BLACKROCK NEW YORK MUNICIPAL INCOME TRUST
Form N-CSRS
April 04, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-10337

Name of Fund: BlackRock New York Municipal Income Trust (BNY)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock New York Municipal Income Trust, 55 East 52nd Street, New York, NY 10055

Registrant s telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 07/31/2018

Date of reporting period: 01/31/2018

Item 1 Report to Stockholders

JANUARY 31, 2018

SEMI-ANNUAL REPORT (UNAUDITED)

BlackRock California Municipal Income Trust (BFZ)

BlackRock Florida Municipal 2020 Term Trust (BFO)

BlackRock Municipal 2030 Target Term Trust (BTT)

BlackRock Municipal Income Investment Trust (BBF)

BlackRock New Jersey Municipal Income Trust (BNJ)

BlackRock New York Municipal Income Trust (BNY)

Not FDIC Insured May Lose Value No Bank Guarantee

The Markets in Review

Dear Shareholder,

In the 12 months ended January 31, 2018, assets with higher risk and return potential, such as stocks and high-yield bonds, continued to deliver strong performance. The equity market advanced despite geopolitical uncertainty and relatively high valuations, while bond returns were constrained by rising interest rates.

Emerging market stocks posted the strongest performance, as accelerating growth in China, the second largest economy in the world and the most influential of all developing economies, improved the outlook for corporate profits and economic growth across most developing nations. Chinese demand for commodities and other raw materials allayed concerns about the country s banking system, leading to rising equity prices and foreign investment flows.

Rising interest rates worked against high-quality assets with more interest rate sensitivity. Consequently, the 10-year U.S. Treasury a bellwether of the bond market posted a modest negative return, as rising energy prices, higher wages, and steady job growth drove expectations of higher inflation and interest rate increases by the U.S. Federal Reserve (the Fed).

The market s performance reflected reflationary expectations early in the reporting period, as investors began to sense that a global recovery was afoot. Thereafter, many countries experienced sustained and synchronized growth for the first time since the financial crisis. Growth rates and inflation are still relatively low, but they are finally rising together. Consensus expectations for global economic growth also rose, as long-anticipated fiscal stimulus and capital spending plans indicated that new sources of demand could extend the current economic cycle.

The Fed responded to these positive developments by increasing short-term interest rates three times during the year. In October 2017, the Fed also reduced its $4.5 trillion balance sheet by $10 billion, while setting expectations for additional modest reductions and rate hikes in 2018.

By contrast, the European Central Bank (ECB) and the Bank of Japan (BoJ) continued to expand their balance sheets despite nascent signs of sustained economic growth. Rising global growth and inflation, as well as limited bond supply, put steady pressure on other central banks to follow in the Fed s footsteps. In October 2017, the ECB announced plans to cut its bond purchases in half for 2018, while the BoJ reiterated its commitment to economic stimulus, as the country s inflation rate remained below 2.0%.

Rising consumer confidence and improving business sentiment are driving momentum for the U.S. economy. If the Fed maintains a measured pace of stimulus reduction, to the extent that inflation rises, it s likely to be accompanied by rising real growth and higher wages. That could lead to a favorable combination of moderately higher inflation, steadily rising interest rates, and improving growth in 2018. We continue to believe the primary risks to the economic expansion are trade protectionism, rapidly rising interest rates, and geopolitical tension.

In December 2017, Congress passed a sweeping tax reform bill. The U.S. tax overhaul is likely to accentuate the existing reflationary themes, including faster growth and rising interest rates. Changing the corporate tax rate to a flat 21% will create many winners and losers among high-and-low tax companies, while the windfall from lower taxes could boost business and consumer spending.

