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

FORM 10-K

(Mark One)

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

For the fiscal year ended May 31, 2001.

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 (I.R.S. Employer
incorporation or organization) Identification No.)

10701 East Ute Street

74116

Tulsa, Oklahoma

(Zip Code)

(Address of Principal Executive Offices)

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 14, 2001 closing sale price of the common stock as reported by the NASDAQ National Market System) held by non-affiliates as of August 14, 2001 was approximately \$53,356,977.

The number of shares of the registrant's common stock outstanding as of August 14, 2001 was 7,644,266 shares.

Documents Incorporated by Reference

Certain sections of the registrant's definitive proxy statement relating to the registrant's 2001 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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PART I

Item 1. Business

BACKGROUND

Matrix Service Company ("Matrix" or the "Company") provides specialized on-site maintenance and construction services for the petroleum, energy, manufacturing, industrial gas, transportation, chemical, food and processing industries. Matrix's services include the maintenance, repair, construction and product sales of aboveground storage tanks ("ASTs"); Plant Services, including maintenance contracts, "turnarounds" and safety services; and Construction Services, including turnkey, design build and general construction. Matrix also provides bundled services where two or more of its business units combine to provide a complete service to their customers. Customers use these services to expand their operation, improve operating efficiencies and to comply with stringent environmental and safety regulations.

The Company's principal executive offices are located at 10701 East Ute Street, Tulsa, Oklahoma 74116. Its telephone number is (918) 838-8822 and its fax number is (918) 838-8810. The Company's website address is www.matrixservice.com. Unless the context otherwise requires, all references herein to "Matrix" or the "Company" are to Matrix Service Company or its subsidiaries.

ABOVEGROUND STORAGE TANK (AST) OPERATIONS

The Company's AST Operations include the engineering, fabrication, construction and products sales of ASTs. This includes the maintenance, repair and construction of ASTs. The repair and construction of these tanks incorporate devices that meet current federal and state air and water quality guidelines. These devices include secondary tank bottoms for containment of leaks, primary and secondary seals for floating roof tanks that reduce evaporation loss from the tank and water intrusion into the tank and many other fittings unique to the tank industry. The floating roof seals are marketed under the Company's Flex-A-Seal(R) and Flex-A-Span(R) trade names. The Company also markets a patented roof drain swivel, the Flex-A-Swivel(R) used for floating roof drains that remove water from open-top floating roof tanks.

AST Market and Regulatory Background

In 1989, the American Petroleum Institute ("API") estimated that there were approximately 700,000 ASTs in the United States that stored 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 maintaining, repairing, designing and constructing large ASTs, with capacities ranging from 250 barrels and larger. 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, pipeline and marketing segments of the petroleum industry.

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.

During recent years, many AST owners have taken a more proactive approach to tank maintenance and repair and protection of the environment. Much of this is driven by the fact that in 1989 it was estimated that over forty percent of the existing AST's were over twenty years old. The AST owners have come to rely on AST service companies to furnish the necessary modifications because they can provide technical expertise, experienced field labor trained in safe work habits, and materials and equipment that satisfy federal and state mandates. In addition, because of the recent consolidations and cut backs in the petroleum industry, the AST owners have fewer experienced personnel on staff and must rely on qualified service providers to assist them in meeting their needs. In January 1991, the API adopted industry standards for the maintenance, inspection and repair of existing ASTs (API 653). The API standards provide the industry with uniform guidelines for the periodic inspection,

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 as outlined below.

New Construction

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

Many ASTs are equipped with a floating roof and seal systems. 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 upward and downward with the level of stored product. In addition, the Company's seal systems prevent substantially all rainwater from entering the product on open top floating roof tanks. 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.

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 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.

Specialty Tanks

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

Manufacturing

The Company operates four fabrication facilities located in Oklahoma, California, and Pennsylvania. At the Tulsa Port of Catoosa, Oklahoma, the Company owns and operates a fabrication facility located on 13 acres of leased land. 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 American Society of Mechanical Engineer Code Stamps ("ASME codes"). In Bristol, Pennsylvania, the Company leases land and buildings and owns the equipment used in fabrication. This facility has the capacity to fabricate new tanks, new tank components, all maintenance, retrofit and repair parts including fixed roofs, floating roofs, shell plate and tank appurtenances. This facility is located close to the petrochemical industry which supplies the large population center of the Northeastern United States. At Bethlehem, Pennsylvania, the Company leases land and facilities and owns equipment used to fabricate aluminum floating roofs and seal systems. This facility has the capacity to fabricate new products or to provide repair and maintenance parts for existing aluminum floating roofs and seal systems. At Anaheim, California, the Company leases land and buildings and owns the equipment used in fabrication. This facility has the capacity to fabricate tank components, all maintenance, retrofit and repair parts including fixed roofs, floating roofs and seals. This facility is located close to the petrochemical industry which supplies the large population center of the Western United States.

Power Industry

Matrix has expanded its offering to the rapidly increasing power market by constructing tanks, stacks, ducting and turbine air inlet/outlet system.

PLANT SERVICES 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 or plant.

Plant Services Market Overview

The domestic petroleum refining industry presently consists of approximately 154 operating refineries. This number has declined from 324 refineries over the last 18 years. The utilization rate of operating refineries has increased over this same period from less than 70% utilization to approximately 95% utilization. To ensure the operability, environmental compliance, efficiency and safety of their plants, refineries 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 18 years with refining crude input going from about 12 million barrels per day to about 15 million barrels per day. Many factors created this increase in crude input including refinery expansion and debottle-necking. With the domestic increase in demand for refined product, domestic refineries are operating at high utilization rates. Generally higher

utilization rates mean more wear and tear on the processing units. With the consolidations and subsequent reductions in staff within the petroleum industry and the need for reliable maintenance either during the turn-around process or day to day maintenance, more reliance for performance is placed on service providers such as Matrix.

Matrix provides day to day maintenance including managing the maintenance force through reliability studies and other management tools. This continual effort to improve performance is in concert with the industry's desire to reduce operating cost. The day to day maintenance presence assists in the effort to obtain turn-around work when the refinery periodically shuts down for major repairs.

Plant Service Customer Offerings

The Company provides its customers with a competitive range of services as outlined below.

Turnaround Services

Effective plant shutdown and refinery turnaround management is achieved by a combination of factors. Over the years Matrix has successfully developed and implemented management requirements including:

- . Planning
- . Subcontractor Management
- . Scheduling
- . Safety Management
- . Cost Control
- . QA/QC Management
- . Experienced Supervisors
- . Teamwork
- . Quality Control
- . Inspection

Matrix utilizes the following Planning and Scheduling Software for turnarounds:

- . Primavera Finest Hour
- . Primavera P3 for Windows
- . Primavera Suretrak for Windows
- . Teamwork (applicable modules)
- . Microsoft Project
- . CASP
- . TASC/MASC (Kurtz and Steel)
- . SP - Impower

Additional Services:

- . Heater repair
- . Blinding
- . Towers
- . Vessels
- . Exchangers
- . Valves
- . Piping
- . ASME Code Work
- . Exchanger Slab Management
- . Fin Fan Retube and Repair Procurement
- . Cost Control
- . Subcontractor Management
- . QA/QC Services
- . Safety Professionals

Maintenance Services

Matrix's maintenance services include on-going, routine maintenance, in addition to providing "quick response" to emergency situations. The Company recognizes that not only is a skilled daily maintenance workforce imperative to successful plant operation, but it can have a very positive impact on turnaround and other "non-routine" maintenance requirements. We believe our most successful projects come from locations where we have more than a transient presence. Maintenance services include:

- . Daily Maintenance Management
- . Multi Craft Workforce
- . Pipe Fitting and Welding
- . Machinist/Millwright
- . Instrumentation
- . Electrical
- . Asbestos and Lead Abatement
- . Piping and Vessel Insulation
- . Marine Terminal Maintenance
- . Exchanger Extraction and Tube Repairs
- . Tower and Vessel Maintenance
- . Aboveground Storage Tank Maintenance

Maintenance Achievements:

- . Maintenance personnel reductions through the implementation of Maintenance Management Systems and Reliability Based Maintenance.
- . Maintenance Productivity Incentives.
- . Highly successful Safety and Quality Programs.

CONSTRUCTION SERVICES

The Company's Construction Services Division coordinates and executes major projects for the following industries: power generation; petroleum refining; industrial gas, liquid and dry bulk storage; chemical; food and processing industries; and most manufacturing facilities. Proper execution of industrial projects requires innovative thinking and well-conceived safety and execution planning to ensure safe and on-time completion.

Turnkey Construction

From design coordination through project start-up and commissioning, Matrix provides expert, site-specific teams to support projects. The Company emphasizes lowering costs and shortening schedules by combining the vast experience of the owner, vendors and contractors to ensure a successful project.

Power Industry

Matrix has also expanded into power plant start-up services for new plants, including mechanical, instrumentation, structural and system cleaning.

Heavy Mechanical Installations

Matrix controls all aspects of the execution plan through a merit shop environment. The Company's background in equipment setting, alignment, piping, instrumentation and electrical work gives it the multi-discipline craft resources necessary to complete the installation in the most efficient way possible.

Civil, Concrete, Steel Erection and Structures

Matrix's experience includes a complete range of construction services including heavy civil, concrete foundations, shoring, structural concrete and steel. Work includes construction of the infrastructure required for industrial facilities such as clean rooms, laboratories, and research and development facilities.

High Pressure Vessel, Boiler and Heater Erection and Code Welding

Matrix erects boilers from new to repair or replacement, and can supply R, PP, S and U stamps for all work requiring code stamp certification. The Company's welding expertise includes all types of specialty, exotic and alloy welding. It can also provide vessel and pipe fabrication and modular skid construction for special projects.

Retrofits, Expansions and Modernizations

The Company's experience and reputation are built upon a list of successful retrofit and expansion projects, including extensive work in existing "live" units.

Plant Dismantle and Equipment Relocation Services

Matrix has the experience and talent to provide value engineering, execution plant development, scheduling, demolition, removal, coordination, transportation and installation of existing plants and equipment.

Full Service Distribution, Terminal and Bulk Storage Services

Matrix's extensive capabilities allow it to provide a full range of planning, design, construction, and management services for all types of terminals and bulk storage for aviation, rail, transit and marine facilities. In addition, Matrix can supply full tank construction and maintenance services.

OTHER BUSINESS MATTERS

Customers and Marketing

The Company derives a significant portion of its revenues from performing construction and maintenance services for major integrated oil companies. In fiscal 2001, BP/Amoco/Arco represented 17% of the Company's consolidated revenues and Chevron accounted for 15% of consolidated revenues. The loss of any one of these major customers could have a material adverse effect on the Company. The Company also performs services for independent petroleum refining and marketing companies, architectural and engineering firms, the food industry, general contractors and several major petrochemical companies. The Company sold its products and services to approximately 322 customers during fiscal 2001.

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 enjoys many preferred provider relationships with clients that are awarded without competitive bid through long-term contract agreements. In addition, the Company competitively bids many projects. Maintenance projects have a duration of one week to several months depending on work scope. New tank projects have a duration of four weeks to more than a year. General construction projects range from three months to two years.

Competition

The AST, Plant Services, and Construction Services Divisions are highly fragmented and competition is intense within these industries. Major competitors in the AST Service Division include Chicago Bridge & Iron Company as well as a number of smaller regional companies. Major competitors in the West Coast plant service industry are Timec and a number of large engineering firms. 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 safe and 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 and experience 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, 2001, the Company's AST Services, Plant Maintenance and Construction Services Divisions had an estimated backlog of work under contracts believed to be firm of approximately \$62.8 million, as compared with an estimated backlog of approximately \$61.0 million as of May 31, 2000. Virtually all of the projects comprising this backlog are expected to be completed within fiscal year 2002. 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.

Seasonality

The operating results of the Plant Services Division, and to some extent AST maintenance and repair, 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. In addition, the AST Services Division typically has a

lower level of operating activity during the winter months and early into the new calendar year as many of the Company's customers' maintenance budgets have not been finalized and demand for storage fluctuates with demand for product.

Raw Material Sources and Availability

The only significant raw material that the Company purchases is steel and steel pipe which is used primarily in the AST Services Division for new tank construction and tank repair and maintenance activities and construction services. The Company purchases its steel products from a number of suppliers located throughout the United States. In today's market environment, steel is readily available at attractive prices. However, the price and availability of steel historically has been volatile and there is no assurance that the current market conditions will remain unchanged in the future. Significantly higher steel prices or limited availability could have a negative impact on the Company's future operating performance.

Insurance

The Company maintains worker's compensation insurance, general liability insurance and auto liability insurance in the primary amount of \$1.0 million and pollution insurance in the primary amount of \$5.0 million. The Company maintains an umbrella policy with coverage limits of \$50.0 million in the aggregate. The Company also maintains policies to cover its equipment and other property with coverage limits of \$32.8 million and policies for care, custody and control with coverage limits of \$6.0 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 \$250,000. The Company maintains a performance and payment bonding line of \$150.0 million. The Company also maintains a key-man life insurance policy covering its current CEO, 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

As of May 31, 2001, the Company employed 1,355 employees, of which 268 were employed in non-field positions and 1,087 in field or shop positions. Throughout fiscal year 2001, the Company employed a total of 2,697 employees in field or shop positions who worked on a project-by-project basis.

As of May 31, 2001, 211 of the 1,087 field or shop employees were covered by a collective bargaining agreement. The Company operates under two collective bargaining agreements through the Boilermakers Union - the NTL Agreement for Tank Construction Work and the Maintenance and Repair Agreement covering Tank Repair and Related Work. Both agreements provide the union employees with benefits including a Health and Welfare Plan, Pension Plan, National Annuity Trust, Apprenticeship Training, and a Wage and Subsistence Plan.

The Company has not experienced any significant strikes or work shortages and has maintained high-quality relations with its employees.

Patents and Proprietary Technology

The Company holds two United States and one United Kingdom patents under the Flex-A-Span (R) trademark which covers a peripheral seal for floating roof tank covers. The United States patents expire in October 2001 and August 2008 and the United Kingdom patent expires in May 2011. The Company holds a U.S. patent which covers its ThermoStor (R) 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 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 designed and developed the Flex-A-Swivel (R), a swivel joint for floating roof drain systems. The United States Patent

expires in March 2019. 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 30 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. The Company believes that its current operations are in material compliance with such laws and regulations; however, 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 has imposed similar requirements which are now effective or will be after completion of various phase-in periods on certain large tanks, regardless of the date of construction, operated by companies in industries such as petroleum refining and synthetic organic chemical manufacturing which are subject to regulations controlling hazardous air pollutant emissions. The EPA is in the process of developing further regulations regarding seals and floating roofs.

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. The EPA is also in the process of developing further regulations to require production of cleaner gasolines and diesel fuels including the production of reduced sulfur gasoline and diesel fuel.

As part of the Clean Air Act Amendments of 1990, Congress required the EPA to promulgate regulations to prevent accidental releases of air pollutants and to minimize the consequences of any release. The EPA adopted regulations requiring Risk Management Plans ("RMPs") from companies which analyze and limit risks associated with the release of certain hazardous air pollutants. In addition, the EPA requires companies to make RMPs available to the public. Many petroleum related facilities, including refineries, will be subject to the regulations and may be expected to upgrade facilities to reduce the risks of accidental releases. Accordingly, the Company believes that the promulgation of accidental release regulations could have a positive impact on its business.

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 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 RCRA, 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 the EPA that required liners and/or secondary containment be used to minimize leakage from ASTs. While the regulation has not, to date, been enacted, the industry designs secondary containment in all new tanks being built and, in general, secondary containment is installed in existing tanks when they are taken out of service for other reasons, in anticipation of this regulation.

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

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

Environmental

Matrix is a participant in certain environmental activities in various stages involving assessment studies, cleanup operations and/or remedial processes.

In connection with the Company's sale of Brown and affiliated entities in 1999, an environmental assessment was conducted at Brown's Newnan, Georgia facilities. The assessment turned up a number of deficiencies relating to storm water permitting, air permitting and waste handling and disposal. An inspection of the facilities also showed friable asbestos that needed to be removed. In addition, Phase II soil testing indicated a number of VOC's, SVOC's and metals above the State of Georgia notification limits. Ground water testing also indicated a number of contaminants above the State of Georgia notification limits.

In February 2001, the first of two properties in Newnan, Georgia was certified remediated by the State of Georgia. Final transfer of title to this property was completed in a transaction that resulted in Matrix receiving \$0.5 million, the carrying value of property.

Appropriate State of Georgia agencies have been notified of the findings and corrective and remedial actions have been completed, are currently underway, or plans for such actions have been submitted to the State of Georgia for approval on the remaining property. The current estimated total cost for cleanup and remediation is \$1.9 million, \$0.4 million of which remains accrued at May 31, 2001. Additional testing, however, could result in greater costs for cleanup and remediation than is currently accrued.

Matrix closed or sold the business operations of its San Luis Tank Piping Construction Company, Inc. and West Coast Industrial Coatings, Inc. subsidiaries, which are located in California. Although Matrix does not own the land or building, it would be liable for any environmental exposure while operating at the facility, a period from June 1, 1991 to the present. At the present time, the environmental liability that could result from the testing is unknown, however, Matrix has purchased a pollution liability insurance policy with \$5.0 million of coverage.

Matrix has other fabrication operations in Tulsa, Oklahoma; Bristol, Pennsylvania; and Anaheim, California which could subject the Company to environmental liability. It is unknown at this time if any such liability exists but based on the types of fabrication and other manufacturing activities performed at these facilities and the environmental monitoring that the Company undertakes, Matrix does not believe it has any material environmental liabilities at these locations.

Matrix builds aboveground storage tanks and performs maintenance and repairs on existing aboveground storage tanks. A defect in the manufacturing of new tanks or faulty repair and maintenance on an existing tank could result in an environmental liability if the product stored in the tank leaked and contaminated the environment. Matrix currently has liability insurance with pollution coverage of \$1 million, but the amount could be insufficient to cover a major claim.

Item 2. Properties

The executive offices of the Company are located in a 20,400 square foot facility owned by the Company and located in Tulsa, Oklahoma. The Company owns a 64,000 square foot facility located on 13 acres of land leased from the Tulsa Port of Catoosa which is used for the fabrication of tanks and tank parts. The Company has leased an additional 50 acres of land from the Tulsa Port of Catoosa. The Company owns a 60,000 square foot facility on 14 acres of land owned in Tulsa, Oklahoma which is now occupied by the new tank construction group and provides excess fabrication capacity for tank parts. The Company also owns a 13,300 square foot facility in Temperance, Michigan for the Michigan regional operations and a 22,600 square foot facility in Houston, Texas for Houston regional operations. The Company owns approximately 5.0 acres of land in Orange, California. The Company owns a 143,300 square foot facility, located on 6.5 acres in Newnan, Georgia which is being leased by Caldwell Tanks, the Buyer of Brown. This facility will be sold upon final environmental remediation as provided under the Asset Sales Agreement with Caldwell Tanks, Inc. The Company owns a 30,000 square foot facility located on 5.0 acres of owned land in Bellingham, Washington. Also, the Company owns a 1,806 square foot facility located in Sarnia, Ontario, Canada. The Company leases offices in Tulsa, Oklahoma; Anaheim and Bay Point, California; Bristol and

Bethlehem, Pennsylvania and Newark, Delaware. The aggregate lease payments for these leases during fiscal 2001 were approximately \$1.0 million. The Company believes that its facilities are adequate for its current operations.

Item 3. Legal Proceedings

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

See also "Item 1 - Business - Environmental" for a discussion of environmental proceedings involving the Company.

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

Not applicable.

PART II

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

Price Range of Common Stock

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

	Fiscal Year 2001		Fiscal Year 2000	
	High	Low	High	Low
First Quarter	\$5.06	\$4.63	\$4.75	\$3.75
Second Quarter	5.63	3.94	4.81	3.63
Third Quarter	6.75	5.06	6.75	4.06
Fourth Quarter	7.44	4.75	5.50	4.38
			Fiscal Year 2002	
			High	Low
First Quarter (through August 14, 2001)			\$7.52	\$6.00

As of August 14, 2001 there were approximately 66 holders of record of the Common Stock. The Company believes that the number of beneficial owners of its Common Stock is substantially greater than 66.

Dividend Policy

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

Item 6. Selected Financial Data

The following table sets forth selected historical financial information for Matrix covering the five years ended May 31, 2001.

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

Years Ended					

	2001	2000	1999	1998	1997

Revenues	\$190.9	\$193.8	\$211.0	\$225.4	\$183.1
Gross profit	22.5	20.5	14.0	18.6	17.4
Gross profit %	11.8%	10.6%	6.6%	8.3%	9.5%
Operating income (loss)	7.5	6.8	(11.5)	(16.3)	5.5
Operating income (loss) %	3.9%	3.5%	(5.5%)	(7.2%)	3.0%
Pre-tax income / (loss)	7.1	7.2	(12.6)	(17.3)	5.1
Net income / (loss)	4.6	6.6	(12.6)	(11.6)	3.0
Net income / (loss) %	2.4%	3.4%	(6.0%)	(5.1%)	1.6%
Earnings / (loss) per share-diluted	0.54	0.74	(1.34)	(1.22)	0.31
Equity per share-diluted	6.26	6.11	5.29	6.87	7.86
Weighted average shares outstanding	8.5	9.0	9.4	9.5	9.7
Working capital	23.8	19.4	25.7	41.1	28.2
Total assets	83.7	78.3	88.2	112.7	116.9
Long-term debt	3.5	0.0	5.5	13.1	6.4
Capital expenditures	5.3	6.3	5.4	2.6	5.8
Stockholders' equity	53.3	54.9	49.7	65.3	76.2
Total long-term debt to equity %	6.6%	0.0%	11.1%	20.1%	8.4%
Cash flow from operations	5.5	8.4	16.7	3.0	6.2

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

Forward Looking Statements

This Annual Report and the information incorporated herein by reference contains various "forward-looking statements" within the meaning of federal and state securities laws, including those identified or predicated by the words "believes," "anticipates," "expects," "plans," "should" or "could" or similar expressions. Such statements are subject to a number of uncertainties that could cause the actual results to differ materially from those projected. Such factors include, but are not limited to, the following:

- . Changes in general economic conditions in the United States.
- . Changes in laws and regulations to which Matrix is subject, including tax, environmental, and employment laws and regulations.
- . The cost and effects of legal and administrative claims and proceedings against Matrix or its subsidiaries.
- . Conditions of the capital markets Matrix utilizes to access capital to finance operations.
- . The ability to raise capital in a cost-effective way.
- . The effect of changes in accounting policies.
- . The ability to manage growth and to assimilate personnel and operations of acquired businesses.
- . The ability to control costs.
- . Changes in foreign economies, currencies, laws, and regulations, especially in Canada where Matrix has made direct investments.
- . Political developments in foreign countries, especially in Canada where Matrix has made direct investments.
- . The ability of Matrix to develop expanded markets and product or service offerings as well as its ability to maintain existing markets and contracts.
- . Technological developments, high levels of competition, lack of customer diversification, and general uncertainties of governmental regulation in the energy industry.
- . The ability to recruit, train, and retain project supervisors with substantial experience.
- . A downturn in the petroleum storage operations or hydrocarbon processing operations of the petroleum and refining industries.
- . Changes in the labor market conditions that could restrict the availability of workers or increase the cost of such labor.
- . The negative effects of a strike or work stoppage.
- . The timing and planning of maintenance projects at customer facilities in the refinery industry which could cause adjustments for seasonal shifts in product demands.
- . Exposure to construction hazards related to the use of heavy equipment with attendant significant risks of liability for personal injury and property damage.
- . The use of significant production estimates for determining percent complete on construction contracts could produce different results upon final determination of project scope.
- . The inherent inaccuracy of estimates used to project the timing and cost of exiting operations of non-core businesses.
- . Fluctuations in quarterly results.

