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

FORM 10-K/A

(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, 1998.

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	73-1352174
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10701 East Ute Street Tulsa, Oklahoma (Address of Principal Executive Offices)	74116 (Zip Code)

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

Securities Registered Pursuant to Section 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, 1998 closing sale price of the common stock as reported by the NASDAQ National Market System) held by non-affiliates as of August 26, 1998 was approximately $53,034,509.

The number of shares of the registrant's common stock outstanding as of August 26, 1998 was 9,642,638 shares.

Documents Incorporated by Reference

Certain sections of the registrant's definitive proxy statement relating to the registrant's 1998 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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The registrant hereby amends and restates in its entirety, Item 1 of Part I of its Annual Report on Form 10-K for the fiscal year ended May 31, 1998, in order to correct certain paragraphs treating Midwest Industrial Contractors, Inc. ("Midwest") as a discontinued operation.

Additionally, the registrant hereby amends and restates in its entirety, Items 6, 7 and 8 of Part II and Item 14 of Part IV of its Annual Report on Form 10-K for the fiscal year ended May 31, 1998, in order to restate the Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Financial Statements and Supplemental Data, and the Exhibits, Financial Statement Schedules and Reports on Form 8-K to reflect the treatment of Midwest as an exited business line rather than a discontinued operation.

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Part I

PART I

Item 1. Business

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"), Mayflower Vapor Seal Corporation ("Mayflower") and General Service Corporation and affiliated companies, Maintenance Services, Inc. and Mainserv-Allentech, Inc. (collectively, "GSC"), 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 subsidiary, Colt Construction Company ("Colt"), the Company provides maintenance and construction services for industrial process plants and refineries. Colt specializes in performing "turnarounds", which involve complex, time-sensitive maintenance of the critical operating units of a refinery and other in-plant maintenance. In February 1998 the Company adopted a plan for restructuring Midwest which include closing and abandoning its operations (See Management's Discussion and Analysis and Financial Statements Note 3).

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. The Midwest operations were discontinued during fiscal year 1998. 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. In June 1997, the Company acquired (the "GSC Acquisition") General Service Corporation and affiliated companies. GSC 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.

On December 16, 1997, the Company and ITEQ, Inc. ("ITEQ") entered into a Plan and Agreement of Merger whereby ITEQ agreed to acquire the Company. On January 19, 1998 the Company and ITEQ mutually agreed to terminate the Plan and Agreement of Merger, due to unanticipated difficulties in connection with the expected integration of personnel from divergent corporate cultures. During the third quarter of fiscal year 1998, the Company adopted a plan for restructuring of operations to reduce costs, eliminate duplication of facilities and improve efficiencies. The plan included closing fabrication shops in Newark, Delaware and Rancocas, New Jersey and moving these operations to a more efficient and geographically centered facility in Bristol, Pennsylvania. Additionally, the Company closed a fabrication shop at Elkston, Maryland. The production from the Maryland facility, which was principally elevated water tanks, will be provided by the Company's Newnan, Georgia plant. (The facilities located in Delaware, New Jersey, Pennsylvania and Maryland were all leased facilities.) The Company sold real estate that was not being utilized in Mississauga, Canada, and the Company also discontinued certain product lines that were no longer profitable. During the third quarter of fiscal year 1998 the board of directors approved a plan whereby the Company would exit the operations of Midwest, which included maintenance services for refineries in the FCCU turnaround, process heater and related refractory

construction markets. The Company will in an orderly manner discontinue to operate in the markets that Midwest has historically participated. 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.

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(R) and Flex-A-Span(R) 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 wastewater 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 used primarily by the refining and storage segments of the petroleum industry. The petrochemical industry also uses 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 three most recent years, there has been a very limited increase in 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 have 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 retrofitting 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 rainwater 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 which 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.

Specialty Tanks

The Company designs, fabricates and field erects new refrigerated liquefied gas storage tanks for the storage of ammonia, butane, carbon dioxide, ethane, methane, nitrogen, oxygen, propane and other low temperature products. These tanks are utilized by the chemical, petrochemical and industrial gas industries.

Manufacturing

The Company operates five "state-of-the-art" facilities located in Oklahoma, California, Georgia and Pennsylvania. The Company owns and operates a 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 fabrication facilities in California. 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. The Georgia facility, which was

acquired in the "Brown" acquisition, is 184,350 square feet of buildings owned by the Company. This facility supports the fabrication of elevated tanks, pressurized storage spheres and refrigerated liquefied gas storage tanks. See "Business - Aboveground Storage Tank Operations - Elevated Tanks - Specialty Tanks". The two Pennsylvania facilities contain 91,824 square feet of real estate, which is leased. The Company owns the equipment which is used for the fabrication of 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 170 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 17 years. From 1981 to 1998, crude oil refining capacity dropped from a peak of approximately 18.6 million barrels per day in 1981, to approximately 15.6 million barrels per day by the end of 1997, 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, reduced domestic crude oil resources in certain geographical areas, 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 three 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 a substantial number of 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 275F. 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.

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 liquefied 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 900F. 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 160F and 390F 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 reactorcontractor. 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.

Hydrocarbon Process Services

The Company's principal refinery services include turnarounds for the complete refinery with integrated process units, and complete construction and maintenance services. The Company performs unit turnarounds involving maintenance of crude distillation units, catalytic reformer units, delayed coker units, alkylation units, reformers, 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.

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.

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.

General Construction Services

As part of the Company's efforts to be more independent of the petroleum industry it has expanded its construction services capabilities into other industries. The Company generated increased revenues during the latest fiscal year from construction projects outside the petroleum and municipal water industries, which has been their traditional markets. The Company was awarded two projects during the fiscal year for general construction. One project involved moving a food processing plant and expanding the capacity of that plant. The other significant project involved the general construction of a plant to manufacture computer grade silicon.

Other Business Matters

Customers and Marketing

The Company derives a significant portion of its revenues from performing construction and maintenance services for the major integrated oil companies. The Company also performs services for independent petroleum refining and marketing companies, architectural and engineering firms, food industry,

general construction 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 had one customer accounting for more than 10% of revenues in two of the last three years. During fiscal 1998, Pacific Northwest Sugar Company and during fiscal 1996, ARCO USA accounted for more than 10% of the Company's revenues in each of those years. The Company sold its products and services to approximately 587 customers during fiscal 1999.

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. The Company has established alliance relationships with six major oil companies. These relationships place the Company in an advantageous position to our competition. The alliances, in general, designate the Company as a sole source provider for certain maintenance and construction projects.