In this environment, investors need to think globally, extend their scope across a broad array of asset classes, and be nimble as market conditions change. We encourage you to talk with your financial advisor and visit **blackrock.com** for further insight about investing in today s markets.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

Rob Kapito

President, BlackRock Advisors, LLC

Total Returns as of January 31, 2018

	6-month	**12-month**
U.S. large cap equities (S&P 500® Index)	15.43%	26.41%
U.S. small cap equities (Russell 2000® Index)	11.23	17.18
International equities (MSCI Europe, Australasia, Far East Index)	12.14	27.60
Emerging market equities (MSCI Emerging Markets Index)	18.51	41.01
3-month Treasury bills (ICE BofAML 3-Month U.S. Treasury Bill Index)	0.58	0.93
U.S. Treasury securities (ICE BofAML 10-Year U.S. Treasury Index)	(2.74)	(0.47)
U.S. investment grade bonds (Bloomberg Barclays U.S. Aggregate Bond Index)	(0.35)	2.15
Tax-exempt municipal bonds (S&P Municipal Bond Index)	0.01	3.41
U.S. high yield bonds (Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index)	1.94	6.60

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

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Municipal Market Overview For the Reporting Period Ended January 31, 2018

Municipal Market Conditions

Municipal bonds experienced positive performance during the period alongside a favorable technical backdrop and a flattening yield curve resulting from continued Fed monetary policy normalization and largely muted inflation expectations. Ongoing reassurance from the Fed that rates would be increased gradually and would likely remain low overall resulted in continued demand for fixed income investments. More specifically, investors favored the tax-exempt income, diversification, quality, and value of municipal bonds amid fiscal policy uncertainty, which saw tax reform ultimately lower the top individual tax rate just 2.6% while eliminating deductions and increasing demand for tax shelter. During the 12 months ended January 31, 2018, municipal bond funds experienced net inflows of approximately $33 billion (based on data from the Investment Company Institute).

For the same 12-month period, total new issuance remained elevated from a historical perspective at $394 billion (though well below the robust $455 billion issued in the prior 12-month period). Notably, issuance in December posted the highest monthly total on record at $56 billion, as issuers rushed deals to market ahead of the expected elimination of the tax-exemption for advanced refunding bonds and possibly private activity bonds (PABs). Ultimately, the final version of the Tax Cuts and Jobs Act left PABs unchanged, though the elimination of advanced refundings will likely suppress supply going forward, providing a powerful technical.

S&P Municipal Bond Index

Total Returns as of January 31, 2018

6 months: 0.01%

12 months: 3.41%

A Closer Look at Yields

From January 31, 2017 to January 31, 2018, yields on AAA-rated 30-year municipal bonds decreased by 17 basis points (bps) from 3.08% to 2.91%, while 10-year rates increased by 3 bps from 2.32% to 2.35% and 5-year rates increased by 20 bps from 1.63% to 1.83% (as measured by Thomson Municipal Market Data). The municipal yield curve flattened significantly over the 12-month period with the spread between 2- and 30-year maturities flattening by 64 bps.

During the same time period, on a relative basis, tax-exempt municipal bonds strongly outperformed U.S. Treasuries with the greatest outperformance experienced in the front and intermediate portions of the yield curve. Notably, January saw interest rates move rapidly higher alongside strong global growth and a more hawkish bias from global central banks. The relative positive performance of municipal bonds was driven largely by a supply/demand imbalance within the municipal market as investors sought income and incremental yield in an environment where opportunities became increasingly scarce. The asset class is known for its lower relative volatility and preservation of principal with an emphasis on income as tax rates rise.

Financial Conditions of Municipal Issuers

The majority of municipal credits remain strong, despite well-publicized distress among a few issuers. Four of the five states with the largest amount of debt outstanding California, New York, Texas and Florida have exhibited markedly improved credit fundamentals during the slow national recovery. However, several states with the largest unfunded pension liabilities have seen their bond prices decline noticeably and remain vulnerable to additional price deterioration. On the local level, Chicago s credit quality downgrade is an outlier relative to other cities due to its larger pension liability and inadequate funding remedies. BlackRock maintains the view that municipal bond defaults will remain minimal and in the periphery while the overall market is fundamentally sound. We continue to advocate careful credit research and believe that a thoughtful approach to structure and security selection remains imperative amid uncertainty in a modestly improving economic environment.

The opinions expressed are those of BlackRock as of January 31, 2018, and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of any individual holdings or market sectors. Investing involves risk including loss of principal. Bond values fluctuate in price so the value of your investment can go down depending on market conditions. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.

The Standard & Poor s Municipal Bond Index, a broad, market value-weighted index, seeks to measure the performance of the U.S. municipal bond market. All bonds in the index are exempt from U.S. federal income taxes or subject to the AMT. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.