Given these uncertainties, readers of this Annual Report are cautioned not to place undue reliance upon such statements.

Matrix Service Company
Annual Results of Operations
(\$ Amounts in millions, except per share data)

	AST Services	Construction Services	Plant Services	Total	Other Services*	Combined Total
Year ended May 31, 2001						
Consolidated revenues	\$139.5	\$18.2	\$33.2	\$190.9	\$ 0.0	\$190.9
Gross profit (loss)	18.9	0.2	3.4	22.5	0.0	22.5
Operating income (loss)	7.9	(1.0)	1.2	8.1	(0.6)	7.5
Income (loss) before income tax expense	8.1	(1.6)	1.2	7.7	(0.6)	7.1
Net income (loss)	5.2	(1.0)	0.8	5.0	(0.4)	4.6
Earnings / (loss) per share - diluted	0.62	(0.12)	0.09	0.59	(0.05)	0.54
Weighted average shares						8,519
Year ended May 31, 2000						
Consolidated revenues	\$131.8	\$ 9.3	\$34.3	\$175.4	\$ 18.4	\$193.8
Gross profit (loss)	17.4	(0.5)	3.2	20.1	0.4	20.5
Operating income (loss)	8.0	(1.8)	1.3	7.5	(0.7)	6.8
Income (loss) before income tax expense	8.0	(1.5)	1.3	7.8	(0.6)	7.2
Net income (loss)	7.4	(1.5)	1.3	7.2	(0.6)	6.6
Earnings / (loss) per share - diluted	0.83	(0.17)	0.14	0.80	(0.06)	0.74
Weighted average shares						8,993
Year ended May 31, 1999						
Consolidated revenues	\$112.6	\$ 22.9	\$29.9	\$165.4	\$ 45.6	\$211.0
Gross profit (loss)	12.9	(0.2)	3.8	16.5	(2.5)	14.0
Operating income (loss)	3.9	(1.5)	1.8	4.2	(15.7)	(11.5)
Income (loss) before income tax expense	3.4	(1.6)	1.7	3.5	(16.1)	(12.6)
Net income (loss)	3.4	(1.6)	1.7	3.5	(16.1)	(12.6)
Earnings / (loss) per share - diluted	0.36	(0.17)	0.18	0.37	(1.71)	(1.34)
Weighted average shares						9,440
Variances 2001 to 2000						
Consolidated revenues	\$ 7.7	\$ 8.9	\$(1.1)	\$ 15.5	\$(18.4)	\$ (2.9)
Gross profit (loss)	1.5	0.7	0.2	2.4	(0.4)	2.0
Operating income	(0.1)	0.8	(0.1)	0.6	0.1	0.7
Income (loss) before income tax expense	0.1	(0.1)	(0.1)	(0.1)	0.0	(0.1)
Net income (loss)	(2.2)	0.5	(0.5)	(2.2)	0.2	(2.0)
Variances 2000 to 1999						
Consolidated revenues	\$ 19.2	\$(13.6)	\$ 4.4	\$ 10.0	\$(27.2)	\$(17.2)
Gross profit (loss)	4.5	(0.3)	(0.6)	3.6	2.9	6.5
Operating income	4.1	(0.3)	(0.5)	3.3	15.0	18.3
Income (loss) before income tax expense	4.6	0.1	(0.4)	4.3	15.5	19.8
Net income (loss)	4.0	0.1	(0.4)	3.7	15.5	19.2

* Includes Municipal Water and FCCU Services

Results of Operations

AST Services 2001 vs. 2000

Gross revenues for AST Services in 2001 were \$140.7 million, an increase of \$8.8 million or 6.7% over 2000. Gross margin for 2001 of 13.4% was better than the 13.2% produced in 2000. Margin comparisons, year over year, were favorably impacted by a \$0.6 million gross profit loss on a project in Venezuela for fiscal year 2000. Margins were negatively impacted by less than satisfactory execution on a number of large maintenance jobs and lower margins in the Gulf Coast and from the tank construction group. These margin gains along with the increased sales volumes resulted in gross profit for 2001 of \$18.9 million exceeding that of 2000 by \$1.5 million, or 8.6%.

Selling, general and administrative costs as a percent of revenues increased to 7.6% in 2001 vs. 6.8% in 2000 primarily as a result of increased salary and wages, increased professional services costs and increased information technology costs associated with the enterprise-wide management information system. Prior year selling, general and administrative costs were negatively impacted by \$0.2 million in one time charges related to the shut down of the International Division.

Operating income for 2001 of \$7.9 million, or 5.6% as a percent of revenues was slightly less than the \$8.0 million, or 6.1% produced in 2000 primarily as the result of higher gross profits offset by an increase in selling, general and administrative expenses discussed above.

AST Services 2000 vs. 1999

Gross revenues for AST Services in 2000 were \$131.9 million, an increase of \$14.3 million or 12.2% over 1999. Gross margin for 2000 of 13.2% was significantly better than the 11.0% produced in 1999 as a direct result of higher margin lump sum work combined with better execution of job plans. These margin improvements were offset somewhat by the International Division as a result of a \$0.6 million gross profit loss on a project in Venezuela. These margin gains along with the increased sales volumes resulted in gross profit for 2000 of \$17.4 million exceeding that of 1999 by \$4.5 million, or 34.9%.

Selling, general and administrative costs as a percent of revenues decreased to 6.8% in 2000 vs. 7.1% in 1999.

Operating income for 2000 of \$8.0 million, or 6.1% as a percent of revenues was significantly better than the \$3.9 million, or 3.3% produced in 1999, as a direct result of the gross margin gains discussed above.

Construction Services 2001 vs. 2000

Gross revenues for Construction Services in 2001 were \$18.4 million, an increase of \$9.1 million or 97.8% over 2000. This increase was due to a larger backlog at the beginning of the Company's fiscal year 2001 compared to the beginning of the prior fiscal year. Gross margin for 2001 of 1.1% was significantly better than the (5.4%) produced in 2000 as a direct result of better absorption of fixed costs associated with higher volume of business. These margin increases along with the increased sales volumes resulted in gross profit for 2001 of \$0.2 million being \$0.7 million greater than the (\$0.5) million in 2000.

Selling, general and administrative expenses as a percent of revenues decreased to 6.9% in 2001 vs. 14.0% in 2000 primarily as a result of the fixed salary costs being spread over a larger revenue base in 2001 vs. 2000.

Operating loss for 2001 of (\$1.0) million, or (5.4%) as a percent of revenues was better than the (\$1.8) million, or (19.4%) produced in 2000 primarily as the result of a higher volume of work. Other income includes a one-time benefit of \$0.4 million for the fiscal year ended 2000 as a result of a customer invoice previously reserved as a bad debt being fully collected. Additionally, other income included a one-time charge of \$0.5 million for the fiscal year ended 2001 as a result of the write-off of the pulp and paper joint venture.

Construction Services 2000 vs. 1999

Gross revenues for Construction Services in 2000 were \$9.3 million, a decrease of \$14.0 million or 60.1% over 1999. This decrease was due to a very low backlog at the beginning of the Company's fiscal year 2000 compared to last year when Construction Services was in the process of completing two major projects. Gross margin for 2000 of (5.4%) was worse than the (0.9%) produced in 1999 as a result of the lack of significant work to cover the fixed cost structure in place for Construction Services and one time charges to low margin jobs in 2000 versus 1999. These margin declines along with the decreased sales volumes resulted in gross profit for 2000 of (\$0.5) million being \$0.3 million less than the (\$0.2) million in 1999. Gross profit in 1999 was also negatively impacted by a \$2.0 million reserve for doubtful accounts for two large potentially uncollectible receivables.

Selling, general and administrative expenses as a percent of revenues increased to 14.0% in 2000 vs. 5.7% in 1999 primarily as a result of the fixed salary costs being spread over a smaller revenue base in 2000 vs. 1999.

Operating loss for 2000 of (\$1.8) million, or (19.4%) as a percent of revenues was worse than the (\$1.5) million, or (6.4%) produced in 1999 as a direct result of the lack of significant work discussed above.

Plant Services 2001 vs. 2000

Gross revenues for Plant Services in 2001 were \$33.2 million, a decrease of \$1.1 million or 3.2% over 2000. The decrease was due to lower routine maintenance work. Gross margin for 2001 of 10.2% was better than the 9.3% produced in 2000 as a direct result of more turnaround work this fiscal year compared to last fiscal year slightly offset by a one-time \$0.3 million charge in fiscal 2000 related to training expenses. This gross margin increase offset somewhat by lower revenues resulted in gross profit for 2001 of \$3.4 million which was an increase from 2000 gross profit of \$3.2 million, or 6.3%.

Selling, general and administrative expenses as a percent of revenues increased to 6.5% in 2001 vs. 5.4% in 2000 primarily as a result of increased professional service costs, increased information technology costs associated with the enterprise-wide information management system and fixed costs being spread over a smaller revenue base in 2001 versus 2000.

Operating income for 2001 of \$1.2 million, or 3.6% as a percent of revenues was slightly less than the \$1.3 million or 3.8% produced in 2000, as a direct result of higher gross profits offset by increased selling, general and administrative expenses.

Plant Services 2000 vs. 1999

Gross revenues for Plant Services in 2000 were \$34.3 million, an increase of \$4.4 million or 14.7% over 1999. Gross margin for 2000 of 9.3% was worse than the 12.7% produced in 1999 as a direct result of lower margin turnarounds in fiscal 2000 versus fiscal 1999 and several one-time charges. These margin declines resulted in gross profit for 2000 of \$3.2 million which was a decrease from 1999 gross profit of \$3.8 million, or (15.8%).

Selling, general and administrative expenses as a percent of revenues decreased to 5.4% in 2000 vs. 6.5% in 1999.

Operating income for 2000 of \$1.3 million, or 3.8% as a percent of revenues was slightly less than the \$1.8 million or 6.0% produced in 1999, as a direct result of the margin declines discussed above.

Exited Operations

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Fiscal Year 2001

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Matrix had no operating activities in Brown or San Luis for the year ended May 31, 2001. Based on amounts paid and charged against the reserves for the year ended May 31, 2001, worker's compensation, general liability and environmental amounts for the Brown and San Luis operations were determined to be \$0.6 million short of previously anticipated expenditures, resulting in a restructuring, impairment and abandonment charge.

In February of 2001, one of the two pieces of property that Caldwell was obligated to acquire was sold for \$0.5 million, the carrying value of the real estate and building. All environmental remediation has been completed on the remaining piece of property and management believes that Caldwell's option to acquire will be exercised on the remaining \$1.7 million.

Matrix has been in litigation over a contested contract in the FCCU segment. In July 2001, the appellate court upheld the original verdict plus accrued interest and attorney fees. This case is currently under appeal to the Oklahoma Supreme Court, however, the defendant was required to post a bond for the judgment amount.

Fiscal Year 2000
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On August 31, 1999, Matrix sold the assets and the business (municipal water services) of Brown to Caldwell for cash in the amount of \$4.3 million and the assumption by the buyer of ongoing construction contracts ("Work-in-Process Contracts") and certain environmental liabilities of \$0.4 million. Excluded from the assets sold were cash, accounts receivable, real estate and buildings and other miscellaneous assets. Included in the assets sold was all inventory of the subsidiaries, net of \$0.7 million used as work-in-process. The cash amount paid at closing was subject to adjustment after the closing based upon the relationship of future billings and the cost to complete the Work-in-Process Contracts which was \$1.9 million paid to Matrix on October 7, 1999. The buyer has a three-year right to lease and an option to acquire the real estate and buildings at a specified price of \$2.2 million, and is obligated to acquire, at the same specified price, if Matrix is able to satisfy specified environmental clean-up measures within the three-year period. The estimated cost of the clean up has been provided, and management believes these clean up measures will be satisfied within the specified period.

Matrix has agreed with the buyer not to compete in that business for 5 years. For the fiscal years ended May 31, 2000 and 1999, Brown accounted for 6.3% and 15.9%, respectively of Matrix's total revenues, and 4.8% and 17.7%, respectively, of Matrix's total assets.

For the year ended May 31, 2000, worker's compensation, general liability, and environmental reserves for the Brown operation were determined to be \$1.0 million short of previously anticipated expenditures, resulting in a restructuring, impairment and abandonment charge (See Footnote 3 to the Consolidated Financial Statements). In June 1999, notices were given as required under the WARN Act and Matrix announced that it would also pursue potential opportunities to sell the SLT municipal water services. In January 2000, Matrix sold at fair market value resulting in no gain or loss the assets of the coating operation, an affiliated company of SLT, to existing management for \$0.3 million. In April 2000, the remaining open contracts were completed and all operations were shut down. For the year ended May 31, 2000, the exit plan reserves have been re-evaluated and reduced by \$0.8 million. This reduction is a result of a favorable ruling in existing litigation, better than anticipated environmental findings, and reductions in worker's compensation and general liability reserves.

Matrix has been in litigation over a contested contract in the FCCU segment. In January 2000, Matrix won its case and was awarded \$1.1 million plus interest and attorney fees. This case is currently under appeal, however, the defendant was required to post a bond for the judgment amount. As a result of legal costs associated with this litigation as well as shortfalls in previously recorded worker's compensation and general liability reserves, Matrix recorded a \$0.3 million restructuring, impairment and abandonment charge to income.

Fiscal Year 1999
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On March 24, 1999, Matrix entered into a Letter of Intent with Caldwell Tanks, Inc. for the sale of Brown, a subsidiary acquired in 1994. In April 1999, the board of directors approved the transaction and a Stock Purchase Agreement was executed on June 9, 1999. Based upon certain environmental concerns (see Item 1. Business - Environmental), the structure of this transaction was renegotiated as an asset sale with Matrix retaining temporary ownership of the land and buildings until environmental remediation is completed.

Also, in May 1999 senior management approved and committed Matrix to an exit plan related to the SLT operations which were acquired in 1992. The exit plan specifically identified all significant actions to be taken to complete the exit plan, listed the activities that would not be continued, and outlined the methods to be employed for the disposition, with an expected completion date of March 2000. Management obtained board approval and immediately began development of a communication plan to the impacted employees under Workers Adjustment and Retraining Notification Act ("WARN Act").

As a result of these restructuring, impairment and abandonment operations, Matrix recorded a charge of \$9.8 million (See Footnote 3 to the Consolidated Financial Statements).

Municipal Water Services 2001 vs. 2000

Brown was sold on August 31, 1999 and SLT operations were shut down in April 2000. There was no significant municipal water services activity in 2001.

Municipal Water Services 2000 vs. 1999

Revenues for Municipal Water Services in 2000 were \$18.4 million, a decrease of \$26.7 million or 59.2% from 1999 as a result of the sale of Brown on August 31, 1999 and the final shutdown of SLT as discussed above. Gross margin for 2000 of 3.8% was significantly better than the (5.3%) produced in 1999 as a direct result of working off the closed-out backlog. These decreased sales volumes resulted in gross profit for 2000 of \$0.7 million exceeding that 1999 by \$3.1 million, or 129.2%.

Operating losses for 2000 of (\$0.4) million were better than the operating losses of (\$15.6) million produced in 1999 as a direct result of gross profit shortfalls discussed above and a \$9.8 million charge for restructuring, impairment and abandonment costs in 1999 relating to the decision to exit the business.

Financial Condition & Liquidity

Matrix's cash and cash equivalent totaled approximately \$0.8 million at May 31, 2001 and \$1.8 million at May 31, 2000.

Matrix has financed its operations recently with cash from operations and from advances under a credit agreement. On October 31, 2000, Matrix amended its credit agreement with a commercial bank under which a total of \$20.0 million may be borrowed on a revolving basis based on the level of Matrix's eligible receivables. Matrix can elect revolving loans which bear interest at a Prime Rate or a LIBOR based option and mature on October 31, 2003. At May 31, 2001, \$3.5 million was outstanding under the revolver with \$2.0 million at a LIBOR interest rate of 5.22% and \$1.5 million at a prime interest rate of 5.875%. The agreement requires maintenance of certain financial ratios, limits the amount of additional borrowings and the payment of dividends. The credit facility is secured by all accounts receivable, inventory, intangibles, and proceeds related thereto.

On June 1, 2001, Matrix entered into an interest rate agreement with a commercial bank, effectively providing a fixed interest rate of 7.23% for a five-year period on \$6.0 million of debt with a 15-year amortization. This debt was initially drawn under the credit agreement revolving loan, but will eventually be rolled into a term loan, subject to certain mortgage restrictions on the Port of Catoosa facility currently under construction.

Operations of Matrix provided \$6.0 million of cash for the twelve months ended May 31, 2001 as compared with providing \$8.4 million of cash for the twelve months ended May 31, 2000, representing a decrease of approximately \$2.4 million. The decrease was due primarily to a decrease in net income and changes in net working capital. The decrease in net income was due to the recording of income tax expense in fiscal 2001 at a 35% rate versus an 8% rate in fiscal 2000.

Capital expenditures during the twelve months ended May 31, 2001 totaled approximately \$5.3 million. Of this amount, approximately \$1.4 million was used to purchase transportation equipment for field operations, and approximately \$1.4 million was used to purchase welding, construction, and fabrication equipment. Matrix has invested approximately \$0.7 million in an office expansion in Houston during the period. Matrix has budgeted approximately \$19.8 million for capital expenditures for fiscal 2002. Of this amount, approximately \$1.6 million would be used to purchase transportation equipment for field operations, and approximately \$2.5 million would be used to purchase welding, construction, and fabrication equipment. Matrix signed a 40-year lease for a 50-acre tract of land at the Port of Catoosa, Oklahoma in March, 2001. Approximately \$9.0 million has been budgeted for 2002 to build a facility to consolidate Matrix's four separate operations in the Tulsa area now containing fabrication, operations and administration. On December 19, 2000, the Tulsa operations facility was sold for \$0.6 million, with an option to lease back until March 2002. This consolidation should take 18 to 24 months at an estimated cost of approximately \$11.0 million. The cost is expected to be offset by the sale of the remaining three facilities for approximately \$5.4 million. Additionally, \$6.6 million has been budgeted for a

fabrication facility in Orange County, California.

Matrix purchased \$0.5 million in treasury shares in the quarter ended August 31, 2000, which fully exhausted the authorized amounts available under the Share Buyback Plan approved in March 1999. In October 2000, the Board of Directors authorized a new Share Buyback Plan for up to 20% of the outstanding shares or 1,723,753 shares. Matrix purchased \$5.9 million in Treasury shares for the twelve months ended May 31, 2001 under this new plan.

Matrix believes that its existing funds, amounts available from borrowing under its existing credit agreement and cash generated by operations will be sufficient to meet the working capital needs through fiscal 2002 and for the foreseeable time thereafter unless significant expansions of operations not now planned are undertaken, in which case Matrix would need to arrange additional financing as a part of any such expansion.

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" provision of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements contained in the financial condition and liquidity section are based on certain assumptions which may vary from actual results. Specifically, the capital expenditure projections are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the successful remediation of environmental issues relating to the Brown sale 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 successful remediation of the remaining Brown property.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

Matrix has a subsidiary company whose operations are located in Canada, whose functional currency is the local currency. Historically, results have not been significantly impacted by movements in the foreign currency exchange rate. However, these investments do have the potential to impact Matrix's financial position, due to fluctuations in the local currencies arising from the process of re-measuring the local functional currency into the U.S. dollar. Management has not entered into derivative instruments to hedge the foreign currency risk. A 10% change in the respective functional currency against the U.S. dollar would not have had a material impact on the financial results of the Company for the year ended May 31, 2001.

Item 8. Financial Statements and Supplementary Data

Financial Statements of the Company

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Financial Statement Schedules

The following financial statement schedule is filed as a part of this report under "Schedule II" immediately preceding the signature page: Schedule II - Valuation and Qualifying Accounts for the three fiscal years ended May 31, 2001 and 2000. All other schedules called for by Form 10-K are omitted because they are inapplicable or the required information is shown in the financial statements, or notes thereto, included herein.