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, 1998, the Company had an estimated backlog of work under contracts believed to be firm of approximately $75.3 million, as compared with an estimated backlog of approximately $69.1 million as of May 31, 1997. Virtually all of the projects comprising this backlog are expected to be completed within fiscal year 1999. 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 $60.1 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 $50,000. 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, 1998, the Company had approximately 283 non-field, full-time employees. The Company also employed up to approximately 1,395 additional persons on a project-by-project basis during fiscal 1998. In its refinery turnaround operations, the Company employed up to approximately 795 persons at its job sites during the most active periods of 1998. Approximately 434 of the employees of Matrix Service Mid-Continent, Inc., a subsidiary of the Company, are covered by a collective bargaining agreement. 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(R) and Flex-A-Span(R) roof seal products. The Company's Flex-A-Seal(R) patent is held jointly with an English company, which markets the Flex-A-Seal(R) products in the United Kingdom. The Flex-A-Seal(R) patent expires in August 2000 and the Flex-A-Span(R) patent expires in August 2008. The Company also holds the patents for Flex-A-Seal(R) and Flex-A-Span(R) in Holland and in Canada. The Company holds a U.S. patent which covers its ThermoStor(R), a diffuser system that receives, stores and dispenses both chilled and warm water in and from the same storage tank. The ThermoStor(R) patent expires in March 2010. The Company also holds a patent for a Floating Deck Support Apparatus(R) for aluminum roofs. This patent expires on January 24, 2001. The Company has developed the RS 1000 Tank Mixer(R) which controls sludge build-up in crude oil tanks through resuspension. The RS 1000 Tank Mixer(R) patent expires in August 2012. The Company has applied for patents for two other products it has developed. The Company has designed and developed the Flex-A-Swivel, a swivel joint for floating roof drain systems. Also, the Company has designed the Firesafe(R) 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(R) 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 andor 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
Martin L. Rinehart	60	President & Chief Executive Officer
C. William Lee	58	Vice President-Finance, Chief Financial Officer
Bradley S. Vetal	42	President, Matrix Service, Inc.
Bruce M. Lierman	38	President, Colt Construction Co., Inc.
Mark A. Brown	41	President, Brown Steel Contractors, Inc.
Connie J. Conger	45	Vice President-Accounting

Martin L. Rinehart is a founder of the Company and has served as its President and Chief Executive Officer since February 27, 1998. From June 1992 to February 1998, he served as Assistant to the President of Matrix Service, Inc. Mr. Rinehart served as the Vice President-Operations of the Company from its inception to June 1992. From 1980 until 1984, Mr. Rinehart served as Executive Vice President of Tank Service, Inc. Mr. Rinehart succeeded Doyl D. West, who served as President, Chief Executive Officer and Chairman of the Board of the Company until his retirement in February, 1998. Mr. West will continue to provide consulting services for the Company.

C. William Lee is a founder of the Company 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.

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. Mr. Lierman started his career with 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.

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.

Connie J. Conger joined the Company in 1980 as Controller and assumed the duties of Vice President of Accounting in 1992. Ms. Conger completed her CPA certification in 1994. Ms. Conger was previously Controller for seven years for a Tulsa based architectural firm.

Item 6. Selected Financial Data

The following table sets forth selected historical financial information for the Company covering the five years ended May 31, 1998. The following financial information included in the Statement of Operations reflects the acquisition of GSC in 1998. See the Notes to the Company's Consolidated Financial Statements.

(In thousands, except per share data)
Matrix Service Company

	Years Ended				
	May 31, 1998	May 31, 1997	May 31, 1996	May 31, 1995	May 31, 1994
Statement of Operations Data:					
Revenues	$225,428	$183,144	$183,725	$177,516	$133,480
Gross profit	18,589	17,440	16,618	13,914	16,488
* Restructuring cost	20,956	-	-	-	-
Operating income (loss)	(16,291)	5,496	4,719	1,456	4,566
Income (loss) before income tax expense (benefit)	(17,353)	5,114	4,398	(455)	4,655
Net income (loss)	(11,638)	2,984	2,449	(189)	2,717
Earnings (loss) per common share - diluted	(1.22)	0.31	0.26	(0.02)	0.29
Weighted average of common shares - diluted	9,546	9,699	9,507	9,417	9,401
Balance Sheet Data:					
Working capital	$ 41,084	$ 28,213	$ 26,370	$ 26,800	$ 20,070
Total assets	112,741	116,872	105,757	105,729	100,902
Long-term obligations	13,106	6,362	4,847	8,467	5,194
Deferred tax liability	4,949	4,757	5,088	4,698	4,145
Stockholders' equity	65,252	76,212	73,034	70,820	69,487

* During the third quarter of fiscal year 1998, the board of directors approved a plan whereby the Company would exit the operations of Midwest and discontinue to operate in the markets that Midwest has historically participated. The Company is in the process of completing all open contracts and disposing of all assets. The Company will abandon this business entirely.

During fiscal year 1998, the Company adopted a plan for restructuring of operations to reduce costs, eliminate duplication of facilities and improve efficiencies. The plan included closing fabrication shops in Newark, Delaware and Rancocas, New Jersey and moving these operations to a more efficient and geographically centered facility in Bristol, Pennsylvania. Additionally, the Company closed a fabrication shop at Elkston, Maryland. The production from the Maryland facility, which was principally elevated water tanks, is being provided by the Company's Newnan, Georgia plant.

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 for 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 June 1, 1991, San Luis, (iii) after December 30, 1992, Colt, (iv) after June 10, 1993, Heath, (v) after April 1, 1994, Brown, and (vi) after June 17, 1997, GSC.

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 the last three fiscal years. For fiscal 1998, GSC was included for eleven and one half months. All acquired companies, except GSC, 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 GSC, which were not included in the prior years, are as follows:

(in millions)

	Year ended May 31, 1998
Revenues	$ 25.1
Gross Profit	3.6
Selling, general & administrative expenses	1.7

During the third quarter 1998, the Company adopted a plan to restructure its operations. The Company recorded a charge of $21.0 million in connection with the restructuring - See Note 3 to Consolidated Financial Statements.

The Company expects a continued demand for its continuing services in the foreseeable future. Management believes that the percentage growth of its revenues for fiscal 1999 will be stronger than fiscal year 1998. 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 has expanded its construction services into general industrial projects in an effort to decrease the seasonal effects of refinery related projects.

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 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. 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, 1998 were positively affected by the inclusion of GSC for eleven and one half months.

