture or sale of defective products or the sale of services (other than minor claims arising in the usual and ordinary course of business which may be satisfied at nominal cost to Seller Corp.); provided that Seller Corp. and Purchaser acknowledge that the business of Seller Corp. regularly involves dealings with customers' claims in a manner that takes into account the importance of preserving longer term business relationships.

(h) Taxes.

(1) Sellers have properly completed and filed when due all Tax reports, returns, declarations, statements, and other documents required to be filed in respect of Taxes (collectively "Tax Returns") in connection with and in respect of Seller Corp.'s business, Assets, and employees. All such Tax Returns were correct and complete in all respects. All Taxes owed by Seller Corp. (whether or not shown on any Tax Return) have been paid. An extension of time within which to file a Tax Return that has not been filed has not been requested or granted. No claim has ever been made by an authority in a jurisdiction where Seller Corp. does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. Sellers have made available to Purchaser, all Tax Returns of Seller Corp. for the six most recent periods ending prior to the date hereof.

(2) With respect to all amounts in respect of Taxes imposed on Seller Corp. or for which Seller Corp. is liable, whether to taxing authorities (as, for example, under local law) or to other persons or entities (as, for example, under tax allocation agreements), with respect to all taxable periods or portions of periods ending on or before the Closing Date, all applicable tax laws and agreements have been fully complied with, and all such amounts required to be paid by Sellers in respect of Seller Corp. to taxing authorities or others on or before the date hereof have been paid.

(3) No issues have been raised (and are currently pending) by any taxing authority in connection with any of the Tax Returns. No waivers of statutes of limitation have been given by or requested from Seller Corp. All deficiencies asserted or assessments made as a result of any examinations have been fully paid, or are fully reflected as a liability in the financial statements of Seller Corp., or are being contested and an adequate reserve therefor has been established and is fully reflected in the Financial Statements.

(4) There are no Liens for Taxes on the Assets of Seller Corp.

(5) None of the Assets is property that is required to be treated as being owned by any other person pursuant to the "safe harbor lease" provisions of former Section 168(f)(8) of the Code.

(6) None of the Assets directly or indirectly secures any debt the interest on which is tax-exempt under Section 103(a) of the Code.

(7) None of the Assets is "tax-exempt use property" within the meaning of Section 168(h) of the Code.

(8) Seller Corp. is not a person other than a U.S. person within the meaning of the Code.

(9) The transaction contemplated by this Agreement is not subject to the tax withholding provisions of Section 3406 of the Code or of any other provision of law.

(10) Seller Corp. has not filed a consent under Section 341(f) of the Code concerning collapsible corporations. Seller Corp. has not made any payments, is not obligated to make any payments, nor is a party to any agreement that under certain circumstances could obligate it to make any payments that will not be deductible under Section 280G of the Code. Seller Corp. has not been a U.S. real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. Seller Corp. has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Section 6662 of the Code. Seller Corp. has not entered into any Tax allocation or sharing agreement. Seller Corp. (A) has not been a member of an affiliated group, within the meaning of Section 1504(a) of the Code, filing a consolidated federal income Tax Return (other than a group the common parent of which was Seller Corp.) and (B) does not have any liability for the Taxes of any person or entity (other than of Seller Corp. and Subsidiary) under Treasury Regulation section 1.1502-6 (or any similar provision of state, local, or foreign law), as transferee or successor, by contract, or otherwise.

Consummation of the transactions herein contemplated will not result in the imposition or creation of any Tax liabilities on Seller Corp. or the Assets, except for: (1) Tax liabilities which remain the liability of Sellers; or (2) Tax liabilities resulting from any Tax election made by Purchaser as of the Closing.

(i) Intangible Assets. Appendix 2.1(i) to the Sellers' Disclosure Letter sets forth

(1) all patents, patent applications, trademarks, trademark registrations, applications for trademark registrations, trade names and copyrights (i) which Seller Corp. or any Subsidiary owns, or (ii) which are used by Seller Corp. or any Subsidiary in any way in, or are necessary for the conduct by Seller Corp. or any Subsidiary of, the Business; and

(2) all license agreements with respect to any of the foregoing as to which Seller Corp. is licensor or licensee.

Except as set forth in Appendix 2.1(i) to Sellers' Disclosure Letter, (i) there are no pending or, to the knowledge of Sellers, threatened infringement claims against Seller Corp. by any Person with respect to any of the items listed on Appendix 2.1(i) to the Sellers' Disclosure Letter, nor has any such item been declared invalid or been limited by any court or agreement; (ii) the Intangible Assets will afford Seller Corp. at all times as of the Closing the rights to use all patents, technology, proprietary information, know-how, data, designs, inventions, trademarks, copyrights, tradenames and servicemarks owned by Seller Corp. or others necessary for the conduct of the Business as presently being conducted; and (iii) the use of the Intangible Assets will not and, the conduct of the Business as presently conducted does not, infringe on the rights of any other Person.

(j) Instruments in Full Force and Effect; Possession under Leases. The Scheduled Contracts and other material commitments, agreements and obligations (including without limitation licenses, royalties, assignments and similar agreements with respect to the Intangible Assets) constituting a part of the Assets ("Instruments") are valid, binding and in full force and effect, except as the enforceability thereof may be limited by bankruptcy, reorganization, fraudulent conveyance, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors and general principles of equity, and have not been amended or supplemented in any manner or respect except as disclosed on Appendix 2.1(j) to the Sellers' Disclosure Letter and are enforceable by Seller Corp. in accordance with their respective terms. There are no defaults by Seller Corp. thereunder and Seller Corp. knows of no defaults thereunder by any other party thereto, and Sellers know of no event that has occurred that with the lapse of time or action or inaction by any party thereto would result in a violation thereof or a default thereunder.

Except for the need to obtain the consents contemplated by Section 2.1(b), none of the rights under the Instruments will be impaired by the consummation of the transactions contemplated by this Agreement, and all such rights will inure to and be enforceable by Seller Corp. as of the Closing without the authorization, consent, approval, permit or licenses of, or filing with, any other Person. Seller Corp. enjoys peaceful and undisturbed possession under all leases included in the Scheduled Contracts.

(k)Employee Plans and Agreements.

(1) Appendix 2.1(k)-1 to the Sellers' Disclosure Letter (i) lists all of the pension plans, all of the profit sharing plans, and all of the retirement, stock option, stock purchase, incentive, bonus, life, medical, vision, health, disability or accident plans, deferred compensation plans, and other employee compensation or benefit plans, agreements, policies, contracts, arrangements or commitments, including without limitation severance agreements, holiday, vacation or other similar matters, other "employee welfare benefit plans" (as defined in Section 3(1) of ERISA), "employee pension benefit plans" (as defined in Section 3(2) of ERISA and not exempted under Sections 4(b) or 201 of ERISA) and labor union agreements, relating to officers or employees (including former officers or employees) of Seller Corp. or any of its affiliates who perform services to, in the name of or for the benefit of the Business ("Employees") (collectively the "Plans" and individually a "Plan"), (ii) identifies each Plan which is a defined benefit plan as defined in Section 3(35) of ERISA (a "Defined Benefit Plan") or is a multi-employer plan within the meaning of Section 3(37) of ERISA (a "Multi-Employer Plan"), (iii) identifies each of the Plans which purports to be a tax qualified plan under Section 401(a) of the Code and identifies any trust funding any of such plans which purports to be a tax exempt trust under Section 501(c)(9) of the Code, and (iv) in the case of each Multi-Employer Plan, sets forth the Seller Corp. contributions made to such Plan for the last plan year ending prior to the date of this Agreement. Seller Corp. has delivered, or will deliver prior to the Closing, to Purchaser the following documents as in effect on the date hereof: (A) true, correct and complete copies of each Plan, including all amendments thereto, which is an employee pension benefit or welfare benefit plan (within the meaning of Sections 3(1) or 3(2) of ERISA), and in the case of any unwritten Plans, descriptions thereof, (B) with respect to any Plans or Plan amendments described in the foregoing clause (A), (i) the most recent determination letter issued by the IRS after September 1, 1974, if any, (ii) all trust agreements or other funding agreements, including insurance contracts, (iii) with respect to each Defined Benefit Plan, all notices of intent to terminate any such Employee Plan and all notices of reportable events with respect to any such Employee Plan as to which the PBGC has not waived the thirty (30) day notice requirement, (iv) the most recent actuarial valuations, annual reports, summary plan descriptions, summaries of material modifications and summary annual reports, if any, and (v) with respect to any Multi-Employer Plan, a schedule of the amount of potential withdrawal liability if Seller Corp. incurred a partial or complete withdrawal (as defined in Sections 4205 and 4203 of ERISA, respectively) as of the Closing Date, calculated according to the information made available under Section 4221(e) of ERISA.

(2) Each of the Plans that purports to be qualified under Section 401(a) of the Code is qualified and any trusts under such Plans are exempt from federal income Tax under Section 501(a) of the Code. The retroactive cure period with respect to any Plan amendments not yet submitted to the IRS has not expired. The Plans each comply in all material respects with all other applicable laws (including, without limitation, ERISA, the Age Discriminations in Employment Act, the Omnibus Budget Reconciliation Act of 1986, the Consolidated Budget Reconciliation Act of 1986, and the Omnibus Budget Reconciliation Act of 1987) of the United States and any applicable collective bargaining agreement. Each of the trusts that purports to be a tax exempt trust under Section 501(c)(9) of the Code has received a favorable ruling or determination letter as to its tax-exempt status. Other than claims for benefits submitted by participants or beneficiaries or appeals from denial thereof, there is no litigation, legal action, suit, investigation, claim, counterclaim or proceeding pending or, to Sellers' knowledge, threatened against any Employee Plan.

(3) With respect to any Plan, no prohibited transaction (within the meaning of Section 406 of ERISA and/or Section 4975 of the Code) exists which could subject Seller Corp. or Purchaser to any material liability or civil penalty assessed pursuant to Section 502(i) of ERISA or a material Tax imposed by Section 4975 of the Code. Neither Seller Corp., nor any of its respective Affiliates, nor any administrator or fiduciary of any Plan (or agent of any administrator or fiduciary of any Plan (or agent of any of the foregoing) has engaged in any transaction or acted or failed to act in a manner which is likely to subject Seller Corp. to any liability for a breach of fiduciary or other duty under ERISA or any other applicable law. The transactions contemplated by the Operative Documents will not be, or cause any, prohibited transaction.

(4) No Defined Benefit Plan has been terminated or partially terminated after September 1, 1974.

(5) No plan termination liability to the PBGC or to any other person or withdrawal liability to any Multi-Employer Plan has been or is expected to be incurred with respect to any Plan or with respect to any employee benefit plan sponsored by any entity under common control (within the meaning of Section 414 of the Code) with Seller Corp. by reason of any action taken by any Seller, or any of their respective affiliates prior to the Closing Date. The PBGC has not instituted, and is not expected to institute, any proceedings to terminate any Plan. As of the Closing, each Defined Benefit Plan (other than a Multi-Employer Plan) to which Title IV of ERISA applies could be terminated in a standard termination under Section 4041(b) of ERISA. There has been no "reportable event" (within the meaning of Section 4043(b) or ERISA and the regulations thereunder) with respect to any Plan, and there exists no condition or set of circumstances which makes the termination of any Plan by the PBGC likely. Seller Corp. has not received any written notice that any Multi-Employer Plan is in reorganization, that increased contributions may be required to avoid a reduction in Plan benefits or the imposition of any excise tax or that the plan is or may become insolvent. Seller Corp. has paid all premiums (and interest charges and penalties for late payment, if applicable) due to the PBGC with respect to any Plan. No amendment to any Plan has occurred which has required or could require the provision of security to any such Plan under Section 401(a)(29) of the Code.

(6) All filings required by ERISA and the Code as to each Plan have been timely filed and all notices and disclosures to participants required by ERISA or the Code have been timely provided.

(7) Except as indicated in Appendix 2.1(k)-2 to the Sellers' Disclosure Letter, Seller Corp. has made full and timely payment of all amounts required under the terms of each of the Plans that are employee pension benefit plans, including the Multi-Employer Plans, to have been paid as contributions to such plans for the last plan year ended prior to the date of this Agreement and all prior plan years. All installment contributions required pursuant to Section 412(m) of the Code with respect to any Plan have been paid by Seller Corp. on or before the due date for such contributions. No accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any Plan as of the end of such plan year. Further, Seller Corp. has made or shall make full and timely payment of or has accrued or shall accrue all amounts which are required under the terms of the Plans to be paid as a contribution to each such Plan with respect to the period from the end of the last plan year ending before the date of this Agreement to the Closing Date.

(8) All contributions made to or accrued with respect to all Plans are deductible under Section 404 or 162 of the Code. No amounts, nor any assets or any Plan are subject to Tax as unrelated business taxable income under Section 511, 512, or 419A of the Code.

(9) Seller Corp. can unilaterally terminate all Plans other than the Plans identified on Appendix 2.1(k)-3 to the Sellers' Disclosure Letter without incurring any material liability.

(10) No Plan provides (or has any obligation or commitment to provide) health, medical, disability, life or other similar benefits with respect to any current or former employees (or beneficiary thereof) of Seller Corp. beyond their retirement or other termination of service (other than coverage mandated by Title I, Subtitle B, Part 6 of ERISA, which coverage is fully paid by the former employee or his dependents).

(l) Labor and Employee Relations.

(1) Except as listed in Appendix 2.1(l)-1 to the Seller's Disclosure Letter, there exists no collective bargaining agreement or other labor union contract applicable to any employee of Seller Corp. and no such agreement or contract has been requested by any employee or group of employees of Seller Corp., nor has there been any discussion with respect thereto by management of Seller Corp. or Subsidiary with any employees of Seller Corp. Neither Seller Corp. nor Subsidiary has received any written notification of any unfair labor practice charges or complaints currently pending before any agency having jurisdiction thereof nor are there any current union representation claims involving any of the employees of Seller Corp. Further, Sellers are not aware of any such threatened charges or claims.

(2) Except as set forth in Appendix 2.1(l)-2 to the Seller's Disclosure Letter, Sellers are not aware of any union organizing activities or proceedings involving, or any pending petitions for recognition of, a labor union or association as the exclusive bargaining agent for, or where the purpose is to organize, any group or groups of employees of Seller Corp. There is not currently pending, with regard to any of its facilities, any proceeding before the National Labor Relations Board, wherein any labor organization is seeking representation of any employees of Seller Corp.

(3) Except as set forth in Appendix 2.1(l)-3 to the Sellers' Disclosure

Letter, Sellers are not aware of any strikes, work stoppages, work slowdowns or lockouts nor of any threats thereof, by or with respect to any of the employees of Seller Corp. Since January 1, 1988 there have been no labor disputes, strikes, slowdowns, work stoppages, lockouts or similar matters involving employees of Seller Corp.

(4) Except as set forth in Appendix 2.1(l)-4 to the Sellers' Disclosure Letter, there are not pending any grievances filed by employees of Seller Corp. within any collective bargaining unit or by representatives of employees within any collective bargaining unit. Further, there are no arbitration decisions, settlement agreements, injunctions, consent decrees or conciliation agreements which affect the operation of the Business other than those specifically listed in Appendix 2.1(l) to the Sellers' Disclosure Letter.

(5) Except as set forth in Appendix 2.1(l)-5 to the Sellers' Disclosure Letter, there exists (i) no charges of discrimination or lawsuits involving alleged violations of any fair employment law, wage payment law, or occupational safety and health law, (ii) no threatened or pending litigation arising out of employment relationships, or other employment-related law, whether federal, state or local, and (iii) no threatened or pending litigation arising out of employment relationships, presently threatened or pending, by any employee or former employee of Seller Corp. or any representative of any such Person or Persons. No charges or claims involving any of the facilities or employees of Seller Corp. are pending before any administrative agency, local, state or federal, and no lawsuits involving any of such facilities or employees are pending with respect to equal employment opportunity, age discrimination, occupational safety, or any other form of alleged employment practice or unfair labor practice.

(6) Seller Corp. and Subsidiary comply in all material respects with all applicable laws, rules and regulations relating to the employment of labor, including, but without limitation, those relating to wages, hours, concerted activity, non-discrimination, occupational health and safety and the payment and withholding of Taxes, and Seller Corp. has no accrued liability for any arrears of wages or any Taxes or penalties for failure to comply with any of the foregoing.

(7) The only labor union or labor organization or association which has been certified to represent any of the employees of Seller Corp., or which Seller Corp. now recognizes, or in the past two (2) years has recognized, as representing any of the employees of Seller Corp. is (i) The International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers, (ii) International Union of Operating Engineers, AFL-CIO, Local 542 and (iii) Laborers' International Union of North America, AFL-CIO. Appendix 2.1(l)-1 to the Sellers' Disclosure Letter contains an accurate description of the applicable union agreements.

(m) Real Property.

(1) Seller Corp. owns no real property.

(n) Absence of Certain Changes, Etc. Except as disclosed in the Interim Financial Statements or on Appendix 2.1(n) to the Sellers' Disclosure Letter, since March 31, 1996, there has been no material adverse change in the business, financial condition or results of operations of Seller Corp. from that reflected in the Audited Financial Statements.