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, 2001 and 2000, 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, 2001. Our audits also included the financial statement schedule listed in the Index under Item 14. These financial statements and schedule 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 auditing standards generally accepted in the United States. 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, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Tulsa, Oklahoma
August 15, 2001

Matrix Service Company
Consolidated Balance Sheets

	May 31	
	2001	2000
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 835	\$ 1,806
Accounts receivable, less allowances (2001 - \$375, 2000 - \$150)	29,184	24,188
Costs and estimated earnings in excess of billings on uncompleted contracts	12,951	11,029
Inventories	2,772	3,049
Income tax receivable	-	146
Deferred income taxes	442	-
Prepaid expenses	2,573	2,559
Total current assets	48,757	42,777
Investment in Joint Venture	-	279
Property, plant and equipment, at cost:		
Land and buildings	10,108	9,992
Construction equipment	19,550	17,892
Transportation equipment	7,560	7,220
Furniture and fixtures	4,841	4,399
Construction in progress	2,306	1,995
	44,365	41,498
Accumulated depreciation	22,507	20,211
	21,858	21,287
Goodwill, net of accumulated amortization (2001 - \$2,427, 2000 - \$2,092)	11,258	11,660
Other assets	1,848	2,303
Total assets	\$ 83,721	\$ 78,306

Matrix Service Company
Consolidated Balance Sheets

	May 31	
	2001	2000
	(In Thousands)	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 10,229	\$ 8,759
Billings on uncompleted contracts in excess of costs and estimated earnings	7,148	5,138
Accrued insurance	2,362	3,112
Accrued environmental reserves	471	432
Earnout payable	-	968
Income tax payable	400	412
Other accrued expenses	4,307	4,560
Current portion of long-term debt	-	22
Total current liabilities	24,917	23,403
Long-term debt	3,515	-
Deferred income taxes	1,983	-
Stockholders' equity:		
Common stock - \$.01 par value; 30,000,000 shares authorized; 9,642,638 shares issued in 2001 and 2000	96	96
Additional paid-in capital	51,596	51,596
Retained earnings	12,245	7,785
Accumulated other comprehensive loss	(813)	(693)
Less treasury stock, at cost - 2,021,972 and 918,372 shares in 2001 and 2000, respectively	(9,818)	(3,881)
Total stockholders' equity	53,306	54,903
Total liabilities and stockholders' equity	\$ 83,721	\$ 78,306

See accompanying notes.

Matrix Service Company
Consolidated Statements of Operations

	Year ended May 31		
	2001	2000	1999
	(In thousands, except share and per share amounts)		
Revenues	\$ 190,901	\$ 193,753	\$ 210,997
Cost of revenues	168,390	173,269	197,012
Gross profit	22,511	20,484	13,985
Selling, general and administrative expenses	14,081	12,993	15,025
Goodwill and noncompete amortization	353	484	670
Restructuring, impairment and abandonment costs	608	180	9,772
Operating income (loss)	7,469	6,827	(11,482)
Other income (expense):			
Interest expense	(407)	(368)	(969)
Interest income	177	77	291
Other	(179)	660	(452)
Income (loss)			
before income taxes	7,060	7,196	(12,612)
Provision for federal, state and foreign income taxes	2,480	580	-
Net income (loss)	\$ 4,580	\$ 6,616	\$ (12,612)
Basic earnings (loss) per common share	\$ 0.55	\$ 0.75	\$ (1.34)
Diluted earnings (loss) per common share	\$ 0.54	\$ 0.74	\$ (1.34)
Weighted average common shares outstanding:			
Basic	8,334,383	8,872,847	9,440,310
Diluted	8,518,738	8,992,819	9,440,310

See accompanying notes.

Matrix Service Company

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
(In Thousands)						
Balances, May 31, 1998	\$96	\$51,458	\$ 14,221	\$ -	\$(523)	\$ 65,252
Net loss	-	-	(12,612)	-	-	(12,612)
Other comprehensive income						
Translation adjustment	-	-	-	-	(32)	(32)
Comprehensive income						(12,644)
Purchase of treasury stock (704,200 shares)	-	-	-	(3,036)	-	(3,036)
Exercise of stock options (49,156 shares)	-	138	(42)	47	-	143
Balances, May 31, 1999	96	51,596	1,567	(2,989)	(555)	49,715
Net loss	-	-	6,616	-	-	6,616
Other comprehensive income						
Translation adjustment	-	-	-	-	(138)	(138)
Comprehensive income						6,478
Purchase of treasury stock (288,000 shares)	-	-	-	(1,354)	-	(1,354)
Exercise of stock options (67,078 shares)	-	-	(398)	462	-	64
Balances, May 31, 2000	96	51,596	7,785	(3,881)	(693)	54,903
Net income	-	-	4,580	-	-	4,580
Other comprehensive income						
Translation adjustment	-	-	-	-	(120)	(120)
Comprehensive income						4,460
Purchase of treasury stock (1,166,400 shares)	-	-	-	(6,376)	-	(6,376)
Exercise of stock options (62,800 shares)	-	-	(120)	439	-	319
Balances, May 31, 2001	\$96	\$51,596	\$ 12,245	\$ (9,818)	\$(813)	\$ 53,306

See accompanying notes.

Matrix Service Company

Consolidated Statements of Cash Flows

	2001	Year ended May 31 2000	1999

	(In Thousands)		
Operating activities			
Net income (loss)	\$ 4,580	\$ 6,616	\$ (12,612)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,540	3,894	4,717
Deferred income tax	1,541	-	(1,697)
(Gain) loss on sale of equipment	(200)	(76)	632
Noncash write-off of joint venture, restructuring, impairment and abandonment costs	529	-	6,344
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects of acquisitions:			
Accounts receivable	(4,996)	9,280	2,775
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,922)	(3,540)	6,799
Inventories	277	929	1,470
Prepaid expenses	(14)	(1,508)	(527)
Accounts payable	1,470	(1,046)	(2,445)
Billings on uncompleted contracts in excess of costs and estimated earnings	2,010	(2,218)	(256)
Accrued expenses	(1,932)	(3,986)	5,957
Income taxes receivable/payable	134	63	5,482
Other	(25)	7	47

Net cash provided by operating activities	5,992	8,415	16,686
Investing activities			
Acquisition of property, plant and equipment	(5,277)	(6,316)	(5,379)
Acquisitions net of cash acquired	-	(851)	(637)
Proceeds from sale of exited operations	480	6,805	-
Investment in joint venture	(250)	(279)	-
Proceeds from other investing activities	700	36	182

Net cash used in investing activities	\$(4,347)	\$ (605)	\$ (5,834)

Matrix Service Company

Consolidated Statements of Cash Flows (continued)

	2001	Year ended May 31 2000	1999
----- (In Thousands) -----			
Financing activities			
Issuance of common stock	\$ 319	\$ 64	\$ 143
Purchase of treasury stock	(6,376)	(1,354)	(3,036)
Advances under bank credit agreement	65,660	49,760	5,425
Repayments of bank credit agreement	(62,161)	(57,260)	(12,925)
Repayment of other notes	-	(17)	(17)
Repayment of acquisition note	-	(66)	(62)
Issuance of equipment notes	-	-	4
Repayments of equipment notes	(6)	(8)	(23)

Net cash used in financing activities	(2,564)	(8,881)	(10,491)
Effect of exchange rate changes on cash	(52)	(95)	5

Net increase (decrease) in cash and cash equivalents	(971)	(1,166)	366
Cash and cash equivalents, beginning of year	1,806	2,972	2,606

Cash and cash equivalents, end of year	\$ 835	\$ 1,806	\$ 2,972
	=====		
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	\$ 324	\$ 587	\$ 477
Interest	249	370	967

See accompanying notes.

Matrix Service Company

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

The consolidated financial statements present the accounts of Matrix Service Company and its subsidiaries (collectively referred to as the "Company"). Subsidiary companies include Matrix Service, Inc., ("MSI"), Matrix Service Mid-Continent ("Mid-Continent"), Matrix Service, Inc. - Canada ("Canada"), San Luis Tank Piping Construction, Inc. and Affiliates ("San Luis"), Brown Steel Contractors, Inc. and Affiliates ("Brown"), and Midwest Industrial Contractors, Inc. ("Midwest"). In 1999 Matrix sold the assets of Brown and in 2000, Matrix shutdown San Luis (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. The Company's industry segments are Aboveground Storage Tank Services (AST), Construction Services, Plant Services, and Other Services.

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. In forecasting ultimate profitability on certain contracts, estimated recoveries are included for work performed under customer change orders to contracts for which firm prices have not yet been negotiated. Due to uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will be revised in the near-term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

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. Goodwill represents the excess of cost over fair value of assets of businesses acquired.

Impairment of Long-Lived Assets

The Company evaluates the long-lived assets and intangibles, including goodwill, of identifiable business activities for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on management's estimate of undiscounted future cash flows attributable to the assets as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value for the assets and recording a provision for loss if the carrying value is greater than fair value.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

For assets identified to be disposed of in the future, the carrying value of these assets is compared to the estimated fair value less the cost to sell to determine if an impairment is required. Until the assets are disposed of, an estimate of the fair value is redetermined when related events or circumstances change.

Environmental Costs
- - - - -

Environmental liabilities are recognized when it is probable that a loss has been incurred and the amount of that loss is reasonably estimable. Environmental liabilities are based upon estimates of expected future costs without discounting.

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 basis of assets and liabilities using presently enacted tax rates.

Earnings per Common 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 (184,355, 119,972, and -0- shares in 2001, 2000 and 1999, respectively).

Stock Option Plans
- - - - -

Employee stock options are accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations. 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 accounting principles generally accepted in the United States 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.

New Accounting Standards
- - - - -

In June of 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, which was subsequently amended in June of 2000 by Financial Accounting Standards No. 138. The Company will adopt this standard on June 1, 2001 and expects no material impact from it's implementation. In July of 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. The company expects to adopt this standard on June 1, 2002 and has yet to determine the financial impact.

2. Joint Venture

In March 2000, the Company entered into a joint venture partnership agreement for the construction of a pulp and paper project. The joint venture is accounted for under the equity method. In May 2001, the joint venture became impaired and Matrix fully reserved the net investment amount. Trade receivables included a \$1.3 million balance from this affiliated joint venture which is believed to be fully recoverable.

3. Restructuring, Impairment and Abandonment Costs

Fiscal Year 1999

- - - - -

On March 24, 1999 the Company entered into a Letter of Intent with Caldwell Tanks, Inc. for the sale of Brown, a subsidiary acquired in 1994. In April 1999, the board of directors approved the transaction and a Stock Purchase Agreement was executed on June 9, 1999. Based upon certain environmental concerns however, the structure of this transaction was renegotiated as an asset sale with the Company retaining temporary ownership of the land and buildings until environmental remediation is completed.

Also, in May 1999 senior management approved and committed the Company to an exit plan related to the San Luis operations which were acquired in 1992. The exit plan specifically identified all significant actions to be taken to complete the exit plan, listed the activities that would not be continued, and outlined the methods to be employed for the disposition, with an expected completion date of March 2000. Management obtained board approval and immediately began development of a communication plan to the impacted employees under the Workers Adjustment and Retraining Notification Act ("WARN Act").

Fiscal Year 2000

- - - - -

On August 31, 1999, the Company sold the assets and the business (municipal water services) of Brown to Caldwell for cash in the amount of \$4.3 million and the assumption by the buyer of ongoing construction contracts ("Work-in-Process Contracts") and certain environmental liabilities of \$0.4 million. Excluded from the assets sold were cash, accounts receivable, real estate and buildings and other miscellaneous assets. Included in the assets sold was all inventory of the subsidiaries, net of \$0.7 million used as work-in-process. The cash amount paid at closing was subject to adjustment after the closing based upon the relationship of future billings and the cost to complete the Work-in-Process Contracts which was \$1.9 million paid to the Company on October 7, 1999. The buyer has a three-year right to lease and an option to acquire the real estate and buildings at a specified price of \$2.2 million, and is obligated to acquire, at the same specified price, if the Company is able to satisfy specified environmental clean-up measures within the three-year period. The estimated cost of the clean up has been provided, and management believes these clean up measures will be satisfied within the specified period.

The Company has agreed with the buyer not to compete in that business for 5 years. For the fiscal years ended May 31, 2000 and 1999, Brown accounted for 6.3% and 15.9%, respectively, of the Company's total revenues, and 4.8% and 17.7%, respectively, of the Company's total assets.

Based upon amounts paid and charged against the reserves for the year ended May 31, 2000, worker's compensation, general liability, and environmental amounts for the Brown operation were determined to be \$1.0 million short of previously anticipated expenditures, resulting in a restructuring, impairment and abandonment charge.

In June 1999, notices were given as required under the WARN Act indicating that 100% of the workforce would be terminated and the Company announced that it would also pursue potential opportunities to sell the San Luis municipal water services. In January 2000, the Company sold at fair market value resulting in no gain or loss the assets of the coating operation, an affiliated company of San Luis, to existing management for \$0.3 million. In April 2000, the remaining open contracts were completed and all operations were shutdown. This shutdown resulted in actual termination benefits paid approximating termination benefits accrued. Based upon amounts paid and charged against the reserves for the year ended May 31, 2000, the exit plan amounts were re-evaluated and reduced by \$0.8 million. This reduction was a result of a favorable ruling in existing litigation, better than anticipated environmental findings, and reductions in worker's compensation and general liability reserves.

Matrix Service Company

Notes to Consolidated Financial Statements

3. Restructuring, Impairment and Abandonment Costs (continued)

Fiscal Year 2001

- - - - -

Matrix had no operating activities in Brown or San Luis for the year ended May 31, 2001. Based on amounts paid and charged against the reserves for the year ended May 31, 2001, worker's compensation, general liability and environmental amounts for the Brown operation were determined to be \$0.6 million short of previously anticipated expenditures, resulting in a restructuring, impairment and abandonment charge.

In February of 2001, one of the two pieces of property that Caldwell was obligated to acquire was sold for \$0.5 million, the carrying value of the real estate and building. All environmental remediation has been completed on the remaining piece of property and management believes that Caldwell's option to acquire will be exercised on the remaining property for \$1.7 million.

During the years ended 2000 and 1999, Brown had operating losses of \$0.9 million and \$4.0 million, respectively. During the year ended 2000, San Luis had operating income of \$0.6 million. During the year ended 1999, San Luis had operating losses of \$1.8 million.

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

	2001	May 31 2000	1999
----- (In Thousands) -----			
Impairment:			
Brown Goodwill	\$ -	\$ -	\$ 2,333
Asset Impairment	-	-	4,011
Employee Termination	-	-	205
Environmental Reserves	216	(32)	1,778
Other Reorganization Costs	392	212	1,445

Restructuring, impairment and abandonment costs	\$ 608	\$ 180	\$ 9,772
	=====		

In addition, the Company wrote down inventory held by Brown and San Luis by \$1.0 million in fiscal 1999, which is included in cost of revenues.

Matrix Service Company

Notes to Consolidated Financial Statements

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	
	2001	2000

(In Thousands)		
Costs incurred and estimated earnings		
Recognized on uncompleted contracts	\$ 149,844	\$ 150,676
Billings on uncompleted contracts	144,041	144,785

	\$ 5,803	\$ 5,891
	=====	
Shown on balance sheet as:		
Costs and estimated earnings in excess		
of billings on uncompleted contracts	\$ 12,951	\$ 11,029
Billings on uncompleted contracts in		
excess of costs and estimated earnings	7,148	5,138

	\$ 5,803	\$ 5,891
	=====	

Approximately \$2.4 million and \$0.8 million of accounts receivable at May 31, 2001 and 2000, respectively, relate to billed retainages under contracts.

5. Long-Term Debt

Long-term debt consists of the following:

	May 31	
	2001	2000

(In Thousands)		
Borrowings under bank credit facility:		
Revolving credit facility	\$ 3,515	\$ -
Other	-	22

		22
Less current portion	-	22

	\$ 3,515	\$ -
	=====	

On October 31, 2000, the Company amended its credit agreement with a commercial bank under which a total of \$20.0 million may be borrowed on a revolving basis based on the level of the Company's eligible receivables. Matrix can elect revolving loans which bear interest on a prime or LIBOR-based option and mature on October 31, 2003. At May 31, 2001, \$3.5 million was outstanding under the revolver with \$2.0 million at a LIBOR interest rate of 5.22% and \$1.5 million at a prime interest rate of 5.875%. 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.

Matrix Service Company

Notes to Consolidated Financial Statements

5. Long-Term Debt (continued)

Effective June 1, 2001, the Company entered into an interest rate swap agreement for \$6 million with a commercial bank, effectively providing a fixed interest rate of 7.23% for five years. The company will pay 7.23% and receive LIBOR +1.5%. Net receipt or payments under the agreement will be recognized as an adjustment to interest expense. This debt was initially drawn under the credit agreement revolving loan, but will eventually be rolled into a term loan, subject to certain mortgage restrictions on the Port of Catoosa facility currently under construction.

The Company has outstanding letters of credit and letters of guarantee totaling \$3.4 million which mature from 2001 to 2003.

The carrying value of debt approximates fair value.

6. Income Taxes

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

	2001	2000	1999

(In Thousands)			
Current:			
Federal	\$ 442	\$ 50	\$ 1,003
State	409	360	387
Foreign	88	170	307
	-----	-----	-----
	939	580	1,697
Deferred:			
Federal	1,298	-	(1,516)
State	234	-	-
Foreign	9	-	(181)
	-----	-----	-----
	1,541	-	(1,697)
	-----	-----	-----
	\$ 2,480	\$ 580	\$ -
	=====	=====	=====

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

	2001	2000	1999

(In Thousands)			
Expected provision (benefit) for			
Federal income taxes			
at the statutory rate	\$ 2,400	\$ 2,446	\$ (4,288)
State income taxes, net of			
Federal benefit	282	305	(255)
Charges without tax benefit,			
primarily goodwill amortization	96	118	836
Valuation allowance	(332)	(3,041)	3,373
Other	34	752	334
	-----	-----	-----
Provision for income taxes	\$ 2,480	\$ 580	\$ -
	=====	=====	=====

Matrix Service Company

Notes to Consolidated Financial Statements

6. Income Taxes (continued)

Significant components of the Company's deferred tax liabilities and assets as of May 31, 2001 and 2000 are as follows:

	2001	2000
(In Thousands)		
Deferred tax liabilities:		
Tax over book depreciation	\$ 2,326	\$ 1,950
Other - net	189	141
Total deferred tax liabilities	2,515	2,091
Deferred tax assets:		
Bad debt reserve	142	51
Foreign insurance dividend	124	111
Vacation accrual	113	267
Restructuring reserves	153	281
Noncompete amortization	408	412
Loss carryforward	-	1,277
Other - net	34	24
Valuation allowance	-	(332)
Total deferred tax assets	\$ 974	\$ 2,091
	\$ 1,541	\$ -

7. Stockholders' Equity

Preferred Stock

The Company has 5.0 million shares of preferred stock authorized, none of which was issued or outstanding at May 31, 2001, or 2000.

Preferred Share Purchase Rights

The Company's Board of Directors authorized and directed a dividend of one preferred share purchase right for each common share outstanding on November 12, 1999, and authorized and directed the issuance of one right per common share for any shares issued after that date. These rights, which expire November 12, 2009, will be exercisable only if a person or group acquires 15 percent or more of the Company's common stock or announces a tender offer that would result in ownership of 15 percent or more of the common stock. Each right will entitle stockholders to buy one one-hundredth of a share of preferred stock at an exercisable price of \$40. In addition, the rights enable holders to either acquire additional shares of the Company's common stock or purchase the stock of an acquiring company at a discount, depending on specific circumstances. The rights may be redeemed by the Company in whole, but not in part, for one cent per right.

Incentive Stock Options

The Company has 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 also has 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. Employee options generally

Matrix Service Company

Notes to Consolidated Financial Statements

7. Stockholders' Equity (continued)

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 and 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 900,000, 1,320,000 and 250,000 options to be granted under the 1990, 1991, and 1995 Plans, respectively. Options exercisable total 570,426, 540,069, and 679,267 at May 31, 2001, 2000, and 1999, 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 4.01% to 6.62%; dividend yield of -0-%; volatility factors of the expected market price of the Company's stock of .326 to .860; 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.

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

	2001	2000	1999
	----- (In Thousands) -----		
Net income (loss) as reported	\$ 4,580	\$ 6,616	\$ (12,612)
Compensation expense from stock options	477	495	812
Pro forma net income (loss)	----- \$ 4,103	----- \$ 6,121	----- \$ (13,424)
	=====		
Pro forma earnings (loss) per common share:			
Basic	\$.49	\$.69	\$ (1.42)
Diluted	\$.48	\$.68	\$ (1.42)

The effect of compensation expense from stock options on pro forma net income reflects the vesting of awards granted after June 1, 1995, the year in which the pro forma reporting requirements under SFAS 123 were adopted.

Matrix Service Company

Notes to Consolidated Financial Statements

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, 1998	1,660,657	\$.67	-	\$ 8.00
Granted	883,000	3.75	-	4.375
Exercised	(49,156)	.67	-	6.25
Canceled	(869,201)	3.625	-	8.00

Balance at May 31, 1999	1,625,300	\$.67	-	\$ 7.75
Granted	40,000	4.125	-	5.188
Exercised	(67,078)	0.67	-	5.75
Canceled	(522,128)	3.88	-	7.75

Balance at May 31, 2000	1,076,094	\$ 3.625	-	7.75
Granted	215,000	4.25	-	5.00
Exercised	(62,800)	3.625	-	6.25
Canceled	(107,315)	3.625	-	6.25

Balance at May 31, 2001	1,120,979	\$ 3.625	-	7.75
=====				

At May 31, 2001 the weighted average exercise price is \$4.463 and the weighted average remaining contractual life is 6.92 years.

8. Commitments

The Company is the lessee under operating leases covering real estate in Tulsa and Catoosa, Oklahoma; Bristol and Bethlehem, Pennsylvania; Anaheim and Bay Point, California; and Newark, Delaware. The Company is also the lessee under operating leases covering office equipment. Future minimum lease payments are as follows (in thousands): 2002 - \$925; 2003 - \$312; 2004 - \$241; 2005 - \$214; 2006 - \$165; and thereafter - \$1,215. Rental expense was \$1.0 million, \$1.0 million and \$1.3 million for the years ended May 31, 2001, 2000 and 1999, respectively.

9. Other Financial Information

The Company provides specialized on-site maintenance and construction services for petrochemical processing and petroleum refining and storage facilities. The Company grants credit without requiring collateral to customers consisting of the major integrated oil companies, independent refiners and marketers, and petrochemical companies. Although this potentially exposes the Company to the risks of depressed cycles in oil and petrochemical industries, the Company's receivables at May 31, 2001 have not been adversely affected by such conditions.