	Percentage of Revenues Years Ended May 31,		
	1998	1997	1996
Revenues	100.0%	100.0%	100.0%
Cost of revenues	91.7	90.5	91.0
Gross profit	8.3	9.5	9.0
Selling, general and administrative expenses	5.7	6.1	5.9
Restructuring cost	9.3	--	--
Operating income (loss)	(7.1)	3.0	2.6
Other income (expense)	(0.4)	(0.2)	(0.2)
Income (loss) before income tax expense	(7.5)	2.8	2.4
Provision (benefit) for income taxes	(2.5)	1.1	1.1
Net income (loss)	(5.0)%	1.7%	1.3%

Fiscal 1998 Compared to Fiscal 1997

Revenues for the year ended May 31, 1998 were $225.4 million as compared to revenues of $183.1 million for the year ended May 31, 1997, representing an increase of approximately $42.3 million or 23.1%. The increase was primarily due to the acquisition of GSC as well as increased revenues from the Company's services in industrial construction and refinery maintenance markets.

Gross profit increased to $18.6 million for the year ended May 31, 1998 from gross profit of $17.4 million for the year ended May 31, 1997, an increase of approximately $1.2 million or 6.9%. Gross profit as a percentage of revenues decreased to 8.3% in the 1998 period from 9.5% for the 1997 period. This decrease in gross profit percentage was due to lower gross margin on certain types of aboveground storage tanks.

Selling, general and administrative expenses increased to $12.9 million for the year ended May 31, 1998 from expenses of $11.1 million for the year ended May 31, 1997, an increase of $1.8 million or approximately 16.2%. The increase was due to the acquisition of GSC. Selling, general and administrative expenses as a percentage of revenues decreased to 5.7% for fiscal 1998 from 6.1% for fiscal 1997.

During fiscal 1998 the Company recorded a restructuring, impairment and abandonment charge of $21.0 million. This charge resulted from plans adopted by the Company to exit the Midwest operations and for restructuring of operations to reduce costs, eliminate duplications of facilities and improve efficiencies - See Note 3 to Consolidated Financial Statements.

Operating income before restructuring, impairment and abandonment charges (see Note 3 to Consolidated Financial Statements) decreased to $4.7 million for the year ended May 31, 1998 from $5.5 million for the year ended May 31, 1997, a decrease of $0.8 million or approximately 14.5%. The decrease was due to higher selling, general and administrative expenses partially offset by higher gross profit.

Interest income was $267 thousand for the year ended May 31, 1998 versus $164 thousand for the year ended May 31, 1997. Interest expense increased to $1.3 million for the year ended May 31, 1998 from $536 thousand of interest expense for the year ended May 31, 1997. The increase in interest expense resulted primarily from increased borrowing under the Company's revolving and term loan credit facility. The increased borrowings from the Company's credit facilities were used primarily for the GSC acquisition. Outstanding balances under this facility at May 31, 1998 was $15.0 million as compared with $7.5 million outstanding at May 31, 1997.

Net income (loss) decreased to $(11.6) million for the 1998 period from $3.0 million for the 1997 period. The decrease was due to one-time charges related to restructuring as well as operating losses and disposal costs from exited operations.

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.

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 $0.8 million or 4.8%. Gross profit as a percentage of revenues increased to 9.5% in the 1997 period from 9.0% for the 1996 period.

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 $0.3 million or approximately 2.8%. The increase was due to an increase of certain administrative personnel and facilities in line with the increased revenues at the Company's related operations. Selling, general and administrative expenses as a percentage of revenues were flat at 6.1% for fiscal 1997 versus 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 $0.8 million or approximately 17.0%. The increase was due to improved gross profit margin and a decrease in amortization of intangible assets.

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. The net income in 1996 of $2.4 million would have been even better had the Company not incurred a $1.2 million net loss at Midwest, based primarily on the strong performance in the construction and tank maintenance and repair operations.

Exited And Restructured Operations

During the third quarter of fiscal year 1998, the board of directors approved a plan whereby the Company would exit the operations of Midwest and discontinue to operate in the markets that Midwest has historically participated. The Company is in the process of completing all open contracts and disposing of all assets. The Company will abandon this business entirely. During the three years ended in fiscal 1998, 1997 and 1996, Midwest had operating losses of $3.4 million, $1.8 million and $1.8 million respectively.

Midwest's principal refinery operations involved turnarounds of Fluid Catalytic Cracking Units (FCCU). FCCU's require a high level of maintenance because of the extremely high temperatures inside the units - in excess of 1000 degree F - 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 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.

Also during the third quarter of 1998, the Company adopted a board of directors approved plan to restructure operations to reduce costs, eliminate duplication of facilities and improve efficiencies. The plan included closing fabrication shops in Newark, Delaware and Rancocas, New Jersey and moving these operations to a more efficient and geographically centered facility in Bristol, Pennsylvania. Additionally, the Company closed a fabrication shop at Elkston, Maryland. The production from the Maryland facility, which was principally elevated water tanks, will be provided by the Company's Newnan, Georgia plant. (The facilities located in Delaware, New Jersey, Pennsylvania and Maryland were all leased facilities.) The Company is selling real estate that is not being utilized in Mississauga, Canada, and is also discontinuing certain product lines that are no longer profitable.

As part of the restructuring plan the Company separately reviewed the operations of San Luis for impairment indicators as actual operating and cash flow results were less than projections for Fiscal 1998, the principals in management, from whom the original business was purchased, left the employment of the company in early fiscal 1998, San Luis reputation in the industry had deteriorated and the business name was dissolved into Matrix Service Company. The operating income and cash flows from this business unit were not historically negative; however, there are significant concerns that future operations may not be positive. Based on these potential impairment indicators, an estimate of the undiscounted cash flows of the San Luis operations was made. This estimate indicated impairment and, as a result, the entire amount of the goodwill related to San Luis was written off.

Additionally, in evaluating the Company's Mayflower vapor seal operations, the operating income and cash flows from this business unit indicated that positive amounts were not attainable. Therefore, the businesses will be completely abandoned, the goodwill written-off, and impaired assets abandoned or sold at their net realizable value. The operating results of Mayflower have not been significant to the Company's operations

Employee termination costs associated with the reorganization and termination of all employees of Midwest and Mayflower were recognized and paid during fiscal 1998.

Other reorganization costs include the cost of travel related expenses for reorganization teams which proposed, planned and carried out the Company's restructuring plans, cost of a failed merger with ITEQ, Inc. and equipment moving.

Matrix recorded a restructuring, impairment and abandonment charge of $21.0 million. Included in this amount were costs for combining operations, eliminating duplications, write-off of goodwill related to product lines exited, and abandonment and disposal of nonproducing assets of $19.8 million and benefit and other costs of $1.2 million. See Note 3 to the Consolidated Financial Statements.

Fiscal Year Ended May 31, 1998 - Midwest Industrial Contractors, Inc.