Since March 31, 1996 and except as disclosed on Appendix 2.1(n) to the Sellers' Disclosure Letter, Seller Corp. has

(1) conducted its operations in the ordinary course;

(2) not entered into any material transaction or contract, or amended or terminated any material transaction or contract, except normal transactions or contracts consistent in nature and scope with prior practices and entered into in the ordinary course of business, and except for transactions or contracts not exceeding $25,000;

(3) not mortgaged, sold, transferred, distributed or otherwise disposed of any of its material Assets, except in the ordinary course of business and except for transactions or contracts not exceeding $25,000, or acquired a material amount of the assets or capital stock of another Person;

(4)not experienced any damage, destruction or loss to or of any of its material Assets except (i) in the ordinary course of business, (ii) Assets not exceeding $25,000 in the aggregate, (iii) to the extent that any Asset damaged, destroyed or lost has been repaired or replaced and (iv) where the failure to repair or replace any Asset damaged would not result in a Material Adverse Effect;

(5) not made or agreed to make any capital expenditures for additions to property, plant or equipment, except for vehicle leases and expenditures and commitments not exceeding $25,000 in the aggregate;

(6)not made or agreed to make any change in the compensation payable to any employee, except for increases in compensation in the ordinary course of business substantially consistent with past practices of Seller Corp.;

(7) not declared or paid any dividends or distributions to, or redeemed stock from, its stockholders;

(8) not reduced its cash or short-term investments, other than to meet cash needs arising in the ordinary course of business;

(9) not made any change in its accounting methods or practices;

(10) except for short-term bank borrowings in the ordinary course of business and drawdowns on an equipment line to finance the purchase of certain Vehicles, not incurred indebtedness for borrowed money;

(11) not granted credit to any material customer or distributor on terms materially more favorable than the terms on which credit has been extended to such customer or distributor in the past nor materially changed the terms of any credit previously extended; or

(12) not accepted any order that involves a customer that is more than 120 days delinquent in an account receivable of Seller Corp.

(o) Subsidiaries.

(1) Except for Maintenance Services, Inc. and Mainserv-Allentech, Inc., each a Delaware corporation (collectively "Subsidiary"), there is no corporation, partnership, joint venture, business trust or other legal entity in which Seller Corp., either directly or indirectly through one or more intermediaries, owns or holds beneficial or record ownership of at least a majority of the outstanding voting shares.

(2) Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware (the jurisdiction of its incorporation) and has full corporate power and authority to carry on its business as it is now being conducted, to own or hold under lease the assets which it owns or holds under lease and to perform all its agreements and instruments to which it is a party or by which it is bound.

(3) Except as set forth in Appendix 2.1(o) to the Sellers' Disclosure Letter, the representations set forth elsewhere in this Section 2.1 are hereby restated herein by this reference as to Subsidiary and are true and correct as to Subsidiary, but are subject to the same qualifications and conditions as are applicable to Seller Corp.

(p) Material Contracts, Etc. Appendix 2.1(p) to the Sellers' Disclosure Letter lists all contracts, leases, agreements and instruments material to the Business or requiring the performance by Seller Corp. of any material obligations of Seller Corp. after the date hereof, except the following:

(1) employment agreements terminable at will and contracts for miscellaneous services terminable at will without the payment of any penalty (except that all employment agreements with executive officers of Seller Corp. are listed on Appendix 2.1(p) to Sellers' Disclosure Letter);

(2) purchase orders and contracts with suppliers and customers entered into in the ordinary course of business; and

(3) miscellaneous contracts, leases, agreements and instruments (with Persons unaffiliated with Sellers) involving liabilities under all such contracts, leases, agreements and instruments of not more than $25,000 each in the aggregate.

Sellers have heretofore delivered or made available to Purchaser or its counsel complete copies of all contracts, leases, agreements and instruments listed on Appendix 2.1(p) to the Sellers' Disclosure Letter.

There are no existing defaults by Seller Corp., or to the knowledge of any Seller, other parties, under any of the contracts, leases, agreements and instruments listed on Appendix 2.1(p) to the Sellers' Disclosure Letter which would, singly or in the aggregate, cause a Material Adverse Effect.

Except as set forth in Appendix 2.1(p) to the Sellers' Disclosure Letter, Seller Corp. is not a party to any agreement, contract or covenant limiting the freedom of Seller Corp. or any party contracting with Seller Corp. from competing in any line of business or with any Person in any geographic area.

(q) Licenses and Permits. Seller Corp. and certain employees of Seller Corp. possess all the Permits listed in Appendix 2.1(q) to the Sellers' Disclosure Letter, copies of all of which have been delivered to Purchaser. Such Permits constitute all the Permits necessary under law or otherwise for Seller Corp. to conduct the Business as now being conducted and to construct, own, operate, maintain and use the Assets in the manner in which they are now being constructed, operated, maintained and used, except for

those Permits that failure to have does not have a Material Adverse Effect. Each of such Permits and Seller Corp.'s rights with respect thereto (1) is valid and subsisting, in full force and effect, and enforceable by Seller Corp., and (2) following consummation of the transactions contemplated hereby, will continue to be valid and subsisting in full force and effect, and enforceable by Seller Corp. without any consent or approval of any Governmental Body or third party; or, in lieu of such existing Permits, replacement or substitute Permits, except as set forth in Appendix 2.1(q) to the Sellers' Disclosure Letter, will be available to or obtainable by Seller Corp. Seller Corp. is in compliance in all material respects with the terms of such Permits. None of such Permits have been, or to the knowledge of Sellers, are threatened to be, revoked, canceled, suspended or modified.

(r) Environmental Matters. Except as set forth in Appendix 2.1(r) to the Sellers' Disclosure Letter:

(1) There have been no circumstances or events arising from or caused by the business of Seller Corp. or on real property, equipment and fixtures presently or formerly owned, leased or operated by Seller Corp. ("Seller Corp. Sites") while owned, leased or operated by Seller Corp. which caused any Environmental Event with respect to the Seller Corp. Sites, any nearby properties or off-site treatment, storage, recycling, reclaiming or disposal sites;

(2) No Environmental Materials have migrated or threatened to migrate from other properties upon, about or beneath a Seller Corp. Site;

(3) There is no proceeding pending, no notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed, and no investigation or review is pending or threatened by any Governmental Authority or other person:

(i) with respect to any violation of any Environmental Law in connection with the Assets of the Seller Corp., or operations or conduct of the business of Seller Corp.;

(ii) with respect to any failure of Seller Corp. or any Subsidiary to have any required Governmental Approval relating to Environmental Materials or Environmental Events; or

(iii) with respect to any generation, treatment, storage, recycling, reclaiming, transportation, or disposal of any Environmental Material that could cause an Environmental Event, generated by the operations or business of Seller Corp. or located on Assets of Seller Corp., or any Seller Corp. Site;

(4) No Person has placed, held, located or released any Environmental Material on any Assets of Seller Corp. or Seller Corp. Site, equipment or fixtures so as to cause an Environmental Event;

(5) The Seller Corp. Sites, equipment and fixtures have been operated in material compliance with all Environmental Laws;

(6) There are no underground or aboveground storage tanks, pits, sumps or impoundments, active or abandoned, situated on any Seller Corp. Site;

(7) Neither the Seller Corp. nor any Subsidiary has transported or arranged for the transportation, storage, and/or disposal (directly or indirectly) of any Environmental Material to or at any location that is listed or proposed for listing on the CERCLA National Priority List or any comparable state list, or that is the subject of an Environmental Event;

(8) There are no environmental liens on the Assets of Seller Corp. and Seller has not received any written notice of any actions taken by any Governmental Authority that could subject any of the Assets of Seller Corp. to an environmental lien under any Environmental Law.

(9) All notices required by all Environmental Laws have been given to the required agencies and/or authorities except such notices the failure to give would not result in a Material Adverse Effect;

(10) Seller Corp. holds, is and has been in compliance with all necessary environmental Governmental Approvals, there is no condition that is reasonably likely to prevent or materially interfere in the near future with compliance with the Governmental Approvals by Seller Corp. on the Closing Date, and all permit fees are paid and current; and

(11) All financial assurances required by Environmental Laws are properly in place and are fully funded to the extent presently required by Environmental Laws.

As used in this Agreement,

(A) "Environmental Event" shall mean the spilling, discharging, leaking,

pumping, draining, pouring, interring, emitting, emptying, injecting, escaping, dumping, disposing, abandoning, migration or other release of any kind of Environmental Materials (whether legal or illegal at the time) which may results in a violation of any Environmental Laws. "Environmental Event" shall also include (i) the occurrence of any judicial, quasi-judicial or administrative proceedings pursuant to any Environmental Laws; and (ii) any claims, demands, actions, causes of actions, remedial and/or abatement response, remedial investigations/feasibility studies, ecological studies, screening level studies, risk assessments, facility studies, environmental studies, natural resource damage claims, damages, judgments, or settlements instituted by a Governmental Authority in accordance with Environmental Law.

(B) "Environmental Laws" means any and all laws (including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and corresponding state acts), statutes, ordinances, rules, regulations, memoranda of understanding, orders, licenses, judicial decrees, or administrative orders, treaties or permit conditions of any Governmental Authority pertaining to the workplace and/or health or the environment in effect in the jurisdiction in which the Seller Corp. Sites and/or the Seller Corp. are located, and all statutory and common law environmental theories, including but not limited to negligence, strict liability, nuisance and trespass.

(C) "Environmental Material" shall include all substances whatsoever which could cause the occurrence of an Environmental Event.

(D) "Governmental Approval" means any authorizations, consents, approvals, waivers, exemptions, variances, franchises, permits and licenses issued by any Governmental Authority.

(E) "Governmental Authority" means any federal, state, local, or foreign government, or political subdivision thereof, exercising competent jurisdiction.

(F) "On" or "in", when used with respect to real property means "on, in, under, above or about."

(s) Absence of Certain Business Practices. Neither Seller Corp. nor any officer, employee or agent of Seller Corp., nor any other Person acting on its behalf, has, directly or indirectly, within the past five years, given or agreed to give any gift or similar benefit to any customer, supplier, government employee or other Person who is or may be in a position to help or hinder the business of Seller Corp. (or to assist Seller Corp. in connection with any actual or proposed transaction) which (1) might subject Seller Corp. to any damage or penalty in any civil, criminal or governmental litigation or proceeding, (2) if not given in the past, might have had a Material Adverse Effect on the assets, business or operations of Seller Corp. as reflected in the Audited Financial Statements, or (3) if not continued in the future, might materially adversely effect the Assets, business operations or prospects of Seller Corp. or which might subject Seller Corp. to suit or penalty in a private or governmental litigation or proceeding.

(t) Corporate Name. The use of the corporate name of Mainserv-Allentech, Inc. does not infringe the right of any third party nor is it confusingly similar with the corporate name of any third party. After the Closing Date, no Person or business entity other than Purchaser will be authorized directly or indirectly to use the corporate name of Seller Corp. or any name deceptively or confusingly similar thereto.

(u) Customers and Suppliers. Sellers have delivered to Purchaser prior to the date hereof (1) a true and correct list of (i) the ten (10) largest customers of Seller Corp. in terms of sales during the fiscal year ended March 31, 1996, and (ii) the ten (10) largest customers of Seller Corp. in terms of sales during the nine months ended December 31, 1996, showing the approximate total sales to each such customer during each of such periods; (2) a true and correct list of (x) the ten (10) largest suppliers of Seller Corp. in terms of purchases during the fiscal year ended March 31, 1996 and (y) the ten (10) largest suppliers of Seller Corp. in terms of purchases during the nine months ended December 31, 1996, showing the approximate total purchases from each such supplier during such respective periods. Except to the extent set forth in such list, there has not been any material adverse change in the business relationship of Seller Corp. with any customer or supplier so named in the Sellers' Disclosure Letter. Except for the customers and suppliers identified in such list, Seller Corp. has not had any customer which accounted for more than 5% of its sales during the period from March 31, 1995 through and including the date hereof, or any supplier from whom it purchased more than 5% of the total goods or services purchased by it during such period.

(v) Competing Lines of Business. Except as set forth in Appendix 2.1(v) to the Sellers' Disclosure Letter, no Affiliate of Seller Corp. owns, directly or indirectly, any interest in (excepting not more than a 5% holding for investment purposes in securities of publicly held and traded companies), or is an officer, director, employer or consultant of or otherwise receives

remuneration from, any Person which is, or is engaged in business as, a competitor, lessor, lessee, customer or supplier of Seller Corp. Seller Corp. does not have, and no officer or director or stockholder of Seller Corp. or any Affiliate of Seller Corp. has nor, during the period beginning January 1, 1993 through, to and including the date hereof, had any interest in any property, real or personal, tangible or intangible, used in or pertaining to the Business. None of the Sellers has any claim against Seller Corp. except as set forth in Appendix 2.1(v) to the Sellers' Disclosure Letter.

(w) Disclosure.

(1) No representation or warranty of Sellers contained in this Agreement or statement in the Sellers' Disclosure Letter omits to state a material fact necessary in order to make the statements herein or therein, in light of the circumstances under which they were made, not misleading.

(2) No supplement to the Sellers' Disclosure Letter made pursuant to Section 3.8 will omit to state a material fact necessary in order to make the statements therein or in this Agreement, in light of the circumstances under which they were made, not misleading.

(3) Notwithstanding paragraphs (1) and (2) above, neither Sellers nor Seller Corp. make any representation or warranty concerning the accuracy of any financial projections delivered to Purchaser or the likelihood that Seller Corp. will perform as stated therein.

(4) There is no particular fact known to any Seller which has specific application to any Seller, Seller Corp. or the Business (other than general economic or industry conditions) and which materially adversely affects or materially threatens, the Assets, business, financial condition or results of operations of Seller Corp. considered as a whole which has not been set forth in this Agreement or the Sellers' Disclosure Letter.

Section 2.2 Representations and Warranties of Purchaser. Purchaser represents and warrants to Sellers that the following are true and correct on and as of the date of this Agreement and will be true and correct as of the Closing as if made on and as of that date:

(a) Organization and Good Standing of Purchaser. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware and is qualified to transact business and is in good standing as a foreign corporation in the jurisdictions where it is required to qualify in order to conduct its businesses as presently conducted. Purchaser has the corporate power and authority to own, lease or operate all properties and assets now owned, leased or operated by it and to carry on its businesses as now conducted.

(b) Consents, Authorizations and Binding Effect.

(1) Purchaser may execute, deliver and perform this Agreement without the necessity of Purchaser obtaining any consent, approval, authorization or waiver or giving any notice or otherwise, except for such consents, approvals, authorizations, waivers and notices which have been obtained and are unconditional and are in full force and effect and such notices which have been given.

(2) Purchaser has the corporate power and authority to enter into this Agreement and the Operative Documents to which it is a party and to carry out its obligations hereunder and thereunder. This Agreement has been duly authorized, executed and delivered by Purchaser. This Agreement constitutes the legal, valid and binding obligation of Purchaser, enforceable in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors.

(3) The execution, delivery and performance of this Agreement do not and will not

(i) constitute a violation of the Certificate of Incorporation, as amended, or the Bylaws, as amended, of Purchaser;

(ii) constitute a violation of any statute, judgment, order, decree or regulation or rule of any Governmental Body applicable or relating to Purchaser or the business of Purchaser;

(iii) conflict with, or constitute a breach or default under, or give rise to any right of termination, cancellation or acceleration under, any term or provision of any contract, agreement, lease, mortgage, deed of trust, commitment, license, franchise, Permit, authorization or any other instrument or obligation to which Purchaser is a party or by which its assets are bound, or an event which with notice, lapse of time, or both, would result in any such conflict, breach, default or right, except as would not, singly or in the aggregate, have a Material Adverse Effect on Purchaser.

(c) Financial Statements. The audited and unaudited financial statements (the "Financial Statements") of Purchaser included in the Purchaser's Form 10-K for the fiscal year ended May 31, 1996 and the Purchaser's Form 10-Q for the quarterly period ended February 28, 1997 have been delivered to Sellers. The Financial Statements have been prepared from the books of Purchaser in conformity with GAAP and present fairly the financial position of Purchaser as of the dates of such statements. Since the date of the most recent Financial Statements, there has not been any material adverse change in the financial condition of the Purchaser. The financial information delivered to Sellers regarding the Michigan and New Jersey operations of Purchaser is true and correct in all material respects.

(d) Financing. Purchaser has the financing necessary to fulfill its obligation to pay the Purchase Price.

ARTICLE III

CONDUCT AND TRANSACTIONS PRIOR TO CLOSING

Section 3.1 Access to Records and Properties; Confidentiality.

(a) Between the date of this Agreement and as of the Closing, Sellers shall cause Seller Corp. to give, and Seller Corp. shall give, to Purchaser and its advisors such access to the premises, books and records of Seller Corp., and to cause the officers, employees and accountants of Seller Corp. to furnish such financial and operating data and other information with respect to Seller Corp. as Purchaser shall from time to time reasonably request. Without limiting the generality of the foregoing, Sellers shall cause Seller Corp. to give, and Seller Corp. shall give, to Purchaser and its representatives access during normal business hours to the facilities and operations of Seller Corp. so that Purchaser may (1) obtain evaluations of the Assets and (2) perform any and all assessing, testing, monitoring and investigating that Purchaser deems necessary in its sole discretion with respect to environmental matters concerning Seller Corp., its Assets and the operation of the Business. Any investigation pursuant to this Section 3.1 shall be conducted in such manner as not to interfere unreasonably with the business and operations of Seller Corp.