Sales to two customers accounted for approximately 17% and 15%, respectively of the Company's revenues for the year ended May 31, 2001. The customer that represented 17% of consolidated revenues, represented 57% of Plant Services revenues, 7% of AST Services and 21% of Construction Services revenues. The customer that represented 15% of consolidated revenues represented 16% of AST Services revenues, 14% of Plant Services revenues and 9% of Construction Services revenues. Sales to two customers accounted for approximately 17% and 12%, respectively of the Company's revenues for the year ended May 31, 2000. The customer that represented 17% of consolidated revenues, represented 57% of Plant Services revenues and 7% of AST Services revenues. The customer that represented 12% of consolidated revenues represented 14% of AST Services revenues and 6% of Plant Services revenues. Sales to one customer accounted for approximately 11% of the Company's revenues for the year ended May 31, 1999.

Matrix Service Company

Notes to Consolidated Financial Statements

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 matches employee contributions according to the following table:

1 - 7 years service	25% of the first 6%
8 - 15 years of service	50% of the first 6%
16 or more years of service	75% of the first 6%

The Company recognized cost relating to the plan of \$0.4 million, \$0.3 million and \$0.3 million for the years ended May 31, 2001, 2000 and 1999, respectively.

11. Contingencies

The Company is insured for worker's compensation, auto, general liability, pollution and property claims with deductibles for self-insured retention of \$250,000, \$500, \$50,000, \$25,000 and \$10,000 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, 2001 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 has been in litigation over a contested contract. In January 2000, the Company won its case and was awarded \$1.1 million. In July 2001, the appellate court upheld the original verdict plus accrued interest and attorney's fees. This case is currently under appeal to the Oklahoma Supreme Court, however, the defendant was required to post a bond for the judgment amount.

The Company is a defendant in various other 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.

On June 8, 2001, the Houston regional office sustained significant damage as a result of a flood. It is the opinion of management that none of the damage repair will have a material impact on the financial statements of the Company, as most items are fully insured.

As of May 31, 2001, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders of approximately \$1.0 million and claims of approximately \$1.5 million. Generally, amounts related to unapproved change orders and claims will not be paid by the customer to Matrix until final resolution of related claims and accordingly, collection of these amounts may extend beyond one year.

12. Segment Information

The Company has three reportable segments from operations which are continuing - Aboveground Storage Tank (AST) Services, Construction Services, and Plant Maintenance Services - as well as one discontinued segment from exited operations. The AST Services Division consists of five operating units that perform specialized on-site maintenance and construction services with related products for large petroleum storage facilities. The Construction Services Division provides services to industrial process plants. The Plant Maintenance Services Division specializes in performing "turnarounds," which involve complex, time-sensitive maintenance of the critical operating units of a refinery. The discontinued segment, included as Other Services, consists of three operating units ("Brown," "Midwest" and "San Luis") which have all been exited (see footnote 3).

Matrix Service Company

Notes to Consolidated Financial Statements

12. Segment Information (continued)

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at cost and there is no Inter-company profit or loss on intersegment sales or transfers.

The Company's reportable segments are business units that offer different services. The reportable segments are each managed separately because they require different expertise and resources for the services provided.

 Matrix Service Company
 Annual Results of Operations
 (\$ Amounts in millions)

	AST Services	Construction Services	Plant Services	Other Services	Combined Total

Year ended May 31, 2001					
Gross revenues	\$ 140.7	\$ 18.4	\$ 33.2	--	\$ 192.3
Less: inter-segment revenues	(1.2)	(0.2)	--	--	(1.4)
Consolidated revenues	139.5	18.2	33.2	--	190.9
Gross profit (loss)	18.9	0.2	3.4	--	22.5
Operating income (loss)	7.9	(1.0)	1.2	(0.6)	7.5
Income (loss) before income tax expense	8.1	(1.6)	1.2	(0.6)	7.1
Net income (loss)	5.2	(1.0)	0.8	(0.4)	4.6
Identifiable assets	63.9	6.0	11.1	2.7	83.7
Capital expenditures	4.8	0.1	0.4	--	5.3
Depreciation expense	3.7	0.1	0.4	--	4.2
Year ended May 31, 2000					
Gross revenues	\$ 131.9	\$ 9.3	\$ 34.3	\$ 19.1	\$ 194.6
Less: inter-segment revenues	(0.1)	0.0	0.0	(0.7)	(0.8)
Consolidated revenues	131.8	9.3	34.3	18.4	193.8
Gross profit (loss)	17.4	(0.5)	3.2	0.4	20.5
Operating income (loss)	8.0	(1.8)	1.3	(0.7)	6.8
Income (loss) before income tax expense	8.0	(1.5)	1.3	(0.6)	7.2
Net income (loss)	7.4	(1.5)	1.3	(0.6)	6.6
Identifiable assets	62.6	3.1	8.3	4.3	78.3
Capital expenditures	5.4	0.1	0.8	0.0	6.3
Depreciation expense	2.7	0.1	0.4	0.2	3.4
Year ended May 31, 1999					
Gross revenues	\$ 117.6	\$ 23.3	\$ 29.9	\$ 46.5	\$ 217.3
Less: inter-segment revenues	(5.0)	(0.4)	0.0	(0.9)	(6.3)
Consolidated revenues	112.6	22.9	29.9	45.6	211.0
Gross profit (loss)	12.9	(0.2)	3.8	(2.5)	14.0
Operating income (loss)	3.9	(1.5)	1.8	(15.7)	(11.5)
Income (loss) before income tax expense	3.4	(1.6)	1.7	(16.1)	(12.6)
Net income (loss)	3.4	(1.6)	1.7	(16.1)	(12.6)
Identifiable assets	52.9	8.1	6.7	20.5	88.2
Capital expenditures	4.2	0.2	0.2	0.8	5.4
Depreciation expense	2.5	0.2	0.3	1.0	4.0

Matrix Service Company

Notes to Consolidated Financial Statements

12. Segment Information (continued)

Geographical information is as follows:

	Revenues		Long Lived Assets	
	2001	2000	2001	2000
Domestic	\$ 188.0	\$189.4	\$ 32.6	\$ 32.8
International	2.9	4.4	2.4	2.5
	<u>\$ 190.9</u>	<u>\$193.8</u>	<u>\$ 35.0</u>	<u>\$ 35.3</u>

Matrix Service Company
Quarterly Financial Data (Unaudited)

Summarized quarterly financial data are as follows:

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
----- (In Thousands except per share amounts)				
Revenues	\$37,862	\$45,052	\$49,135	\$ 58,852
Gross profit	3,820	4,768	5,762	8,161
Net income	8	989	1,450	2,133
Net income per common share:				
Basic	.00	.12	.17	.27
Diluted	.00	.11	.17	.27
----- 2000				
Revenues	\$47,507	\$50,737	\$48,033	\$ 47,476
Gross profit	5,766	5,232	4,481	5,005
Net income (loss)	2,005	2,477	1,184	950
Net income (loss) per common share:				
Basic	.22	.28	.13	.11
Diluted	.22	.28	.13	.11

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

Matrix Service Company

May 31, 2001 and 2000

COL. A	COL. B	COL. C	COL. D	COL. E	
Description	Balance at Beginning of Period	Additions		Deductions- Describe	Balance At End Of Period
		Charged to Costs and Expenses	Charged to Other Accounts- Describe		
(Amounts in Thousands)					
Year ended May 31, 2001:					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 150	\$ 345	\$ -	\$ (120)	\$ 375
Reserve for deferred tax assets	332	-	-	(332)	-
Total	\$ 482	\$ 345	\$ -	\$ (452)	\$ 375
Year ended May 31, 2000:					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 2,464	\$ -	\$ -	\$ (2,314)	\$ 150
Reserve for deferred tax assets	3,373	-	-	(3,041)	332
Total	\$ 5,837	\$ -	\$ -	\$ (5,355)	\$ 482
Year ended May 31, 1999:					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ -	\$ 2,464	\$ -	\$ -	\$ 2,464
Reserve for deferred tax assets	-	3,373	-	-	3,373
Total	\$ -	\$ 5,837	\$ -	\$ -	\$ 5,837

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

Not Applicable

PART III

The information called for by Part III of Form 10-K (consisting of Item 10 -- Directors and Executive Officers of the Registrant, Item 11 -- Executive Compensation, Item 12 -- Security Ownership of Certain Beneficial Owners and Management and Item 13 -- Certain Relationships and Transactions), is incorporated by reference from the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

PART IV

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

Financial Statements of the Company

The following financial statements are filed as a part of this report under "Item 8 - Financial Statements and Supplementary Data":

Report of Independent Auditors	23
Consolidated Balance Sheets as of May 31, 2001 and 2000.	24
Consolidated Statements of Operations for the years ended May 31, 2001, 2000, and 1999.	26
Consolidated Statements of Changes in Stockholders' Equity for the years ended May 31, 2001, 2000, and 1999.	27
Consolidated Statements of Cash Flows for the years ended May 31, 2001, 2000, and 1999.	28
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Financial Statement Schedules

The following financial statement schedule is filed as a part of this report under "Schedule II" immediately preceding the signature page: Schedule II - Valuation and Qualifying Accounts for the three fiscal years ended May 31, 2001. All other schedules called for by Form 10-K are omitted because they are inapplicable or the required information is shown in the financial statements, or notes thereto, included herein.

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 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).
- + 10.7 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).

List of Exhibits

- + 10.8 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).
- + 10.9 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).
- 10.10 Stock Purchase Agreement, dated June 17, 1997, by and among Matrix Service Company and the shareholders of General Service Corporation.
- 10.11 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.
- 10.12 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.
- 10.13 Interest Rate Swap Agreement, dated February 26, 1998 between Matrix Service Company and Bank One, Oklahoma, N.A.
- 10.14 Stock Purchase Agreement by and among Caldwell Tanks Alliance, LLC, Caldwell Tanks, Inc., Brown Steel Contractors, Inc., Georgia Steel Acquisition Corp. and Matrix Service Company, dated June 9, 1999.

- 10.15 Amended and Restated Stock Purchase Agreement and Conversion to Asset Purchase Agreement, dated August 31, 1999, by and among Matrix Service Company and Caldwell Tanks, Inc. (Exhibit 99.1 to the Company's current report on Form 8-K (File No. 0-18716) filed September 13, 1999, is hereby incorporated by reference).
- 10.16 Matrix Service Company 1990 Incentive Stock Option Plan, as Amended (Exhibit A to the Company's Annual Report on Schedule 14A filed September 17, 1999, is hereby incorporated by reference).
- 10.17 Matrix Service Company 1991 Incentive Stock Option Plan, as Amended (Exhibit B to the Company's Annual Report on Schedule 14A filed September 17, 1999, is hereby incorporated by reference).
- 10.18 Rights Agreement (including a form of Certificate of Designation of Series B Junior participating Preferred Stock as Exhibit A thereto, a form of Right Certificate as Exhibit B thereto and a summary of Rights to Purchase Preferred Stock as Exhibit C thereto), dated November 2, 1999, (Exhibit I to the Company's current report on Form 8-K (File No. 0-18716) filed November 9, 1999, is hereby incorporated by reference).
- 10.19 Second Amended and Restated Agreement, dated November 30, 1999 by and among the Company and its subsidiaries and Bank One, Oklahoma, N.A. (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 0-18716) filed January 13, 2000, is hereby incorporated by reference).
- * 10.20 Lease Agreement Between The City of Tulsa-Rogers County Port Authority and Matrix Service Company dated March 1, 2001.
- * 10.21 International SWAP Dealers Association, Inc. Master Agreement dated February 1, 1998
- * 21.1 Subsidiaries of Matrix Service Company.
- * 23.1 Consent of Ernst & Young LLP.

* Filed herewith.

+ Management Contract or Compensatory Plan.

Reports on Form 8-K

October 15, 2000 - Form of Presentation to Security Analysts and Institutional Investors

SIGNATURES

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

Matrix Service Company

Date: August 15, 2001

/s/ Bradley S. Vetal

Bradley S. Vetal, President

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

Signatures -----	Title -----	Date -----
/s/ Bradley S. Vetal ----- Bradley S. Vetal	Bradley S. Vetal President and Director (Principal Executive Officer)	August 15, 2001
/s/ Michael J. Hall ----- Michael J. Hall	Michael J. Hall Chief Financial Officer and Director (Principal Financial and Accounting Officer)	August 15, 2001
/s/ Hugh E. Bradley ----- Hugh E. Bradley	Director	August 15, 2001
/s/ I. Edgar Hendrix ----- I. Edgar Hendrix	Director	August 15, 2001
/s/ Paul K. Lackey ----- Paul K. Lackey	Director	August 15, 2001
/s/ John S. Zink ----- John S. Zink	Director	August 15, 2001

EXHIBIT 10.20

LEASE AGREEMENT

BETWEEN

THE CITY OF TULSA-ROGERS COUNTY PORT AUTHORITY

AND

MATRIX SERVICE COMPANY

MARCH 1, 2001

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EXHIBITS

Exhibit "A"	Leased Premises
Exhibit "B"	Building and Development Regulations
Exhibit "C"	Additional Charges
Exhibit "D"	Miscellaneous Provisions

LEASE AGREEMENT

This Lease Agreement ("Lease") is entered into effective as of March 1, 2001, between THE CITY OF TULSA-ROGERS COUNTY PORT AUTHORITY, an agency of the State of Oklahoma ("Lessor"), with offices at 5350 Cimarron Road, Catoosa, Oklahoma 74015, and Matrix Service Company, a corporation organized and existing under the laws of the State of Delaware, duly authorized to do business in the State of Oklahoma ("Lessee"), with principal offices at 10701 E. Ute' Tulsa, Oklahoma, and local offices and place of business at 5605 N. Verdigris Road, Catoosa, Oklahoma. Lessor and Lessee are collectively referred to herein as the "Parties".

W I T N E S S E T H :

A. Lessor is the governing body for and the sole and principal operator of a water port terminal and related industrial park located in Rogers County, State of Oklahoma, referred to herein as the "Tulsa Port of Catoosa". Lessor operates the Tulsa Port of Catoosa in part under a Master Lease Agreement with the City of Tulsa, Oklahoma, a municipal corporation ("City").

B. Lessor desires to lease certain lands and/or facilities, comprising a portion of the Tulsa Port of Catoosa, to industries involved in moving raw materials and finished products in water commerce and to such other industries as may be engaged in industrial activities.

C. Lessee desires to lease a portion of the industrial park premises for the use and purposes set forth in this Lease.

NOW, THEREFORE, for and in consideration of the terms, covenants and conditions hereinafter set forth and contained, the Lessor and Lessee mutually contract and agree as follows:

ARTICLE I. PREMISES

1.1 Leased Premises. Lessor hereby leases, and lets unto Lessee and Lessee hereby leases and lets from Lessor a certain parcel and tract of land, together with certain easements, located at and within the Tulsa Port of Catoosa, comprising approximately 50.0 acres, together with improvements located thereon, all of which real and personal property is referred to collectively as the "Leased Premises" and is more fully described on Exhibit "A", attached hereto and by this reference made a part of this Lease.

1.2 Use of Premises. The Leased Premises are to be occupied and used by Lessee for engineering. fabrication and repair of storage tanks and the operation of services and conduct of business activities related and incident thereto. In the event Lessee for any reason desires hereafter to modify and/or change its use of the Leased Premises, the nature and terms of such modified use, if approved by Lessor, shall be reduced to a written agreement of the Parties and made a part of this Lease. Lessor agrees that it will not unreasonably withhold or delay its consent to any proposed compatible change in use.

1.3 Building and Development Regulations. Lessee covenants that any, every and all uses of the Leased Premises hereunder shall comply with Lessor's Building and Development Regulations and certain provisions of its Master Plan of Development (collectively the "Building and Development Regulations"), copies of which are attached hereto designated Exhibit "B" and by this reference made a part of this Lease. The Parties understand that the Building and

Development Regulations may from time to time be amended and/or otherwise modified by Lessor. Lessor and Lessee agree that the Building and Development Regulations in effect on the date Lessee shall have submitted its improvement or premises utilization plans for approval, pursuant to the provisions of Section 4.1, shall control Lessee's construction efforts and utilization of the Leased Premises (so long as such utilization is substantially similar to that initially approved in connection with this Lease). Notwithstanding the foregoing, Lessor hereby acknowledges that Lessee's construction plan and use of the Leased Premises, as provided to Lessor prior to the date of this Lease, is generally consistent with the Building and Development Regulations.

1.4 Acceptance of Leased Premises in Present Condition. Lessee

acknowledges that it has inspected the Leased Premises and accepts the same in its present condition "as is" and that all terms and conditions of this Lease are fully binding upon Lessee as if, and to the same extent that, the existing improvements had been made by Lessee as original lessee. (See Exhibit "D", Rider 1)

1.5 Covenant to Build. The Parties agree that Lessee shall cause

construction of certain improvements and facilities for its occupancy and use of the Premises as set forth in Section 1.2 hereof (such undertaking referred to hereinafter as the "Project"), to be commenced on or before August 1, 2001, with the same to be substantially completed and in operation by March 1, 2003. In the event that Lessee does not cause the Project to be commenced and completed within such time, unless delayed by circumstances beyond its control, such as through force majeure or acts or omissions of Lessor, then, in any or all such events, this Lease, together with any and all rights afforded Lessee hereunder shall, at the election of Lessor, cease and terminate and, notwithstanding the language of Exhibit D, rider 2, all rentals as scheduled in Exhibit D, Rider 3 (up to the date of said termination) shall immediately become payable as liquidated damages.

1.6 Eminent Domain. If the whole of the Leased Premises shall be taken

or condemned, or purchased in lieu thereof, by any government authority for any public or quasi-public use or purpose, then, in that event, the Lease term shall cease and terminate from the time when the possession shall be required for such use or purpose. In such case, rent and all other amounts that are due hereunder shall be apportioned to the date of such taking or purchase, as the case may be. In the event of a partial taking only of the Leased Premises, Lessor shall notify Lessee in writing and in the event the partial taking shall render the Leased Premises untenable, Lessee shall have the option to terminate this Lease by giving Lessor written notice within twenty (20) days after receipt of such notice from Lessor; and in the event the said taking or purchase does not render the Leased Premises untenable, rent and all other amounts that are due hereunder shall be apportioned on the basis of the portion of the Leased Premises that is rendered untenable. If Lessee is entitled to exercise said option to terminate and does so, then such termination shall be effective and rent and all other amounts that are due hereunder shall in such case be apportioned to the date of such taking or purchase, as the case may be.

Lessor and Lessee hereby agree that any award or proceeds resulting from a condemnation or sale in lieu thereof of the whole or part of the Leased Premises shall be apportioned between Lessor and Lessee with the intent to provide equitable compensation to Lessee for the Improvements. Provided, however, in the event any such condemnation award is specifically allocated as between Lessor and Lessee, such allocation shall control.

ARTICLE II. LEASE TERM

2.1 Primary Lease Term. The primary term of this Lease ("Primary

Term") shall be for a period of fifteen years from and after March 1, 2001 ("Commencement Date"), and terminating on February 28, 2016, unless otherwise terminated, renewed or extended pursuant to other terms of this Lease. The term of the Lease, which includes the Primary Term and all effective renewals and extensions, shall for convenience be referred to as the "Lease Term."

2.2 Renewal Terms. Provided Lessee is not in default and this Lease is

otherwise in full force and effect, Lessee is granted the option to renew this Lease upon the same terms and conditions (subject to adjustment of rentals as set forth in Section 3.3 and subject to modifications required to conform this Lease to the terms of Lessor's then current form of lease agreement), for five additional term(s) of five years each; such option to be exercisable upon the giving of written notice of intent to renew by Lessee to Lessor not earlier than 180 days and not later than 120 days prior to the expiration date of the then current primary or option term.

2.3 Assignment of Lease. Lessee shall not sublet, mortgage or pledge

this Lease or any interest herein or in the Leased Premises or any part of the same or assign this Lease or any interests herein or portion hereof, nor shall any assignment of any interest(s) of Lessee herein by operation of law or by reason of Lessee's bankruptcy become effective, without the prior written consent of the Lessor, which consent shall not be unreasonably withheld or delayed. No sublease or assignment arrangement conditionally consented to by Lessor shall be or become effective unless and until Lessee has delivered to Lessor a written assignment and assumption agreement by the sublessee or assignee in a form approved by Lessor, together with adequate assurance of sublessee's or assignee's ability to perform, accept, observe and be bound by each and all of the terms, provisions and stipulations of this Lease provided in a form acceptable to Lessor in the exercise of its sole discretion; and provided further, that any subletting or transfer shall not extend beyond the Primary Term or permitted extension(s) hereof nor shall any subletting or transfer release or relieve Lessee of any obligations to Lessor hereunder. Written approval shall not be required with respect to any mortgages, assignments or pledges respecting any improvements for facilities constructed, erected, installed or maintained by Lessee upon the Leased Premises except as now or hereafter otherwise provided herein.

ARTICLE III. RENTALS

3.1 Primary Term Rentals. Lessee shall pay to Lessor lease rental

during the Primary Term as follows:

(a) Monthly Rentals. Commencing see exhibit "D" rider 2, and continuing thereafter on the first day of each consecutive month of the Primary Term, Lessee shall pay to Lessor the sum of see exhibit "D" rider 3. Monthly rentals shall be adjusted during and after the Primary Term in accordance with the other provisions of the Lease.

(b) Rental Rate Adjustment. To provide for changes in land values, the monthly rentals as set forth in 3.1(a) above will, at the election of Lessor, be adjusted to reflect any increase in the Consumer Price Index ("Index"), All Items - U.S. Cities Average, published in the monthly labor review by the Bureau of Labor Statistics, U.S. Department of Labor (1982-1984 = 100). Implementation of the cost of living index rent adjustment will be made on the fifth anniversary date of the lease and every five years thereafter (on the anniversary date) for the primary term and any extensions thereof. The rental adjustments will be made by multiplying the monthly rent by a fraction,

the numerator of which is the Index published two (2) months prior to the date of adjustment, and the denominator of which is the Index as of 60 months prior to the date of the Index used in establishing the numerator. The rental rate adjustment for each five-year period will not exceed 25 percent of the monthly rent for the rental term immediately prior to the adjustment. If for any reason there is a major change in the method of calculation or formulation of the Consumer Price Index, or should the Consumer Price Index no longer be published, then the parties will mutually select the commodity index satisfactory to both. If the parties cannot agree upon a substitute index, then the index shall be established through the arbitration procedures set forth in Section 3.3. Notwithstanding the provisions of this Subsection, in no event will the adjusted rental rate exceed the rental rate on a per acre basis for other available real property at the Tulsa Port of Catoosa similarly classified by Lessor, in its sole discretion, hereafter and from time to time.