After an extensive analysis of the market and an evaluation of Midwest Industrial Contractors, Inc. (Midwest) ability to compete in that market, Management made the decision to terminate the operations of Midwest effective February 28. Additionally, the decision was made to exit the market for structural work on FCCU's and refractory linings for hydrocarbon processing vessels, which is substantially the revenue base for Midwest.

Revenue for Midwest was $10.6 million in fiscal 1998 as compared with $16.5 million for the full year ending May 31, 1997 or a decrease of $5.9 million or 35.8%.

Gross profit for Midwest in fiscal 1998 resulted in a loss of $1.9 million as compared to a break-even position from the year ending May 31, 1997. These losses resulted from cost overruns on jobs.

Fiscal Year Ended May 31, 1997 - Midwest Industrial Contractors, Inc.

Revenue for Midwest was $16.5 million for the year ending May 31, 1997 compared with $18.2 million for the year ending May 31, 1995 or a decrease of $1.7 million or 9.3%.

Gross profit for Midwest was unchanged at a break-even level for years ending May 31, 1997 and May 31, 1996.

Selling, general and administrative expenses for Midwest were unchanged at $1.4 million for the year ending May 31, 1997 as compared to the year ending May 31, 1996.

Operating losses for Midwest were unchanged for a loss of $1.8 million for years ending May 31, 1997 and May 31, 1996. While Midwest's operating results for the 1997 fiscal year were not improved, they did not deteriorate. Management believes that the low gross profit margin in fiscal 1997 resulted primarily from "too aggressive" bid pricing practices and to a lessor extent from ineffective management of the work in the field. Both of these factors had a negative influence on the operating results for the two previous years. Pricing pressures still exist; however, Matrix Management believes that with the experience gained, over the last one to two years by the new Midwest Management, that Midwest should produce improved "bid" pricing and in turn improved operating results.

Net loss for Midwest was substantially unchanged at $1.3 million for the year ending May 31, 1997 compared with a loss of $1.2 million for the year ending May 31, 1996. However, based upon budget projections for Midwest, management believed that future cash flows would be positive and that no impairment of the assets existed.

Fiscal Year Ended May 31, 1996 - Midwest Industrial Contractors, Inc.

Revenues for Midwest was $18.2 million for the year ending May 31, 1996 as compared with $36.6 million for the year ending May 31, 1995 or a decrease of $18.4 million or 50.3%. This decrease was due principally as a result of several key employees of Midwest leaving on June 1, 1995, the first day of the fiscal year 1996. These employees joined with a former Midwest employee in a competing business and interfered with Midwest business relationships.

Gross profit for Midwest decreased to a break-even level for the year ending May 31,1996 from gross profit of $3.3 million for the year ending May 31, 1995, a decrease of $3.3 million. The departure of the key employees of Midwest affected the gross profit in two ways. First, the market which Midwest participates was divided by the new competitor thus reducing the volume of revenues. Second, Midwest was forced to bid and perform work with people who did not possess the experience level that was necessary for the efficient and successful completion of work.

Selling, general and administrative expenses for Midwest increased to $1.4 million for the year ending May 31, 1996 compared with $1.1 million for the period ending May 31, 1995, an increase of $0.3 million. The increase was principally legal costs and increased sales promotional expenses.

Operating loss for Midwest for the year ending May 31, 1996 was $1.8 million compared to an operating profit of $2.2 million for the year ending May 31, 1995 or a decrease of $4.0 million. The decrease resulted from the decrease in gross profit and an increase in selling, general and administrative expenses.

Net loss for Midwest for the year ending May 31, 1996 was $1.2 million as compared to $1.2 million net profit for the year ending May 31, 1995 or a decrease of $2.4 million. Although Midwest's performance was strong in 1995, the Company had a net loss of $0.2 million as a result of a weaker performance in the construction and tank maintenance and repair operations.

Management believes that the significant downturn at Midwest in 1996 was completely attributable to the change in personnel. Since everyone in the senior management was new in their positions in 1996 and since budget projections for Midwest on an ongoing basis was positive, management believed that future cash flows would be positive and that no impairment of assets existed.

Fiscal Year Ended May 31, 1995 - Midwest Industrial Contractors, Inc.

Revenues of Midwest Industrial Contractors, Inc. (Midwest) for the year ending May 31, 1995 was $36.6 million as compared with $22.7 million for the year ending May 31, 1994 or an increase of $13.9 million or 61.2%. Gross profit for Midwest for the year ending May 31, 1995 was $3.3 million as compared with $2.0 for the year ending May 31, 1994 or an increase of $1.3 million.

Operating profit and net income for Midwest for the year ending May 31, 1995 was $2.2 million and $1.2 million respectively as compared with the year ending May 31, 1994 of $0.9 million and $0.6 million. On June 1, 1995, several key management employees left and joined with a former Midwest employee in a competing business. However, based upon other management personnel still in place and based upon these positive results, management believed that no impairment issues existed.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled approximately $2.6 million at May 31, 1998 and $1.9 million at May 31, 1997.

The Company has financed its operations recently with cash generated by operations and advances under the Company's credit facility. The Company has a credit facility with a commercial bank under which the

Company may borrow a total of $30.0 million. The Company may borrow up to $20.0 million under a revolving credit agreement based on the level of the Company's eligible receivables. The agreement provides for interest at a Prime Rate or a LIBOR based option, and matures on October 31, 1999. At May 31, 1998, the outstanding advances under the revolver totaled $5.5 million. The interest rate for this facility at May 31, 1998 was 6.8%. The credit facility also provides for a term loan up to $10.0 million. On March 2, 1998, a term loan of $10.0 million was made to the Company. The term loan is due on February 28, 2003 and is to be repaid in 60 equal payments beginning in March 1998 at an interest rate based upon the Prime Rate or a LIBOR Option. At May 31, 1998 the balance outstanding on this facility was $9.5 million. In conjunction with this note on March 1, 1998, the Company entered into an Interest Rate Swap Agreement with a commercial bank, effectively providing a fixed interest rate of 7.5% for the five-year period of the term loan.

Operations of the Company provided $2.2 million of cash for the year ended May 31, 1998 as compared with providing $6.2 million of cash for the year ended May 31, 1997, a decrease of approximately $4.0 million. The decrease was due primarily to a reduction in accounts payable and accrued liabilities.