(b)In connection with the transactions contemplated by this Agreement, in addition to, and not by way of limitation of, any other obligations of Purchaser under or pursuant to any other agreement, whether written or oral, with any Seller or any other obligations of Purchaser at law or in equity, all information furnished to a party will be kept confidential by such party and its associates, Affiliates, agents, employees, consultants and advisors prior to the Closing Date, or in the event the Closing does not occur at all times, and will not be used in any manner adverse to the furnishing party. During such time, each party will hold and will cause its associates, Affiliates, agents, employees, consultants and advisors to hold in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its counsel, by other requirements of law, all documents and information concerning another party furnished to it by such other party or its representatives in connection with the transactions contemplated by this Agreement (except to the extent that such information can be shown to have been (1) previously available to the party to which it was furnished on a non-confidential basis prior to its disclosure, (2) in the public domain or (3) available on a non-confidential basis from a Person other than a Person not bound by any confidentiality agreement). Purchaser may release or disclose such information to its associates, Affiliates, agents, employees, consultants and advisors in connection with this Agreement prior to the Closing Date or in the event the Closing does not occur only if such associates, Affiliates, agents, employees, consultants and advisors are informed of the confidential nature of such information and they agree to such confidential treatment of all such information. If the transactions contemplated by this Agreement are not consummated, Purchaser agrees to remain bound by the Nonsolicitation and Confidentiality Agreement previously executed by Purchaser, a copy of which is attached hereto as Exhibit 3.1-1 and incorporated herein for all purposes. Notwithstanding the foregoing, if a party has been requested or is required (by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any information, the party so being required will promptly notify the other parties so that such other parties may seek an appropriate protective order. Each party warrants that it will cooperate fully with the other parties in seeking such a protective order.

Section 3.2 Operation of Seller Corp. Between the date hereof and as of the Closing, except as contemplated herein or except with the prior consent of Purchaser, Sellers shall:

(a) cause Seller Corp. to operate the Business as presently operated, only in the ordinary course, and in material compliance with all laws, regulations, writs, injunctions, decrees or orders applicable to Seller Corp. or its Assets, including without limitation all environmental, safety and health, antitrust, consumer protection, labor, equal opportunity or

discrimination laws, rules and regulations;

(b) cause the tangible Assets to be maintained and repaired in accordance with past practices of Seller Corp.;

(c) not dispose of, or commit to dispose of, any Assets other than in the ordinary course of business, including without limitation, the liquidation of Accounts and the sale and delivery of Inventory and products covered by Backlog Orders, all in the ordinary and customary course of Seller Corp's business;

(d) actively market the Products and services of Seller Corp. in accordance with its usual practices;

(e) continue in effect as of the Closing all present insurance coverage with respect to the Assets, the Business and the Employees;

(f) not take any of the actions identified in Section 2.1(n); and

(g) repay in full any indebtedness to Seller Corp. set forth in Appendix 3.2(g) to Sellers' Disclosure Letter.

Sellers shall not effect any amendment to the Certificate of Incorporation or the Bylaws of Seller Corp. and shall not cause or permit the issuance of any additional shares of the capital stock or equity interests (or options, warrants or other rights to acquire capital stock or equity securities) of Seller Corp.

Sellers shall use best efforts to operate and maintain, or to cause to be operated and maintained, the Business and the Assets in such a manner so that the representations and warranties of Sellers contained herein shall continue to be true and correct in all material respects on and as of the Closing as if made on and as of the Closing.

Section 3.3 Consents. Sellers shall use their respective best efforts to obtain any consents of Governmental Bodies, suppliers, distributors, and other Persons required in order for Sellers to sell and transfer the Shares pursuant to this Agreement. Purchaser shall use its best efforts to assist Sellers in obtaining such consents.

Section 3.4 No Public Announcements or Negotiation with Others.

(a) Except as required by law, the parties hereto shall not issue any press release or make any public statement regarding the transactions contemplated by this Agreement without obtaining the prior consent of the other party, which consent shall not be unreasonably withheld. In the event a press release or a public statement regarding the transactions is required by law, the party required to make such statement shall permit the other party to review and comment upon such statement.

(b) Unless and until this Agreement shall have been terminated by Purchaser or Sellers pursuant to Section 5.2, neither Sellers, Seller Corp. nor any of the officers or directors of Seller Corp., nor any Affiliates of any of them whom they are able to influence shall:

(1) directly or indirectly, encourage, solicit, initiate or participate in any negotiations with any corporation, partnership, Person or other entity or group (other than to Purchaser or an Affiliate or an associate of Purchaser) concerning any merger, sale of substantial assets, business combination, sale of shares of capital stock or similar transactions involving the business of Seller Corp. or any Asset, whether by providing non-public information or otherwise (an "Acquisition Proposal"); or

(2) disclose, directly or indirectly, any information not customarily disclosed to any Person concerning their business and properties, afford to any other Person access to their properties, books or records or otherwise assist or encourage any Person in connection with any of the foregoing;

provided, however, that in response to an unsolicited Acquisition Proposal, Seller Corp. may furnish or cause to be furnished information concerning itself and any Subsidiary and its business, properties or assets to a third party and engage in discussions or negotiations with such third party regarding such Acquisition Proposal to the extent that the Board of Directors of Seller Corp. shall determine on the basis of the advice of counsel that the fiduciary duties of the Board of Directors require such action.

In the event Sellers shall receive any offer for a transaction of the type referred to in this Section 3.4, Sellers shall promptly inform Purchaser as to any such offer.

Section 3.5 Best Efforts to Satisfy Conditions. Sellers and Seller Corp. shall use their respective reasonable best efforts to cause the conditions to the obligations of Purchaser contained in Section 4.1 to be satisfied to the extent that the satisfaction of such conditions is in the control of Sellers or Seller Corp., and Purchaser shall use its reasonable best

efforts to cause the conditions to the obligations of Sellers contained in Section 4.2 to be satisfied to the extent that the satisfaction of such conditions is in the control of Purchaser.

Section 3.6 Antitrust Law Compliance. Sellers and Purchaser shall prepare and file with the United States Department of Justice (the "Department") and the Federal Trade Commission (the "FTC") the notification and report form with respect to the transactions contemplated by this Agreement as required pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"). Sellers, Seller Corp. and Purchaser shall each cooperate with the other in preparation of such filings and shall promptly comply with any reasonable request by the Department or the FTC for supplemental information and shall use their best efforts to obtain early termination of the waiting period under the HSR Act.

Section 3.7 Update Sellers' Disclosure Letter. Sellers shall advise Purchaser promptly in writing of any condition or circumstance, known to any Seller, occurring from the date hereof up to and as of the Closing that would cause the respective representations and warranties of Sellers contained herein to become untrue in any material respect. Sellers shall deliver to Purchaser a Supplement to the Sellers' Disclosure Letter (a "Supplement") promptly after any Seller becomes aware of any event which changes in any material respect any representation or warranty made by Sellers in this Agreement or any statement made in the Sellers' Disclosure Letter or in any Supplement.

Section 3.8 Tax Matters. (a) Sellers promise and covenant the following with respect to Tax matters:

(1)No new elections with respect to Taxes or any changes in current elections with respect to Taxes affecting the Assets shall be made after the date of this Agreement without the prior written consent of Purchaser.

(2) As a condition precedent to the consummation of the transactions contemplated by this Agreement, Sellers shall provide Purchaser with a clearance certificate or similar document(s) that may be required by any state taxing authority in order to relieve Purchaser of any obligation to withhold any portion of the Purchase Price.

(3) Sellers shall furnish Purchaser an affidavit, stating, under penalty of perjury, the transferor's United States taxpayer identification number and that the transferor is not a foreign person, pursuant to Section 1445(b)(2) of the Code.

(b) Purchaser shall not make an election under Section 338 of the Code with respect to the Transaction.

Section 3.9 Personal Guarantees. The Purchaser, with the assistance of Seller Corp. and James D. Hammond, shall cause the personal guarantees of James D. Hammond and Elizabeth D. Hammond described on Exhibit 3.10 to be fully released within five business days of the Closing.

ARTICLE IV

CONDITIONS OF CLOSING

Section 4.1 Conditions of Obligations of Purchaser. The obligations of Purchaser to consummate the purchase and sale under this Agreement are subject to the satisfaction of the following conditions, each of which may be waived in writing by Purchaser:

(a) Representations and Warranties; Performance of Obligations.

(1) The representations and warranties of Sellers set forth in Section 2.1 hereof and in each certificate, agreement, document or instrument delivered pursuant hereto on or before the Closing Date or in connection with the transactions contemplated hereby on the Closing Date shall have been and shall be true and correct in all material respects on and as of the date of this Agreement and shall be true and correct in all material respects on and as of the Closing Date, as though made on and as of the Closing Date.

(2) Sellers shall have performed in all material respects the covenants, agreements and obligations required to be performed by them under this Agreement prior to and on the Closing Date.

(3) Sellers shall have delivered to Purchaser their certificate confirming the satisfaction of the conditions set forth in subparagraphs (1) and (2) above and such other matters that Purchaser may reasonably request.

(b) Delivery of Instruments. Sellers shall have delivered to Purchaser the duly endorsed certificates representing the Shares, and such other documents that Purchaser may reasonably request to effect the transfer and conveyance of the Shares to Purchaser.

(c) Opinion of Counsel to Sellers. Purchaser shall have received the opinion of Sellers' counsel, dated the Closing Date, in form reasonably

acceptable to Purchaser.

(d) Environmental Review Reports. Purchaser shall have received, at Purchaser's expense, an environmental review report from a Person satisfactory to Purchaser as to the absence of any Environmental Event that could materially affect the Business or Assets to be acquired. Additionally, at least thirty (30) days prior to the Closing, Seller shall have provided to Purchaser all environmental reports regarding the business and operations of Seller Corp., the Assets of Seller Corp. and all Seller Corp. Sites. Environmental reports shall include all consultants' assessments and reports, internal company audits and memoranda and correspondence with any Governmental Body regarding any Environmental Event.

(e) Consents, Notices and Approvals. All consents and approvals of all Persons necessary for the consummation of the Transaction under Seller Corp.'s certificate of incorporation or bylaws or any agreement, permit, law or regulation shall have been received and delivered to Purchaser, and all notices to any Person required by any of the foregoing to be given in respect of the Transaction prior to the Closing shall have been duly given.

(f) Purchaser's Investigation. The investigations by Purchaser and its representatives in connection with the proposed transactions shall not have caused Purchaser or its representatives to become aware of any facts or circumstances relating to the business, operations, Assets, properties, liabilities, financial condition, results of operations or affairs of Seller Corp., any of the Seller Corp. Sites or any of its other Assets, that, in the sole judgment of Purchaser, make it inadvisable for Purchaser to proceed with the transactions contemplated by this Agreement.

(g) Employment and Non-Competition Agreements. James D. Hammond, James W. Buhler, Tor F. Larson, and Douglas P. Leh shall have delivered the duly authorized and executed Employment and Non-Competition Agreements pursuant to Section 1.6.

(h) Stock Appreciation Rights. Seller Corp. shall have paid the amounts due as of the Closing Date to the holders of Seller Corp. stock appreciation rights as a result of the change of control of Seller Corp.

(i) Other Matters. Sellers shall have delivered to Purchaser, in form and substance reasonably satisfactory to counsel for Purchaser, such certificates and other evidence as Purchaser may reasonably request as to the satisfaction of the conditions contained in this Section 4.1.

Section 4.2 Conditions of Obligations of Sellers. The obligations of Sellers to consummate the sale and purchase under this Agreement are subject to the satisfaction of the following conditions, each of which may be waived in writing by Sellers:

(a) Representations and Warranties; Performance of Obligations. (1) The representations and warranties of Purchaser set forth in Section 2.2 hereof and in each certificate, agreement, document or instrument delivered pursuant hereto on or before the Closing Date or in connection with the transactions contemplated hereby on the Closing Date shall have been and be true and correct in all material respects on and as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date.

(2) Purchaser shall have performed in all material respects the covenants, agreements and obligations necessary to be performed by it under this Agreement prior to the Closing Date.

(3) Purchaser shall have delivered to Sellers its certificate confirming the satisfaction of the conditions set forth in subparagraphs (1) and (2) above and such other matters that Sellers may reasonably request.

(b) Purchase Price and Other Payments. Purchaser shall have delivered to Sellers the Purchase Price required to be made as of the Closing Date pursuant to Article I hereof.

(c) Consents, Notices and Approvals. All consents and approvals of all Persons necessary for the consummation of the Transaction under Purchaser's certificate of incorporation or bylaws or any agreement, permit, law or regulation shall have been received and delivered to Sellers, and all notices to any Person required by any of the foregoing to be given in respect of the Transaction prior to the Closing shall have been duly given.

(d) Employment and Non-Competition Agreements. Purchaser shall have delivered the duly authorized and executed Employment and Non-Competition Agreements pursuant to Section 1.6.

(e) Opinion of Counsel to Purchaser. Sellers shall have received the opinion of Purchaser's counsel, dated the Closing Date, in form reasonably acceptable to Sellers.

(f) Other Matters. Purchaser shall have delivered to Sellers, in form and

substance reasonably satisfactory to Sellers' counsel, such certificates and other evidence as Sellers may reasonably request as to the satisfaction of the conditions contained in this Section 4.2.

Section 4.3 HSR Act Approval. The respective obligations of all of the parties hereto to consummate the purchase and sale under this Agreement are subject to the expiration or earlier termination of the waiting period (including any extensions) under the HSR Act.

Section 4.4 Opportunity to Cure. In the event that Purchaser shall notify Sellers, or Sellers shall notify Purchaser, of its decision not to consummate the sale and purchase of the Shares hereunder due to the failure of any of the conditions contained in Sections 4.1, 4.2 or 4.3 hereof to be satisfied, Sellers, or Purchaser, as the case may be, shall have the opportunity for a reasonable period of time to take such actions as may be necessary to remedy the circumstances which have resulted in the failure of such conditions to be satisfied.

ARTICLE V

CLOSING DATE AND TERMINATION OF AGREEMENT

Section 5.1 Closing Date. Subject to the right of (1) Sellers and (2) Purchaser to terminate this Agreement pursuant to Section 5.2 hereof, the closing for the consummation of the purchase and sale contemplated by this Agreement (the "Closing") shall, unless another date or place is agreed to in writing by Sellers and Purchaser, take place at the offices of Richards, Layton & Finger, 920 King Street, Wilmington, Delaware 19801, at 2:00 p.m., time on June 17, 1997, or such other date as the parties may agree upon (the "Closing Date").

Section 5.2 Termination of Agreement.

(a) This Agreement may, by written notice given at or prior to the Closing in the manner hereinafter provided, be terminated or abandoned:

(1) in the event that the Closing shall not have occurred on or before June 30, 1997, by Sellers or by Purchaser;

(2) by Purchaser if a material default or breach shall be made by Sellers with respect to the due and timely performance of any of their covenants and agreements contained herein, or with respect to the correctness of or due compliance with any of their representations and warranties contained in Article II hereof, and such default cannot be cured as provided in Section 4.4 and has not been waived;

(3) by Sellers if a material default or breach shall be made by Purchaser with respect to the due and timely performance of any of its covenants and agreements contained herein, or with respect to the correctness of or due compliance with any of its representations and warranties contained in Article II hereof, and such default cannot be cured as provided in Section 4.4 and has not been waived;

(4)by mutual written consent of Sellers and Purchaser; or

(5) by Purchaser if any Supplement to the Sellers' Disclosure Letter contains disclosures of any fact or condition which makes untrue, or shows to have been untrue, in any material respect any representation or warranty by Sellers in this Agreement or any statement made in the Sellers' Disclosure Letter, unless concurrently with the delivery of the Supplement Sellers represent and warrant that the disclosed fact or condition can and will be corrected at Sellers' expense prior to the Closing.

(b) No termination of this Agreement, whether pursuant to this Section 5.2 (other than a termination by mutual written consent of Sellers and Purchaser pursuant to Section 5.2(a)(4)) or otherwise, shall terminate or impair any claim by Sellers or by Purchaser against the other based upon any breach of Section 3.5 hereof, nor shall it terminate any obligations of any party to the other with respect to confidentiality under Section 3.1(b) hereof.

ARTICLE VI

INDEMNIFICATION

Section 6.1 Indemnity.

(a) Sellers, jointly and severally, agree to indemnify and hold Purchaser and Purchaser's officers, directors, stockholders, Affiliates, employees, agents and employee plan fiduciaries ("Purchaser Indemnitees") harmless from any and all damages, losses (which shall include any diminution in value), shortages, liabilities (joint or several), payments, obligations, penalties, claims, litigation, demands, defenses, judgments, suits, proceedings, costs, disbursements or expenses (including without limitation, the reasonable fees, disbursements and expenses of attorneys, accountants and other professional advisors and of expert witnesses and

costs of investigation and preparation) of any kind or nature whatsoever (collectively "Damages"), to the extent directly or indirectly resulting from, relating to or arising out of:

(1) any breach of or inaccuracy in any representation or warranty of Sellers made in such person's capacity as a Seller and not otherwise, contained in Section 2.1 or in any other Operative Document; and

(2) any breach or non-performance, partial or total, by any Seller of any covenant or agreement of Sellers made in such person's capacity as a Seller and not otherwise contained in this Agreement or in any other Operative Document.

(b) Purchaser shall indemnify and hold Sellers and Seller Corp.'s officers, directors and stockholders ("Seller Indemnitees") harmless from, any and all Damages resulting from or arising out of:

(1) any breach of or inaccuracy in any representation or warranty of Purchaser contained in Section 2.2 or in any Operative Document; and

(2) any breach or non-performance, partial or total, of any covenant or agreement of Purchaser contained in this Agreement, any Operative Document or any instrument or agreement delivered pursuant to this Agreement.

Section 6.2 Notice, Participation and Duration.