The Benefits and Risks of Leveraging

The Trusts may utilize leverage to seek to enhance the distribution rate on, and net asset value (NAV) of, their common shares (Common Shares). However, there is no guarantee that these objectives can be achieved in all interest rate environments.

In general, the concept of leveraging is based on the premise that the financing cost of leverage, which is based on short-term interest rates, is normally lower than the income earned by a Trust on its longer-term portfolio investments purchased with the proceeds from leverage. To the extent that the total assets of the Trusts (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Trusts shareholders benefit from the incremental net income. The interest earned on securities purchased with the proceeds from leverage is paid to shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV.

To illustrate these concepts, assume a Trust s Common Shares capitalization is $100 million and it utilizes leverage for an additional $30 million, creating a total value of $130 million available for investment in longer-term income securities. If prevailing short-term interest rates are 3% and longer-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, a Trust s financing costs on the $30 million of proceeds obtained from leverage are based on the lower short-term interest rates. At the same time, the securities purchased by a Trust with the proceeds from leverage earn income based on longer-term interest rates. In this case, a Trust s financing cost of leverage is significantly lower than the income earned on a Trust s longer-term investments acquired from such leverage proceeds, and therefore the holders of Common Shares (Common Shareholders) are the beneficiaries of the incremental net income.

However, in order to benefit Common Shareholders, the return on assets purchased with leverage proceeds must exceed the ongoing costs associated with the leverage. If interest and other costs of leverage exceed the Trusts return on assets purchased with leverage proceeds, income to shareholders is lower than if the Trusts had not used leverage. Furthermore, the value of the Trusts portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the value of the Trusts obligations under their respective leverage arrangements generally does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Trusts NAVs positively or negatively. Changes in the future direction of interest rates are very difficult to predict accurately, and there is no assurance that the Trusts intended leveraging strategy will be successful.

The use of leverage also generally causes greater changes in each Trust s NAV, market price and dividend rates than comparable portfolios without leverage. In a declining market, leverage is likely to cause a greater decline in the NAV and market price of a Trust s Common Shares than if the Trust were not leveraged. In addition, each Trust may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause the Trusts to incur losses. The use of leverage may limit a Trust s ability to invest in certain types of securities or use certain types of hedging strategies. Each Trust incurs expenses in connection with the use of leverage, all of which are borne by Common Shareholders and may reduce income to the Common Shares. Moreover, to the extent the calculation of the Trusts investment advisory fees includes assets purchased with the proceeds of leverage, the investment advisory fees payable to the Trusts investment adviser will be higher than if the Trusts did not use leverage.

To obtain leverage, each Trust has issued Variable Rate Demand Preferred Shares (VRDP Shares), Variable Rate Muni Term Preferred Shares (VMTP Shares), Remarketable Variable Rate Muni Term Preferred Shares (RVMTP Shares) (collectively, Preferred Shares) and/or leveraged its assets through the use of tender option bond trusts (TOB

Trusts) as described in the Notes to Financial Statements.

Under the Investment Company Act of 1940, as amended (the 1940 Act), each Trust is permitted to issue debt up to 33 1/3% of its total managed assets or equity securities (e.g., Preferred Shares) up to 50% of its total managed assets. BTT is permitted to use economic leverage (which includes leverage attributable to reverse repurchase agreements) of up to 50% of its total managed assets. A Trust may voluntarily elect to limit its leverage to less than the maximum amount permitted under the 1940 Act. In addition, a Trust may also be subject to certain asset coverage, leverage or portfolio composition requirements imposed by the Preferred Shares governing instruments or by agencies rating the Preferred Shares, which may be more stringent than those imposed by the 1940 Act.

If a Trust segregates or designates on its books and records cash or liquid assets having a value not less than the value of a Trust s obligations under the TOB Trust (including accrued interest), then the TOB Trust is not considered a senior security and is not subject to the foregoing limitations and requirements imposed by the 1940 Act.

Derivative Financial Instruments

The Trusts may invest in various derivative financial instruments. These instruments are used to obtain exposure to a security, commodity, index, market, and/or other assets without owning or taking physical custody of securities, commodities and/or other referenced assets or to manage market, equity, credit, interest rate, foreign currency exchange rate, commodity and/or other risks. Derivative financial instruments may give rise to a form of economic leverage and involve risks, including the imperfect correlation between the value of a derivative financial instrument and the underlying asset, possible default of the counterparty to the transaction or illiquidity of the instrument. The Trusts successful use of a derivative financial instrument depends on the investment adviser s ability to predict pertinent market movements accurately, which cannot be assured. The use of these instruments may result in losses greater than if they had not been used, may limit the amount of appreciation a Trust can realize on an investment and/or may result in lower distributions paid to shareholders. The Trusts investments in these instruments, if any, are discussed in detail in the Notes to Financial Statements.