Capital expenditures during the year ended May 31, 1998 totaled approximately $2.6 million. Of this amount, approximately $604 thousand was used to purchase trucks for field operations, and approximately $1.2 million was used to purchase welding, construction, and fabrication equipment. The Company invested approximately $392 thousand in furniture and fixtures during the year, which includes approximately $263 thousand invested in computer equipment for operations and automated drafting. The Company has currently budgeted approximately $5.2 million for capital expenditures for fiscal 1999. 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 1999 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. The Company also believes that cash flows from operations will be enhanced after the restructuring discussed under the caption "Exited And Restructured Operations", as the operating losses generated by Midwest will be eliminated and the expected efficiencies gained from the cost reductions and duplicate facility eliminations should improve operating cash flows.

Other

New Accounting Standards

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

Comprehensive Income. In June 1997, the FASB issued Statement No. 130, Reporting Comprehensive Income. Statement No. 130 establishes new rules for the reporting and display of comprehensive income and its components. Comprehensive income is net income, plus certain other items that are recorded directly to stockholders' equity. The only such item currently applicable to the Company is foreign currency translation adjustments. The Statement, which is not required to be adopted by the Company until fiscal 1999, is not expected to materially change the Company's financial reporting or disclosures.

Segments. In June 1997, the FASB issued Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. The Statement changes the way public companies report segment

information in annual financial statements and also requires companies to report selected segment information in interim financial reports to shareholders. As the Company operates in one industry segment, this Statement will not change the Company's financial reporting or disclosures.

Derivatives and Hedging. In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 1999 (fiscal 2001 for the Company). Because of the company's minimal use of derivatives, management does not anticipate that the adoption of the Statement will have a significant effect on earnings or the financial position of the Company.

Year 2000 Impact

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

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

Assessment. The Company is in the process of finalizing its inventory and assessment efforts, which includes comprehensive review of its business systems. The Company anticipates completion of this task no later than September 30, 1998. The assessment focuses on the identification of automated business areas and electronic processes.

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

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

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

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

The Company estimates that it has completed approximately 75% of the inventory and assessment activities. Of the systems identified, 20% have been remediated, and 10% solutions implemented into the production environment. The Company expects that the remaining systems will be upgraded, tested and implemented by the second quarter of 1999, which is prior to any anticipated impact on its operating systems.

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

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

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

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

All critical systems over which Matrix has control are planned to be compliant and tested before year 2000. However, Matrix has identified the possibility of service disruptions due to non-compliance by third parties as the area equating to the most reasonably likely worst case scenario. For example, power failures and telecommunication outages would cause service interruptions. It is not possible to quantify the possible financial impact if this most reasonably likely worst case scenario were to come to fruition.

The preceding discussion contains forward-looking statements including, without limitation, statements relating to Matrix's plans, strategies, objectives, expectations, intentions, and adequate resources, that are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements contained in the year 2000 update are based on certain assumptions which may vary from actual results. Specifically, the dates on which Matrix believes the year 2000 project will be completed and computer systems will be implemented are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, or that there will not be a delay in, or increased costs associated with, the implementation of the year 2000 project. Other specific factors that might cause differences between the estimates and actual results include, but are not limited to, the availability and cost of personnel trained in these areas, the ability to locate and correct all relevant computer code, timely responses to and corrections by third parties and suppliers, the ability to implement interfaces between the new systems and the systems not being replaced, and similar uncertainties. Due to the general uncertainty inherent in the year 2000 problem, resulting in large part from the uncertainty of the year 2000 readiness of third parties, Matrix cannot ensure its ability to timely and cost effectively resolve problems associated with the year 2000 issue that may affect its operations and business, or expose it to third-party liability.

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 some 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 F-1 of this Annual Report on Form 10-K, which financial statements, report, notes and data are incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1 and 2 Financial Statements of the Company

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, as amended. Form S-8 (File No. 333-56945) filed June 12, 1998 is hereby incorporated by reference. Exhibit 10.1 to the Company's Registration Statement.
	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 March 7, 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.

List of Exhibits

	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.
*	27.1	Financial Data Schedule

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* 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 amended to report to be signed on its behalf by the undersigned, thereunto duly authorized.

Matrix Service Company

Date: August 23, 1999

By: /s/ Bradley S. Vetal

Bradley S. Vetal, President

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 as of May 31, 1998 and 1997, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1998. 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 at May 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Tulsa, Oklahoma
August 14, 1998

Matrix Service Company

Consolidated Balance Sheets

	May 31 1998	1997
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 2,606	$ 1,877
Accounts receivable	37,165	37,745
Costs and estimated earnings in excess of billings on uncompleted contracts	15,340	11,349
Inventories	6,352	4,989
Income tax receivable	5,279	317
Deferred income taxes	3,252	1,021
Prepaid expenses	524	456
Total current assets	70,518	57,754
Property, plant and equipment, at cost:		
Land and buildings	16,481	15,097
Construction equipment	24,092	24,444
Transportation equipment	6,108	5,504
Furniture and fixtures	3,315	3,164
Construction in progress	973	2,614
	50,969	50,823
Accumulated depreciation	22,533	20,861
	28,436	29,962
Goodwill, net of accumulated amortization of $1,595 and $4,894 in 1998 and 1997, Respectively	13,217	28,721
Other assets	570	435
Total assets	$112,741	$116,872

Matrix Service Company

Consolidated Balance Sheets (continued)

	May 31 1998	1997
	(In Thousands)	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 12,250	$ 12,738
Billings on uncompleted contracts in excess of costs and estimated earnings	7,612	6,325
Accrued insurance	2,369	3,308
Earnout payable	884	2,400
Other accrued expenses	4,214	3,275
Current portion of long-term debt	2,105	1,495
Total current liabilities	29,434	29,541
Long-term debt	13,106	6,362
Deferred income taxes	4,949	4,757
Stockholders' equity:		
Common stock - $.01 par value; 15,000,000 shares authorized; 9,600,232 and 9,491,153 shares issued in 1998 and 1997, respectively	96	95
Additional paid-in capital	51,458	50,903
Retained earnings	14,221	26,269
Cumulative translation adjustment	(523)	(145)
	65,252	77,122
Less treasury stock, at cost - 115,228 shares in 1997	-	910
Total stockholders' equity	65,252	76,212
Total liabilities and stockholders' equity	$112,741	$116,872

See accompanying notes.