3.2 Additional Rentals. In addition to the rentals provided in

Section 3.1, and as additional rental charges, Lessee shall pay to Lessor the following sums:

(a) Security. Lessor will contract to provide cooperatively

financed and administered security services at Tulsa Port of Catoosa on behalf of its lessees, invitees, operators and users. Lessee agrees to pay its pro rata share of the costs of such security services based on a degree-of-risk formula established by Lessor for all of Lessor's lessees. The Parties agree that Lessor makes no representations as to the adequacy of the security services. Neither Lessor nor its officers, directors, agents, servants, representatives or employees shall be directly or indirectly liable to Lessee for any losses or damage to Lessee's property or to the property of others for which Lessee may be liable, attributable to the acts of third parties. The agreed upon contributions to be paid by Lessee for security services shall be \$375/month, commencing the 1st day of December, 2001. The agreed upon security cost may be modified by Lessor if the cost of providing the services either increases or decreases during the Lease Term.

(b) Barge and Rail Charges. Lessor and Lessee recognize the

importance of having reliable barge and railcar moving services readily available. Lessor and Lessee agree that Lessor currently provides this service and the initial barge or railcar placement costs are included in the rate prescribed by the barge owner or railroad. Lessor and Lessee agree, however, that charges for initial placements, as appropriate, and for any subsequent moves or shifting of a barge or railcar for the convenience of Lessee shall be paid by Lessee at the rates and in the manner established by the Port's Operational Circular and, if done after established working periods, such moves or shifts shall be paid by Lessee at overtime rates established therefor.

(c) Other Charges. Lessee shall also pay to Lessor, on the same

payment dates provided in Subsection 3.1(a), all other sums and charges approved from time to time with the written concurrence of the Parties to be set forth and stated on Exhibit "C", attached hereto and by this reference made a part of this Lease. Exhibit "C" may be amended and replaced from time to time by agreement of the Parties, evidenced by the signatures of their authorized representatives thereon. Lessee covenants to timely prepare and deliver to Lessor accurate and certified reports of events giving rise to other charges properly includable on Exhibit "C."

(d) Taxes. Lessee agrees to cause to be paid all taxes, levies,

imposts and assessments which may be legally made upon or levied and/or assessed against the Leased Premises, any interests therein, and/or any improvements or property located thereupon before the same become delinquent. Lessee shall have the right, at its sole

cost and expense and after having given Lessor prior written notice of its intent to do so, to contest by appropriate legal proceedings diligently conducted in good faith, the validity, amount or application, in whole or in part of such taxes, levies, imposts and/or assessments, provided (i) the proceedings will suspend the collection of the tax, levy, impost or assessment, (ii) neither the Leased Premises, nor any rent therefrom, nor any portion of either is in danger of seizure, forfeiture, sale, loss or similar consequences, and (iii) Lessee shall first furnish Lessor and the City with security which in Lessor's opinion is adequate, satisfactory and sufficient to protect against loss, penalty, interest or costs incurred by reason of the contest.

3.3 Renewal Term(s) Rentals. Lease rentals covering each renewal

period shall be negotiated by the Parties and reduced to writing as an addendum or addenda to this Lease at least 120 days prior to the commencement of each renewal term. Renewal period rentals shall be paid by Lessee to Lessor in accordance with the procedure for payment and adjustments set forth in Section 3.1. In the event the Parties hereto cannot agree upon the amount of the renewal term lease rentals, then at least 120 days prior to the expiration of the then existing term, the Parties shall make a bona fide effort to agree upon the then fair market value of the Leased Premises, exclusive of the value of any improvements made by Lessee thereon. If the Parties are unable to agree upon said value, then at least 105 days prior to the expiration of such term the following procedure for determining rental shall be followed:

(a) A Board of Appraisers shall be appointed consisting of 1 member appointed by each of the Parties and a third member appointed by the first two appointees.

(b) The Board of Appraisers shall thereupon, at least 15 days prior to the expiration of such term, determine the then fair market value of the Leased Premises, exclusive of the value of any improvements made by Lessee thereon, and the valuation fixed by the Board of Appraisers shall be conclusive and bind the Parties.

Based upon the fair market value of the Leased Premises, whether determined by agreement or by Board of Appraisers, Lessee agrees to pay Lessor as rent for the next succeeding term hereof an amount equal to 8% per annum of such fair market value during said term, payable in the same manner as the installments during the Primary Term of this Lease and subject to the provision for future adjustment set forth in Subsection 3.1(c). If the Board of Appraisers shall not have determined the fair market value of the Leased Premises at the time of the commencement of the succeeding renewal term, Lessee may nevertheless continue this Lease in effect by paying provisional lease rentals equal to the lease rentals required during the immediately preceding term until such time as the Board of Appraisers makes its determination. Upon such determination Lessee shall, in order to continue this Lease in effect for the renewal period, within 30 days after receipt of notice of the determination, pay to Lessor the amount by which the rental calculation pursuant to the determination of the Board of Appraisers exceeds the provisional rental paid by Lessee retroactive to the first day of the renewal term. To the extent to which the provisional lease rentals paid by Lessee to Lessor exceed the amount of the determination of the Board of Appraisers, Lessee shall be entitled to credit the overpayment to the rentals next due under the Lease. Costs and expenses incident to an appraisal pursuant to this Section shall be borne equally by the Parties.

ARTICLE IV. IMPROVEMENTS

4.1 Notice and Submission of Plans. Prior to the commencement of any

construction at or upon the Leased Premises, Lessee shall first cause Lessor to be given written notice of the nature and extent of any specific improvements and/or improvement projects proposed to be undertaken. Lessee shall submit to Lessor for review and approval all of its architectural plans and drawings of proposed facilities and/or improvements, together with such additional specifications as Lessor may reasonably request. Lessee may not commence to construct any proposed improvements until it has secured Lessor's written approval, which shall not be unreasonably withheld or delayed. Lessor's approval shall be based on compliance with Lessor's Building and Development Regulations (except as otherwise provided in Section 1.3), the terms of this Lease, and all other applicable rules and regulations of Lessor in effect at the time construction is commenced.

4.2 Improvements. Except as may otherwise be specifically provided in

this Lease, all improvements made by Lessee, including without limitation, structures, electric power and light, water, telephone, sanitary facilities, and accessory structures from and to the Leased Premises, including all chattels, goods, tools, equipment and personal property, will be constructed, erected, installed and/or maintained as between the Parties, at the sole expense and risk of Lessee (collectively, the "Lessee Improvements"). Except as set forth herein, Lessee shall at all times retain full right, title and interest in and to the Lessee Improvements. Within a period of 90 days following the date of Lease termination, Lessee, at its sole cost and expense, shall remove the Lessee Improvements (other than such Lessee Improvements as Lessee has designated in writing to Lessor as items Lessee desires to leave on the Leased Premises and Lessor has given its written consent thereto, which consent may be withheld by Lessor in its sole discretion), and the Leased Premises shall be reasonably restored by Lessee to its original condition. At the election of Lessor, any and all property of Lessee not timely removed by Lessee from the Leased Premises shall become the property of Lessor. Notwithstanding, Lessee shall have the right to sell the Lessee Improvements and assign the Lease to a third party so long as such assignment of the Lease complies with the requirements of Section 2.3 above. Certain other Improvements, including but not limited to roadways, roadway material, parking areas, railways, rail switches and/or turnouts, rail and track material (the Parties acknowledge that all railway-related improvements shall always remain the property of Lessor), shell, slag, gravel or concrete used to stabilize the soil, pavement, and underground utilities shall remain in place and remain or become the property of Lessor and may not be removed by Lessee.

4.3 Utilities and Services. Except as may otherwise be specifically

provided in this Lease, Lessee shall at its sole cost and expense provide for servicing the Leased Premises and all improvements thereon with water, sewer, gas, electricity, telephone or other utility services as may be required for the use and operation of the Leased Premises. Lessor, however, at its sole cost and expense, shall cause such utilities to be installed adjacent to the Leased Premises in a manner that will allow Lessee to service the Leased Premises as set forth above. Lessee shall be responsible for all costs and charges in connection with its utility installation and service and shall pay the same promptly as the charges accrue to protect, fully indemnify and hold Lessor harmless from and against any and all liability for such costs or charges.

4.4 Easements. Lessor agrees to grant to Lessee, when required by

Lessee, nonexclusive easements over, across and through Lessor's unleased property which it has the right to grant and which are reasonably necessary for the operation of Lessee's facilities on the Leased Premises or reasonably required by Lessee, including but not limited to, the following:

(a) Access to railroad lines and spurs, if any, located within the Leased Premises, together with the right to place railroad track switches or turnouts necessary to accommodate Lessee's use of railroad trackage constructed and used by Lessee at or upon the Leased Premises. All tracks, lines, spurs, switches and turnarounds to be utilized by Lessee shall be identified on Exhibit "A" to be considered a part of the Leased Premises covered by this Lease. Lessee hereby grants to Lessor an easement and right to use for switching and/or storage of railcars any trackage constructed by Lessee, provided that such use by Lessor shall not interfere with Lessee's use of such trackage.

(b) Connection of water and sanitary sewer facilities as approved by the City of Tulsa Public Works Department along designated routes as shown on the Master Plan of Development and/or other relevant documents of Lessor for the Tulsa Port of Catoosa.

(c) Connection of telephone, electric and gas lines, as approved by the appropriate utility companies, to those installed at or upon the Leased Premises.

(d) Connection of streets and/or roads for vehicular traffic to roads immediately adjacent or near the Leased Premises, subject to Lessor's prior approval of any proposed curb cuts and roadway improvements for the Leased Premises.

(e) Location, placement and maintenance of production and/or handling pipelines connecting the Leased Premises to wharves and/or barge mooring dolphins, as may be necessary for Lessee's activities and/or operations, to the extent the same are permitted and approved by Lessor and upon payment or arrangements for payment to Lessor of appropriate fees therefor.

Lessor shall have no obligation to furnish any easement which would in the exercise of its sole discretion interfere with the orderly development and/or utilization of Lessor's Industrial Park and/or Terminal Area, in whole or in part, nor shall any easement exceed the height, depth or width reasonably necessary to permit the reasonable operation of Lessee's facilities on the Leased Premises. Any and all easements in which rights shall be granted hereunder shall be described on and made a part of Exhibit "A" to this Lease to be included within the Leased Premises and the privileges extended to Lessee under this Lease.

4.5 Access. Lessor covenants that so long as Lessee is not in default

under any of the terms and conditions of this Lease, Lessee shall have and enjoy the right of ingress and egress in and to the Leased Premises with a nonexclusive right to use any railroad, road, roadway or areas used in common by Lessor and/or its other lessees by, about or adjacent to the Leased Premises; subject, however, to the following provisions:

(a) This Lease does not grant any tenancy in railroad, road, roadway or common area by, about or adjacent to the Leased Premises.

(b) Lessor shall have the right to relocate any railroad, road, roadways or common areas or any portion thereof so long as the relocation does not deprive Lessee of access to the Leased Premises for railroad, vehicular, barge and/or utility facilities as are contemplated herein to be constructed by Lessee. Lessor shall have no liability to Lessee for any damage or loss incurred by Lessee as a result of any relocation which is not occasioned by the destruction, removal or relocation of any of Lessee's facilities or improvements.

(c) Lessee shall not use the railroad, roads, roadways or common areas, or any portions thereof, in any way which would interfere with the use of the same by Lessor or any of its lessees, operators, invitees or users.

Provided however, nothing contained in this Section 4.5 is intended to diminish Lessee's rights or Lessor's obligations under Section 4.4.

4.6 Signs. Lessee shall be entitled to erect, install and maintain on

the Leased Premises identification and advertising signs appropriate to its business. All Lessee's signs at all times shall be subject to the prior written approval of Lessor's Port Director as to location, size, shape, color and content.

4.7 Lien Claims. Lessee covenants to unconditionally indemnify Lessor

and the City, as fee owner of the Leased Premises, from and against and save them harmless from any and all lien claims of any nature whatsoever arising out of or in any manner connected with the construction, installation, erection, maintenance, repair, occupancy, use and/or operation of any improvements, facilities and/or equipment erected by Lessee or Lessee's agents on or about the Leased Premises. Lessee further agrees that it shall, in the event any liens are filed encumbering the Leased Premises, effect their removal and/or satisfaction. Lessee shall have the right, at its sole cost and expense and after having given Lessor prior written notice of its intent to do so, to contest by appropriate legal proceedings diligently conducted in good faith, the amount, validity or application, in whole or in part, of any lien(s), provided (i) such proceedings shall suspend the collection of the lien(s), (ii) neither the Leased Premises nor any rent therefrom, or any portion of either, would be in danger of attachment, forfeiture, loss or similar consequence, and (iii) that Lessee shall first furnish Lessor and the City with the security which in Lessor's opinion is adequate, satisfactory and sufficient to protect Lessor and the City from any loss, penalty, interest, cost or injury incurred by reason of the contest. Except as otherwise provided hereinabove, at Lessor's request Lessee shall furnish Lessor with written proof of payment of any item which would or might constitute the basis for such a lien on the Leased Premises or upon its interest in this Lease if not paid.

4.8 Inspection and/or Repair of Premises. Lessor shall at all

reasonable times be permitted and allowed to enter the Leased Premises to inspect the condition of the Lease Premises and Lessee's operations and/or improvements to determine compliance with the terms of this Lease, and further, Lessor shall be permitted to make repairs and/or engage in maintenance necessary in respect to any facilities as it may have installed upon or about the Leased Premises. If the obligation to make repairs and/or to engage in maintenance is Lessee's hereunder and Lessee fails to fulfill such obligations within a reasonable period of time, Lessor may elect to undertake to perform the same, then Lessee shall reimburse Lessor for the cost of charges therefor upon receipt of invoices therefor.

ARTICLE V. OPERATIONS

5.1 Pollution Control. Lessee agrees that it shall not pollute the

air, water or ground at or upon the Leased Premises and/or in the vicinity of its operations or activities, and/or at or upon other premises as it may by these covenants have the right to use or occupy, whether or not in connection with others, in violation of applicable governmental statute, rule or regulation and/or in violation of standards and/or requirements as Lessor may from time to time reasonably and uniformly adopt in pursuit of governmental regulations. In this connection, Lessee shall obtain and maintain current all required permits, local, state and federal, needed to construct facilities and/or conduct the operations or activities contemplated under this Lease.

5.2 Compliance with Laws and Regulations. Lessee's exercise of rights

and/or privileges extended hereunder shall at all times be in full compliance with all applicable laws, rules and regulations, including safety regulations, of the State of Oklahoma, the United States and other governmental authorities now or hereafter having jurisdiction and/or any of their duly empowered agencies and/or instrumentalities. Lessee further agrees to comply with all applicable rules and regulations of Lessor pertaining to the Leased Premises and the Tulsa Port of Catoosa now in existence and hereafter promulgated for the general safety and convenience of Lessor, its various tenants, invitees, licensees and the general public, provided such rules and regulations shall not materially conflict with the provisions of this Lease. A copy of all Lessee's building permits, Corps of Engineers and Coast Guard permits, licenses and similar authorizing documents shall be provided by Lessee to Lessor as and when reasonably requested by Lessor.

5.3 Maintenance of Adjoining: Grounds. As part of the consideration

for this Lease, Lessee agrees to regularly perform all "grounds maintenance" of the area between the Leased Premises and the pavement of any road, bed of any railroad or centerline of any rights-of-way within the boundaries of and abutting the Leased Premises. "Grounds maintenance" will include keeping areas clean, mowed, orderly and free from debris and waste materials. Lessor retains full rights to utilize the areas concerned, including the right to grant easements for utilities, installation of signs, etc., and Lessee shall not be deemed as having any tenancy in these areas. Lessee shall not be responsible for any additional maintenance costs arising out of the foregoing acts of Lessor. Lessor shall have the right to withdraw all or part of Lessee's responsibility under this Section 5.3, if Lessor so desires and so informs Lessee in writing. In any instance in which construction of roads or railroads has been commenced but not completed within or adjacent to the Leased Premises, Lessee shall be responsible for ground maintenance of the areas between the Leased Premises and existing road and railroad improvements as have been or are in the process of being constructed in the adjoining rights-of-way therefor. If no road or railroad improvements shall exist, Lessee shall maintain the areas from the Leased Premises to the centerline of future roads and railroads as are shown on the Tulsa Port of Catoosa Master Development Plan, and as may be reflected in Exhibit "A". Notwithstanding the requirements of this Section, Lessee shall not be required to undertake ground maintenance with respect to any areas between the Leased Premises and any road or railroad improvements or rights-of-way therefor in excess of a 50-foot distance from the Leased Premises.

5.4 Indemnification. Lessee hereby releases and discharges Lessor and

the City from and shall fully protect, indemnify and keep, hold and save Lessor and the City harmless from and against any and all costs, including, but not limited to, clean-up costs, charges, expenses, penalties, damages (including contamination) and consequences imposed for or arising from the violation of any law or regulations of the United States, the State of Oklahoma, any local authorities, or any of such entities' agencies and instrumentalities (collectively "Governmental

Authorities"), occasioned, in whole or in part, by any act or omission of Lessee or its representatives, assigns, agents, servants, employees, licensees, invitees, and any other person(s) occupying under Lessee (except to the extent that any such costs are attributable to the negligent or willful act or omission of Lessor or the City, or their representatives, assigns, agents, servants, employees, licensees, invitees, or any other person acting under or on behalf of Lessor). Lessee shall further protect, fully indemnify and save forever harmless Lessor and the City from and against any and all liability, cost, damage (including clean-up costs and contamination) and expense, incident to injury (including injury resulting in death) of third parties or damage to or destruction of their property incident to, arising out of or in any way connected with Lessee's use and occupancy or rights of use and occupancy of the Leased Premises (whether by omission or commission and irrespective of exclusive or nonexclusive rights therein) including, but not limited to, the operation of Lessee's business, the construction, erection, installation, existence, repair, maintenance, alteration and/or demolition of any improvements, facilities and/or equipment or the conduct of any other activities, and which would not have arisen but for the exercise or pursuit by Lessee of the rights and privileges accorded hereby or the failure on Lessee's part in any respect to comply with the requirements hereof, except as a loss occasioned by the negligent or willful act or omission of Lessor or the City or their representatives, assigns, agents, servants, employees, licensees, invitees, or any other person acting under or on behalf of Lessor.

5.5 Use Prohibition and Duties (Environmental). Lessee covenants and

agrees that it will not use, generate, manufacture, produce, store, release, discharge or dispose of on, under or about the Leased Premises or transport to or from the Leased Property any Hazardous Materials, except in strict compliance with all applicable laws. "Hazardous Materials" shall mean (i) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. ss. 6901, et seq.), as amended from time to time, and regulations promulgated thereunder; (ii) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. ss. 9601, et seq.) ("CERCLA"), as amended from time to time, and regulations promulgated thereunder; (iii) asbestos; (iv) polychlorinated biphenyls; (v) underground storage tanks, whether empty, filled or partially filled with any substance; (vi) any substance the presence of which on the Leased Premises is prohibited by any applicable governmental requirements and regulations; and (vii) any other substance which by any governmental requirements requires special handling or notification of any federal, state or local governmental entity in its collection, storage, treatment or disposal. Lessee will keep and maintain the Leased Premises in compliance with, and shall not cause or permit the Leased Premises to be in violation of any governmental requirements and will not allow any other person or entity to do so. Lessee shall allow Lessor to join and participate in, as a party if it so elects, any legal proceedings or actions initiated in connection with violation of any governmental requirements and Lessee hereby agrees to pay any attorneys' fees incurred by Lessor in connection therewith. Without Lessor's prior written consent, which shall not be unreasonably withheld, Lessee shall not take any remedial action in response to the presence of any Hazardous Materials on, under, or about the Leased Premises, nor enter into any settlement, agreement, consent, decree or other compromise in respect to any claims regarding the presence of Hazardous Materials. Lessor's consent may be withheld, without limitation, if Lessor, in its reasonable judgment, determines that remedial action, settlement, consent or compromise might impair the value of the Leased Premises; provided, however, that Lessor's prior consent shall not be necessary in the event that the presence of Hazardous Materials in, on, under or about the Leased Premises either poses an immediate threat to the health, safety, or welfare of any individual or is of such a nature that an immediate remedial response is necessary, and it is not possible to obtain Lessor's consent before taking such action. In such event Lessee shall notify Lessor as soon as practicable of any action so taken. Lessee agrees to (a) give notice to Lessor immediately upon its acquiring knowledge of the presence of any Hazardous Materials on the Leased Premises or of any

hazardous substance contamination with a full description thereof; (b) promptly comply with any governmental requirement of removal, treatment or disposal of Hazardous Materials or hazardous substance contamination and provide Lessor with satisfactory evidence of compliance; and (c) provide Lessor, within 30 days after demand by Lessor, a bond, letter of credit or similar financial assurance evidencing to Lessor's satisfaction that the necessary funds are available to pay the cost of removing, treating and disposing of Hazardous Materials or hazardous substance contamination and discharging any assessments which may be established on the Leased Premises as a result thereof.