Trust Overview

BlackRock California Municipal Income Trust s (BFZ) (the Trust) investment objective is to provide current income exempt from regular U.S. federal income and California income taxes. The Trust seeks to achieve its investment objective by investing primarily in municipal obligations exempt from U.S. federal income taxes (except that the interest may be subject to the federal alternative minimum tax) and California income taxes. The Trust invests, under normal market conditions, at least 80% of its assets in municipal obligations that are investment grade quality, or are considered by the Trust s investment adviser to be of comparable quality, at the time of investment. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust s investment objective will be achieved.

Trust Information

Symbol on New York Stock Exchange (NYSE)	BFZ
Initial Offering Date	July 27, 2001
Yield on Closing Market Price as of January 31, 2018 ($13.34)[(a)]	4.95%
Tax Equivalent Yield[(b)]	10.78%
Current Monthly Distribution per Common Share[(c)]	$0.0550
Current Annualized Distribution per Common Share[(c)]	$0.6600
Economic Leverage as of January 31, 2018[(d)]	42%

(a) Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

(b) Tax equivalent yield assumes the maximum marginal U.S. federal and state tax rate of 54.10%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

(c) The distribution rate is not constant and is subject to change.

(d) Represents VMTP Shares and TOB Trusts as a percentage of total managed assets, which is the total assets of the Trust, including any assets attributable to VMTP Shares and TOB Trusts, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 5.

Performance

Returns for the six months ended January 31, 2018 were as follows:

	Returns Based On	
	Market Price	*NAV*
BFZ[(a)(b)]	(7.06)%	0.01%
Lipper California Municipal Debt Funds[(c)]	(5.62)	0.03

(a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices.
(b) The Trust s discount to NAV widened during the period, which accounts for the difference between performance based on market price and performance based on NAV.
(c) Average return. Returns reflect reinvestment of dividends and/or distributions at NAV on the ex-dividend date as calculated by Lipper.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

The following discussion relates to the Trust s absolute performance based on NAV:

U.S. municipal bonds produced generally flat returns during the period, with income offsetting a modest decline in prices. Stronger economic growth and concerns about emerging inflation pressures fueled expectations that the Fed would continue to tighten monetary policy, dampening returns across the fixed-income market.

California underperformed the national indices due to questions about the long-term effects the Federal tax reform bill could have on the supply-and-demand profile of the state s municipal market.

Portfolio income contributed to performance by offsetting the downturn in bond prices. The use of leverage helped boost the Trust s income, but it also amplified the effect of market weakness.

Holdings that the Trust purchased when rates were higher also aided performance due to their generous income and lower sensitivity to the negative effects of rising interest rates.

The Trust s cash reserves, while minimal, helped dampen the effect market volatility as yields rose.

The Trust sought to manage interest rate risk using U.S. Treasury futures. Given that Treasury yields rose, as prices fell, this aspect of the Trust s positioning had a positive effect on returns.

Holdings in more highly-rated investment-grade bonds (those rated AA and AAA) lagged non-investment grade holdings, as fund flows into high yield products led to greater price appreciation for lower-rated issues. This trend was most pronounced in the beginning of the period but less so in January once high yield fund flows turned negative.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Market Price and Net Asset Value Per Share Summary

	01/31/18	*07/31/17*	*Change*	*High*	*Low*
Market Price	$ 13.34	$ 14.71	(9.31)%	$ 14.81	$ 13.14
Net Asset Value	14.97	15.34	(2.41)	15.48	14.97

Market Price and Net Asset Value History For the Past Five Years

Overview of the Trust s Total Investments*

SECTOR ALLOCATION

Sector	*01/31/18*	*07/31/17*
County/City/Special District/School District	28%	29%
Utilities	18	21
Transportation	18	13
Education	14	13
Health	11	12
State	6	7
Tobacco	5	5
Housing[b]		

For Trust compliance purposes, the Trust s sector classifications refer to one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by the investment adviser. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

CALL /MATURITY SCHEDULE [c]

Calendar Year Ended December 31,	
2018	16%
2019	22
2020	3
2021	11
2022	3

[c] Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

* Excludes short-term securities.