Matrix Service Company

Consolidated Statements of Operations

	Year ended May 31		
	1998	1997	1996
	(In thousands, except share and per share amounts)		
Revenues	$ 225,428	$ 183,144	$ 183,725
Cost of revenues	206,839	165,704	167,107
Gross profit	18,589	17,440	16,618
Selling, general and administrative expenses	12,947	11,080	10,784
Goodwill and noncompete amortization	977	864	1,115
Restructuring costs	20,956	-	-
Operating income (loss)	(16,291)	5,496	4,719
Other income (expense):			
Interest expense	(1,275)	(536)	(815)
Interest income	267	164	411
Other	(54)	(10)	83
Income (loss) from operations before income taxes	(17,353)	5,114	4,398
Provision (benefit) for federal, state and foreign income taxes:			
Current	(3,676)	2,486	1,683
Deferred	(2,039)	(356)	266
	(5,715)	2,130	1,949
Net income (loss)	$ (11,638)	$ 2,984	$ 2,449
Basic earnings (loss) per common share	$ (1.22)	$ .32	$ .26
Diluted earnings (loss) per common share	$ (1.22)	$ .31	$ .26
Weight average common shares outstanding:			
Basic	9,545,979	9,330,246	9,291,630
Diluted	9,545,979	9,698,659	9,507,425

See accompanying notes.

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, 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)
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)
Translation adjustment	-	-	-	-	(38)	(38)
Net income	-	-	2,984	-	-	2,984
Balances, May 31, 1997	95	50,903	26,269	(910)	(145)	76,212
Exercise of stock options (224,307 shares)	1	555	(410)	910	-	1,056
Translation adjustment	-	-	-	-	(378)	(378)
Net loss	-	-	(11,638)	-	-	(11,638)
Balances, May 31, 1998	$ 96	$ 51,458	$ 14,221	$ -	$ (523)	$ 65,252

See accompanying notes.

Matrix Service Company

Consolidated Statements of Cash Flows

	Year ended May 31		
	1998	1997	1996
	(In Thousands)		
Operating activities			
Net income (loss)	$(11,638)	$ 2,984	$ 2,449
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,134	5,365	5,851
Deferred income tax provision (benefit)	(2,039)	(356)	266
(Gain) loss on sale of equipment	467	(70)	248
Noncash write-off of restructuring costs	19,772	-	-
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects of acquisitions:			
Accounts receivable	5,166	(8,540)	(2,257)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,858)	773	(2,540)
Inventories	(138)	(840)	566
Prepaid expenses	(77)	(277)	247
Accounts payable	(3,486)	3,281	(1,746)
Billings on uncompleted contracts in excess of costs and estimated earnings	473	1,972	40
Accrued expenses	(2,484)	1,203	3,632
Income taxes receivable/payable	(4,544)	699	2,846
Other	(797)	(15)	11
Net cash provided by operating activities	2,951	6,179	9,613
Investing activities			
Acquisition of property, plant and equipment	(2,577)	(5,802)	(3,410)
Acquisitions and investment in foreign joint venture, net of cash acquired	(5,068)	(2,353)	(1,931)
Return of investment in foreign joint venture	-	200	-
Proceeds from other investing activities	652	155	116
Net cash used in investing activities	(6,993)	(7,800)	(5,225)

Matrix Service Company

Consolidated Statements of Cash Flows (continued)

	Year ended May 31		
	1998	1997	1996
	(In Thousands)		
Financing activities			
Issuance of common stock	$ 1,056	$ 256	$ 32
Advances under bank credit agreement	11,750	7,000	7,500
Repayments of bank credit agreement	(4,200)	(4,000)	(9,500)
Repayment of other notes	(3,652)	(1,089)	(1,089)
Repayment of acquisition note	(459)	(529)	(1,409)
Issuance of acquisition note	250	-	-
Issuance of equipment lease	-	22	50
Issuance of equipment notes	40	-	-
Repayments of equipment notes	-	(23)	(54)
Net cash provided by (used in) Financing activities	4,785	1,637	(4,470)
Effect of exchange rate changes on cash	(14)	(38)	5
Net increase (decrease) in cash and cash equivalents	729	(22)	(77)
Cash and cash equivalents, beginning of year	1,877	1,899	1,976
Cash and cash equivalents, end of year	$ 2,606	$ 1,877	$ 1,899
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	$ 1,064	$ 1,706	$ 1,777
Interest	1,275	545	823

See accompanying notes.

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"), General Services Corporation ("GSC"), Heath Engineering Ltd. ("Heath"), and Brown Steel Contractors, Inc. ("Brown"). GSC was purchased in the current period, see Note 2, and Midwest was exited, see Note 3. Intercompany transactions and balances have been eliminated in consolidation.

The Company operates primarily in the United States and has operations in Canada and Mexico through Heath and San Luis. The Company's 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.

1. Summary of Significant Accounting Policies (continued)

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 3 to 5 years, respectively, using the straight-line method.

Impairment of Long-Lived Assets

The Company reviews long-lived assets and intangible assets, including goodwill, for impairment periodically whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Income Taxes

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

Earnings per Common Share

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share." Statement 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Basic earnings per common share is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share includes in average shares outstanding employee stock options which are dilutive (-0-, 368,413 and 215,795 shares in 1998, 1997 and 1996, respectively). All earnings per share amounts for all periods have been presented, and where necessary, restated to conform to the Statement 128 requirements.

1. Summary of Significant Accounting Policies (continued)

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 7, 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. Acquisition

On June 17, 1997, the Company acquired all of the outstanding common stock of General Services Corporation and its affiliated companies, Maintenance Services, Inc., Allentech, Inc., and Environmental Protection Services (collectively "GSC") for up to $7.8 million, subject to certain adjustments. The purchase price consisted of $4.75 million in cash and a $250 thousand, prime rate (currently 8.25%) promissory note payable in 12 equal 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. Under the provision of the contract the stockholders have the right to elect 70% of the earnout amount upon change of control of the Company. This transaction was accounted for as a purchase and resulted in approximately $3.0 million of goodwill and non-competition covenants. Operations of GSC are included in the accompanying financial statements from date of acquisition. Operations of GSC from June 1, 1997 to date of acquisition and for fiscal years 1997 and 1996 were not significant to the Company's reported results.

3. Restructuring Costs

During the third quarter of fiscal year 1998, the board of directors approved a plan whereby the Company would exit the operations of Midwest and discontinue to operate in the markets that Midwest has historically participated. The Company is in the process of completing all open contracts and disposing of all assets. The Company will abandon this business entirely. The operating activities of Midwest, previously reflected as Discontinued Operations, are reflected herein as Continuing Operations. During the three years ended in fiscal 1998, 1997 and 1996, Midwest had operating losses of $3.4 million, $1.8 million and $1.8 million respectively.

Also during the third quarter of 1998, the Company adopted a board of directors approved plan to restructure operations to reduce costs, eliminate duplication of facilities and improve efficiencies. The plan included closing fabrication shops in Newark, Delaware and Rancocas, New Jersey and moving these operations to a more efficient and geographically centered facility in Bristol, Pennsylvania. Additionally, the Company closed a fabrication shop at Elkston, Maryland. The production from the Maryland facility, which was principally elevated water tanks, will be provided by the Company's Newnan, Georgia plant. (The facilities located in Delaware, New Jersey, Pennsylvania and Maryland were all leased facilities.) The Company is selling real estate that is not being utilized in Mississauga, Canada, and is also discontinuing certain product lines that are no longer profitable.