5.6 Site Assessments. If Lessor shall have an objective reason to

believe that there are Hazardous Materials or Hazardous Materials contamination, such reason being based upon a visible, apparent or documented condition of the Leased Premises or any contiguous Leased Premises, then Lessor (by its officers, employees and agents), at any reasonable time and from time to time, may first provide Lessee with notice of its concern and request that Lessee retain a qualified industrial hygienist approved by Lessor (the "Site Reviewers") to perform a Phase I site assessment and a Phase II site assessment, as required or recommended in the Phase I report, ("Site Assessments"). If Lessee fails to deliver the requested Site Assessment to Lessor within a prompt, yet reasonable, period of time, then Lessor may contract for the services of Site Reviewers to perform Site Assessments. The Site Assessments on the Leased Premises will be reasonable in scope and based upon the suspected condition for the purpose of determining whether there exists on the Leased Premises any environmental condition which could reasonably be expected to result in any liability, cost or expense to the owner, occupier or operator of such Leased Premises arising under any state, federal or local law, rule or regulation relating to Hazardous Materials. The Site Assessments may be performed at any time(s), upon reasonable notice, and under reasonable conditions established by Lessee which do not impede the performance of the Site Assessments. Site Reviewers are authorized to enter upon the Leased Premises for such purposes. Site Reviewers are further authorized to perform both above and below the ground testing for environmental damage or the presence of Hazardous Materials on the Leased Premises and such other tests on the Leased Premises as may be necessary to conduct the Site Assessments in the reasonable opinion of the Site Reviewers. Lessee will supply to the Site Reviewers such historical and operational information regarding the Leased Premises as may be reasonably requested by the Site Reviewers to facilitate the Site Assessments and will make available for meetings with the Site Reviewers appropriate personnel having knowledge of such matters. On request, the results of any Site Assessments shall be made fully available to Lessee and Lessor. Unless otherwise agreed by Lessor and Lessee, the cost of performing Site Assessments shall be paid by Lessee, and if incurred by Lessor shall be paid by Lessee to Lessor upon its demand. This monetary obligation shall constitute additional rental due on demand made by Lessor. In addition, Lessee shall have the right to perform Phase I and Phase II Site Assessments, within 120 days of the effective date of this Lease, and Lessor shall reimburse Lessee for costs, up to \$1,750.00 of the Phase I Site Assessment.

5.7 Environmental Indemnification. Lessee shall defend,

indemnify and hold harmless Lessor and the City from any and all liabilities (including strict liability), actions, demands, penalties, losses, costs or expenses (including without limitation attorneys' fees and expenses, and remedial costs), suits, costs of any settlement or judgment and claims of any and every kind whatsoever which may now or in the future (whether before or after the termination of this Lease) (hereafter, "Environmental Claims") be paid, incurred or suffered by or asserted against Lessor or the City by any person or entity or governmental agency for, with respect to, or as a direct or indirect result of, the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission, or release from the Leased Premises of any Hazardous Materials or any Hazardous Materials contamination or arise out of or result from the environmental condition of the Leased

Premises or the applicability of any governmental requirements relating to Hazardous Materials (including without limitation CERCLA or any federal, state or local so-called "Superfund" or "Superlien" laws, statute, law, ordinance, code, rule, regulation, order or decree). The representations, covenants, warranties and indemnifications contained in this Section shall survive the termination of this Lease. Provided however, notwithstanding anything contained herein to the contrary, Lessee shall have no obligation whatsoever to Lessor, the City or any third party for Environmental Claims to the extent such claims are based on the condition of the Leased Premises existing prior to the "baseline" created by the Phase I and Phase II (if conducted) Site Assessments.

5.8 Insurance. In pursuit, but not in derogation of or by way of

substitution for Lessee's obligations under Article V, Lessee shall at all times cause to be maintained at its sole cost and expense minimum insurance coverage and policies with the following prescribed terms:

(a) Commercial General Liability Insurance - with a combined single limit of \$1,000,000 each occurrence and \$2,000,000 annual aggregate, applicable to bodily injury and property damage, including pollution liability.

(b) The Commercial General Liability Insurance shall be issued on an "occurrence" basis and shall include coverage for all operations of Lessee, including independent contractor's coverage, blanket contractual liability and the policy will be endorsed to eliminate exclusion for work, construction or demolition within 50 feet of railroad trackage, broad form property damage, including completed operations, and, where applicable, property damage liability resulting from blasting or explosion, collapse or structural injury and/or subsurface operations. The policy shall not be modified to reduce the standard coverages provided under a Commercial General Liability policy form. The pollution liability endorsement may be on a "claims made" basis.

(c) Lessor shall be designated as additional named insured under the policy required by Lessor.

(d) As respects all insurance policies applicable to this Lease, Lessee shall, prior to the commencement of this Lease and upon the annual anniversaries, furnish to Lessor certificates of insurance evidencing the maintenance of all coverages required and the payment of premiums.

(e) Lessor shall have the right to review Lessee's insurance coverages, and/or to obtain upon request certified copies of the insurance policies, periodically, to insure full and adequate protection and to otherwise reasonably require additional and/or other forms of coverage, in accordance with current generally accepted coverages in the industry and/or within the Tulsa Metropolitan Area in respect to operations and/or activities similar to those of Lessee, whether similar in whole or in part. The cost of additional coverage and/or forms of coverage shall be borne by Lessee.

(f) All policies of insurance shall require that Lessor and Lessee be given 30 days' prior written notice of any modification, termination and/or cancellation of coverages.

(g) All insurance policies shall be issued by an insurance company rated A (Excellent) or better and be included in financial size category VII, or better, in Best's Insurance Guide, and be otherwise

reasonable satisfactory to Lessor with respect to form and content. If Lessee refuses or neglects to secure and maintain insurance policies

complying with the provisions of this Section, Lessor may, but shall not be required to, secure and maintain insurance policies, and Lessee shall reimburse Lessor for the cost thereof as additional rent, upon demand.

(h) Lessee shall not use the Leased Premises in any manner which would increase the existing rates of insurance premiums paid by Lessor with respect to its operations and activities at the Tulsa Port of Catoosa and/or in the vicinity of the Leased Premises. If it nevertheless does so, then, at the option of the Lessor, the full amount of any resulting increase in premiums, to the extent allocable to the remaining rent for the year in which the increase is recognized, may be added to the amount of rentals specified herein and shall be paid by Lessee to Lessor commencing upon the monthly rental day next thereafter occurring.

ARTICLE VI. TERMINATION

6.1 Termination. Upon the termination of this Lease, however

termination may be brought about, whether by expiration of the term hereof, or otherwise, Lessee shall quit and surrender the Leased Premises to Lessor in good condition, excepting only natural wear and tear from a reasonable use thereof and destruction of the Leased Premises by covered peril and subject to the provisions of Section 4.2.

6.2 Lessee Events of Default. The following shall be "Lessee

events of default" under this Lease, and the terms "Lessee events of default" or "Lessee default" shall mean whenever they are used in this Lease, any one or more of the following events:

(a) Failure or refusal of Lessee to pay or cause to be paid any lease rental, charges and/or assessments hereunder or any installment thereof when due and the continuance of such failure for a period of 10 days;

(b) Failure by Lessee to perform any agreement, covenant, condition, obligation and/or undertaking herein contained and/or to observe or comply with any of the terms, provisions and conditions of this Lease;

(c) In the event Lessee, before the expiration of this Lease, without the written consent of Lessor, vacates the Leased Premises or abandons possession of all or any portion thereof, or uses the same for purposes other than the purposes for which the Leased Premises are let hereunder, or ceases to use the Leased Premises for the purposes herein specified;

(d) Issuance of execution against Lessee's interest in this Lease or any legal process which by operation of law would cause Lessee's interest in this Lease to pass to any person other than Lessee or its successor assignee pursuant to Section 2.3; and/or

(e) Insolvency, assignment for the benefit of creditors, adjudication as a bankrupt or the appointment of a receiver for substantially all of Lessee's property and/or Lessee's interest in this Lease.

6.3 Cancellation. Save and except for defaults occurring under

Subsections 6.2 (a) and (e), in which cases no notice of default shall be required of Lessor, if any Lessee default shall occur and continue unremedied or uncorrected for a period of 60 days after Lessor shall have given Lessee notice in writing specifying Lessee default, then at the written option of Lessor this

Lease and all Lessee's interests and rights hereunder shall immediately cease and terminate. In the case of a default occurring under Section 6.2(b) or (d) which does not endanger or impair or threaten to endanger or impair Lessor or any of its lessees or operators or any of their facilities or operations and which is remediable but will reasonably require in excess of 60 days to remedy, if Lessee shall, upon receipt of notice of default from Lessor, have notified Lessor of the probability of such delay and thereupon undertaken to remedy with due diligence and reasonable dispatch, then termination shall be stayed so long as, and only so long as, Lessee in good faith continues its best efforts to remedy with due diligence and reasonable dispatch.

6.4 Lessor Events of Default. The occurrence of any of the following

events shall constitute an event of default by Lessor ("Lessor Event of Default") under this Lease:

(a) Failure by Lessor to perform any agreement, covenant, condition, obligation and/or undertaking herein contained and/or observe or comply with any of the terms, provisions and conditions of this Lease, and such failure is not corrected within sixty (60) days except as to a breach of the covenant of quiet enjoyment which is not corrected within five (5) days after written notice from Lessee to Lessor;

(b) Any third party claiming an interest in the Leased Premises through or under Lessor breaches the covenant of quiet enjoyment and such breach is not cured within a period of ten (10) days after written notice from Lessee to Lessor;

(c) Lessor makes any representation or warranty herein or in any other statement or certificate at any time given in writing pursuant to or in connection with this Lease, which is false or misleading in any material respect, and such failure is not corrected within sixty (60) days;

(d) Lessor materially breaches any other agreement between Lessor and Lessee, and such breach is not cured within sixty (60); or

(e) Insolvency, assignment for the benefit of creditors, adjudication as a bankrupt or the appointment of a receiver for substantially all of Lessor's property and/or Lessor's interest in this Lease.

In the event of a Lessor Event of Default that is not cured within the time periods set forth above, Lessee may exercise all remedies available to it under this Lease or applicable law, including without limitation: (i) Lessee may terminate this Lease, whereupon all obligations of Lessee to pay rent and any other amount due hereunder shall cease; and (ii) Lessee may immediately set off against all amounts Lessee may owe to Lessor any damages suffered by Lessee as a result of Lessor's default.

6.5 Right of Re-entry. Upon the termination of this Lease, however

such termination is brought about, whether by Lessor's election to terminate under any one or more of the foregoing provisions, or otherwise, and in the event that Lessee fails to exercise its rights under Section 4.2, Lessor may re-enter the Leased Premises without notice or demand and remove all persons and things therefrom with or without legal process and without prejudice to any of Lessor's other legal rights, using such force as may be necessary or proper for the purpose. Any and all claims for damages by reason of Lessor's re-entry or the form or manner of re-entry or the taking possession of the Leased Premises are hereby waived as also are all claims for damage by reason of any proceedings in the nature of execution, attachment, sequestration, forcible detainer or other legal action which Lessor may employ to recover possession of the Leased Premises or rentals and charges due. Provided however, Lessee does not waive any claims it may have for damages

resulting from Lessor's actions that are willful or grossly negligent. If upon Lessor's reentry there remains any personal property of Lessee or any person holding under or through it pursuant to Section 2.3, other than property as either or both shall hold as actual or constructive bailee(s), Lessor may take possession of the property and sell it at public or private sale without notice to Lessee, and this right to take and sell shall be a prior lien and claim against the property, subject, however, to any prior duly perfected third party encumbrance thereof. Subject to any legal and priority encumbrances, Lessor may, without obligation to do so take possession of the property and hold it for the owners thereof or may place the same in a public garage or warehouse, all at the expense and risk of the owners thereof. Lessee shall reimburse Lessor for any expenses it incurs in connection with removal and storage of property upon Lessor's presentment of invoices therefor. If Lessor elects to take possession of the property and sell it, the proceeds of sale shall be applied first to the costs of the sale, second to the payment of the charges for storage, if any, and third to the payment of any other amounts which may then be due from Lessee to Lessor, with the balance, if any, to be paid to Lessee. Notwithstanding any reentry upon default by Lessee or a termination of this Lease occasioned by reason thereof, the lease rentals due hereunder for the remainder of the then current lease term and such other charges and/or obligations, if any as may be otherwise payable under this Lease, shall be and become immediately due and payable and the liability of Lessee for the full amount provided herein shall not be extinguished for the balance of the term of this Lease. Lessee shall make good to Lessor any deficiency arising from a reletting of the Leased Premises at a lesser rental than that hereinbefore agreed upon. Lessee shall pay the rental deficiency each month as the amount thereof is ascertained by Lessor, upon the presentment of invoices therefor. Provided however, nothing in this Section 6.5 is intended to waive or diminish Lessee's rights or Lessor's obligations under Section 4.2.

6.6 Holding Over. If Lessee shall, with the consent of the Lessor,

hold over after the expiration or sooner termination of the term of this Lease, the resulting tenancy shall, unless otherwise mutually agreed, before an indefinite period of time or on a month-to-month basis. During any month-to-month tenancy, Lessee shall pay to Lessor the same rate of rental as set forth herein, unless a different rate shall be agreed upon, and Lessee shall be bound by all of the provisions of this Lease insofar as they may be pertinent.

6.7 Waiver of Breach or Default Cumulative Remedies. Waiver by

either of the Parties of any breach or default of this Lease shall not be deemed a waiver of similar or other breaches or defaults, nor shall the failure of either of the Parties to take any action by reason of any such breach or default deprive that party of the right to take action at any time while the breach or default continues. The rights and remedies created by this Lease shall be cumulative and nonexclusive of those to which the Parties may be entitled at law and equity. The right to exercise all remedies is hereby reserved. The use and availability of one remedy shall not be taken to exclude or waive the right to use of another. In order to entitle either of the Parties to exercise any remedy reserved to it in this Lease it shall not be necessary to give any notice, other than notice expressly required.

ARTICLE VII. MISCELLANEOUS

7.1 Examination of Lessee's Records. Lessor shall at all reasonable

times be permitted to examine and/or audit and, to the extent necessary, duplicate Lessee's books and records maintained with respect to its operations and activities hereunder but only for the purpose of determining Lessee's compliance with the terms and conditions of this Lease. In the event books and records are maintained at other than Lessee's local office identified above, Lessee, upon the receipt of written notice by Lessor specifying the nature and extent of its intended inquiry and/or examination, agrees to immediately furnish Lessor with full, true and accurate copies of all its books and records as may be appropriate thereto. Lessor covenants to keep any such books and records and the information contained therein confidential upon the request of Lessee (except to the extent disclosure is required as a matter of law).

7.2 Lessor's Leasehold Interest. It is mutually understood and

agreed by the Parties that: (i) Lessor has only a leasehold interest in the property covered by this Lease which has been granted to Lessor by the City, (ii) this instrument is a sublease and the Parties are sublessees and sublessors as the case may be, (iii) this Lease is subject to the terms and conditions of a lease from the City to Lessor, and (iv):

(a) The City has fee simple title to the Leased Premises.

(b) Lessor is authorized to enter into this Lease for the primary and renewal terms provided herein, pursuant to the terms of its lease with the City.

(c) The lease between the City and Lessor dated June 22, 1971, has been modified subsequent to the date of its original execution.

(d) This Lease is generally in accordance with the Master Plan of Development of the Port Authority, as amended, and as required in Article III of Lessor's lease with the City.

(e) Pursuant to the lease between the City and Lessor: (i) any dissolution of Lessor or termination of such lease shall not adversely affect Lessee's rights hereunder, and (ii) such lease may not be amended or modified in any manner so as to have a material adverse effect on Lessee's rights hereunder without the prior written consent of Lessee.

7.3 Quiet Enjoyment. Lessor covenants that during the entire

Lease Term and for so long as Lessee (i) shall make timely payment of rentals due hereunder and (ii) shall perform all covenants on its part to be performed, Lessee shall and may peaceably and quietly have, hold and enjoy the Leased Premises.

7.4 Notices. All notices under this Lease must be sent by United

States mail, postage prepaid, addressed as follows, except that either Party may by written notice given as aforesaid change its address for subsequent notices to be given hereunder;

(a) Lessor:

THE CITY OF TULSA-ROGERS COUNTY PORT AUTHORITY
5350 Cimarron Road
Catoosa, Oklahoma 74015

(b) Lessee:

Matrix Service, Inc.
10701 E. Ute
Tulsa, Oklahoma, 74116
Attention: Glen Rogers, Vice President

Provided, however, that payments made by Lessee may be sent first class mail, postage prepaid, to Lessor at the address above given or paid in such other manner as Lessor may designate. Any and all notices given by either of the Parties hereto shall be deemed effective upon their receipt by the primary addressee, as set forth hereinabove.

7.5 Nondiscrimination. Lessee agrees that it shall not, with

respect to its operations conducted on the Leased Premises, discriminate against any employee or applicant for employment because of race, color, religion, sex, age, national origin or handicap. Lessee shall take affirmative action to ensure that applicants are employed, and employees are treated during employment, without regard to race, color, religion, sex, age, national origin or handicap. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

7.6 Navigability. The United States Corps of Engineers endeavors

to maintain the water level in the Tulsa Port of Catoosa channel at 532 feet above mean sea level. Lessor assumes no responsibility for any increase or decrease in the water level caused by the raising or lowering of the water level in the Verdigris River, the backwater provided by said river in the channel, the erosion of water channel banks or sediment.

7.7 Substitution of Performance. Except as may be otherwise

provided in this Lease, if Lessee shall fail to do anything required to be done by it under the term(s) of this Lease, except to pay rent and other charges, Lessor may, after 30 days, written notice to Lessee, at Lessor's sole option, do such act or thing on behalf of Lessee, and upon notification of the cost thereof to Lessor, Lessee shall promptly pay to Lessor the amount of that cost.

7.8 Exhibits and Attachments. All exhibits, attachments, riders

and addenda referred to in this Lease, together with the exhibits listed hereinbelow, are incorporated into this Lease and made a part hereof by this reference for all intents and purposes.

Exhibit "A":	Leased Premises
Exhibit "B":	Building and Development Regulations
Exhibit "C":	Other Charges
Exhibit " D":	Miscellaneous Provisions

7.9 Authority. Each of the Parties to this Lease represents to

the other that it has taken all action necessary to authorize the execution, delivery and performance of this Lease and that it has executed and delivered all other documents as required herein and that its

representative who has signed this Lease has all requisite power and authority to enter into this Lease and bind the party on whose behalf execution is provided. Each of the Parties to this Lease represents and warrants to the other that this Lease is the legal, valid and binding obligation of that Party, enforceable in accordance with its terms and performance of said Party does not require the consent of or approval of any other person, agency or court, and will not conflict with, result in the breach of any term of, or constitute a default under any material agreement or instrument to which that Party is party, or to which that Party is subject.

7.10 Entire Agreement. This Lease embodies the entire agreement

between the Parties with respect to the leasing and use of the Leased Premises. There are no representations, terms, conditions, covenants or agreements between the Parties relating thereto which are not mentioned or contained herein. This Lease shall completely and fully supersede all other prior agreements, both written and oral, between the Parties pertaining to the Leased Premises. No party to any such prior agreement hereafter will have any rights thereunder, and shall look solely to this Lease for definition and determination of its rights, liabilities or responsibilities or relating to the matters set forth herein.

7.11 Captions. The article and section headings and captions

contained herein are included for convenience only and shall not be considered a part hereof or affect in any manner of the construction or interpretation of this Lease.

7.12 Severability. The Parties agree that if it should ever be

held by a court of competent jurisdiction that any one or more sections, clauses or provisions of this Lease are invalid or ineffective for any reason, any such section, clause or provision shall be deemed separate from the remainder of this Lease and shall not affect the validity and enforceability of such remainder.

7.13 Successors and Assigns. The covenants, terms, conditions and

obligations set forth and contained in this Lease shall be binding upon and inure to the benefit of Lessor and Lessee and their respective successors and assigns.

7.14 Governing Law. The Parties understand and agree this Lease,

its terms and conditions, and any interpretation thereof shall be governed by the laws of the State of Oklahoma.

7.15 Counterparts. This Lease may be executed in two or more

counterparts, each of which when so executed shall be deemed an original, and which together shall constitute one and the same instrument.

7.16 Modification. Lessor and Lessee agree that this Lease shall

not be amended, altered or changed except by a written agreement signed by the parties hereto.

7.17 Recording. Lessor agrees that this Lease and the Exhibits

hereto may be recorded and placed of public record by Lessee.

IN WITNESS WHEREOF, this Lease has been executed in multiple counterparts, each of which, for all purposes, shall be deemed an original and all of which shall evidence one agreement between the Parties.

LESSOR:

THE CITY OF TULSA-ROGERS COUNTY
PORT AUTHORITY, a State Agency

[SEAL]

By: /s/

Chairman

ATTEST:

APPROVED:

/s/

Assistant) Secretary

/s/

Port Attorney

LESSEE:

MATRIX SERVICE COMPANY, a Delaware
Corporation

[SEAL]

By: /s/

(Vice) President

ATTEST:

/s/

(Assistant) Secretary

This Lease Agreement is approved and consented to as of APR 5 2001, 2001.

CITY:

CITY OF TULSA, OKLAHOMA,
a Municipal Corporation

[SEAL]

By: /s/

Mayor

ATTEST:

APPROVED

/s/

City Clerk

/s/

City Attorney - Asst.

STATE OF OKLAHOMA)
)
COUNTY OF ROGERS)

The foregoing instrument was acknowledged before me on March 27,

2001, by James G. Goodwin Chairman of The City of Tulsa-Rogers County

Port Authority, a State agency, on behalf of said agency

/s/ Weida J. Young

Notary Public

My Commission Expires:

06-17-2003

STATE OF OKLAHOMA)
-----)
COUNTY OF TULSA)
-----)

The foregoing instrument was acknowledged before me on March 27,

2001, by Glen Rogers, Vice President of Matrix Service Company, a Delaware

corporation, on behalf of said corporation.

/s/ Patsy R. Priddy

Notary Public

My Commission Expires:

8-15-2002

STATE OF OKLAHOMA)
)
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me on April 5,

2001, by M. Susan Savage, Mayor of the City of Tulsa, a municipal corporation,

on behalf of said corporation.

