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

FORM 10-K/A-2

(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 (State or other jurisdiction of incorporation or organization)	73-1352174 (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 12(b) of the Act: None
Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes __X__ No ______

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

The approximate aggregate market value of the registrant's common stock (based upon the August 26, 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.

The registrant hereby amends and restates Item 7 of Part II of its Annual Report on Form 10-K for the fiscal year ended May 31, 1998, in order to include Management's Discussion and Analysis of Results of Operations for Fiscal 1996 Compared to Fiscal 1995.

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PART II

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.

FISCAL 1996 COMPARED TO FISCAL 1995

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

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

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

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

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

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

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

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 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."

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

Matrix Service Company

Date: January 4, 2000

By: /s/ BRADLEY S. VETAL

Bradley S. Vetal, President