As part of the restructuring plan the Company separately reviewed the operations of San Luis for impairment indicators as actual operating and cash flow results were less than projections for Fiscal 1998, the principals in management, from whom the original business was purchased, left the employment of the company in early fiscal 1998, San Luis reputation in the industry had deteriorated and the business name was dissolved into Matrix Service Company. The operating income and cash flows from this business unit were not historically negative; however, there are significant concerns that future operations may not be positive. Based on these potential impairment indicators, an estimate of the undiscounted cash flows of the San Luis operations was made. This estimate indicated impairment and, as a result, the entire amount of the goodwill related to San Luis was written off.

Additionally, in evaluating the Company's Mayflower vapor seal operations, the operating income and cash flows from this business unit indicated that positive amounts were not attainable. Therefore, the businesses will be completely abandoned, the goodwill written-off, and impaired assets abandoned or sold at their net realizable value. The operating results of Mayflower have not been significant to the Company's operations.

3. Restructuring Costs (continued)

Employee termination costs associated with the reorganization and termination of all employees of Midwest and Mayflower were recognized and paid during fiscal 1998.

Other reorganization costs include the cost of travel related expenses for reorganization teams which proposed, planned and carried out the Company's restructuring plans, cost of a failed merger with ITEQ, Inc. and equipment moving.

As a result of these restructuring and closing operations, the Company recorded the following charges:

	(In thousands)
Impairment:	
Midwest Goodwill	$ 14,555
San Luis Goodwill	4,103
Mayflower Goodwill	466
Asset Impairment	648
Employee Termination	386
Other Reorganization Costs	798
	$ 20,956

4. Uncompleted Contracts

Contract terms of the Company's construction contracts 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	
	1998	1997
	(In Thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	$ 207,229	$ 109,770
Billings on uncompleted contracts	199,501	104,746
	$ 7,728	$ 5,024
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 15,340	$ 11,349
Billings on uncompleted contracts in excess of costs and estimated earnings	7,612	6,325
	$ 7,728	$ 5,024

Approximately $4.0 million and $4.2 million of accounts receivable at May 31, 1998 and 1997, respectively, relate to billed retainages under contracts.

5. Long-Term Debt

Long-term debt consists of the following:

	1998	1997
	(In Thousands)	
Borrowings under bank credit facility:		
Revolving note	$ 5,500	$ 5,000
Term note	9,500	2,450
Other	211	407
	15,211	7,857
Less current portion	2,105	1,495
	$ 13,106	$ 6,362

On March 1, 1998, the Company and a commercial bank entered into an amendment to a credit facility agreement originally established in 1994, whereby the Company may borrow a total of $30 million. The amended agreement provides for a $20 million revolving credit facility based on the level of the Company's eligible receivables. The agreement provides for an interest rate based on a prime or LIBOR option and matures on October 31, 1999. The credit facility also provides for a $10 million term loan, due February 29, 2003, payable in 60 equal payments beginning in March 1998. The interest rates for the revolver and the term loan at May 31, 1998 were 6.8% and 7.5%, respectively. The agreement requires maintenance of certain financial ratios, limits the amount of additional borrowings and prohibits the payment of dividends. The credit facility is secured by all accounts receivable, inventory, intangibles, and proceeds related thereto.

In conjunction with the term note, on March 1, 1998, the Company entered into an interest rate swap agreement for an initial notional amount of $10 million with a commercial bank, effectively providing a fixed interest rate of 7.5% for the five-year period on the term note. The Company pays 7.5% interest and receives LIBOR plus 1 1/2%, calculated on the notional amount. The notional amount was $9.7 million at May 31, 1998. Net receipts or payments under the agreement are recognized as an adjustment to interest expense. The swap agreement expires in 2003. If LIBOR decreases, interest payments received and the market value of the swap position decrease.

5. Long-Term Debt (continued)

The Company has outstanding letters of credit and letters of guarantee totaling $3,513,008 which mature during 1998 and 1999.

Aggregate maturities of long-term debt for the years ending May 31 are as follows (in thousands), for each fiscal year: 1999 - $2,105; 2000 - $7,589; 2001 - - $2,021, 2002 - $2,000 and 2003 - $1,496.

The carrying value of debt approximates fair value.

6. Income Taxes

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

	1998	1997	1996
	(In Thousands)		
Current:			
Federal	$ (2,760)	$ 1,825	$ 1,145
State	(961)	443	373
Foreign	45	218	165
	(3,676)	2,486	1,683
Deferred:			
Federal	(1,963)	(121)	(21)
State	(13)	(180)	368
Foreign	(63)	(55)	(81)
	(2,039)	(356)	266
	$ (5,715)	$ 2,130	$ 1,949

6. Income Taxes (continued)

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

	1998	1997	1996
	(In Thousands)		
Expected provision for federal Income taxes at the statutory Rate	$ (5,900)	$ 1,739	$ 1,495
State income taxes, net of federal Benefit	(642)	290	257
Charges without tax benefit, Primarily goodwill amortization	827	225	246
Other	-	(124)	(49)
Provision for income taxes	$ (5,715)	$ 2,130	$ 1,949

Significant components of the Company's deferred tax liabilities and assets as of May 31, 1998 and 1997 are as follows:

	1998	1997
	(In Thousands)	
Deferred tax liabilities:		
Tax over book depreciation	$ 4,878	$ 4,713
Other - net	71	44
Total deferred tax liabilities	4,949	4,757
Deferred tax assets:		
Foreign insurance dividend	275	275
Vacation accrual	239	205
Noncompete amortization	472	423
Loss carryforward	1,377	-
Other - net	889	118
Total deferred tax assets	3,252	1,021
Net deferred tax liability	$ 1,697	$ 3,736

The Company has unused state job tax credit carryforwards of $267,000 at May 31, 1998.

7. 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. The Company has also adopted a 1995 Nonemployee Directors' Stock Option Plan (the "1995 Plan"). 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 1,320,000, 900,000, and 250,000 options to be granted under the 1990, 1991, and 1995 Plans, respectively. Options exercisable total 803,211 and 681,279 at May 31, 1998 and 1997, respectively.