/s/ Sherry Cartwright

Notary Public

My Commission Expires:

7-12-2004

EXHIBIT "A"

PORT OF CATOOSA INDUSTRIAL PARK
CITY OF TULSA, ROGERS COUNTY, OKLAHOMA

{In the original document, this page contains a diagram of the tract of land more fully described on the following page located at the Port of Catoosa Industrial Park, City of Tulsa, Rogers County, Oklahoma. The diagram, dated 01/19/01, was prepared by Sisemore Weisz & Associates, Inc., Tulsa, Oklahoma.}

LEGAL DESCRIPTION

A TRACT OF LAND THAT IS PART OF THE SOUTHEAST QUARTER (SE/4) OF SECTION SIX (6), PART OF THE NORTHEAST QUARTER (NE1/4) OF SECTION SEVEN (7) AND PART OF THE NORTHWEST QUARTER (NW/4) OF SECTION EIGHT (8), ALL IN TOWNSHIP TWENTY (20) NORTH, RANGE FIFTEEN (15) EAST OF THE INDIAN BASE AND MERIDIAN, ROGERS COUNTY, OKLAHOMA, SAID TRACT OF LAND BEING DESCRIBED AS FOLLOWS, TO-WIT:

STARTING AT THE SOUTHEAST CORNER OF SAID SECTION 6; THENCE DUE WEST FOR 1,268.58 FEET; THENCE DUE SOUTH FOR 877.98 FEET TO THE POINT OF BEGINNING OF SAID TRACT OF LAND; THENCE NORTH 08(degree)23'24" EAST FOR 2,075.19 FEET; THENCE SOUTH 36(degree)59'43" EAST FOR 2,675.12 FEET TO A POINT OF CURVE; THENCE SOUTHEASTERLY ALONG A CURVE TO THE RIGHT WITH A CENTRAL ANGLE OF 22(degree)22'51" AND A RADIUS OF 611.62 FEET, FOR 238.91 FEET; THENCE NORTH 81(degree)36'36" WEST FOR 2,031.69 FEET TO THE POINT OF BEGINNING OF SAID TRACT OF LAND, CONTAINING 49.995 ACRES.

EXHIBIT "B"

TULSA PORT OF CATOOSA
BUILDING AND DEVELOPMENT REGULATIONS

I.
DEFINITION OF TERMS

Building Site
- - - - -

A. "Building site" shall mean any parcel of land upon which an industrial building or buildings or appurtenant structures may be erected.

Improvements
- - - - -

B. "Improvements" shall mean and include all buildings, out buildings appurtenant thereto, parking areas, loading areas, fences, masonry walls, hedges, lawns, mass plantings and any structure of any type or kind located on a building site.

Building Line
- - - - -

C. "Building line" shall mean the minimum distance which buildings, improvements or any structures located above ground shall be set back from the property or street lines as herein set forth.

Side Building Site Line
- - - - -

D. "Side building site line" shall mean the boundary or property line dividing two adjoining building sites.

II.
GENERAL PURPOSES OF CONDITIONS

These conditions, regulations, restrictions and reservations are imposed to insure proper use and appropriate development of each building site herein; to protect the owners or tenants of buildings against the improper use of surrounding building sites that might depreciate the value of the property; to guard against erection thereof of structures built of improper or unsuitable materials; to insure adequate and reasonable development of said property; to encourage the erection of attractive improvements thereon, with appropriate location on building sites; to secure and maintain proper setbacks from streets, and adequate free spaces between structures; and, in general, to insure a high quality improvement on said property.

III.
ENVIRONMENTAL RESTRICTIONS

Noxious or Offensive Activities
- - - - -

A. Pursuant to the terms of their lease, no lessee shall create or maintain a public or private nuisance.

Pollution Prohibitions
- - - - -

B. Pursuant to the terms of their lease, lessees shall maintain compliance with all applicable federal, state or local environmental laws, regulations, ordinances or orders and shall maintain all valid permits, licenses or other governmental approval required for operations by any applicable federal, state or local environmental laws, regulations, ordinances or orders (collectively, "Environmental Laws").

Notices of Violations

- C. Any lessee shall furnish the Port Authority with a copy of the following documents within five (5) business days of their receipt by such lessee: any written notice (including notice of commencement of an investigations), administrative order, consent order and agreement, complaint or settlement which concerns the presence on the lessee's leased premises of any substance regulated by Environmental Laws with respect to such leased premises or demands payment or contribution for environmental damage to or clean-up of such leased premises.

IV.
GENERAL RESTRICTIONS

Height Limitations

- A. Improvements erected on property subject to these restrictions hereof shall be in compliance with all applicable laws, rules and regulations.

Submittal of Plans

- B. No improvement as herein defined shall be constructed, erected, placed, altered or enlarged on any building site in said development until the building or other improvement, plans, specifications and plot plants have first been submitted to and approved in writing by the Port Authority; provided, however, it is the intention of the Port Authority hereunder to regulate primarily exterior structures and additions, rather than interior design or processes, and to assure uniform development and aesthetic qualities. It is not the intention of the Port Authority to interfere with or in any way delay matters of common concern. "Improvements" therefore shall mean exterior structures and additions and shall exclude (and this Article B. and Article V shall not apply to) improvements or changes in interior design or processes and minor projects having no significant effect on regulated matters of common concern. The location of all improvements shall have due regard to the anticipated use thereof as same may affect adjoining structures, uses and operations, and as to location of the improvements with respect to topography, grade and finished ground elevation. However, Port authority shall not be liable in damages to anyone so submitting plans for approval or to any lessee or tenant of land covered by this instrument by reason of mistake in judgment, negligence or nonfeasance for itself, its agents or employees, arising out of or in connection with the approval or disapproval or failure to approve any such plans. The Port Authority shall approve or disapprove all of such plans within (7) days after the draft thereof has been submitted to it, or this requirement will be deemed to have been fully complied with. Any violation of this requirement shall be grounds for the Port Authority, at its option, to either (1) sue to enjoin such construction until final plans therefor are approved by the Port Authority or (2) cancel the lease if such violation is not corrected within sixty (60) days after the lessee receives notice of such violation or such longer period as may be reasonably required to correct such violation. Further, upon completion of construction, lessee shall file with the Port Authority to set of "as built" plans. Provided, however, that lessees may withhold, at their discretion, any proprietary or confidential information.

Location of Structures

- C. No structures or buildings shall be located closer than twenty (20) feet to any side building site line or rear property line. An open area of at least forty (40) feet shall exist between all adjacent but separately owned improvements, provided, however, that where a right-of-way has been granted for the operation of lead tracks and railways facilities, either at the rear or side of any building site, no structures or buildings shall be constructed on said right-of-way or any part thereof.

Landscaping and Parking

- D. No building or structures above ground shall extend beyond the building setback lines and it is hereby declared that said area between the building lines and the property lines is to be used either for open landscaping or for off-street surface parking areas with peripheral landscaping. Final plans for such landscaping or parking must be approved, in writing, by the Port Authority before commencement of any work thereon. All landscaping and parking areas shall be properly maintained in a sightly and well-kept condition.

Loading Docks

- E. In order to confine the maneuvering of trucks and trailers to the premises of each establishment, the actual depth of any loading dock within the building line shall be determined in connection with the building plans or improvement plans to be approved in writing by the Port Authority.

Power Installations

- F. Power used in, developed or obtained for the operation of any establishment within the confines of the area subject to these restrictions shall be confined to those fuels, which, when controlled, do not produce excessive smoke, odor, smog or fumes.

Bulk Commodities

- G. The storage of dry bulk commodities shall comply with rules and regulations of any governmental agency or agencies having jurisdiction over such matters, and shall be screened from public view.

Signs

- H. All advertising signs must be approved in writing by the Port Authority before the construction, placement or painting thereof.

Walls and Hedges

- I. No masonry wall, hedge or mass planning shall extend beyond the building set-back lines established herein except upon written approval by the Port Authority. Fences shall not be extended beyond the property lines.

Oil Activities

- J. No oil drilling, oil development operations, mining operations of any kind or quarrying shall be permitted in or upon any of the building sites, nor shall oil wells, tunnels, mineral excavations or shafts be permitted in or upon any of the building sites. Fuel oil storage tanks as a part of the equipment of any establishment shall be permitted only if located above ground and in full compliance with rules and regulations of any governmental agency or agencies having jurisdiction over such matters. Bulk storage of all liquids including gasoline or petroleum products on the outside of buildings shall comply with rules and regulations of any governmental agency or agencies having jurisdiction over such matters.

Nature of Regulation

- K. Each of the conditions, regulations, restrictions and reservations set forth above shall run with the land and be binding upon the Port Authority, its lessees and their successors and assigns, and all persons claiming under them for a period co-extensive with the primary term of any lessee's lease and any extensions or renewals thereof. Provided, however, that these regulations may be supplemented or modified by the Port Authority at any time and from time to time so long as any such modification does not prejudice the then existing operations and improvements of any lessee which is then in compliance with these regulations and so long as notice to all lessees of the Port Authority is given of the proposed supplement or modification and a majority of the total number of the lessees, weighted as provided below, thereafter approves such supplement or modification. Each lessee's vote shall be weighted by multiplying it by the number of acres leased by such lessee if more than one acre is so leased; provided, however, under no circumstances shall any lessee's weighted vote value at any election exceed 20% of the total weighted value of all votes which are entitled to be cast at such election.

No Waiver

- L. The failure of the Port Authority or any lessee of said property to enforce the violation of any of the restrictions herein set forth at the time of its violation shall in no event be deemed to be a waiver of the right to do so as to any subsequent violation. The violation of these restrictions shall not defeat or render invalid the lien or mortgage (or deed of trust) made in good faith and for value.

Partial Invalidation

- M. Invalidation of any one of these regulations or any part thereof by judgment or court order shall in nowise affect any of the other provisions, which will remain in full force and effect.

V.
TULSA PORT OF CATOOSA
MASTER PLAN OF DEVELOPMENT
DEVELOPMENT RESTRICTIONS

Development Controls and Standards

The Master Plan policies are designed to be broad statements allowing maximum flexibility in the future development of the Port. The following guidelines, procedures and standards supplement the Master Plan, in order to insure that "flexibility" does not create poor quality design, layout, conflicts of use, congestion or other undesirable developments.

The Port Authority will require that future development proposals conform to the procedures and development standards outlined in the following sections.

Site Selection

In order to eliminate wasted time and costs to both the Port staff and potential developers, a site selection process should be initiated in advance of any preliminary engineering for buildings or facilities to insure that the proposed site and the proposed use are in conformance with the Master Plan for the Port.

A. Site Selection Process

Through this site selection process the prospective developer and the Port staff will have an opportunity to exchange information concerning site requirements and facility and/or utility needs. The developer will be presented copies of the Master Plan and existing development maps, as well as the current development policies and standards of the Port. The Rogers County Zoning Ordinance and Map will also be reviewed in light of existing zoning and permitting uses.

B. Site Clearance Letter

When the prospective developer and the Port Staff have agreed on one or more sites, the Port staff will issue a "site clearance letter". The developer may then proceed to obtain a zoning permit from the City of Claremore-Rogers County Planning Commission and submit a copy of this permit to the Port staff. These two items will serve as authorization to the prospective developer to proceed with preliminary plans and engineering for the specific site or sites approved. All water and sewer permits shall be obtained from the City of Tulsa and power requirements shall be reviewed and approved by the servicing utility companies.

C. Agency Approval

If, in the opinion of the Port staff, the proposed development will be of a nature that will emit considerable noise, odor, heat, dust, vibration or smoke, the prospective developer will be informed of the need to meet the minimum requirement of any and all local, state or federal agencies regulating such matters.

Preliminary Plans

After the prospective developer has received all necessary site development clearances he may proceed with developing preliminary plans for engineering for the layout of facilities, buildings and utilities on the site. The preliminary plans will be submitted to the Port staff prior to a scheduled "preliminary review meeting".

Two copies of the preliminary plans will be sent to the Port staff, and should contain the following data:

- A. A map at a scale of 1" = 100' (or other appropriate scale) showing the following data:
 - 1) Date, scale and north point.
 - 2) Topographic data, showing contours at two (2) foot intervals.
 - 3) The location and dimensions of the leasehold lines.
 - 4) The location and dimensions of existing buildings, utilities, facilities, paving, easements and rights-of-way that are within the leasehold lines.
 - 5) The location and width of all proposed buildings, facilities, paving, easements and rights-of-way.
 - 6) The approximate radii of all curves and lengths of all tangents.
- B. A description of the improvements such as grading, paving, landscaping and installation of utilities which the prospective developer proposes.
- C. A map at a scale of 1" = 400' (or other appropriate scale) showing the location of all existing and proposed buildings, paving, facilities, easements, rights-of-way and exterior property lines of the proposed sites.
- D. A description of the type of construction of all buildings and facilities shown on the maps.
- E. Any additional data required by the Port staff.

Preliminary Review Meeting
- - - - -

The Port staff will conduct a "preliminary review meeting" with the prospective developer and will recommend any modifications or adjustments required in order to obtain approval of the preliminary plans. When the recommended modification and adjustments to the preliminary plans are agreed to, the Port staff will issue a "preliminary plan approval" letter which shall serve as authorization to proceed in developing "final plans" for the proposed development.

Final Plans
- - - - -

After the prospective developer has received all necessary preliminary plan clearances he may proceed with developing final plans and detailed engineering for the proposed development of the site. The final plans will be submitted to the Port staff prior to a scheduled "final review meeting" with the Port staff.

Two copies of the final plans will be sent to the Port staff, and should contain the following data:

- A. A map at a scale of 1" = 100' (or other appropriate scale) showing the following data:
 - 1) Name of developer and registered engineer.
 - 2) Date, north point, scale (written and graphic).
 - 3) The location and dimensions of existing, adjacent or adjoining property or leasehold lines.
 - 4) Boundaries of development or leasehold site with accurate distances and bearings noted thereon with the description of all monuments found or placed in making the survey.
 - 5) The exact location and dimensions of all existing and proposed buildings, paving, facilities, easements and rights-of-way.
 - 6) The purposes of all easements and the location of utilities within easements and rights-of-way.

7) The exact radii of all curve and lengths of all tangents.

B. Cross-section drawings (at suitable scale) of all buildings, facilities and paving, with dimensions as appropriate.

C. A description of all improvements including type of construction of buildings and facilities to be placed on the site.

D. A map at a scale of 1" = 400' (or other appropriate scale) showing the location of all existing and proposed buildings, paving, facilities, easements, rights-of-way and exterior property lines of the proposed site.

E. Any additional data required by the Port staff.

Final Review Meeting

The Port staff will conduct a "final review meeting" with the prospective developer. If the final plans are in conformance with all requirements, the Port staff will issue a "final plan approval" letter which will authorize the developer to proceed with site preparation work and detailed building and construction plans.

Construction Plans

After the developer has received approval of all site development plans and before construction of buildings and facilities begin, he must submit construction plans to the Port staff for review and approval.

Authorization to Proceed Letter

The construction plans will be reviewed by the City of Claremore-Rogers County Planning Commission in light of the current building and construction codes. Upon issuance of the Planning Commission's permit, the plans will be approved by the Port Authority. If so approved, the Port staff will issue a letter which will authorize the developer to proceed with construction according to the approved construction plans.

Development Standards

In order to insure coordinated development of the Port, the following standards constitute official development policy of the Port Authority. These standards apply primarily to the industrial park area. The terminal area will not be entirely subject to these requirements due to the nature of activities along the Port channel.

Area and Bulk Requirements

Each parcel of land is required to have frontage and access on a dedicated street for a minimum distance of 200 feet.

Minimum setbacks of buildings or facilities from adjacent streets will be required as follows:

- (i) Sixty (60) foot setback from primary and secondary roadways (Parkways and Avenues); and
- (ii) Forty (40) foot setback from minor roadways (Roads) and twenty (20) feet from other property lines and easements.

A minimum land-to-building ratio may be established by the Port staff for various parcels of land within the industrial park.

Off-Street Parking

On-street parking will be prohibited, except within the terminal area, and then only where adequate parking lanes have been installed.

Adequate off-street parking for employees and visitors will be provided. The number of parking spaces

required will be determined by the Port staff.

Loading Requirements
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Adequate loading spaces will be provided on the rear or side of buildings away from the street fronts. No truck loading docks or doors are permitted on the front of buildings except upon express written consent of the Port Authority.

Surfacing
- - - - -

Off-street parking and loading areas shall be surfaced with an all-weather material, and shall be graded and drained so as to carry surface water to the nearest public street, accessible storm sewer or other approved drainage control system.

Outside Storage
- - - - -

Goods and materials stored outside of buildings shall be screened from view of all streets if required by the Port Authority.

Goods or materials that are untreated and may produce undesirable effects when exposed to the elements will be required to be treated or placed in enclosed building.

Building Exteriors
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Building exteriors on all four sides shall be constructed of materials considered high standard exterior finishes. Materials for exterior finishes shall require review and approval prior to use.

Access Standards
- - - - -

All parcels of land must have access to a secondary or minor roadway before operators can begin operations on the property.

Access drives off secondary and minor roadways will have a minimum width of forty (40) feet or a maximum of sixty (60) feet.

All curb cuts will be a minimum distance of 150 feet from an intersecting street, measured from the centerline of paving.

Curb cuts must be a minimum of forty (40) feet apart, and a minimum of twenty (20) feet from interior property lines.

A minimum turning radius of forty (40) feet must be maintained for all access points to a roadway.

ACCESS CONTROL AND SETBACK STANDARDS

{In the original document, this page contains a diagram of the Primary, Secondary and Minor Roadways and rights-of-way.}

ROADWAY AND UTILITY STANDARDS

{In the original document, this page contains a diagram of the Primary Roadway and Utility Standards.}

RAILWAY AND UTILITY STANDARDS

{In the original document, this page contains a diagram of the Railway and Utility Standards.}

EXHIBIT "C"

Additional Charges

- - - - -

There are presently no additional charges.

EXHIBIT "D"
Miscellaneous Provisions

Rider 1, Lessor's Work

Upon lease commencement and subject to the public bid process, Lessor will promptly commence the construction of two concrete driveways (bridges) into the Premises from Main Parkway in locations and of design mutually agreed to by the Parties. Lessor will also construct a rail spur of not more than 700 feet in length as measured from the mainline track to serve Lessee's operations. Said construction shall be coordinated with Lessee's site improvements and Lessee shall provide the final base grade for the rail spur. Lessor shall provide the aforementioned driveway and rail spur improvements without any charge to Lessee, however, Lessee agrees that, during the Lease Term, it shall maintain said improvements at its sole expense. Lessor shall also promptly commence construction of the Verdigris Road extension which will bound the Premises on the west. Lessor will allow Lessee up to three driveways from said road at a minimum spacing of 125 feet and otherwise in compliance with Exhibit "B", Building and Development Regulations.

Rider 2, Rent Abatement

In consideration of Lessee's time and expense to develop the Premises, Lessor hereby agrees that the Monthly Rentals as referenced in paragraph 3.1.a shall be abated in their entirety for the first eighteen (18) months or until Lessee's earlier commencement of business operations on the Premises. In addition, the Parties agree that, Lessee's present intent is to not use the northern most 3.82 acres of the Premises for any purpose. Accordingly, there will be no rentals payable on said acreage unless and until Lessee commences use of any portion thereof, at which time rentals shall be charged on the entire 3.82 acres for the remainder of the primary and any renewal terms at the then effective rate.

Rider 3, Schedule of Monthly Rentals

Subject to Rider 2 above, and the other provisions of paragraph 3.1, the Primary Term Monthly Rentals as referenced in paragraph 3.1.a shall be payable according to the following schedule:

For the period 3/01 -2/06;	\$10,005.67	(based on 46.18 acres at \$2,600 per acre per year)
For the period 3/06 -2/11;	\$11,160.17	(based on 46.18 acres at \$2,900 per acre per year)
For the period 3/11 -2/16;	\$12,314.67	(based on 46.18 acres at \$3,200 per acre per year)

Lessee will execute Lessor's acknowledgement, amending this Rider should the unused acreage referenced in Rider 2 become activated per its terms.

(Local Currency--Single Jurisdiction)

ISDA(R)
International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of February 1, 1998

BANK ONE OKLAHOMA, N.A. and MATRIX SERVICE COMPANY

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:--

1. Interpretation

(a) Definitions. The terms defined in Section 12 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) Inconsistency. In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.

(c) Single Agreement. All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations

(a) General Conditions.

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

(b) Change of Account. Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) Netting. If on any date amounts would otherwise be payable:--

(i) in the same currency; and

(ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of branches or offices through which the parties make and receive payments or deliveries.

(d) Default Interest; Other Amounts. Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into) that: --

(a) Basic Representations.

(i) Status. It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) Powers. It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;

(iii) No Violation or Conflict. Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) Consents. All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) Obligations Binding. Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) Absence of Certain Events. No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) Absence of Litigation. There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) Accuracy of Specified Information. All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:--

(a) Furnish Specified Information. It will deliver to the other party any forms, documents or certificates specified in the Schedule or any Confirmation by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) Maintain Authorisations. It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) Comply with Laws. It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

5. Events of Default and Termination Events

(a) Events of Default. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:--

(i) Failure to Pay or Deliver. Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(d) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) Breach of Agreement. Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2 (a) (i) or 2 (d) or to give notice of a Termination Event) to be complied with or performed by the part in accordance with this Agreement if such failure is not remedied on or before the

thirtieth day after notice of such failure is given to the party;

(iii) Credit Support Default.

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) Misrepresentation. A representation made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) Default under Specified Transaction. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) Cross Default. If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (I) a default, event of default or other similar condition or event (however described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) Bankruptcy. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:--

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or tails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights or a petition is presented for its

winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) Merger Without Assumption. The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer--

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) Termination Events. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, and, if specified to be applicable, a Credit Event Upon Merger if the event is specified pursuant to (ii) below or an Additional Termination Event if the event is specified pursuant to (iii) below:--

(i) Illegality. Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):--

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) Credit Event Upon Merger. If "Credit Event Upon Merger" is specified in the Schedule as applying to the party such part ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and in such event, X or its successor or trustee, as appropriate, will be the Affected Party); or

(iii) Additional Termination Event. If any "Additional Termination Event is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such, Confirmation).

(b) Event of Default and Illegality. If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. Early Termination

(a) Right to Terminate Following Event of Default. If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) Right to Terminate Following Termination Event.

(i) Notice. If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) Two Affected Parties. If an Illegality under Section 5(b)(i)(1) occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iii) Right to Terminate If:--

(1) an agreement under Section 6(b)(ii) has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an illegality other than that referred to in Section 6(b)(ii), a Credit Event Upon Merger or an Additional Termination Event occurs,

either party in the case of an Illegality, any Affected Party in the case of an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) Effect of Designation.

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(d) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) Calculations.

(i) Statement. On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated in Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) Payment Date. An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment), from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) Payments on Early Termination. If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) Events of Default. If the Early Termination Date results from an Event of Default:--

(1) First Method and Market Quotation. If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Unpaid Amounts owing to the Non-defaulting Party over (B) the Unpaid Amounts owing to the Defaulting Party.

