

INTERMEDIATE PUMPING STATION SCREW PUMPS

REPLACEMENT PHASE II

MATRIX SERVICE, INC

Request for Equitable Adjustment

The narrative and exhibits attached hereto constitutes an analysis of impact and delay issues experienced by Matrix Service Company ("Matrix") in the construction of the Intermediate Pumping Station Screw Pumps, Replacement Phase II ("the Project"). The Project, which is located at the Hyperion Treatment Plant, in Los Angeles, California, is currently under construction. This analysis addresses the construction period from the Notice to Proceed date of October 17, 2002, through the Substantial Completion of the work associated with Pumps 10 and 1 on October 28, 2003.

The Project is being constructed by Matrix pursuant to a written agreement with the owner, the City of Los Angeles, California ("Owner"). Generally, the overall Project work scope includes the installation of ten (10) Owner furnished 150-inch diameter screw pumps and associated appurtenances. This analysis addresses the work related to the installation of the first two (2) pumps only. Matrix has recently achieved substantial completion of the third set of pumps and is now starting a forth set. Currently, Matrix projects the overall substantial completion of the Project in mid-December 2005. Assuming the work goes as contemplated from this point forward, an overall Project completion delay of approximately twenty months is expected. Including an Owner directed work suspension period after the substantial completion of Pumps 10 and 1, approximately eight months of the overall delay was incurred during the time frame that is the subject of this analysis.

The purpose of the information presented in this Analysis is to determine when, where and how the Project was delayed and disrupted. In addition, this Analysis demonstrates who was responsible for the occurrences that caused the critical delays and disruptions that increased the costs and time required to complete the

Project. This Analysis is part of an effort by Matrix and the Owner to resolve Project-related claims without the necessity of litigation; therefore, it is subject to and protected by California Evidence Code §§ 1152 et seq. and is thus inadmissible as evidence in any legal proceedings. In preparing this analysis, Matrix has had access to only minimal portions of the Project documentation in the files of the Owner and/or any of its Project representatives and consultants. As such discovery has not taken place, the opinions contained herein should be considered preliminary and subject to change. Matrix specifically reserves its right to refine and supplement these preliminary opinions and conclusions should additional information become available.

Matrix does not contend that it bears no share of responsibility for any of the impacts, delays and/or cost overruns incurred during the course of construction. The schedule and cost analysis summarized herein takes into account those factors that are attributable to performance of Matrix.

I. EXECUTIVE SUMMARY

The Hyperion Waste Water Treatment Plant is an operating plant. As such, performance on any project within the plant is dependant on the proper coordination of daily operations and the work performed by the contractor. Equally, it is important for plant personnel to cooperate with the contractor, and thus execute the project in a practical manner. As evidenced within this narrative, the Owner caused significant delays and disruptions, which adversely impacted Matrix's ability to perform work in the efficient and cost effective manner contemplated in its bid.

The detailed analysis provided herein establishes Matrix's entitlement to recover its added costs associated with the numerous Owner impacts, delays and disruptions experienced during the course of the Project. In summary, this analysis establishes Matrix's entitlement to the following:

1. The issuance of a Change Order under the Contract providing for an equitable adjustment to the Contract price in the amount of **\$975,749**;
2. The issuance of a change order under the Contract extending the overall duration of the Project by **142** calendar days;
3. The resolution and payment of the currently outstanding change order requests related to pumps 10 and 1, in the total amount of **\$253,766**;

A review of the Project records indicates that Matrix was never given the opportunity to perform its work in accordance with the original bid and the approved baseline schedule. Matrix experienced a multitude of performance impacting issues; including the difficulties in isolating the pump bays, the absence of Owner furnished contract documents, the addition of pump related components, the poor quality of owner furnished equipment, the differing site conditions, the addition of FRP cover requirements, and the delay in substituting the sole sourced Linabond product installer.

As a result, Matrix suffered substantial overruns in its estimated direct craft labor on the Project. The net craft labor manhour overrun, after adjusting for both approved and disputed change orders, totals 8,381 hours. This craft labor overrun is made up of 1,459 hours lost during the period of Subcontractor substitution, and 6,922 hours for the balance of the work performed. Matrix has analyzed these overruns and determined that a portion of the overrun may actually be their own responsibility. Accordingly, for the purpose of this preliminary analysis, Matrix is willing to absorb a significant cost associated with approximately 47% of the manhour overrun outlined above.

However, the analysis summarized herein establishes that the Owner is responsible for 1,459 hours related to the substitution of the Linabond Subcontractor and an additional 2,618 hours for the inefficient progress caused by

the Owner's disruptions. The approximate value of the craft labor cost, for which the Owner is responsible, totals \$168,712.

Moreover, there are certain inefficiency related impacts caused by the Owner that Matrix's Subcontractors are entitled. The approximate values of these costs are \$27,471.

Additionally, as a result of the extended Project performance period, Matrix has incurred significant additional time related costs. As detailed in the analysis herein, Matrix is entitled to extended field overhead, and home and regional costs in the amount of \$95,053.

Furthermore, Matrix is entitled to the added costs associated with its field overhead during the original performance period. Matrix's original bid contemplated an amount for supervisory staff and miscellaneous items that should have been adequate for this Project. However, due to Owner's disruptive impact on the Project, Matrix incurred an overrun of \$79,124. Most of this added cost is related to an increase in the field staff labor requirements in an attempt by Matrix to overcome the numerous delays and disruptions that began occurring almost immediately after the start of construction.

In addition to the applicable mark-ups on the costs above, and the cost associated with the preparation of this analysis, Matrix is entitled to compensation for pending change orders, and the interest on change orders related to pumps 10 and 1, which currently totals \$605,389,

Matrix understands that the issues quantified in the analysis herein pertain to pumps 10 and 1 only, however many of the underlying impacts are relevant for all pumps, and should be agreed upon as such.