CREDIT QUALITY ALLOCATION [(a)]

Credit Rating	*01/31/18*	*07/31/17*
AAA/Aaa	8%	9%
AA/Aa	71	71
A	14	13
BBB/Baa	1	[(b)]
BB/Ba	1	1
B	4	4
N/R	1	2

[(a)] For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either Standard & Poor s (S&P) or Moody s Investors Service (Moody s) if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

[(b)] Represents less than 1% of the Trust s total investments.

Trust Overview

BlackRock Florida Municipal 2020 Term Trust s (BFO) (the Trust) investment objectives are to provide current income exempt from regular U.S. federal income tax and Florida intangible personal property tax and to return $15.00 per common share (the initial offering price per share) to holders of common shares on or about December 31, 2020. The Trust seeks to achieve its investment objectives by investing at least 80% of its assets in municipal bonds exempt from U.S. federal income taxes (except that the interest may be subject to the federal alternative minimum tax) and Florida intangible personal property tax. The Trust invests at least 80% of its assets in municipal bonds that are investment grade quality, or are considered by the Trust s investment adviser to be of comparable quality, at the time of investment. The Trust actively manages the maturity of its bonds to seek to have a dollar-weighted average effective maturity approximately equal to the Trust s maturity date. The Trust may invest directly in such securities or synthetically through the use of derivatives. Effective January 1, 2007, the Florida intangible personal property tax was repealed.

There is no assurance that the Trust will achieve its investment objective of returning $15.00 per share.

Trust Information

Symbol on NYSE	BFO
Initial Offering Date	September 30, 2003
Termination Date (on or about)	December 31, 2020
Yield on Closing Market Price as of January 31, 2018 ($14.33)[a]	2.18%
Tax Equivalent Yield[b]	3.68%
Current Monthly Distribution per Common Share[c]	$0.0260
Current Annualized Distribution per Common Share[c]	$0.3120
Economic Leverage as of January 31, 2018[d]	

[a] Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

[b] Tax equivalent yield assumes the maximum marginal U.S. federal tax rate of 40.80%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

[c] The distribution rate is not constant and is subject to change.

[d] Percentage is less than 1% which represents TOB Trusts as a percentage of total managed assets, which is the total assets of the Trust, including any assets attributable to TOB Trusts, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 5.

Performance

Returns for the six months ended January 31, 2018 were as follows:

Returns Based On

	Market Price	*NAV*
BFO[a][b]	(3.65)%	(0.56)%
Lipper Other States Municipal Debt Funds[c]	(4.74)	(0.22)

(a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices.
(b) The Trust moved to a discount to NAV during the period, which accounts for the difference between performance based on market price and performance based on NAV.
(c) Average return. Returns reflect reinvestment of dividends and/or distributions at NAV on the ex-dividend date as calculated by Lipper.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

The following discussion relates to the Trust s absolute performance based on NAV:

U.S. municipal bonds produced generally flat returns during the period, with income offsetting a modest decline in prices. Stronger economic growth and concerns about emerging inflation pressures fueled expectations that the Fed would continue to tighten monetary policy, dampening returns across the fixed-income market. At the state level, Florida s economy continued to outperform behind strong employment growth in construction, professional services and hospitality.

Since the Trust is scheduled to terminate on or about December 31, 2020, it holds securities that will mature close to that date. Short-term bonds were the weakest segment of the market during the reporting period due to expectations for additional Fed rate increases, so the Trust s short-term bias detracted from performance.

While higher short-term rates were an overall headwind, the trend also allowed the Trust to reinvest the proceeds from bond calls and maturities at higher yields. The municipal market benchmark rate for 2020 moved higher by 60 basis points (0.60%) during the period.

The Trust s positions in cash and pre-refunded bonds, while limited, largely avoided the price declines that occurred in the broader market.

Positions in housing bonds, which are defensive by virtue of their continuously callable structures, added to performance.