(2) First Method and Loss. If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) Second Method and Market Quotation. If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Unpaid Amounts owing to the Non-defaulting Party less (B) the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) Second Method and Loss. If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the

Defaulting Party.

(ii) Termination Events. If the Early Termination Date results from a Termination Event:--

(1) One Affected Party. If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) Two Affected Parties. If there are two Affected Parties:--

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Unpaid Amounts owing to X less (II) the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) Adjustment for Bankruptcy. In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) Pre-Estimate. The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that--

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Miscellaneous

(a) Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) Amendments. No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) Survival of Obligations. Without prejudice to Sections 2(a)(iii) and 6(c)(ii) the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) Remedies Cumulative. Except as provided in this Agreement the rights powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) Counterparts and Confirmations.

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) No Waiver of Rights. A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) Headings. The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

9. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

10. Notices

(a) Effectiveness. Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:--

(i) if in writing and delivered in person or by courier on the date it is delivered;

(ii) if sent by telex on the date the recipient's answerback is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) Change of Addresses. Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

11. Governing Law and Jurisdiction

(a) Governing Law. This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) Jurisdiction. With respect to any suit, action or proceedings relating to this Agreement ("Proceedings") each party irrevocably:--

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) Waiver of Immunities. Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

12. Definitions

As used in this Agreement:--

"Additional Termination Event" has the meaning specified in Section 5(b).

"Affected Party" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, all Transactions affected by the occurrence of such Transaction Event and (b) with respect to any other Transaction Event, all Transactions.

"Affiliate" means, subject to the Schedule in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of an entity or person means ownership of a majority of the Voting power of the entity or person.

"Applicable Rate" means:--

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"Consent" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iii).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"Law" includes any treaty, law, rule or regulation and "lawful" and "unlawful" will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, an amount that party reasonably determines in good faith to be its total losses and costs

(or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transaction's, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them) Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 9. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Scheduled Payment Date" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or

requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means with respect to a party and any Early Termination Date, the sum of:-

(a) the Market Quotation (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"Specified Entity" has the meaning specified in the Schedule.

"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or, any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Event" means an Illegality or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date an amount equal to the fair market value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

BANK ONE, OKLAHOMA, N.A.
(Name of Party)

MATRIX SERVICE COMPANY
(Name of Party)

By: /s/

By: /s/

Name: Mark A. Poole
Title: Sr. Vice President
Date: March 2, 1998

Name: C. William Lee
Title: Vice President - Finance
Date: March 2, 1998

(Local Currency-Single Jurisdiction)

ISDA(R)

International Swaps and Derivatives Association, Inc.

SCHEDULE
to the
MASTER AGREEMENT

Dated as of February 1, 1998

between

BANK ONE, OKLAHOMA N.A.,
a national banking association
with its main office located in Oklahoma City, Oklahoma
("Party A")

and

MATRIX SERVICE COMPANY,
a Delaware corporation
with its principal place of business in Tulsa, Oklahoma
("Party B")

Part 1. Termination Provisions and Certain Other Matters

In this Agreement:

(a) "Specified Entity" will apply to Party A and to Party B and will mean, for purposes of Sections 5(a)(v) 5(a)(vi) and 5(a)(vii) of this Agreement, for Party A any Affiliate of Party A and for Party B any Affiliate of Party B.

(b) "Specified Transaction " includes for Party A and for Party B, in addition to the transactions specified in Section 12 of this Agreement, any transaction between Party A (or any Affiliate of Party A), on the one hand, and Party B (or any Affiliate of Party B), on the other.

(c) The "Cross Default" provisions of Section 5(a)(vi) of this Agreement will apply to Party A and will apply to Party B and, with respect thereto, "Specified Indebtedness" will have the meaning specified in Section 12 of this Agreement and "Threshold Amount" will mean for Party A three percent (3%) of the equity of Bank One Corporation and for Party B the term specified in the Credit: Agreement entered into between Party A and Party B referenced in Annex A (including the United States Dollar equivalent on the date of any Cross Default of any obligation stated in any other currency).

(d) The "Credit Event upon Merger" provisions of Section s(b)(ii) will apply to Party A and will apply to

Party B.

(e) The "Automatic Early Termination " provision of Section 6(a) will not apply to Party A or to Party B.

(f) Payments on Early Termination for the purpose of Section 6(e):

(i) Market Quotation will apply.

(ii) The Second Method will apply

(g) Additional Termination Event will not apply.

Part 2. Agreement to Deliver Documents

Each Party agrees to deliver to the other Party, upon execution of this Agreement and upon consummation of any Transaction, such evidence as the other Party may reasonably require (including, without limitation, an opinion reasonably acceptable in form and substance to the other Party's of legal counsel reasonably acceptable to the other Party) that each Party is duly authorized to enter into this Agreement or into such Transaction and that the person(s) executing this Agreement or any Confirmation on the other Party's behalf is duly authorized by the Party to do so.

Part 3. Miscellaneous

(a) Addresses for Notices. For the purpose of Section 10(a) of this Agreement:

Address for notices or communications to Party A:

Address: 150 East Gay Street, 17/th/ Floor
Columbus, Ohio 43271-0103

Attention: Swap Operations

Facsimile No.: 614/248-1241 Telephone No.: 614/248-2982

Address for notices or communications to Party B:

Address: 10701 East UTE Street
Tulsa, Oklahoma 741116-1517

Attention: C. William Lee or Doyl West

Facsimile No.: 918/838-8810 Telephone No: 918/838-8822

(b) Calculation Agent. The Calculation Agent is Party A, unless otherwise specified in a Confirmation in relation to the relevant Transaction.

(c) Credit Support Document. Does not apply to Party A and, with respect to Party B, means each contract agreement, instrument and other document listed in Annex A hereto, each of which is intended by both Parties to secure the full and timely performance of Party B's obligations under this Agreement. Annex A is hereby incorporated herein in its entirety.

(d) Credit Support Provider. Does not apply to Party A and, with respect to Party B, means each party to any Credit Support Document of Party B other than Party A or Party B, any Affiliate of Party A, and any other secured party under any such Credit Support Document.

(e) Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).

(f) Netting of Payments. Subparagraph (ii) of Section 2(c) Will not apply to any Transaction unless otherwise provided in the Confirmation for such Transaction.

(g) "Affiliate" means, with respect to each Party, any entity that, directly or indirectly, controls, is controlled by, or is under common control with such Party. For this purpose, a person shall be deemed to "control" any entity if such person, directly or indirectly or acting through one or more other persons, (a) owns, controls or has the power to vote 50% or more of any class of voting securities of such entity, (b) is a general partner of such entity, (c) controls in any manner the election of a majority of the directors, trustees or other similar officials of such entity, or (d) otherwise exercises a controlling influence over the management or policies of such entity.

(h) "Party" means Party A and/or Party B, as the context may require.

Part 4. Other Provisions

(a) Additional Representations. Each Party hereby represents and warrants to the other Party (which representations will be deemed to be repeated by each Party on each date on which a Transaction is entered into) as follows:

(i) The necessary action to authorize referred to in the representation in Section 3(a)(ii) includes all authorizations, if any, required by such Party under the Federal Deposit Insurance Act, as amended, including amendments effected by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and under any agreement, writ, decree, or order entered into with such party's supervisory authorities;

(ii) This Agreement is a "qualified financial contract" as defined in Section 11(e)(8)(D)(i) of the Federal Deposit Insurance Act, 12 U.S.C.ss.1821(e)(8)(D)(i); a "swap agreement" as defined in Section 11(e)(8)(D)(vi) of the Federal Deposit Insurance Act, 12 U.S.C.ss.1821(e)(8)(D)(vi); and a "swap agreement" as defined in Section 101(53B) of the Bankruptcy Code, 11 U.S.C.ss.101(53B);

(iii) It is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the other party to this Agreement, other than the representations expressly set forth in this Agreement, each Credit Support Document and in any Confirmation;

(iv) It has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and has made its own investment, hedging and trading decisions (including decisions regarding the suitability of any Transaction pursuant to this Agreement) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party to this Agreement;

(v) It has a full understanding of all the terms, conditions and risks (economic and otherwise) of this Agreement, each Credit Support Document and each Transaction, and is capable of assuming and willing to assume (financially and otherwise) such risks;

- (vi) It is entering into this Agreement, each Credit Support Document and each Transaction for the purposes of managing its borrowings or investments, hedging its underlying assets or liabilities or in connection with a line of business, and not for purposes of speculation; and
- (vii) It is entering into this Agreement and will enter into all Transactions as principal and in connection with its business or the management of its business, and not as agent or in any other capacity, fiduciary or otherwise.

(b) Exchange of Confirmations. Anything in this Agreement to the contrary notwithstanding, for each Transaction entered into hereunder, Party A shall promptly send to Party B a Confirmation, via telex or facsimile transmission, in such form as the parties may from time to time agree. The parties agree that any such exchange of telexes or facsimile transmissions shall constitute a Confirmation for all purposes hereunder.

(c) Right of Set-Off. If an Early Termination Date occurs as the result of (i) an Event of Default or (ii) a Termination Event with respect to which there is only one Affected Party, the Non-Defaulting or Non-Affected Party may Set-off (x) against any amount due and payable by it under Section 6(e) of this Agreement, any Other Obligations of the Defaulting or Affected Party; and (y) against any of its Other Obligations, any amount due and payable to it under Section 6(e) of this Agreement. A Party may exercise such Set-off rights without prior notice to the other Party, but shall notify the other Party promptly after any exercise of such rights. If the amount of any Other Obligation Set-off is unascertained, the Non-Defaulting or Non-Affected Party may in good faith estimate such amount and Set-off based on such estimate, subject to an accounting to the other Party when such amount is ascertained, and to appropriate adjustment. The Set-off rights of each Party hereunder shall be in addition to, and not in lieu of, such other remedies, including such other set-off rights, as such Party may have by contract, operation of law, in equity or otherwise. As used herein, the term "Other Obligations" means, with respect to either Party, any amount payable by it or any of its Affiliates to the other Party, whether such amount is payable under this Agreement, another contract, applicable law or otherwise, and whether such amount is due at the time in question, in the future or subject to a contingency.

(d) Events of Default/Termination Event/Designation of Early Termination Date. Notwithstanding the terms of Sections 5 and 6 of this Agreement, if at any time and so long as one of the Parties to this Agreement ("X") shall have satisfied in full all its payment and delivery obligations under Section 2(a)(i) of this Agreement and shall at such time have no future payment or delivery obligations thereunder, whether absolute or contingent, then unless the other Party ("Y") is required pursuant to appropriate proceedings to return to X or otherwise returns to X upon demand of X any portion of any such payment or delivery; (i) the occurrence of an event described in Section 5(a) of this Agreement with respect to X, any Credit Support Provider of X or any Specified Entity of X shall not constitute an Event of Default with respect to X as the Defaulting Party and (ii) Y shall be entitled to designate an Early Termination Date pursuant to Section 6 of this Agreement only as a result of the occurrence of a Termination Event set forth in Section 5(b)(i) with respect to Y as the Affected Party.

(e) Condition to Payments. The condition precedent in Section 2(a)(iii)(1) does not apply to a payment and delivery owing by a Party if the other Party shall have satisfied in full all its payment or delivery obligations under Section 2(a)(i) of this Agreement and shall at the relevant time have no future payment or delivery obligations, whether absolute or contingent, under Section 2(a)(i).

ACCEPTED AND AGREED:

BANK ONE, OKLAHOMA, N.A.

MATRIX SERVICE COMPANY

By: /s/ Mark A. Poole

Name: Mark A. Poole

Title: Sr. Vice President

By: /s/ C. William Lee

Name: C. William Lee

Title: Vice President - Finance

ANNEX A

Credit Support Documents

Each of the following is a Credit Support Document of Party B for purposes of this Agreement, and is intended by both Parties to secure the full and timely performance of Party B's obligations under this Agreement:

1. Those certain Security Agreements dated August 30, 1994 by each of Matrix Service Company, Matrix Service, Inc., Midwest Industrial Contractors, Inc., Matrix Service Mid-Continent, Inc., Petrotank Equipment, Inc., Tank Supply Inc., San Luis Tank Piping Construction Co., Inc., Colt Construction Co., Inc., Midwest International, Inc., Georgia Steel Acquisition Corporation, Steel Fabricators, Inc., Brown Steel Contractors, Inc., West Coast Industrial Coatings, Inc., Midwest Service Company, Heath Engineering, Ltd., and Heath (Tank Maintenance) Engineering, Ltd., as debtors, in favor of Liberty Bank and Trust Company of Tulsa, National Association as secured party.
2. That certain Security Agreement dated January 8, 1996 by Mayflower Vapor Seal Corporation, as debtor, in favor of Liberty Bank and Trust Company of Tulsa, National Association, as secured party.
3. Those certain Security Agreements dated June 19, 1997 by each of General Services, Inc., Mainserve-Allentech, Inc., and Maintenance Services, Inc., as debtors, in favor of Liberty Bank and Trust Company of Tulsa, National Association, as secured party.

TO: MATRIX SERVICE COMPANY TULSA
ATTN: MIKE HALL
FAX NO: 1(918)838-8810
DATE: 23 May 2001
RE. OUR REF: 34344

The purpose of this letter agreement (this "Confirmation") is to confirm the terms and conditions of the Transaction entered into between MATRIX SERVICE COMPANY and BANK ONE, OKLAHOMA, N.A. on the Trade Date specified below. This Transaction shall be governed by the ISDA MASTER AGREEMENT dated as of 01 February 1998 between the parties (the "Agreement"), and this letter shall constitute a Confirmation thereunder.

The definitions and provisions contained in the 1991 ISDA Definitions (as supplemented by the 1998 Supplement and further amended and supplemented by the 1998 ISDA Euro Definitions) (the "Definitions") as published by the

International Swaps and Derivatives Association, Inc. are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and provisions and this Confirmation, this Confirmation will govern.

We are pleased to confirm the terms of the Transaction described below between MATRIX SERVICE COMPANY and BANK ONE, OKLAHOMA, N.A..

TERM
- ----

TRADE DATE: 23 May 2001
EFFECTIVE DATE: 1 June 2001
TERMINATION DATE: 1 June 2006, subject to adjustment in accordance with the Modified Following Business Day Convention.
NOTIONAL AMOUNT: The following amounts corresponding to the following respective periods (dates subject to the Business Day Convention specified below):

Period (from and including to but excluding) Amount

1 June 2001	1 July 2001	USD	6,000,000.00
1 July 2001	1 August; 2001	USD	5,966,666.67
1 August 2001	1 September 2001	USD	5,933,333.34
1 September 2001	1 October 2001	USD	5,900,000.01
1 October 2001	1 November 2001	USD	5,866,666.68
1 November 2001	1 December 2001	USD	5,833,333.35
1 December 2001	1 January 2002	USD	5,800,000.02
1 January 2002	1 February 2002	USD	5,766,666.69

1 February 2002	1 March 2002	USD	5,733,333.36
1 March 2002	1 April 2002	USD	5,700,000.03
1 April 2002	1 May 2002	USD	5,666,666.70
1 May 2002	1 June 2002	USD	5,633,333.37
1 June 2002	1 July 2002	USD	5,600,000.04
1 July 2002	1 August 2002	USD	5,566,666.11
1 August 2002	1 September 2002	USD	5,533,333.38
1 September 2002	1 October 2002	USD	5,500,000.05
1 October 2002	1 November 2002	USD	5,466,666.72
1 November 2002	1 December 2002	USD	5,433,333.39
1 December 2002	1 January 2003	USD	5,400,000.06
1 January 2003	1 February 2003	USD	5,366,666.73
1 February 2003	1 March 2003	USD	5,333,333.40
1 March 2003	1 April 2003	USD	5,300,000.07
1 April 2003	1 May 2003	USD	5,266,666.74
1 May 2003	1 June 2003	USD	5,233,333.41
1 June 2003	1 July 2003	USD	5,200,000.08
1 July 2003	1 August 2003	USD	5,166,666.75
1 August 2003	1 September 2003	USD	5,133,333.42
1 September 2003	1 October 2003	USD	5,100,000.09
1 October 2003	1 November 2003	USD	5,066,666.76
1 November 2003	1 December 2003	USD	5,033,333.43
1 December 2003	1 January 2004	USD	5,000,000.10
1 January 2004	1 February 2004	USD	4,966,666.77
1 February 2004	1 March 2004	USD	4,933,333.44
1 March 2004	1 April 2004	USD	4,900,000.11
1 April 2004	1 May 2004	USD	4,866,666.78
1 May 2004	1 June 2004	USD	4,833,333.45
1 June 2004	1 July 2004	USD	4,800,000.12
1 July 2004	1 August 2004	USD	4,766,666.79
1 August 2004	1 September 2004	USD	4,733,333.46
1 September' 2004	1 October 2004	USD	4,700,000.13
1 October 2004	1 November 2004	USD	4,666,666.80
1 November 2004	1 December 2004	USD	4,633,333.47
1 December' 2004	1 January 2005	USD	4,600,000.14
1 January 2005	1 February 2005	USD	4,566,666.81
1 February 2005	1 March 2005	USD	4,533,333.48
1 March 2005	1 April 2005	USD	4,500,000.15
1 April 2005	1 May 2005	USD	4,466,666.82
1 May 2005	1 June 2005	USD	4,433,333.49
1 June 2005	1 July 2005	USD	4,400,000.16
1 July 2005	1 August. 2005	USD	4,366,666.83
1 August 2005	1 September 2005	USD	4,333,333.50
1 September 2005	1 October 2005	USD	4,300,000.17
1 October 2005	1 November 2005	USD	4,266,666.84
1 November' 2005	1 December 2005	USD	4,233,333.51
1 December' 2005	1 January 2006	USD	4,200,000.18
1 January 2006	1 February 2006	USD	4,166,666.85
1 February 2006	1 March 2006	USD	4,133,333.52
1 March 2006	1 April 2006	USD	4,100,000.19
1 April 2006	1 May 2006	USD	4,066,666.86
1 May 2006	1 June 2006	USD	4,033,333.53

FIXED AMOUNTS

FIXED RATE PAYER: MATRIX SERVICE COMPANY

FIXED RATE PAYER
PAYMENT DATES: Each 1 January, 1 February, 1 March, 1 April, 1 May, 1
June, 1 July, 1 August, 1 September, 1 October, 1
November, 1 December from and including 2 July 2001,
to and including 1 June 2006, subject to adjustment in
accordance with the Modified Following Business Day
Convention

FIXED RATE: 5.73%
FIXED RATE DAY
COUNT FRACTION: Actual/360
ROUNDING CONVENTION: As per ISDA
BUSINESS DAYS: London, New York

FLOATING AMOUNTS

FLOATING RATE PAYER: BANK ONE, OKLAHOMA, N.A.

FLOATING RATE PAYER
PAYMENT DATES: Each 1 January, 1 February, 1 March, 1 April, 1 May, 1
June, 1 July, 1 August, 1 September, 1 October, 1
November, 1 December from and including 2 July 2001,
to and including 1 June 2006, subject to adjustment in
accordance with the Modified Following Business Day
Convention.

FLOATING RATE FOR INITIAL
CALCULATION PERIOD: To Be Set

FLOATING RATE OPTION: USD-LIBOR-BBA

DESIGNATED MATURITY: 1 Month

FLOATING RATE DAY COUNT
FRACTION: Actual/360

RESET DATES: The first day of each Calculation Period

ROUNDING CONVENTION: As per ISDA
BUSINESS DAYS: London, New York

ADDITIONAL PROVISIONS

NEGATIVE INTEREST RATES: Applicable

ACCOUNT DETAILS

Payments to MATRIX SERVICE COMPANY in USD:

PAY TO: BANK ONE, OKLAHOMA, NA,
ABA NUMBER: 103000648
FOR THE ACCOUNT OF: MATRIX SERVICE COMPANY,
ACCOUNT NUMBER: 028-004046
ATTN OR REF: SWAP PAYMENT

Payments to BANK ONE, OKLAHOMA, N.A. in USD:

PAY TO: BANK ONE NA,
ABA NUMBER: 071000013
FOR THE ACCOUNT OF: BANK ONE, NA
ACCOUNT NUMBER: 481189870000
ATTN OR REF: GLOBAL DERIVATIVES

Dealing, with Confirmations on our behalf:

GLOBAL DERIVATIVE PRODUCTS 1(312)732-2148

Dealing with Settlements on our behalf:
Global Derivative Products 1(312)7324333

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing this letter and returning all pages of this letter via facsimile to 312-336-4403/312-732-3465.

Yours sincerely,
BANK ONE, OKLAHOMA, N.A.
By:

/s/

Name: Antoinette E. Galvin
Title: Assistant Vice President

Confirmed as of the date first above written:

MATRIX SERVICE COMPANY
By

/s/

Name: Michael J. Hall
Title: Vice President Finance, CFO

RE: OUR REF: 34344

EXHIBIT 21.1

MATRIX SERVICE COMPANY

Subsidiaries

Matrix Service, Inc., an Oklahoma corporation
Matrix Service Mid-Continent, Inc., an Oklahoma corporation
San Luis Tank Piping Construction Co., Inc., a Delaware corporation
Matrix Coatings, Inc., a California corporation
Matrix Service, Inc. Canada, an Ontario, Canada corporation
Midwest Industrial Contractors, Inc., a Delaware corporation
Brown Steel Contractors, Inc., a Georgia corporation
Georgia Steel Acquisition Corp., an Oklahoma corporation
Brown Steel Services, Inc., a Georgia corporation
Brown Tanks, Inc., a Georgia corporation
Aqua Tanks, Inc., a Georgia corporation
San Luis Tank S.A. de C.V., a Mexican corporation
Matrix Service, Inc., Panama, a Panama Corporation

EXHIBIT 23.1

Consent of Ernst & Young LLP

We consent to the incorporation by reference of our report dated August 15, 2001, with respect to the consolidated financial statements of Matrix Service Company included in this Form 10-K for the year ended May 31, 2001, in the following registration statements.

Matrix Service Company 1990 Incentive Stock Option Plan	Form S-8	File No. 33-36081
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Matrix Service Company 1991 Stock Option Plan, as amended	Form S-8	File No. 333-56945
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Matrix Service Company 1995 Nonemployee Directors' Stock Option Plan	Form S-8	File No. 333-2771
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Tulsa, Oklahoma
August 15, 2001

/s/ Ernst & Young LLP