(a) If a claim by a third party is made against a party indemnified pursuant to this Article VI ("Indemnitee"), and if such Indemnitee intends to seek indemnity with respect thereto under this Article VI, the Indemnitee shall promptly, and in any event within 60 days of the assertion of any claim or the discovery of any fact upon which Indemnitee intends to base a claim for indemnification under this Agreement ("Claim"), notify the party or parties from whom indemnification is sought ("Indemnitor") of such Claim. In the event of any Claim, Indemnitor, at its option, may assume (with legal counsel reasonably acceptable to the Indemnitee) the defense of any claim, demand, lawsuit or other proceeding in connection with the Indemnitee's Claim, and may assert any defense of Indemnitee or Indemnitor; provided that Indemnitee shall have the right at its own expense to participate jointly with Indemnitor in the defense of any claim, demand, lawsuit or other proceeding in connection with the Indemnitee's Claim. In the event that Indemnitor elects to undertake the defense of any Claim hereunder, Indemnitee shall cooperate with Indemnitor to the fullest extent possible in regard to all matters relating to the Claim (including, without limitation, corrective actions required by applicable law, assertion of defenses and the determination, mitigation, negotiation and settlement of all amounts, costs, actions, penalties, damages and the like related thereto) so as to permit Indemnitor's management of same with regard to the amount of Damages payable by the Indemnitor hereunder. Neither Purchaser nor any Seller shall be entitled to settle any Claim without the prior written consent of the other, which consent shall not unreasonably be withheld.

(b) No claim for indemnification under this Section 6.2 may be made after the third anniversary of the Closing, except that claims for indemnification in respect of breaches of the representations and warranties contained in Sections 2.1(c), (h) and (r) hereof may be made so long as any claim may be made in respect of such matters under any applicable statute of limitations; provided, however, that the foregoing shall not affect any Claim made in accordance with this Article VI and in good faith prior to the date of such expiration.

Section 6.3 Indemnification if Negligence of Indemnitee. The indemnification provided in this Article VI shall be applicable whether or not negligence of the Indemnitee is alleged or proven. The parties acknowledge that any arbitrators appointed pursuant to Section 7.15 of this Agreement may consider such negligence in arbitrating any disputes among the parties.

Section 6.4 Reimbursement. In the event that the Indemnitor shall undertake, conduct or control the defense or settlement of any Claim and it is later determined that such Claim was not a Claim for which the Indemnitor is required to indemnify the Indemnitee under this Article VI, the Indemnitee shall reimburse the Indemnitor for all its costs and expenses with respect to such settlement or defense, including reasonable attorneys' fees and disbursements.

Section 6.5 Offset. Purchaser shall have the right to offset any amounts for which it is entitled to indemnification under this Article VI against any amounts payable by Purchaser to Sellers in their capacity as such, pursuant to any Operative Document. Sellers shall have the right to offset any amounts for which they are entitled to indemnification under this Article VI against any amounts payable by Sellers pursuant to any Operative Documents.

Section 6.6 No Third Party Beneficiaries. The foregoing indemnification is given solely for the purpose of protecting the parties to this Agreement,

the Purchaser Indemnitees and the Seller Indemnitees and shall not be deemed extended to, or interpreted in a manner to confer any benefit, right or cause of action upon, any other Person.

Section 6.7 Limitations on Indemnification. The indemnification provided for in Section 6.1 shall be subject to the following:

(1) Sellers shall not be obligated to pay any amounts for indemnification under Section 6.1 until the aggregate amount of Damages actually incurred by the Purchaser Indemnitees, measured in the chronological order of their incurrence, exceeds $25,000, whereupon Sellers shall be obligated to pay all Damages actually incurred by the Purchaser Indemnitees including such $25,000;

(2) Sellers' obligation for indemnification under Section 6.1 shall be limited to payment of the Purchase Price for the Shares.

ARTICLE VII

MISCELLANEOUS

Section 7.1 Further Actions. From time to time, as and when requested by Purchaser, Sellers shall execute and deliver, or cause to be executed and delivered, such documents and instruments and shall take, or cause to be taken, such further or other actions as may be reasonably necessary to transfer, assign and deliver to Purchaser or its permitted assigns the Business (or to evidence the foregoing) and to consummate and to effect the other transactions expressly required to be performed by Sellers hereunder.

Section 7.2 No Broker. Each of Sellers and Purchaser represent and warrant to the other that they have no obligation or liability to any broker or finder by reason of the transactions which are the subject of this Agreement except that Sellers have retained the services of Scott-Macon, Ltd. for which the Sellers and not Seller Corp. shall be responsible. Set forth on Appendix 7.2 to the Sellers' Disclosure Letter is an accurate and complete list of all fees and expenses that have been paid by Seller Corp. to Scott-Macon, Ltd. from May, 1996 to April, 1997 for its services as advisor to Seller Corp. on matters unrelated to the transactions contemplated by this Agreement. Sellers represent and warrant to Purchaser that no other fees or expenses have been paid by Seller Corp. to Scott-Macon, Ltd. Each of (a) Sellers and (b) Purchaser agree to indemnify the other against, and to hold the others harmless from, at all times after the date hereof, any and all liabilities and expenses (including without limitation legal fees) resulting from, related to or arising out of any claim by any Person for brokerage commissions or finder's fees, or rights to similar compensation, on account of services purportedly rendered on behalf of Sellers or Purchaser, as the case may be, in connection with this Agreement or the transactions contemplated hereby.

Section 7.3 Expenses. Except as otherwise specifically provided herein, Sellers and Purchaser shall each bear their own legal fees, accounting fees and other costs and expenses with respect to the negotiation, execution and the delivery of this Agreement and the consummation of the transactions hereunder.

Section 7.4Entire Agreement. This Agreement, the Exhibits hereto (including without limitation the Nonsolicitation and Confidentiality Agreement referred to in Section 3.1(b)), the Sellers' Disclosure Letter and any Supplement thereto contain, and are intended by the parties as a final expression of, the entire agreement between Sellers and Purchaser with respect to the transactions contemplated by this Agreement and, except as provided in Section 3.1(b), supersedes all prior oral or written agreements, arrangements or understandings with respect thereto.

Section 7.5 Descriptive Headings. The descriptive headings of this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

Section 7.6 Notices. All notices or other communications which are required or permitted hereunder shall be in writing and shall be delivered either personally or by telegram, telex, telecopy or similar facsimile means, by registered or certified mail (postage prepaid and return receipt requested), or by express courier or delivery service, addressed as follows:

If to Sellers:

James D. Hammond
P.O. Box 298
Kemblesville, Pennsylvania 19347

Timothy E. Hammond
862 Joann Court
Rohrer Meadows
Carmel, Indiana 46032

Victoria A. Hammond
1937 Variations Drive
Atlanta, Georgia 30329

Deborah E. Hammond
668 Alanon
Ridgewood, New Jersey 07450

With a copy to:

Richards, Layton & Finger
One Rodney Square
920 King Street
Wilmington, Delaware 19801
Attention: Cynthia D. Kaiser
Telecopy No.: (302) 658-6548

If to Purchaser:

Matrix Service Company
10701 East Ute Street
Tulsa, Oklahoma 74116
Attention: President
Telecopy No.: (918) 838-8822

With copies to:

Andrews & Kurth L.L.P.
4200 Texas Commerce Tower
Houston, Texas 77002
Attention: Melissa M. Martin
Telecopy No.: (713) 220-4285

or at such other address and number as either party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by telegram, telex, telecopy or similar facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by telex, telecopy or other facsimile means); and when delivered and receipted for (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail.

Section 7.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware (other than the choice of law principles thereof).

Section 7.8 Assignability. This Agreement shall not be assignable otherwise than by operation of law by any party without the prior written consent of the other parties, and any purported assignment by any party without the prior written consent of the other parties shall be void.

Section 7.9 Waivers and Amendments. Any waiver of any term or condition of this Agreement, or any amendment or supplementation of this Agreement, shall be effective only if in writing. A waiver of any breach or failure to enforce any of the terms or conditions of this Agreement shall not in any way affect, limit or waive a party's rights hereunder at any time to enforce strict compliance thereafter with every term or condition of this Agreement.

Section 7.10 Third Party Rights. Notwithstanding any other provision of this Agreement, this Agreement shall not create benefits on behalf of any Person who is not a party to this Agreement (including without limitation any broker or finder, notwithstanding the provisions of Section 7.2 hereof), and this Agreement shall be effective only as between the parties hereto, their successors and permitted assigns; provided, however, that Purchaser Indemnitees and Seller Indemnitees are intended third party beneficiaries hereof to the extent provided in Sections 6.1 and 6.6.

Section 7.11 Illegalities. In the event that any provision contained in this Agreement shall be determined to be invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and the remaining provisions of this Agreement shall not, at the election of the party for whose benefit the provision exists, be in any way impaired.

Section 7.12 Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one Agreement.

Section 7.13 Survival; Exclusivity of Remedies. The representations and warranties, covenants and agreements of the parties hereto shall survive the Closing, and the indemnification provided by Section 6.1 shall not be the exclusive remedy available to the parties hereto.

Section 7.14 Representations and Warranties of Sellers. Except with respect to Sections 2.1(a), (b)(1) and (2), (c), (f), (h), (m), and (o)(1) and (2), (a) the representations and warranties of the Sellers are given based solely on the actual knowledge of such Sellers, (b) the Sellers, other than James D. Hammond, have made no investigation in preparation for making such representations and warranties, and (c) James D. Hammond has consulted with James Buhler, Tor Larson and Douglas Leh in connection with making such representations and warranties and his actual knowledge consists of his own actual knowledge and the content of such discussions.

Section 7.15 Alternative Dispute Resolution. The parties hereto agree that any disputes under this Agreement which are not resolved by discussions, shall be submitted to binding arbitration upon the service of a Notice of Demand for Arbitration to the other party. Any such arbitration shall be conducted under the Commercial Arbitration Rules of the American Arbitration Association by a committee of three arbitrators (one appointed by the Sellers, one appointed by the Purchaser and one appointed by the other two so appointed). Each party shall notify the other party of their appointed arbitrator within 10 days of the receipt of the Notice of Demand for Arbitration. The third arbitrator shall be appointed within 20 days of the receipt of the Notice of Demand for Arbitration. Any disputes as to the arbitrability of any matter or the manner of such arbitration shall be determined in such arbitration. Such arbitration shall be held at a neutral site to be agreed by the parties. The hearing shall be completed within 30 days of the appointment of the third arbitrator. The decision of the arbitrators shall be made within 20 days after completion of the hearing on the arbitration. The parties shall each pay one half of the arbitrators' expenses and fees. Each party shall otherwise be responsible for all other expenses incurred by it in connection with the arbitration, including counsel fees.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

PURCHASER:

MATRIX SERVICE COMPANY

By: /s/Doyl D. West

Name: Doyl D. West
Title: Chief Executive Officer

SELLERS:

/s/James D. Hammond
- ---
JAMES D. HAMMOND

/s/James D. Hammond
- ---
JAMES D. HAMMOND, as Trustee under that certain Voting Trust Agreement dated February 1, 1991

/s/Timothy E. Hammond
- ---
TIMOTHY E. HAMMOND

/s/Victoria A. Hammond
- ---
VICTORIA A. HAMMOND

/s/Deborah E. Hammond
- ---
DEBORAH E. HAMMOND

GENERAL SERVICE CORPORATION

By: /s/James D. Hammond

Name: JAMES D. HAMMOND
Title: President

Annex A
SELLERS' DISCLOSURE LETTER

June 17, 1997

Matrix Service Company
10701 East Ute Street
Tulsa, Oklahoma 74116

Gentlemen:

We refer to the Stock Purchase Agreement (the "Purchase Agreement") to be entered into today among Matrix Service Company, General Service Corporation, James D. Hammond, James D. Hammond, as Trustee under that certain Voting Trust Agreement dated February 1, 1991, Timothy E. Hammond, Victoria A. Hammond and Debora E. Hammond pursuant to which Sellers have agreed to sell to Purchaser, and Purchaser has agreed to purchase from Sellers, all of the outstanding capital stock of Seller Corp. described therein on the terms and conditions set forth therein.

Terms defined in the Purchase Agreement are used with the same meaning in this Sellers' Disclosure Letter. References herein to Appendices are to the Appendices to this Sellers' Disclosure Letter.

This letter constitutes the Sellers' Disclosure Letter referred to in Section 1.1 of the Purchase Agreement. The representations and warranties of Sellers in Article II of the Purchase Agreement are made and given subject to the disclosures in this Sellers' Disclosure Letter. The disclosures in this Sellers' Disclosure Letter are to be taken as relating to the representations and warranties in the Section of the Purchase Agreement to which they expressly relate and to no other representation or warranty in the Purchase Agreement.

By reference to Article I and Article II of the Purchase Agreement, the following matters are disclosed (with the Appendix and subsection designations used herein corresponding to the specific Section or subsection of the Purchase Agreement to which such disclosure relates):

Very truly yours,

SELLERS:

/s/James D. Hammond
- ------------------
JAMES D. HAMMOND

/s/James D. Hammond
- ------------------
JAMES D. HAMMOND, as Trustee under that certain Voting Trust Agreement dated February 1, 1991

/s/ Timothy E. Hammond
- ----------------------
TIMOTHY E. HAMMOND

- ----------------------
/s/Victoria A. Hammond
VICTORIA A. HAMMOND

- ---------------------
/s/Deborah E. Hammond
DEBORAH E. HAMMOND

We acknowledge receipt of the Sellers' Disclosure Letter of which this is a duplicate (including the Appendices referred to therein).

Dated: June 17, 1997

MATRIX SERVICE COMPANY

By: /s/C. William Lee

Name: C. William Lee
Title: Vice President-Finance

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT ("Amendment") is made and entered into this 19th day of June, 1997, by and among MATRIX SERVICE COMPANY, a Delaware corporation (hereinafter referred to as "Matrix"), MATRIX SERVICE, INC., an Oklahoma corporation (hereinafter to as "MSI"), MIDWEST INDUSTRIAL CONTRACTORS, INC., a Delaware corporation (hereinafter referred to as "MIC"), MATRIX SERVICE MID-CONTINENT, INC., an Oklahoma corporation (hereinafter referred to as "MSM"), PETROTANK EQUIPMENT, INC., an Oklahoma corporation (hereinafter referred to as "PEI"), TANK SUPPLY INC., an Oklahoma corporation (hereinafter referred to as "TSI"), SAN LUIS TANK PIPING CONSTRUCTION CO., INC., a Delaware corporation (hereinafter referred to as "SLT"), COLT CONSTRUCTION CO., INC., a Delaware corporation (hereinafter referred to as "CCC"), MIDWEST INTERNATIONAL, INC., a Delaware corporation (hereinafter referred to as "MII"), GEORGIA STEEL ACQUISITION CORPORATION, an Oklahoma corporation (hereinafter referred to as "GSAC"), GEORGIA STEEL FABRICATORS, INC., a Georgia corporation (hereinafter referred to as "GSF"), BROWN STEEL CONTRACTORS, INC., a Georgia corporation (hereinafter referred to as "BSC"), WEST COAST INDUSTRIAL COATINGS, INC., a California corporation (hereinafter referred to as "WCI"), MIDWEST SERVICE COMPANY, a Delaware corporation (hereinafter referred to as "MSC"), HEATH ENGINEERING, LTD., an Ontario corporation (hereinafter referred to as "HEL"), HEATH (TANK MAINTENANCE) ENGINEERING, LTD., a United Kingdom corporation (hereinafter referred to as "HTM"), MAYFLOWER VAPOR SEAL CORPORATION, an Oklahoma corporation (hereinafter referred to as ("MVS"), GENERAL SERVICE CORPORATION, a Delaware corporation (hereinafter referred to as "GSC"), MAINSERVE-ALLENTECH, INC., a Delaware corporation (hereinafter referred to as "MA"), MAINTENANCE SERVICES, INC., a Delaware corporation (hereinafter referred to as "MSERV"), and LIBERTY BANK AND TRUST COMPANY OF TULSA, NATIONAL ASSOCIATION (hereinafter referred to as the "Bank"). Matrix, MSI, MIC, MSM, PEI, TSI, SLT, CCC, MII, GSAC, GSF, BSC, WCI, MSC, HEL, HTM, MVS, GSC, MA and MSERV are hereinafter collectively referred to as the "Borrowers" and individually as a "Borrower."

RECITALS

A. The Borrowers (except for GSC, MA and MSERV) are parties to that certain Credit Agreement dated August 30, 1994 (the same as amended, supplemented or otherwise modified from time to time, being hereinafter referred to as the "Credit Agreement"), pursuant to which the Bank has established in favor of the Borrowers, on the terms and conditions set forth therein, (i) a revolving credit facility in the principal amount not to exceed $15,000,000.00, and (ii) a term loan facility in the original principal amount not to exceed $5,000,000.00.

B. The Borrowers have requested that the Bank (i) extend the maturity of the Revolving Credit Facility from October 31, 1998 to October 31, 1999, (ii) establish a new $5,000,000 term acquisition facility, (iii) add GSC, MA and MSERV as Borrowers under the Credit Agreement and as a co-maker on the Notes, and (iv) modify certain financial covenants and other provisions in the Credit Agreement, all as hereinafter set forth.

C. The Bank has agreed to the foregoing, subject to the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and subject to the terms and conditions set forth herein, the parties agree to amend the Credit Agreement, effective as of the date hereof, as follows:

1. TERMS DEFINED IN THE CREDIT AGREEMENT.

1.1 Definitions Incorporated by Reference. Capitalized terms used herein and not otherwise defined have the respective meanings assigned to them in the Credit Agreement.