From a ratings perspective, positions in high-grade bonds underperformed lower-rated securities due to investors continued demand for yield.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Summary as of January 31, 2018 (continued) **BlackRock Florida Municipal 2020 Term Trust**

Market Price and Net Asset Value Per Share Summary

	01/31/18	*07/31/17*	*Change*	*High*	*Low*
Market Price	$ 14.33	$ 15.05	(4.78)%	$ 15.18	$ 14.24
Net Asset Value	14.79	15.05	(1.73)	15.08	14.78

Market Price and Net Asset Value History For the Past Five Years

Overview of the Trust s Total Investments*

SECTOR ALLOCATION

Sector	*01/31/18*	*07/31/17*
County/City/Special District/School District	27%	35%
Health	19	18
Utilities	15	16
Transportation	15	11
State	11	11
Corporate	8	4
Education	5	5
Housing[(b)]		

For Trust compliance purposes, the Trust s sector classifications refer to one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by the investment adviser. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

CALL/MATURITY SCHEDULE [(d)]

Calendar Year Ended December 31,	
2018	15%
2019	11
2020	65
2021	1
2022	6

(9,376) 5

Comprehensive income attributable to Matrix Service Company	$1,785	$9,829	$5,929	$16,683

See accompanying notes.

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Matrix Service Company
Condensed Consolidated Balance Sheets
(In thousands)
(unaudited)

	December 31, 2014	June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 68,568	$ 77,115
Accounts receivable, less allowances (December 31, 2014— $563 and June 30, 2014—$204)	215,142	204,692
Costs and estimated earnings in excess of billings on uncompleted contracts	69,573	73,008
Deferred income taxes	6,262	5,994
Inventories	3,013	3,045
Income taxes receivable	6,165	2,797
Other current assets	7,321	8,897
Total current assets	376,044	375,548
Property, plant and equipment at cost:		
Land and buildings	31,783	31,737
Construction equipment	85,966	82,745
Transportation equipment	45,098	42,087
Office equipment and software	27,145	26,026
Construction in progress	7,077	9,892
	197,069	192,487
Accumulated depreciation	(109,844)	(103,315)
	87,225	89,172
Goodwill	72,212	69,837
Other intangible assets	26,797	28,676
Other assets	3,804	5,699
Total assets	$ 566,082	$ 568,932

See accompanying notes.

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Matrix Service Company
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(unaudited)

	December 31, 2014	June 30, 2014
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 93,154	$ 111,863
Billings on uncompleted contracts in excess of costs and estimated earnings	127,614	108,440
Accrued wages and benefits	25,207	36,226
Accrued insurance	8,437	8,605
Income taxes payable	2,013	—
Other accrued expenses	9,334	4,727
Total current liabilities	265,759	269,861
Deferred income taxes	6,740	5,167
Borrowings under senior credit facility	11,789	11,621
Total liabilities	284,288	286,649
Commitments and contingencies		
Stockholders’ equity:		
Matrix Service Company stockholders' equity:		
Common stock—$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of December 31, 2014, and June 30, 2014	279	279
Additional paid-in capital	119,852	119,777
Retained earnings	186,437	177,237
Accumulated other comprehensive loss	(3,453)	(182)
	303,115	297,111
Less: Treasury stock, at cost— 1,193,039 shares as of December 31, 2014, and 1,453,770 shares as of June 30, 2014	(13,712)	(16,595)
Total Matrix Service Company stockholders’ equity	289,403	280,516
Noncontrolling interest	(7,609)	1,767
Total stockholders' equity	281,794	282,283
Total liabilities and stockholders’ equity	$ 566,082	$ 568,932

See accompanying notes.

Matrix Service Company
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Six Months Ended	
	December 31, 2014	December 31, 2013
Operating activities:		
Net income (loss)	$(176)	$ 16,863
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	11,540	7,551
Deferred income tax	1,011	(2,102)
Gain on sale of property, plant and equipment	(120)	(57)
Provision for uncollectible accounts	451	(36)
Stock-based compensation expense	3,168	2,515
Excess tax benefit of exercised stock options and vesting of deferred shares	(1,731)	1,069
Other	118	100
Changes in operating assets and liabilities increasing (decreasing) cash, net of effects from acquisitions:		
Accounts receivable	(9,243)	11,665
Costs and estimated earnings in excess of billings on uncompleted contracts	3,435	(4,835)
Inventories	32	(159)
Other assets and liabilities	3,247	(123)
Accounts payable	(19,429)	32,712
Billings on uncompleted contracts in excess of costs and estimated earnings	19,174	(9,525)
Accrued expenses	(6,099)	(5,174)
Net cash provided by operating activities	5,378	50,464
Investing activities:		
Acquisition of property, plant and equipment	(7,711)	(11,965)
Acquisition (Note 2)	(5,551)	(51,398)
Proceeds from asset sales	290	326
Net cash used by investing activities	$(12,972)	$ (63,037)

See accompanying notes.