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 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 the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 5.44% to 6.62%; dividend yield of -0-%; volatility factors of the expected market price of the Company's stock of .326 to .690; and an expected life of the options of 2 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 characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

7. Stockholders' Equity (continued)

The Statement's pro forma information from the options is as follows:

	1998	1997	1996
	(In Thousands)		
Net income (loss) before stock options	$(11,638)	$2,984	$2,449
Compensation expense from stock options			
1996 grant	123	231	78
1997 grant	75	38	-
1998 grant	164	-	-
Net income (loss)	$(12,000)	$2,715	$2,371
Pro forma earnings (loss) per common share:			
Basic	$ (1.26)	$ .29	$ .26
Diluted	$ (1.26)	$ .28	$ .25

The effect of compensation expense from stock options on 1996 pro forma net income reflects the vesting of 1996 awards. 1997 pro forma net income reflects the second year of vesting of the 1996 awards and the first year of vesting of 1997 awards. 1998 pro forma net income reflects the third year of vesting of the 1996 awards, the second year of vesting of 1997 awards and the first year of vesting of the 1998 awards.

7. Stockholders' Equity (continued)

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

	Shares	Option Price Per Share
Shares under option:		
Balance at May 31, 1995	1,432,205	$ .67 - $ 5.75
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 - 6.25
Canceled	(47,313)	3.63 - 6.25
Balance at May 31, 1997	1,525,004	$ .67 - 7.875
Granted	530,500	6.75 - 8.00
Exercised	(224,307)	.67 - 6.25
Canceled	(170,540)	3.625 - 8.00
Balance at May 31, 1998	1,660,657	$ 67 - $ 8.00

8. 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. The Company is also the lessee under operating leases covering office equipment. Future minimum lease payments are as follows (in thousands): 1999 - $549; 2000 - $455; 2001 - $428; 2002 - $284; 2003 - $47 and thereafter - $115. Rental expense was $710,000, $516,000 and $646,000 for the years ended May 31, 1998, 1997 and 1996, respectively. Rental expense related to the Paso Robles lease was $157,000, $149,000 and $149,000 for the years ended May 31, 1998, 1997 and 1996.

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.

9. Other Financial Information (continued)

Although this potentially exposes the Company to the risks of depressed cycles in oil and petrochemical industries, the Company's receivables at May 31, 1998 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, 1998 and 1996. There were no sales to one customer in excess of 10% of revenues for the year ended May 31, 1997.

10. Employee Benefit Plan

The Company sponsors a defined contribution 401(k) savings plan (the "Plan") for all employees meeting length of service requirements. Participants may contribute an amount up to 15% of pretax annual compensation as defined in the Plan, subject to certain 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, 1998, 1997, and 1996. Beginning July 1, 1998, the Company will match contributions at a rate of 25% of employee contributions, not to exceed 6% of participating employee's salary.

11. 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, 1998 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.

The Company is a defendant in various legal actions and is vigorously defending against each of them. It is the opinion of management that none of such legal actions will have a material effect on the Company's financial position.

Matrix Service Company

Quarterly Financial Data (Unaudited)

Summarized quarterly financial data are as follows:

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands except per share amounts)			
Revenues	49,519	62,017	55,449	58,443
Gross profit	4,742	5,142	3,298	5,407
Net income (loss)	769	953	(14,657)	1,297
Net income (loss) per common share data:				
Basic - net income (loss)	.09	.11	(1.55)	.13
Diluted - net income (loss)	.09	.11	(1.55)	.13
1997				
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 common share data:				
Basic - net income	.07	.10	.07	.08
Diluted - net income	.07	.10	.07	.07

Note: The summarized quarterly financial data for both 1998 and 1997 has been restated from previously reported amounts in the Company's originally filed Form 10-K and quarterly reports on Form 10-Q for the third quarter of fiscal 1998 to reflect Midwest's operating activities as continuing operations. (See Note 3 to the accompanying financial statements)

EXHIBIT 11.1

STATEMENTS RE COMPUTATION OF EARNINGS PER SHARE

[ARTICLE]	5	
[MULTIPLIER]	1,000	
[PERIOD-TYPE]	3-MOS	
[FISCAL-YEAR-END]		MAY-31-1998
[PERIOD-START]		MAR-01-1998
[PERIOD-END]		MAY-31-1998
[COMMON]		9,987
[NET-INCOME]		1,297
[EPS-BASIC]		0.13
[COMMON]		10,008
[NET-INCOME]		1,297
[EPS-DILUTED]		0.13
[FISCAL-YEAR-END]		MAY-31-1997
[PERIOD-START]		MAR-01-1997
[PERIOD-END]		MAY-31-1997
[COMMON]		9,358
[NET-INCOME]		754
[EPS-BASIC]		0.08
[COMMON]		9,938
[NET-INCOME]		754
[EPS-DILUTED]		0.07
[PERIOD-TYPE]	12-MOS	
[FISCAL-YEAR-END]		MAY-31-1998
[PERIOD-START]		JUN-01-1997
[PERIOD-END]		MAY-31-1998
[COMMON]		9,546
[NET-INCOME]		(11,638)
[EPS-BASIC]		(1.22)
[COMMON]		9,546
[NET-INCOME]		(11,638)
[EPS-DILUTED]		(1.22)
[FISCAL-YEAR-END]		MAY-31-1997
[PERIOD-START]		JUN-01-1996
[PERIOD-END]		MAY-31-1997
[COMMON]		9,330
[NET-INCOME]		2,984
[EPS-BASIC]		0.32
[COMMON]		9,699
[NET-INCOME]		2,984
[EPS-DILUTED]		0.31

EXHIBIT 21.1

MATRIX SERVICE COMPANY
Subsidiaries

Matrix Service, Inc., an Oklahoma corporation
Matrix Service Mid-Continent, Inc., an Oklahoma 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
General Service Corporation, a Delaware corporation

Exhibit 23.1

Consent of Ernst & Young LLP.

We consent to the incorporation by reference of our report dated August 14, 1998, with respect to the consolidated financial statements of Matrix Service Company included in this Annual Report (Form 10-K/A) for the year ended May 31, 1998, in the following registration statements.

Matrix Service Company 1990 Incentive Stock Option Plan	Form S-8	File No. 33-36081
Matrix Service Company 1991 Stock Option Plan, as amended	Form S-8	File No. 333-56945
Matrix Service Company 1995 Nonemployee Directors' Stock Option Plan	Form S-8	File No. 333-2771

Ernst & Young LLP

Tulsa, Oklahoma
August 23, 1999

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1,000

12-MOS
MAY-31-1998
MAY-31-1998
2,606
0
37,165
0
6,352
70,518
50,969
22,533
112,741
29,434
0
0
0
0
96
65,156
112,741
225,428
225,428
206,839
206,839
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0
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(17,353)
(5,715)
0
0
0
0
0
(11,638)
(1.22)
(1.22)