1.2 Definitions Used Only in This Amendment. For purposes of this Amendment only, the following terms have the meanings indicated below:

Replacement Revolving Note. "Replacement Revolving Note" shall mean the promissory note to be executed and delivered by the Borrowers, in substantially the form attached hereto as Exhibit "A-1."

Replacement Term Note. "Replacement Term Note" shall mean the promissory note to be executed and delivered by the Borrowers, in substantially the form attached hereto as Exhibit "B-1."

The parties agree that, from and after the date of this Amendment, unless the context otherwise requires: (i) all references to the "Revolving Note" and the "Term Note" appearing in the Credit Agreement or any other Loan Documents shall mean and refer to the Replacement Revolving Note and the Replacement Term Note, respectively, together with any and all renewals,

extensions or replacements thereof, amendments or modifications thereto or substitutions therefore, and (ii) the term "Loan Documents" shall include the Replacement Revolving Note and the Replacement Term Note.

2. ADDITION OF GSC AND SUBSIDIARIES AS BORROWERS. Pursuant to this Amendment, GSC, MA and MSERV agree to execute this Amendment, the Replacement Revolving Note, the Replacement Term Note, the Acquisition Note and a Security Agreement, and hereafter all references in the Credit Agreement to the term "Borrowers" shall be deemed to include GSC, MA and MSERV.

3. ESTABLISHMENT OF ACQUISITION LOAN FACILITY. The Bank hereby agrees to establish a new term loan in favor of the Borrowers in the principal amount of $5,000,000.00. In order to effectuate the foregoing, the Credit Agreement is amended as of the date hereof in the following respects:

3.1 Amended Definitions. The definitions of the following terms appearing in Subsection 1.2 of the Credit Agreement are hereby amended to read as follows:

Credit Facilities. "Credit Facilities" shall mean, collectively, the Revolving Credit Facility, the Term Loan Facility and the Acquisition Loan Facility, and "Credit Facility" shall mean either one of the Credit Facilities.

Notes. "Notes" shall mean collectively, the Revolving Note, the Term Note and the Acquisition Note, and "Note" shall mean any one of the Notes.

3.2 New Definitions. The following definitions of "Acquisition Loan Facility," "Acquisition Note" and "GSC Purchase Agreement" are hereby added to paragraph 1.2 of the Credit Agreement (to be inserted in alphabetical order):

Acquisition Loan Facility. "Acquisition Loan Facility" shall mean the term loan facility to be established by the Bank in favor of the Borrowers pursuant to Subsection 2.1.3 hereof.

Acquisition Note. "Acquisition Note" shall mean the promissory note to be executed by the Borrowers in order to evidence all Advances made under the Acquisition Loan Facility pursuant to Subsection 2.6.4 hereof, substantially in the form of Exhibit "J" attached hereto, as the same may be amended, modified, supplemented, renewed or extended from time to time.
GSC Purchase Agreement. "GSC Purchase Agreement" shall mean that certain Purchase Agreement dated June 17, 1997 between Matrix and the shareholders of GSC for the purchase of 100% of the outstanding issued shares of stock in GSC.

3.3 Modified Subsections Required for Acquisition Loan Facility. In order to effectuate the terms and conditions of the Acquisition Loan Facility the Credit Agreement shall be modified in accordance with the following:

A. Modifications to Subsection 2.1. Subsection 2.1 of the Credit Agreement is hereby modified and shall hereafter be deemed to include the following Subsection 2.1.3:

2.1.3 Acquisition Loan Facility. The Bank agrees, upon satisfaction of the Conditions set forth in Subsection 6 of the Amendment, to establish a term loan facility, to be designated as the "Acquisition Loan Facility," in an aggregate principal amount not to exceed Five Million and No/100 Dollars ($5,000,000.00).

B. Modification to Subsection 2.2. Subsection 2.2 of the Credit Agreement is hereby modified and shall hereafter be deemed to include the following Subsection 2.2.3:

2.2.3 Acquisition Loan Facility. Proceeds of the Acquisition Loan Facility shall be used by Borrowers solely for the purpose of paying down Advances under the Revolving Credit Facility which were incurred in the Borrowers' acquisition of the ownership of GSC (and its subsidiaries) and the refinancing of equipment owned by GSC.

C. Modifications to Subsection 2.6. Subsection 2.6 of the Credit Agreement is hereby modified and shall hereafter be deemed to include the following Subsection 2.6.4:

2.3.4 Acquisition Note. The balance outstanding under the Acquisition Loan Facility shall be evidenced by the Acquisition Note, which shall be made, executed and delivered by the Borrowers as a condition of this Amendment.

D. Modifications to Subsection 2.7.3(c) and (g). Subsections 2.7.3(c) and (g) of the Credit Agreement shall hereafter be modified to read in their entirety as follows:

(c) no Interest Period shall extend beyond October 31, 1999 (in the case

of outstanding Advances under the Revolving Note), August 31, 1999 (in the case of outstanding Advances under the Term Note), and June 19, 2002 (in the case of the outstanding principal balance under the Acquisition Note);

(g) notwithstanding any provisions herein to the contrary, the Borrowers may select an Interest Period of less than 30 days for Advances included within the Prime Tranche if such shorter period ends on October 31, 1999 (in the case of outstanding Advances under the Revolving Note), and August 31, 1999 (in the case of outstanding Advances under the Term Note), and the Borrowers may select an Interest Period of less than 30 days when continuing or converting any portion of the outstanding balance under the Acquisition Loan Facility included within the Prime Tranche if such shorter period ends on June 19, 2002.

D. Modification to Subsection 2.7. Subsection 2.7 of the Credit Agreement is hereby modified and shall hereafter be deemed to include the following Subsection 2.7.6:

2.7.6 Acquisition Note.

(a) Interest Rate Election. Prior to the effectiveness of this Amendment, the Borrowers shall irrevocably elect in writing either a fixed rate of interest (in accordance with the provisions of Subsection 2.7.6 (b) hereof) or a variable rate of interest (in accordance with the provisions of Subsection 2.7.6(c) hereof) to apply to the amounts outstanding under the Acquisition Note.

(b) Fixed Rate Option. If the Borrowers elect a fixed rate pursuant to Subsection 2.7.6(a) hereof, the unpaid amounts outstanding under the Acquisition Note shall bear interest at a fixed rate per annum equal to the sum of the Two-Year Treasury Rate plus two percent (2%). In the event of any Event of Default and until cured to the satisfaction of the Bank, the unpaid principal amount and all accrued and unpaid interest outstanding under the Acquisition Note shall bear interest at a fixed rate per annum equal to the sum of the Two-Year Treasury Rate plus four percent (4%).

(c) Variable Rate Option. If the Borrowers elect a variable rate pursuant to Subsection 2.7.6(a) hereof, the unpaid principal amounts outstanding under the Acquisition Note shall bear interest at a variable rate per annum determined by reference to the Prime Rate or the LIBOR Rate, as selected by the Borrowers pursuant to a Rate Election made in accordance with the provisions of Subsection 2.7.3 hereof, as follows:

(i) Amounts outstanding under the Acquisition Note included within the Prime Tranche shall bear interest at a fluctuating rate per annum equal to the Prime Rate, adjusted as of the date of each change therein.

(ii) Amounts outstanding under the Acquisition Note included within the LIBOR Tranche shall bear interest at a rate per annum equal to the sum of the LIBOR Rate applicable to such LIBOR Tranche plus two percent (2%).

(iii) In the event of any Event of Default and until cured to the satisfaction of the Bank, the unpaid principal amount outstanding under the Acquisition Term Note shall bear interest at a fluctuating rate per annum equal to the Prime Rate plus two percent (2%), adjusted as of the date of each change therein.

E. Modifications to Subsection 2.8. Subsection 2.8 of the Credit Agreement is hereby modified and shall hereafter be deemed to include the following Subsection 2.8.4:

2.8.4 Acquisition Loan Facility Fee. As a condition of this Amendment, the Borrowers shall pay to the Bank a nonrefundable "Acquisition Loan Facility Fee" in the amount of $12,500.00.

F. Modifications to Subsection 2.9. Subsection 2.9 of the Credit Agreement is hereby modified and shall hereafter be deemed to include the following Subsection 2.9.3:

2.9.3 Acquisition Note. The outstanding balance under the Acquisition Note shall be due and payable in six (6) monthly installments of interest only, and thereafter in fifty-four (54) monthly installments of principal and interest, calculated on the basis of a sixty (60) month amortization, which installments shall be made on the first Business Day of each calendar month beginning on the first Business Day of the first calendar month following the date hereof. The final maturity of the Acquisition Note shall be June 19, 2002, and on that date the outstanding principal balance and all accrued and unpaid interest under the Acquisition Note shall be due and payable.

4. EXECUTION OF REPLACEMENT REVOLVING NOTE AND EXTENSION OF REVOLVING CREDIT FACILITY MATURITY DATE.

4.1 Execution of Replacement Revolving Note. The Revolving Note, as in effect on the date hereof, has a maturity date of October 31, 1999, and

the Borrowers hereby agree to execute the Replacement Revolving Note to add GSC, MA and MSERV as co-makers on the Revolving Note, which shall retain a maturity date of October 31, 1999.

4.2 Extension of Revolving Credit Facility Maturity Date. Approval from a Participating Lender is required in order to effectuate an extension of the termination date of the Revolving Credit Facility in accordance with Subsection 2.13 of the Credit Agreement. Upon obtaining requisite approvals from any participating lenders, the Borrowers agree to execute and deliver a replacement to the Replacement Revolving Note, which note shall have a maturity date of October 31, 1999, and upon delivery of such note to the Bank, all references in the Credit Agreement to the termination date or maturity date of the Revolving Note shall thereafter be deemed to refer to October 31, 1999.

5. MODIFICATIONS TO FINANCIAL COVENANTS.

5.1 Tangible Net Worth. Subsection 7.11.1 of the Credit Agreement is hereby modified and amended and shall hereafter be deemed to include the additional requirement that after May 31, 1997, the Borrowers will not permit their consolidated tangible net worth (determined in accordance with GAAP) to be less than $45,000,000.00.

5.2 Working Capital. Subsection 7.11.2 of the Credit Agreement is hereby modified and amended to delete the dollar amount stated as "$12,500,000.00" and replace that dollar amount with the dollar amount stated as "$18,000,000.00."

5.3 Cash Flow Coverage Ratio. From and after the date hereof, the Bank agrees to waive the Borrowers' compliance with the Cash Flow Coverage Ratio contained in Subsection 7.11.4 of the Credit Agreement until February 28, 1998, and the Borrowers agree that from and after February 28, 1998 the Borrowers shall be subject to and in compliance with Subsection 7.11.4 of the Credit Agreement.

6. CONDITIONS. The amendments to the Credit Agreement set forth in this Amendment shall be effective from and after the date hereof, but subject to the Borrowers' satisfaction of each of the following conditions precedent:

6.1 GSC Purchase Agreement. The Bank shall have received a final copy of the GSC Purchase Agreement (the terms of which must be satisfactory to the Bank), and the closing of the transactions contemplated by the GSC Purchase Agreement (including the equipment refinancing) shall have occurred.

6.2 Loan Amendment Documents. The Borrowers shall have duly and validly authorized, executed and delivered to the Bank, the following documents, all in form and substance satisfactory to the Bank:

(a) This Amendment;

(b) The Acquisition Note;

(c) The Replacement Revolving Note;

(d) The Replacement Term Note;

(e) Security Agreements, executed by GSC, MA and MSERV, respectively, in favor of the Bank; and

(f) Appropriate UCC-1 financing statements, executed by GSC, MA and MSERV.

6.3 Corporate Documents. With respect to GSC, MA and MSERV, the Bank shall have received: (i) a true and correct copy of their Articles or Certificate of Incorporation, as amended; (ii) a true and correct copy of their Bylaws, as amended; and (iii) a good standing certificate issued by the Secretary of State or equivalent public official of the state or jurisdiction of their incorporation, as to their due incorporation and good standing under the laws of such state or jurisdiction.

6.4 Resolutions. With respect to each of the Borrowers, the Bank shall have received a true and correct copy of the resolutions adopted by its Board of Directors duly authorizing the borrowings contemplated hereunder and the execution, delivery and performance of the Loan Documents to which it is a party.

6.5 Incumbency Certificates. With respect to each of the Borrowers, the Bank shall have received a certificate executed by its duly elected and acting corporate secretary stating the names and titles and containing specimen signatures of the officers authorized to execute and deliver the Loan Documents to which it is a party.

6.6 Payoff Letter. The Bank shall have received a satisfactory payoff letter from the holder of the existing equipment financing facility with GSC, (i) stating the amount necessary to pay off the principal balance of and accrued interest on such equipment financing facility, (ii) setting

froth payment instruction for remitting the payoff amount, (iii) stating that, immediately upon receipt of the payoff amount, said holder will release any Liens which it may have in or to the Collateral (or any portion thereof) and will deliver or cause to be filed UCC termination statements with respect to all currently effective financing statement of file in any UCC office naming GSC, MA or MSERV as debtor and covering the Collateral (or any portion thereof), and (iv) acknowledging that, upon such holder's receipt of the payoff amount, it will no longer have and Lien on the Collateral (or any portion thereof) to secure any Debt now or hereafter owing to it by GSC, MA or MSERV.

6.7 Lien Searches. The Bank shall have received certified responses to UCC lien search requests reflecting that there are no effective UCC financing statements on file in any filing office in the State of Oklahoma or any other states or jurisdictions in which GSC, MA and MSERV maintain their principal place of business naming GSC, MA or MSERV as debtor and covering the Collateral, other than (i) financing statements in favor of the Bank, and (ii) financing statements relating to Permitted Liens.

6.8 Insurance Policies. The Bank shall have received copies of such insurance policies, or binders or certificates of insurance, in form and substance satisfactory to the Bank evidencing that GSC, MA and MSERV have obtained and are maintaining the minimum insurance coverages required by the Credit Agreement, as amended by this Amendment.

6.9 Other Matters. The Borrowers shall have provided the Bank with such reports, information, financial statements, and other documents as the Bank has reasonably requested to evidence the Borrowers' compliance with the terms and conditions of this Agreement and the Loan Documents.

6.10 Legal Matters. All legal matters incident to the Loan Documents and the Credit Facilities shall be satisfactory to the Bank and its counsel.

6.11 No Defaults. There shall not have occurred and be continuing any Default or Event of Default.

7. REPRESENTATIONS AND WARRANTIES. All representations and warranties of the Borrowers contained in Section 5 of the Credit Agreement are hereby remade and restated as the date hereof and shall survive the execution and delivery of this Amendment. The Borrowers (including GSC, MA and MSERV) further represent and warrant to the Bank that:

7.1 Authority. The Borrowers have all corporate power and authority and have been duly authorized to execute, deliver and perform its obligations under this Amendment, the Credit Agreement (as amended by this Amendment), and Acquisition Note.

7.2 Binding Obligations; Enforceability. This Amendment, the Credit Agreement (as amended by this Amendment), and each of the Notes are valid and legally binding obligations of the Borrowers (including GSC, MA and MSERV), enforceable in accordance with their respective terms, except as limited by applicable bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally.

7.3 No Conflicts. The execution, delivery and performance of this Amendment, the Credit Agreement (as amended by this Amendment), and the Acquisition Note by the Borrowers do not and will not (a) conflict with, result in a breach of the terms, conditions or provisions of, constitute a default under, or result in any violation of the Borrowers' Certificates of Incorporation, as amended, or Bylaws, or any agreement, instrument, undertaking, judgment, decree, order, writ, injunction, statute, law, rule or regulation to which either of the Borrowers is subject or by which the assets of either of the Borrowers are bound or affected, (b) result in the creation or imposition of any lien, charge or encumbrance on, or security interest in, any property now or hereafter owned by the Borrowers, pursuant to the provisions of any mortgage, indenture, security agreement, contract, undertaking or other agreement to which either of the Borrowers is a party, other than the obligations of the Borrowers in favor of the Bank created by the Loan Documents, or (c) require any authorization, consent, license, approval or authorization of, or other action by, notice or declaration to, registration with, any court or any administrative or governmental body (domestic or foreign), or, to the extent any such consent or other action may be required, it has been validly procured or duly taken.

7.4 No Subsidiaries. Each of MA and MSERV is a wholly-owned Subsidiary of GSC. Except for the foregoing ownership interests of GSC in MA and MSERV, none of GSC, MA or MSERV (i) has any Subsidiaries, (ii) owns any stock in any other corporation, or (iii) is a partner or joint venturer in or equity owner of any partnership, joint venture or other business association.

8. MISCELLANEOUS.

8.1 Effect of Amendment. Except as expressly modified and amended by this Amendment, all other terms of the Credit Agreement shall continue in

full force and effect in accordance with their original stated terms and are hereby reaffirmed in every respect as of the date hereof. To the extent that the terms of this Amendment are inconsistent with the terms of the Credit Agreement, this Amendment shall control and the Credit Agreement shall be amended, modified or supplemented so as to give full effect to the transactions contemplated by this Amendment.

8.2 Exhibits. (a) The form of Acquisition Note attached hereto as Exhibit "I" is hereby added as an Exhibit to the Credit Agreement, (b) the form of Replacement Revolving Note attached hereto as Exhibit "A-1" is hereby substituted for Exhibit "A" to the Credit Agreement, and (c) the form of Replacement Term Note attached hereto as Exhibit "B-1" is hereby substituted for Exhibit "B" to the Credit Agreement.

8.3 Descriptive Headings. The descriptive headings of the several paragraphs of this Amendment are inserted for convenience only and shall not be used in the construction or the content of this Amendment.