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Matrix Service Company
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Six Months Ended December 31, 2014	December 31, 2013
Financing activities:		
Issuances of common stock	$364	$ 602
Excess tax benefit of exercised stock options and vesting of deferred shares	1,731	6
Advances under credit agreement	9,272	33,318
Repayments of advances under credit agreement	(9,104)	(10,127)
Proceeds received for treasury shares sold to Employee Stock Purchase Plan	134	38
Treasury shares purchased from employees to satisfy tax withholding obligations	(2,439)	(1,638)
Net cash provided (used) by financing activities	(42)	22,199
Effect of exchange rate changes on cash	(911)	(84)
Net increase (decrease) in cash and cash equivalents	(8,547)	9,542
Cash and cash equivalents, beginning of period	77,115	63,750
Cash and cash equivalents, end of period	$68,568	$ 73,292
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$5,905	$ 6,812
Interest	$748	$ 462
Non-cash investing and financing activities:		
Purchases of property, plant and equipment on account	$185	$ 1,079

See accompanying notes.

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Matrix Service Company
Condensed Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except share data)
(unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Non-Controlling Interest	Total
Balances, June 30, 2014	$279	$119,777	$177,237	$(16,595)	$(182)	$ 1,767	$282,283
Net income (loss)	—	—	9,200	—	—	(9,376)	(176)
Other comprehensive loss	—	—	—	—	(3,271)	—	(3,271)
Exercise of stock options (42,450 shares)	—	(287)	—	651	—	—	364
Tax effect of exercised stock options and vesting of deferred shares	—	1,731	—	—	—	—	1,731
Issuance of deferred shares (314,003 shares)	—	(4,584)	—	4,584	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (4,972 shares)	—	47	—	87	—	—	134
Treasury shares purchased to satisfy tax withholding obligations (100,694 shares)	—	—	—	(2,439)	—	—	(2,439)
Stock-based compensation expense	—	3,168	—	—	—	—	3,168
Balances, December 31, 2014	$279	$119,852	$186,437	$(13,712)	$(3,453)	$ (7,609)	$281,794
Balances, June 30, 2013	$279	$118,190	$141,427	$(21,961)	$227	$ —	$238,162
Net income	—	—	16,858	—	—	5	16,863
Other comprehensive loss	—	—	—	—	(175)	—	(175)
Consolidated joint venture included in acquisition (Note 2)	—	—	—	—	—	700	700
Exercise of stock options (55,600 shares)	—	(376)	—	978	—	—	602
Tax effect of exercised stock options and vesting of deferred shares	—	1,075	—	—	—	—	1,075
Issuance of deferred shares (247,856 shares)	—	(4,361)	—	4,361	—	—	—
Treasury shares sold to Employee Stock Purchase Plan (2,152 shares)	—	—	—	38	—	—	38
Treasury shares purchased to satisfy tax withholding obligations (75,533 shares)	—	—	—	(1,638)	—	—	(1,638)

Stock-based compensation expense	—	2,515	—	—	—	—	2,515
Balances, December 31, 2013	$279	$117,043	$158,285	$(18,222)	$ 52	$ 705	$258,142

See accompanying notes.

Matrix Service Company
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Accounting Policies

The condensed consolidated financial statements include the accounts of Matrix Service Company (“Matrix”, “we”, “our”, “us”, “its” or the “Company”) and its subsidiaries, unless otherwise indicated. Intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all adjustments, consisting of normal recurring adjustments and other adjustments described herein, that are, in the opinion of management, necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2014, included in the Company’s Annual Report on Form 10-K for the year then ended.