8.4 Reimbursement of Expenses. The Borrowers agree to pay all reasonable out-of-pocket expenses, including, without limitation, filing fees, recording costs and reasonable attorney's fees and expenses, incurred by the Bank in connection with the preparation of this Amendment and the documents contemplated hereby.

8.5 Reaffirmation of Security Agreements. By signing below, the Borrowers hereby ratify and reaffirm the Security Agreements and agree that the Security Agreements shall continue in full force and effect in accordance with their terms as security for payment and performance of all Indebtedness arising under or in connection with the Credit Agreement (as amended hereby), including, without limitation, all Indebtedness arising under, in connection with or evidenced by Acquisition Note. All references to the term "Indebtedness" contained in the Credit Agreement, the Security Agreements and other Loan Documents shall hereafter be deemed to include all liabilities, obligations and indebtedness of the Borrowers to the Bank arising out of or relating to this Amendment or the Acquisition Note and any and all extensions and renewals thereof.

IN WITNESS WHEREOF, the Borrowers and the Bank have caused this Agreement to be duly executed in multiple counterparts, each of which shall be considered an original, effective the date and year first above written.

MATRIX SERVICE COMPANY,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INDUSTRIAL CONTRACTORS, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE MID-CONTINENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

PETROTANK EQUIPMENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

TANK SUPPLY, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

SAN LUIS TANK PIPING CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

COLT CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INTERNATIONAL, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL ACQUISITION CORPORATION,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL FABRICATORS, INC.,
a Georgia corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

BROWN STEEL CONTRACTORS, INC.,
a Georgia corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

WEST COAST INDUSTRIAL COATINGS, INC.,
a California corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST SERVICE COMPANY,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

HEATH ENGINEERING, LTD.,
an Ontario corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

HEATH (TANK MAINTENANCE) ENGINEERING, LTD.,
an United Kingdom corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAYFLOWER VAPOR SEAL CORPORATION,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GENERAL SERVICE CORPORATION,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAINSERVE-ALLENTECH, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAINTENANCE SERVICES, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

LIBERTY BANK AND TRUST COMPANY
OF TULSA, NATIONAL ASSOCIATION

By: /s/Kevin C. Short

Name: Kevin C. Short
Title: Banking Officer

EXHIBITS

Exhibit "A-1" - Form of Replacement Revolving Note

Exhibit "B-2" - Form of Replacement Term Note

Exhibit "J" - Form of Acquisition Note

SECURITY AGREEMENT

This Security Agreement ("Agreement") is made and entered into this 19th day of June, 1997, by GENERAL SERVICE CORPORATION, a Delaware corporation ("Debtor"), in favor of LIBERTY BANK AND TRUST COMPANY OF TULSA, NATIONAL ASSOCIATION ("Secured Party").

RECITALS

A. Pursuant to that certain Credit Agreement dated August 30, 1994, as amended by that certain First Amendment to Credit Agreement dated as of even date herewith (the same, as amended, supplemented or otherwise modified from time to time, being hereinafter referred to as the "Credit Agreement"), among Debtor as a Borrower (as such term is defined in the Credit Agreement), the other Borrowers and Secured Party, Secured Party has established in favor of the Borrowers, on the terms and conditions set forth therein, (i) a revolving credit facility in the principal amount not to exceed $15,000,000, (ii) a term loan facility in the principal amount not to exceed $5,000,000, and (iii) an acquisition term loan facility in the principal amount of $5,000,000.

B. It is a condition precedent to the obligations of Secured Party under the Credit Agreement that Debtor shall have executed and delivered this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged and in order to induce Secured Party to make loans and other extensions of credit under the Credit Agreement, Debtor hereby agrees as follows:

ARTICLE I

DEFINITIONS

1.1 Terms Defined in Credit Agreement. Capitalized terms used herein and not otherwise defined have the respective meanings assigned to them in the Credit Agreement.

1.2 Defined Terms. The following terms used herein shall have the meanings indicated:

Accounts. "Accounts" shall mean and include all accounts (as such term is defined in Article 9 of the UCC) of Debtor, of every nature, whether now existing or hereafter arising, including, without limitation, all accounts receivable and other rights to payment for goods sold or leased or for services rendered.

Collateral. "Collateral" shall mean and include (i) all Accounts, (ii) all Inventory, (iii) all General Intangibles, (iv) all books, records, ledger cards, electronic data processing materials and other general intangibles relating to the foregoing property, and (v) all Proceeds of the foregoing property.

General Intangibles. "General Intangibles" shall mean and include (i) all general intangibles (as such term is defined in Article 9 of the UCC) of Debtor, of every nature, whether now owned or existing or hereafter arising or acquired, including, without limitation, all books, correspondence, credit files, records, computer programs, source codes, computer tapes, computer cards, computer disks, Permits, know-how, technologies, trade secrets, claims (including, without limitation, claims for income tax and other refunds), causes of action, choses in action, judgments, goodwill, patents, copyrights, brand names, trademarks, tradenames, service names, service marks, logos, licensing agreements, franchises, royalty payments, settlements, partnership interests (whether general, limited or special), interests in joint ventures, contracts, contract rights and monies due under any contract or agreement, (ii) all chattel paper of the Borrowers, whether now owned or existing or hereafter arising or acquired, and (iii) all papers and documents evidencing or constituting any of the foregoing.

Governmental Authority. "Governmental Authority" shall mean any court or any administrative or governmental department, commission, board, bureau, authority, agency or body of any governmental entity, whether foreign or domestic, and whether national, federal, state, county, city, municipal or otherwise.

Indebtedness. "Indebtedness" shall mean and include all liabilities, obligations and indebtedness of the Borrowers to Secured Party, of every kind and description, now existing or hereafter incurred, direct or indirect, absolute or contingent, due or to become due, matured or unmatured, and whether or not of the same or a similar class or character as the Credit Facilities and whether or not currently contemplated by Secured Party or the Borrowers, including, without limitation, (i) all Advances, Letters of Credit and Check Payment Letters (including interest accruing thereon and fees payable in respect thereof), (ii) all Reimbursement Obligations, (iii) all liabilities, obligations and

indebtedness of the Borrowers to the Bank arising out of or relating to the Credit Agreement, this Agreement, the Credit Facilities, the Notes, the L/C Agreements or any other of the Loan Documents, (iv) any overdrafts by any of the Borrowers on any deposit account maintained with the Bank, and (v) any and all extensions and renewals of any of the foregoing.

Inventory. "Inventory" shall mean and include all inventory (as such term is defined in Article 9 of the UCC) of Debtor, now existing or hereafter acquired and wherever located, including, without limitation, (i) raw goods and raw materials, (ii) goods in process, (iii) finished goods, (iv) materials, supplies, containers, boxes and packaging materials, (v) materials used or consumed in the course of business, and (vi) all other goods held or stored for sale or lease or furnished or to be furnished under contracts of service.

Permit. "Permit" shall mean any permit, certificate, consent, franchise, concession, license, authorization, approval, filing, registration or notification from or with any Governmental Authority or other Person.

Person. "Person" shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, entity, party or Governmental Authority.

Proceeds. "Proceeds" shall mean all proceeds of all or any portion of the Collateral within the meaning of Article 9 of the UCC, including, without limitation, (i) all proceeds of any insurance, judgment, indemnity, warranty or guaranty payable to or for the account of Debtor with respect to all or any portion of the Collateral, (ii) all proceeds in the form of accounts, collections, contract rights, documents, instruments, chattel paper or general intangibles relating in whole or in part to the Collateral, and (iii) all payments, in any form whatsoever, made or due and payable to or for the account of Debtor in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any portion of the Collateral by any Governmental Authority.

"UCC" shall mean the Uniform Commercial Code as in effect from time to time in the State of Oklahoma.

1.3 Interpretations. Unless otherwise defined herein, (i) terms defined in the UCC are used herein as so defined, and (ii) the singular shall be deemed to include the plural and the plural shall be deemed to include the singular.

ARTICLE II

GRANT OF SECURITY INTEREST

In order to secure the prompt and complete payment and performance when due (whether at the stated maturity, upon a mandatory prepayment, by acceleration or otherwise) of the Indebtedness, Debtor hereby assigns, transfers and pledges unto Secured Party, and grants to Secured Party a continuing security interest in, the Collateral.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Debtor hereby represents and warrants to Secured Party that:

3.1 Ownership; Free of Encumbrances. Debtor is and will remain the legal and beneficial owner of the Collateral, free and clear of any prior Liens, except the security interest created hereby and except as set forth in Subsection 5.6 of the Credit Agreement. Debtor will defend the Collateral against all claims and demands of all persons at any time claiming the Collateral or any interest therein, other than persons holding Liens permitted under Subsection 5.6 of the Credit Agreement. No security agreement, financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office except such as may have been filed pursuant to this Agreement and except as set forth in Schedule I attached hereto. Debtor has exclusive possession and control of the Collateral.

3.2 Conflicting Agreements and Charter Provisions. Neither the execution and delivery of this Agreement, nor fulfillment nor compliance with the terms and provisions hereof, will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, the charter or bylaws of Debtor, or any agreement, instrument, judgment, decree, statute, law, rule or regulation to which Debtor is subject or by which the Collateral is bound or affected, or require any authorization, consent, approval or other action by, or notice to any Governmental Authority. No consent or authorization of or filing with or other act by and in respect of any other Person is required in connection with the execution, delivery, performance, validity or enforceability of this Agreement.

3.3 Actions and Proceedings. There is no action or proceeding against or investigation of Debtor, pending or threatened, which questions the validity of this Agreement or any of the Loan Documents or which is likely to have a Material Adverse Effect.

3.4 Organization; Authority. Debtor is and will remain a corporation, duly organized, validly existing, and in good standing under the laws of the state of Oklahoma and is duly qualified to conduct business and in good standing under the laws of the state of Georgia and all other states or jurisdictions in which it does business. Debtor now has and will have at all material times requisite corporate power and authority to enter into this Agreement and to carry out the terms and provisions hereof. This Agreement has been duly authorized by all necessary corporate action on the part of Debtor, has been duly executed and delivered by Debtor's duly authorized officers, and constitutes the legal, valid and binding obligation of Debtor, enforceable in accordance with its terms (except as enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally, and (ii) general principles of equity).

3.5 Location of Principal Office; Records. The chief place of business and chief executive office of Debtor and the offices where Debtor keeps its records concerning the Accounts and the original copies of all contracts that evidence or constitute Collateral are located at the following address:

57 East Broad St.
Newnan, Georgia 30264

Schedule II attached hereto contains a complete and accurate list of the locations of all Inventory. Within the last four months, Debtor has not changed its name, identity or corporate structure (by reorganization or otherwise), or its address.

3.6 Tradenames. Schedule III attached hereto contains a complete and accurate list of (i) all names under which Debtor is or has been doing business within the last twelve months, including, without limitation, tradenames, division names, and fictitious names, (ii) all tradenames owned by Debtor or that Debtor is licensed to use, and (iii) all tradenames that Debtor has established the right to use.

3.7 Instruments. None of the Accounts is currently evidenced by a promissory note or other instrument.

3.8 Accounts. The amount represented to Secured Party from time to time as owing by each account debtor or by all account debtors in respect of the Accounts will at no time be other than the correct amount actually owing by such account debtor or debtors thereunder. No consent of any account debtor in respect of any account is required, or purports to be required, in connection with the execution, delivery and performance of this Agreement by Debtor. Each of the Accounts is in full force and effect and constitutes a valid and legally enforceable obligation of the account debtor in respect thereof.

3.9 Law and Ordinances. Debtor has not violated and will not violate any applicable statute, regulation or ordinance of any Governmental Authority in any material adverse respect as to the ownership, acquisition, use and operation of the Collateral including, without limitation, any Environmental Laws.

3.10 Permits. Debtor has acquired or will acquire at appropriate times, and is in compliance with the terms of, all Permits which in any respect are necessary for the ownership, maintenance, use or operation of the Collateral, and all such Permits shall be valid and subsisting at all pertinent times.

ARTICLE IV

COVENANTS

Debtor covenants and agrees with Secured Party that, from and after the date of this Agreement until the Indebtedness is paid in full:

4.1 Insurance. Debtor, at its cost and expense, shall maintain in full force and effect liability and casualty insurance on the Inventory as required under the terms of the Credit Agreement.

4.2 Recordings, Filings, Further Assurances. Debtor agrees that from time to time, at the expense of Debtor, Debtor will promptly execute and deliver all further instruments and documents, and take all further action that may be necessary or desirable, or that Secured Party may reasonably request, in order to continue, perfect and protect any security interest granted hereby or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Debtor will: (i) mark conspicuously each item of chattel paper included in the Accounts with a legend in form and substance satisfactory to Secured Party, indicating that

such chattel paper is subject to the security interest granted hereby; (ii) if any of the Accounts shall be evidenced by a promissory note or other instrument, deliver and pledge to Secured Party such note or instrument duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Secured Party; (iii) execute and file such financing or continuation statements or amendments thereto and such other instruments or notices as may be necessary or desirable, or as Secured Party may request, in order to perfect and preserve the security interest granted or purported to be granted hereby; (iv) deliver to Secured Party promptly upon receipt thereof all promissory notes and other instruments representing or evidencing any of the Collateral; and (v) prepare and furnish to Secured Party upon request such lists of the Accounts as Secured Party may, from time to time, reasonably request. Debtor hereby authorizes Secured Party to file one or more financing or continuation statements and amendments thereto relative to all or part of the Collateral without the signature of Debtor, where permitted by law and to execute the same as attorney-in-fact for Debtor to the extent Debtor's signature is required by law.

4.3 Records and Inspection; Field Audits. Debtor shall keep and shall make available to Secured Party at reasonable times, accurate and complete books and records with respect to the Collateral and Debtor's business generally, in accordance with generally accepted accounting principles or other reasonable and sound business practices, including a record of all payments received and any credits granted on any of the Accounts, and Secured Party shall have the right to inspect and copy such records and to inspect the Collateral at reasonable times. Without limiting the generality of the foregoing, Debtor will: (i) permit Secured Party, through its authorized representatives, to conduct periodic field audits of Debtor and to review Debtor's operations, books and records, accounts receivable methods and controls, and other matters relating to the value and maintenance of the Collateral and Debtor's financial reporting, and (ii) afford any authorized representative of Secured Party with access to any Property owned by Debtor, during business hours and upon reasonable notice. For the further security of Secured Party, Secured Party shall have a security interest in all such books and records pertaining to the Collateral, and after any Event of Default Debtor shall turn over any such books and records to Secured Party or to its representatives during normal business hours at the request of Secured Party.

4.4 Location of Office and Records; Change of Name. Debtor shall keep its chief place of business and chief executive office, and the offices where it keeps its records concerning the Accounts and the original copies of all contracts and chattel paper that evidence or constitute Collateral, at the location therefor specified in Subsection 3.5 above and shall notify Secured Party at least thirty (30) days prior to any change from said location. Debtor will not change its name, identity or corporate or other structure to such an extent that any financing statement filed by Secured Party in connection with this Agreement would become seriously misleading, unless it shall have given Secured Party at least thirty (30) days prior written notice thereof and prior to effecting any such change taken such steps as Secured Party may deem necessary or advisable to continue the perfection and priority of the security interest granted pursuant hereto.

4.5 Removal of Inventory. Debtor shall keep the Inventory at the locations listed on Schedule II or, with the prior written consent of Secured Party, at such other location in a jurisdiction in which all actions required by Subsection 4.2 shall have been taken with respect to the Collateral as Debtor may have advised Secured Party at least thirty (30) days prior to such removal.

4.6 Debtor Remains Liable. Debtor shall remain liable under all contracts or other agreements included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed. The exercise by Secured Party of any of the rights hereunder shall not release Debtor from any of its duties or obligations under such contracts or agreements included in the Collateral. Secured Party shall not have any obligation or liability under such contracts or agreements included in the Collateral by reason of this Agreement, nor shall Secured Party be obligated to perform any of the obligations or duties of Debtor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder. Debtor shall at its expense perform and observe all of the terms and provisions of such contracts to be performed or observed by it to maintain such contracts in full force and effect, enforce such contracts in accordance with their terms, and take all such action to such ends as may from time to time be reasonably requested by Secured Party.

4.7 Debtor to Pay Taxes. Debtor will pay promptly when due all property and other taxes, assessments, and governmental charges or levies imposed upon and claims (including claims for labor, materials and supplies) against the Collateral, except to the extent (i) the validity thereof is being contested in good faith and by proper proceedings, (ii) proper reserves are being maintained in connection therewith, in accordance with generally accepted accounting principles, consistently applied, and (iii)

the proceedings referred to in clause (i) above could not subject Secured Party to any civil or criminal penalty or liability or involve any risk of sale, forfeiture or loss of any of the Collateral.

4.8 Transfers and Other Liens. Debtor shall not: (a) sell, assign, or otherwise dispose of or grant any option with respect to any of the Collateral (except as permitted by Subsection 7.2 of the Credit Agreement), or (b) create or suffer to exist any lien upon or with respect to any of the Collateral (except as permitted by Subsection 7.1 of the Credit Agreement).

4.9 Limitations on Modifications, Waivers or Extensions of Agreements Giving Rise to Accounts. Debtor will not (i) amend, modify, terminate or waive any provision of any agreement giving rise to an Account in any manner which could reasonably be expected to materially adversely affect the value of such Account as Collateral, or (ii) fail to exercise promptly and diligently each and every material right which it may have under each agreement giving rise to an Account (other than any right of termination). Debtor will deliver to Secured Party a copy of each material demand, notice or document sent or received by it relating in any way to any amendment, modification, termination or waiver of any provision of any agreement giving rise to an Account.

4.10 Secured Party's Rights and Duties. Debtor shall remain liable under the Accounts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with and pursuant to the terms and provisions of each Account. Secured Party shall not have any obligation or liability under any Accounts by reason of or arising out of this Agreement, or the receipt by Secured Party of any payment relating to any Account pursuant hereto, nor shall Secured Party be required or obligated in any manner to perform or fulfill any of the obligations of Debtor under or pursuant to any Account or to make any payment, or to make any inquiry as to the nature or the sufficiency of any payment received by Secured Party or the sufficiency of any performance by any party under any Account or to present or file any claim, or to take any action to collect or enforce any performance or the payment of any amounts which have been assigned to Secured Party or to which Secured Party may be entitled at any time or times.

4.11 Collection of Accounts and Proceeds. Debtor shall cause all payments from account debtors on any of the Accounts to be remitted directly to a "lockbox" maintained with Secured Party. Until further notice from Secured Party, any proceeds of Accounts remitted to the lockbox, whether consisting of checks, notes, drafts, bills of exchange, money orders, commercial paper of any kind whatsoever, or other documents received in payment of any Accounts or in payment for any Inventory, shall be deposited by Secured Party in an operating account maintained by Matrix with Secured Party (subject to Secured Party's established policies on availability of uncollected funds). Such proceeds when deposited shall continue to be collateral security for all of the Indebtedness and shall not constitute payment thereof until applied as hereinafter provided. Upon the occurrence and during the continuation of an Event of Default, Secured Party may apply all or any part of the funds on deposit in said operating account on account of the principal of and/or interest on any of the Indebtedness, the order and method of any such application to be in the sole discretion of Secured Party. If an Event of Default shall have occurred and be continuing, at Secured Party's request Debtor shall deliver to Secured Party all original and other documents evidencing and relating to the sale and delivery of Inventory or the performance of labor or services which created the Accounts, including, but not limited to, all original orders, invoices, and shipping receipts. Secured Party may, at any time after the occurrence and during the continuation of any Event of Default, notify account debtors that the Accounts have been assigned to Secured Party and that payment shall be made directly to Secured Party, and Debtor will so notify such account debtors on the request of Secured Party. Secured Party may in its own name or in the name of others, at any time after the occurrence and during the continuation of any Event of Default, communicate with account debtors in order to verify with them the existence, amount, and terms of any Accounts.

ARTICLE V

DEFAULT

The term "Event of Default" for all purposes of this Agreement shall mean the occurrence of an "Event of Default" as defined in the Credit Agreement.

ARTICLE VI

REMEDIES

6.1 Acceleration of Indebtedness. Upon the occurrence of any Event of Default, Secured Party may, at its option, without notice or demand, terminate its obligations to Debtor (including the Revolving Commitment as defined in the Credit Agreement) and declare the Indebtedness to be immediately due and payable, whereupon the same shall become forthwith due

and payable.

6.2 Other Remedies. Upon the occurrence and during the continuation of any Event of Default, Secured Party shall be entitled to exercise all remedies available to it under the Loan Documents (as defined in the Credit Agreement) or otherwise under applicable law, including, without limitation, the following:

6.2.1All Legal Remedies. Proceed to selectively and successively enforce and exercise any and all rights and remedies which Secured Party may have under this Agreement, any other applicable agreement or applicable law, including, without limitation: (i) commencing one or more actions against Debtor and reducing the claims of Secured Party against Debtor to judgment, (ii) foreclosing, realizing upon, or otherwise enforcing Secured Party's security interest in the Collateral, or any portion thereof, or other enforcing Secured Party's rights and remedies in respect of the Collateral, through judicial action or otherwise, including all available remedies under the applicable provisions of the UCC, and (iii) paying or discharging of any claim or Lien, prior or subordinate, in respect of or affecting the Collateral.

6.2.2Cash Equivalent Items. As regards any portion of the Collateral consisting of cash equivalent items (i.e., checks, drafts or other items convertible at face), immediately apply them against the Indebtedness and for this purpose Debtor agrees that such items will be considered identical in character to cash proceeds.

6.2.3Disposition. Sell, lease or otherwise dispose of the Collateral at private or public sale, in bulk or in parcels and, where permitted by law, without having the Collateral present at the place of sale. Unless the Collateral is perishable or it appears that the value of the Collateral will decline speedily or the Collateral is a type customarily sold on a recognized market, or unless Debtor has signed a statement (after the occurrence of an Event of Default) renouncing or modifying Debtor's right to notice, Secured Party will give Debtor reasonable notice of the time and place of any public sale or other disposition thereof or the time after which any private sale or other disposition thereof is to be made. The requirements of reasonable notice shall be met if such notice is given to Debtor at least ten (10)days before the time of any such sale or disposition.

6.2.4Costs and Expenses. Recover from Debtor an amount equal to all costs, expenses and attorney's fees incurred by Secured Party in connection with the exercise of the rights contained or referred to herein, together with interest on such sums at the default rate applicable to the Term Note from time to time.

6.2.5Collections. Exercise any and all rights and remedies of Debtor relating to the Collateral, including, but not by way of limitation, the right to collect, demand, receive, settle, compromise, adjust or sue for all amounts due thereon or thereunder and the right either in Secured Party's own name or in the name of Debtor, to take such legal or other action as Debtor might have taken except for this Agreement.

6.3 Letters of Credit. Upon the acceleration of the Indebtedness after an Event of Default an amount equal to the aggregate stated amount of all outstanding Letters of Credit issued by Secured Partyfor the account of the Borrowers shall, at Secured Party's option and without demand upon or further notice to Debtor, be deemed (as between Secured Party and the Borrowers) to have been paid or disbursed by Secured Party under the Letters of Credit (notwithstanding that such amounts may not in fact have been so paid or disbursed), and a loan to the Borrowers in the amount of such Letters of Credit to have been made and accepted, which loan shall be immediately due and payable and shall bear interest at the post default rate provided in the Revolving Note. In lieu of the foregoing, at the election of Secured Party, Debtor and/or the other Borrowers shall, upon Secured Party's demand, deliver to Secured Party cash, or other collateral of a type satisfactory to Secured Party, having a value, as determined by Secured Party, equal to the aggregate outstanding Letters of Credit. Any such collateral and/or any amounts received by Secured Party in payment of the loan made pursuant to this Section shall be held by Secured Party in a separate account appropriately designated as a cash collateral account in relation to this Agreement and the Letters of Credit and retained by Secured Party as collateral security for the Indebtedness and each of the Letters of Credit. Such amounts shall not be used by Secured Party to pay any amounts drawn or paid under or pursuant to any Letter of Credit, but may be applied to reimburse Secured Party for drawings or payments under or pursuant to Letters of Credit which Secured Party has paid or, if no such reimbursement is required, to payment of suchother Indebtedness as Secured Party shall determine. At the option ofSecured Party, proceeds of sale of the Collateral may be used to fund thecash collateral account herein provided for. Any amounts remaining in any cash collateral account established pursuant to this Section following payment in full of the Indebtedness, which amounts are not (as determined by Secured Party) to be applied to reimburse Secured Party for amounts actually paid by Secured Party in respect of a Letter of Credit, shall be returned to the Borrowers (after

deduction of Secured Party's reasonable and necessary expenses).

6.4 Selective Enforcement. In the event Secured Party shall elect to selectively and successively enforce its rights and remedies in respect of any of the Collateral, pursuant to any applicable agreements or otherwise, such action shall not be deemed a waiver or discharge of any other right, remedy, lien or encumbrance until such time as Secured Party shall have been paid in full the Indebtedness.

6.5 Waiver of Default. Secured Party may, by an instrument in writing signed by Secured Party, waive any Event of Default which shall have occurred and any of the consequences thereof and, in such event, Secured Party and Debtor shall be restored to their respective former positions, rights and obligations. Any Event of Default so waived shall, for all purposes of this Agreement, be deemed to have been cured and not to be continuing, but no such waiver shall extend to any subsequent or other default or impair any consequence thereof.

6.6 Deposits; Setoff. Regardless of the adequacy of any other Collateral held by Secured Party, any deposits or other sums credited by or due from Secured Party to Debtor shall at all times constitute collateral security for the Indebtedness and may be set off against the Indebtedness. The rights granted in this subsection shall be in addition to the rights of Secured Party under any statutory banker's lien or common law right of setoff.

6.7 Application of Payments. During the continuance of any Event of Default, all payments received by Secured Party in respect of the Indebtedness, whether from Debtor, any of the other Borrowers, any guarantor, recoveries upon any portion of the Collateral or otherwise, may be applied by Secured Party to any liabilities, obligations or indebtedness included in the Indebtedness selected by Secured Party in its sole and exclusive discretion.

6.8 Secured Party's Satisfaction of Debtor's Obligations. Upon the occurrence of any event which, but for the giving of notice or the passage of time, would constitute an Event of Default, Secured Party may, but shall not be obligated to, pay, satisfy or cure any liability or obligation of Debtor arising out of or relating to this Agreement or the Notes, upon prior notice to Debtor, and Debtor will from time to time within ten (10) days after a request made by Secured Party, reimburse Secured Party for all amounts expended, advanced or incurred by Secured Party in connection with such payment, cure or satisfaction, together with interest on such sums at the default rate applicable to the Term Note from time to time.

ARTICLE VII

MISCELLANEOUS

From and after the date of this Agreement and until the Indebtedness is paid in full:

7.1 Power of Attorney. Debtor hereby irrevocably constitutes and appoints Secured Party, with full power of substitution, as its full and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Debtor and in the name of Debtor or in its own name from time to time in Secured Party's discretion, for the purposes of carrying out this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, Debtor hereby gives Secured Party the power and right on behalf of Debtor, without notice to or assent by Debtor to do the following:

(a) At any time when any Event of Default shall have occurred and be continuing, to take possession of and endorse and collect any checks, drafts, notes, acceptances, or other instruments for the payment of money due under or with respect to any Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Secured Party for the purpose of collecting any and all such monies due or with respect to such Collateral whenever payable;

(b) Upon the occurrence and during the continuance of any Event of Default, (i) to direct any party liable for any payment under any of the Collateral to make payment of any and all monies due or to become due thereunder directly to Secured Party, or as Secured Party shall direct; (ii) to ask for or demand, collect, receive payment of and receipt for, any and all monies, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (iii) to assign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (iv) to commence and prosecute any suits, actions, or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect

of any Collateral; (v) to defend any suit, action, or proceeding brought against such Debtor with respect to any Collateral; and (vi) to settle, compromise or adjust any suit, action or proceeding described in the preceding clause and, in connection therewith, to give such discharges or releases as Secured Party may deem appropriate.

All acts of such attorney or designee are hereby ratified and approved and such attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or law. This power of attorney being coupled with an interest is irrevocable while any of the Indebtedness shall remain unpaid.

7.2 Amendment; Entire Agreement. This Agreement cannot be amended, modified or supplemented, except by an agreement in writing signed by the party or parties against whom enforcement of any waiver, change, amendment, modification or discharge is sought. This Agreement constitutes the entire agreement of the parties hereto with respect to the matters dealt with herein, except as expressly indicated to the contrary herein.
7.3 Notices. All notices, requests and demands required or authorized hereunder shall be given in the manner set forth in Subsection 10.3 of the Credit Agreement.

7.4 Waivers; Consents. Debtor hereby (i) consents to all extensions and renewals of the Indebtedness, (ii) consents to the addition, release or substitution of any person other than Debtor liable on any portion of the Indebtedness, (iii) waives all demands, notices and protests of any action taken by Secured Party pursuant to this Agreement or in connection with the Indebtedness, (iv) waives any indulgence by Secured Party, and (v) consents to any substitutions for, exchanges of or releases of the Collateral or any portion thereof or of any other property securing the Indebtedness.

7.5 Survival of Representations and Warranties. All representations and warranties of Debtor contained herein or made in writing by Debtor in connection herewith shall continue and shall survive the execution and delivery of this Agreement.

7.6 Successors and Assigns. All covenants and agreements in this Agreement made by Debtor and Secured Party shall inure to the benefit of and shall be binding upon Secured Party and Debtor and their respective successors and assigns, whether so expressed or not.

7.7 Descriptive Headings. The descriptive headings of the Sections of this Agreement are inserted for convenience only and do not constitute a part of the Agreement.

7.8 Governing Law. THIS AGREEMENT HAS BEEN DELIVERED TO AND ACCEPTED BY SECURED PARTY IN THE STATE OF OKLAHOMA, IS TO BE PERFORMED IN THE STATE OF OKLAHOMA, SHALL BE DEEMED A CONTRACT MADE UNDER THE LAWS OF THE STATE OF OKLAHOMA, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAWS OF THE STATE OF OKLAHOMA.

7.9 Severability. In the event any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

7.10 Indemnity and Expenses. Debtor agrees to indemnify Secured Party from and against any and all claims, losses, liabilities or expenses (including without limitation legal fees and expenses) (i) arising out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), (ii) resulting from any delay in paying excise, sales or other taxes in connection with the Collateral, or (iii) with respect to or resulting from any failure to comply with any requirement of law with respect to the Collateral, except claims, losses or liabilities resulting from Secured Party's gross negligence or willful misconduct. Debtor will, upon demand, pay to Secured Party the amount of any and all expenses, including the fees and disbursements of its counsel and of any experts and agents which Secured Party may reasonably incur in connection with (i) the execution and delivery of this Agreement, (ii) any proposed amendment or modification of this Agreement, (iii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon any of the Collateral, (iv) the exercise or enforcement of any of the rights of Secured Party hereunder, or (v) failure of Debtor to perform or observe any of the provisions hereof.

7.11 Preservation of Collateral. Secured Party's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession under Section 9-207 of the UCC, or otherwise, shall be to deal with it in the same manner as Secured Party deals with similar property for its own account. Neither Secured Party nor any of its directors, officers, employees, or agents shall be liable for failure to demand, collect, or realize upon all or any part of the Collateral, or for any delay in doing so, or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Debtor, or otherwise.

7.12 No Waiver by Secured Party. Secured Party shall not by any act (except by a written instrument pursuant to Subsection 7.2 hereof), delay,indulgence, omission, or otherwise, be deemed to have waived any right orremedy hereunder or to have acquiesced in any Event of Default, or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of Secured Party, any right, power, or privilege hereunder, shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. A waiver by Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Secured Party would otherwise have on any future occasion.

7.13 Jurisdiction and Venue. All actions or proceedings with respect to this Agreement may be instituted in any state or federal court sitting in Tulsa County, Oklahoma, as Secured Party may elect, and by execution and delivery of this Agreement Debtor irrevocably and unconditionally (i) submits to the nonexclusive jurisdiction (both subject matter and person) of each such court, and (ii) waives (a) any objection that Debtor may now or hereafter have to the laying of venue in any of such courts, and (b) any claim that any action or proceeding brought in any such court has been brought in an inconvenient forum.

7.14 Financing Statements. A carbon, photographic or other reproduction of this instrument or any financing statement in connection herewith shall be sufficient as a financing statement for any and all purposes.

IN WITNESS WHEREOF, Debtor has executed and delivered this Agreement to and in favor of Secured Party as of the date first set forth above.

GENERAL SERVICE CORPORATION,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

LIBERTY BANK AND TRUST COMPANY OF TULSA,
NATIONAL ASSOCIATION

By: /s/Kevin C. Short

Name: Kevin C. Short
Title: Banking Officer

PROMISSORY NOTE
(Revolving Note)

Due: October 31, 1999

$15,000,000.00 Tulsa, Oklahoma June 19, 1997

FOR VALUE RECEIVED, the undersigned ("Makers") jointly and severally promise to pay to the order of LIBERTY BANK AND TRUST COMPANY OF TULSA, NATIONAL ASSOCIATION ("Bank"), on or before October 31, 1999, the principal sum of Fifteen Million and No/100 Dollars ($15,000,000.00), or so much thereof as shall be advanced and remain outstanding hereunder.

Makers also promise to pay interest on the unpaid principal amount hereof from time to time outstanding from the date hereof until maturity (whether at the stated maturity date, by acceleration or otherwise) and after maturity until paid in full at the rates per annum specified in the Credit Agreement (as hereinafter defined).

All payments of principal and interest hereunder shall be made on the dates and in the amounts specified in the Credit Agreement to Bank at its principal office in Tulsa, Oklahoma, on or before 2:00 p.m. (Tulsa time), on the date due, in immediately available funds. Whenever a payment is due on a day other than a Business Day, the due date shall be extended to the next succeeding Business Day and interest (if any) shall accrue during such extension.

This Note is executed and delivered by Makers pursuant to, and is entitled to the benefits of, that certain Credit Agreement dated as of August 30, 1994, as amended by that certain First Amendment to Credit Agreement dated as of even date herewith (as amended, modified or supplemented from time to time, the "Credit Agreement"), between Makers and Bank. Reference is hereby made to the Credit Agreement for a complete statement of the repayment terms of this Note, including the prepayment rights and obligations of Makers and the right of the holder of this Note to accelerate the maturity hereof on the occurrence of certain Events of Default (as defined therein), and for all other pertinent purposes. Capitalized terms used herein and not otherwise defined have the respective meanings assigned to them in the Credit Agreement. This Note is the "Revolving Note" referred to in the Credit Agreement.

This Note is made, executed and delivered by Makers and accepted by Bank in renewal and extension of and substitution for, but not in payment or satisfaction of (or as a novation of), that certain Promissory Note (Revolving Note) of Makers dated as of October 31, 1996, payable to the order of Bank in the principal amount of $15,000,000.00 (the "Prior Revolving Note"). By acceptance of this Note, Bank hereby confirms that the termination date of the Revolving Credit Facility has been extended pursuant to Subsection 2.13 of the Credit Agreement to October 31, 1999. All Security Agreements and other Loan Documents securing payment of the Prior Revolving Note shall continue in full force and effect as security for payment of the indebtedness evidenced hereby.

Upon the occurrence and during the continuation of any Event of Default, the holder of this Note may apply payments received on any amount due hereunder or under the terms of any instrument now or hereafter evidencing or securing any said indebtedness as said holder may determine.

It is the intent of Bank and Makers to conform strictly to all applicable usury laws, and any interest on the principal balance hereof in excess of that allowed by said usury laws shall be subject to reduction to the maximum amount of interest allowed under said laws. If any interest in excess of the maximum amount of interest allowable by said usury laws is inadvertently paid to the holder hereof, at any time, any such excess interest shall be refunded by the holder to the party or parties entitled to the same after receiving notice of payment of such excess interest.

The records of the holder of this Note shall be prima facie evidence of the amount owing on this Note.

If, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the holder's rights hereunder, Makers will pay to the holder hereof its reasonable attorneys' fees, together with all court costs and other expenses paid by such holder.

Makers, endorsers, sureties, guarantors and all other parties who may become liable for all or any part of this Note severally waive demand, presentment, notice of dishonor, protest, notice of protest, and notice of non-payment, and consent to: (a) any and all extensions of time for any term or terms regarding any payment due under this Note, including partial payments or renewals before or after maturity; (b) changes in interest rates; (c) any substitutions or release of collateral; and (d) the addition, substitution or release of any party liable for payment of this

Note.

No waiver of any payment or other right under this Note or any related agreement shall operate as a waiver of any other payment or right. All of the holder's rights hereunder are cumulative and not alternative. This Note shall inure to the benefit of the successors and assigns of Bank or other holder and shall be binding upon the successors and assigns of Makers.

This Note has been delivered to and accepted by the Bank in the State of Oklahoma, is to be performed in the State of Oklahoma, shall be deemed a contract made under the laws of the State of Oklahoma, and shall be governed by, and construed and enforced in accordance with, the laws of the State of Oklahoma. All actions or proceedings with respect to this Note may be instituted in any state or federal court sitting in Tulsa County, Oklahoma, as Bank may elect, and by execution and delivery of this Note, Makers irrevocably and unconditionally (i) submit to the non-exclusive jurisdiction (both subject matter and person) of each such court, and (ii) waive (a) any objection that Makers might now or hereafter have to the laying of venue in any of such courts, and (b) any claim that any action or proceeding brought in any of such courts has been brought in an inconvenient forum.

IN WITNESS WHEREOF, the undersigned have executed this instrument effective as of the date first above written.

MATRIX SERVICE COMPANY,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INDUSTRIAL CONTRACTORS, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE MID-CONTINENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

PETROTANK EQUIPMENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

TANK SUPPLY, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee

Title: Secretary

SAN LUIS TANK PIPING CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

COLT CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INTERNATIONAL, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL ACQUISITION CORPORATION,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL FABRICATORS, INC.,
a Georgia corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

BROWN STEEL CONTRACTORS, INC.,
a Georgia corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

WEST COAST INDUSTRIAL COATINGS, INC.,
a California corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST SERVICE COMPANY,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

HEATH ENGINEERING, LTD.,
an Ontario corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

HEATH (TANK MAINTENANCE) ENGINEERING, LTD., a
United Kingdom corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAYFLOWER VAPOR SEAL CORPORATION,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GENERAL SERVICE CORPORATION,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAINSERVE-ALLENTECH, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAINTENANCE SERVICES, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

PROMISSORY NOTE
(Term Note)

Due: August 31, 1999

$5,000,000.00 Tulsa, Oklahoma June 19, 1997

FOR VALUE RECEIVED, the undersigned ("Makers") jointly and severally promise to pay to the order of LIBERTY BANK AND TRUST COMPANY OF TULSA, NATIONAL ASSOCIATION ("Bank"), on or before August 31, 1999, the principal sum of Five Million and No/100 Dollars ($5,000,000.00), or so much thereof as shall be advanced and remain outstanding hereunder.

Makers also promise to pay interest on the unpaid principal amount hereof from time to time outstanding from the date hereof until maturity (whether at the stated maturity date, by acceleration or otherwise)and after maturity until paid in full at the rates per annum specified in the Credit Agreement (as hereinafter defined).

All payments of principal and interest hereunder shall be made on the dates and in the amounts specified in the Credit Agreement to Bank at its principal office in Tulsa, Oklahoma, on or before 2:00 p.m. (Tulsa time), on the date due, in immediately available funds. Whenever a payment is due on a day other than a Business Day, the due date shall be extended to the next succeeding Business Day and interest (if any) shall accrue during such extension.

This Note is executed and delivered by Makers pursuant to, and is entitled to the benefits of, that certain Credit Agreement dated as of August 30, 1994, as amended by that certain First Amendment to Credit Agreement of even date herewith (as amended, modified or supplemented from time to time, the "Credit Agreement"), between Makers and Bank. Reference is hereby made to the Credit Agreement for a complete statement of the repayment terms of this Note, including the prepayment rights and obligations of Makers and the right of the holder of this Note to accelerate the maturity hereof on the occurrence of certain Events of Default (as defined therein), and for all other pertinent purposes. This Note is the "Term Note" referred to in the Credit Agreement.

This Note is made, executed and delivered by Makers and accepted by Bank in renewal and extension of and substitution for, but not in payment or satisfaction of (or as a novation of), that certain Promissory Note (Term Note) of Makers dated as of August 30, 1994, payable to the order of Bank in the principal amount of $5,000,000.00 (the "Prior Term Note"). All Security Agreements and other Loan Documents securing payment of the Prior Term Note shall continue in full force and effect as security for payment of the indebtedness evidenced hereby.

Upon the occurrence and during the continuation of any Event of Default, the holder of this Note may apply payments received on any amount due hereunder or under the terms of any instrument now or hereafter evidencing or securing any said indebtedness as said holder may determine.

It is the intent of Bank and Makers to conform strictly to all applicable usury laws, and any interest on the principal balance hereof in excess of that allowed by said usury laws shall be subject to reduction to the maximum amount of interest allowed under said laws. If any interest in excess of the maximum amount of interest allowable by said usury laws is inadvertently paid to the holder hereof, at any time, any such excess interest shall be refunded by the holder to the party or parties entitled to the same after receiving notice of payment of such excess interest.

The records of the holder of this Note shall be prima facie evidence of the amount owing on this Note.

If, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the holder's rights hereunder, Makers will pay to the holder hereof its reasonable attorneys' fees, together with all court costs and other expenses paid by such holder.

Makers, endorsers, sureties, guarantors and all other parties who may become liable for all or any part of this Note severally waive demand, presentment, notice of dishonor, protest, notice of protest, and notice of non-payment, and consent to: (a) any and all extensions of time for any term or terms regarding any payment due under this Note, including partial payments or renewals before or after maturity; (b) changes in interest rates; (c) any substitutions or release of collateral; and (d) the addition, substitution or release of any party liable for payment of this Note.

No waiver of any payment or other right under this Note or any related agreement shall operate as a waiver of any other payment or right. All of the holder's rights hereunder are cumulative and not alternative. This Note shall inure to the benefit of the successors and assigns of Bank or other holder and shall be binding upon the successors and assigns of Makers.

This Note has been delivered to and accepted by the Bank in the State of Oklahoma, is to be performed in the State of Oklahoma, shall be deemed a contract made under the laws of the State of Oklahoma, and shall be governed by, and construed and enforced in accordance with, the laws of the State of Oklahoma. All actions or proceedings with respect to this Note may be instituted in any state or federal court sitting in Tulsa County, Oklahoma, as Bank may elect, and by execution and delivery of this Note, Makers irrevocably and unconditionally (i) submit to the non-exclusive jurisdiction (both subject matter and person) of each such court, and (ii) waive (a) any objection that Makers might now or hereafter have to the laying of venue in any of such courts, and (b) any claim that any action or proceeding brought in any of such courts has been brought in an inconvenient forum.

IN WITNESS WHEREOF, the undersigned have executed this instrument effective as of the date first above written.

MATRIX SERVICE COMPANY,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INDUSTRIAL CONTRACTORS, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE MID-CONTINENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

PETROTANK EQUIPMENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

TANK SUPPLY, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

SAN LUIS TANK PIPING CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

COLT CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INTERNATIONAL, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL ACQUISITION CORPORATION,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL FABRICATORS, INC.,
a Georgia corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

BROWN STEEL CONTRACTORS, INC.,
a Georgia corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

WEST COAST INDUSTRIAL COATINGS, INC.,
a California corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST SERVICE COMPANY,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

HEATH ENGINEERING, LTD.,
an Ontario corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

HEATH (TANK MAINTENANCE) ENGINEERING, LTD.,
an United Kingdom corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAYFLOWER VAPOR SEAL CORPORATION,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GENERAL SERVICE CORPORATION,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAINSERVE-ALLENTECH, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAINTENANCE SERVICES, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

PROMISSORY NOTE
(Term Note)

Due: June 19, 2002

$5,000,000.00 Tulsa, Oklahoma June 19, 1997

FOR VALUE RECEIVED, the undersigned ("Makers") jointly and severally promise to pay to the order of LIBERTY BANK AND TRUST COMPANY OF TULSA, NATIONAL ASSOCIATION ("Bank"), on or before June 19, 2002, the principal sum of Five Million and No/100 Dollars ($5,000,000.00), or so much thereof as shall be advanced and remain outstanding hereunder.

Makers also promise to pay interest on the unpaid principal amount hereof from time to time outstanding from the date hereof until maturity (whether at the stated maturity date, by acceleration or otherwise) and afteR maturity until paid in full at the rates per annum specified in the Credit Agreement (as hereinafter defined).

All payments of principal and interest hereunder shall be made on the dates and in the amounts specified in the Credit Agreement to Bank at its principal office in Tulsa, Oklahoma, on or before 2:00 p.m. (Tulsa time), on the date due, in immediately available funds. Whenever a payment is due on a day other than a Business Day, the due date shall be extended to the next succeeding Business Day and interest (if any) shall accrue during such extension.

This Note is executed and delivered by Makers pursuant to, and is entitled to the benefits of, that certain Credit Agreement dated as of August 30, 1994, as amended by that certain First Amendment to Credit Agreement of even date herewith (as amended, modified or supplemented from time to time, the "Credit Agreement"), between Makers and Bank. Reference is hereby made to the Credit Agreement for a complete statement of the repayment terms of this Note, including the prepayment rights and obligations of Makers and the right of the holder of this Note to accelerate the maturity hereof on the occurrence of certain Events of Default (as defined therein), and for all other pertinent purposes. This Note is the "Acquisition Note" referred to in the Credit Agreement.

Upon the occurrence and during the continuation of any Event of Default, the holder of this Note may apply payments received on any amount due hereunder or under the terms of any instrument now or hereafter evidencing or securing any said indebtedness as said holder may determine.

It is the intent of Bank and Makers to conform strictly to all applicable usury laws, and any interest on the principal balance hereof in excess of that allowed by said usury laws shall be subject to reduction to the maximum amount of interest allowed under said laws. If any interest in excess of the maximum amount of interest allowable by said usury laws is inadvertently paid to the holder hereof, at any time, any such excess interest shall be refunded by the holder to the party or parties entitled to the same after receiving notice of payment of such excess interest.

The records of the holder of this Note shall be prima facie evidence of the amount owing on this Note.

If, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the holder's rights hereunder, Makers will pay to the holder hereof its reasonable attorneys' fees, together with all court costs and other expenses paid by such holder.

Makers, endorsers, sureties, guarantors and all other parties who may become liable for all or any part of this Note severally waive demand, presentment, notice of dishonor, protest, notice of protest, and notice of non-payment, and consent to: (a) any and all extensions of time for any term or terms regarding any payment due under this Note, including partial payments or renewals before or after maturity; (b) changes in interest rates; (c) any substitutions or release of collateral; and (d) the addition, substitution or release of any party liable for payment of this Note.

No waiver of any payment or other right under this Note or any related agreement shall operate as a waiver of any other payment or right. All of the holder's rights hereunder are cumulative and not alternative. This Note shall inure to the benefit of the successors and assigns of Bank or other holder and shall be binding upon the successors and assigns of Makers.

This Note has been delivered to and accepted by the Bank in the State of Oklahoma, is to be performed in the State of Oklahoma, shall be deemed a contract made under the laws of the State of Oklahoma, and shall be governed by, and construed and enforced in accordance with, the laws of the State of Oklahoma. All actions or proceedings with respect to this Note may be instituted in any state or federal court sitting in Tulsa County, Oklahoma, as Bank may elect, and by execution and delivery of this Note, Makers irrevocably and unconditionally (i) submit to the non-exclusive

jurisdiction (both subject matter and person) of each such court, and (ii) waive (a) any objection that Makers might now or hereafter have to the laying of venue in any of such courts, and (b) any claim that any action or proceeding brought in any of such courts has been brought in an inconvenient forum.

IN WITNESS WHEREOF, the undersigned have executed this instrument effective as of the date first above written.

MATRIX SERVICE COMPANY,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INDUSTRIAL CONTRACTORS, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MATRIX SERVICE MID-CONTINENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

PETROTANK EQUIPMENT, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

TANK SUPPLY, INC.,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

SAN LUIS TANK PIPING CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

COLT CONSTRUCTION CO., INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST INTERNATIONAL, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL ACQUISITION CORPORATION,
an Oklahoma corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

GEORGIA STEEL FABRICATORS, INC.,
a Georgia corporation

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Name: C. William Lee
Title: Secretary

BROWN STEEL CONTRACTORS, INC.,
a Georgia corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

WEST COAST INDUSTRIAL COATINGS, INC.,
a California corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MIDWEST SERVICE COMPANY,
a Delaware corporation

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Name: C. William Lee
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HEATH ENGINEERING, LTD.,
an Ontario corporation

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Title: Secretary

HEATH (TANK MAINTENANCE) ENGINEERING, LTD.,
an United Kingdom corporation

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an Oklahoma corporation

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GENERAL SERVICE CORPORATION,
a Delaware corporation

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Name: C. William Lee
Title: Secretary

MAINSERVE-ALLENTECH, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

MAINTENANCE SERVICES, INC.,
a Delaware corporation

By: /s/C. William Lee

Name: C. William Lee
Title: Secretary

[ARTICLE]	5
[MULTIPLIER]	1,000
[PERIOD-TYPE]	3-MOS
[FISCAL-YEAR-END]	May-31-1997
[PERIOD-START]	Mar-01-1997
[PERIOD-END]	May-31-1997
[COMMON]	9,955
[NET-INCOME]	754
[EPS-PRIMARY]	0.08
[COMMON]	9,976
[NET-INCOME]	754
[EPS-DILUTED]	0.08
[FISCAL-YEAR-END]	May-31-1996
[PERIOD-START]	Mar-01-1996
[PERIOD-END]	May-31-1996
[COMMON]	9,592
[NET-INCOME]	771
[EPS-PRIMARY]	(0.08)
[COMMON]	9,592
[NET-INCOME]	771
[EPS-DILUTED]	(0.08)
[PERIOD-TYPE]	12-MOS
[FISCAL-YEAR-END]	May-31-1997
[PERIOD-START]	Jun-01-1996
[PERIOD-END]	May-31-1997
[COMMON]	9,744
[NET-INCOME]	2,983
[EPS-PRIMARY]	0.31
[COMMON]	9,980
[NET-INCOME]	2,983
[EPS-DILUTED]	0.30
[FISCAL-YEAR-END]	May-31-1996
[PERIOD-START]	Jun-01-1995
[PERIOD-END]	May-31-1996
[COMMON]	9,529
[NET-INCOME]	2,449
[EPS-PRIMARY]	0.26
[COMMON]	9,578
[NET-INCOME]	2,449
[EPS-DILUTED]	0.26

Matrix Service, Inc., an Oklahoma corporation
Matrix Service Mid-Continent, Inc., an Oklahoma corporation
Midwest Industrial Contractors, Inc., a Delaware corporation
Petrotank Equipment, Inc., an Oklahoma corporation
San Luis Tank Piping Construction Co., Inc., a Delaware corporation
Tank Supply, Inc., an Oklahoma corporation
West Coast Industrial Coatings, Inc., a California corporation
Colt Construction Company, a Delaware corporation
Heath Engineering, Ltd., an Ontario, Canada corporation
Midwest International, Ltd., a Delaware corporation
Brown Steel Contractors, Inc., a Georgia corporation
Mayflower Vapor Seal Corporation, an Oklahoma corporation
General Service Corporation, a Delaware corporation

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-38809) pertaining to the Matrix Service Company 1990 Incentive Stock Option Plan and the 1991 Stock Option Plan and to the incorporation by reference in the Registration Statement (Form S-8 No. 33-32771) pertaining to the Matrix Service Company 1995 Nonemployee Directors' Stock Option Plan of our report dated August 15,1997, with respect to the consolidated financial statements of Matrix Service Company included in this Annual Report (Form 10-K) for the year ended May 31, 1997.

ERNST & YOUNG LLP

Tulsa, Oklahoma
August 28, 1997

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12-MOS
May-31-1997
May-31-1997
1,877
0
37,745
0
4,989
57,754
50,823
20,861
116,872
29,541
0
95
0
0
76,117
116,872
183,144
183,144
165,704
165,704
11,944
0
536
5,114
2,486
0
0
0
0
2,984
0.31
0.30