Quarterly operating results can exhibit seasonal fluctuations, especially in our Oil Gas & Chemical segment, for a variety of reasons. Turnarounds and planned outages at customer facilities are typically scheduled in the spring and the fall when the demand for energy is lower. Within the Electrical Infrastructure segment, transmission and distribution work is generally scheduled by the public utilities when the demand for electricity is at its lowest. Therefore, revenue volume in the summer months is typically lower than in other periods throughout the year. Also, we typically see a lower level of operating activity relating to construction projects during the winter months and early in the calendar year because many of our customers’ capital budgets have not been finalized. Our business can also be affected, both positively and negatively, by seasonal factors such as energy demand or weather conditions including hurricanes, snowstorms, and abnormally low or high temperatures. Some of these seasonal factors may cause some of our offices and projects to close or reduce activities temporarily. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

Recently Issued Accounting Standards

Accounting Standards Update 2014-09 (Topic 606), Revenue from Contracts with Customers

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” In applying the revenue model to contracts within its scope, an entity:

• Identifies the contract(s) with a customer (step 1).
• Identifies the performance obligations in the contract (step 2).
• Determines the transaction price (step 3).
• Allocates the transaction price to the performance obligations in the contract (step 4).
• Recognizes revenue when (or as) the entity satisfies a performance obligation (step 5).

The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU’s disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. We expect to adopt this standard in fiscal 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2014-08 (Topics 205 and 360), Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

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On April 10, 2014, the FASB issued ASU 2014-08, " Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The FASB issued the ASU to provide additional information and to make it more difficult for a disposal transaction to qualify as a discontinued operation (since the FASB believes that too many disposal transactions were qualifying as discontinued operations under the old definition). Under the previous guidance in ASC 205-20-45-1, the results of operations of a component of an entity were classified as a discontinued operation if all of the following conditions were met:

- "The component “has been disposed of or is classified as held for sale.”
- “The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity
  as a result of the disposal transaction.”
- “The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.”

The new guidance eliminates the second and third criteria above and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity’s operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale.The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The Company adopted this standard as of January 1, 2015. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2014-15 (Subtopic 205-40)—Presentation of Financial Statements—Going Concern : Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date of issuance of the entity’s financial statements. Further, an entity must provide certain disclosures if there is “substantial doubt about the entity’s ability to continue as a going concern.” The FASB believes that requiring management to perform the assessment will enhance the timeliness, clarity, and consistency of related disclosures and improve convergence with international financial reporting standards ("IFRSs") (which emphasize management’s responsibility for performing the going-concern assessment). However, the time horizon for the assessment (look-forward period) and the disclosure thresholds under U.S. GAAP and IFRSs will continue to differ. The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter;
early adoption is permitted. We expect to adopt this standard in fiscal 2017.

Note 2 – Acquisitions

Purchase of HDB Ltd. Limited Partnership

On August 22, 2014 the Company purchased substantially all of the assets of HDB Ltd. Limited Partnership ("HDB"). HDB, headquartered in Bakersfield, California provides construction, fabrication and turnaround services to energy companies throughout California’s central valley. The acquisition advances a strategic goal of the Company to expand into the upstream energy market. The acquisition purchase price was $5.6 million and was funded with cash on hand. Commencing on August 22, 2014, HDB's operating results are included in the Oil Gas & Chemical Segment.

The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The following table summarizes the preliminary purchase price allocation (in thousands):

Current assets	$1,658
Property, plant and equipment	1,001
Tax deductible goodwill	3,054
Other intangible assets	900
Total assets acquired	6,613

Current liabilities	1,062
Net assets acquired	$5,551

All of the recorded goodwill from the HDB acquisition is tax deductible. The operating data related to this acquisition was not material.

Purchase of Kvaerner North American Construction

Effective as of December 21, 2013, the Company acquired 100% of the stock and voting rights of Kvaerner North American Construction Ltd. and substantially all of the assets of Kvaerner North American Construction Inc,. together referenced as "KNAC". The businesses are now known as Matrix North American Construction Ltd. and Matrix North American Construction, Inc., together referenced as "Matrix NAC". Matrix NAC is a premier provider of maintenance and capital construction services to power generation, integrated iron and steel, and industrial process facilities. The acquisition significantly expanded the Company's presence in the Electrical Infrastructure and Industrial Segments, and to a lesser extent, the Oil Gas & Chemical segment.

The Company purchased KNAC for $88.3 million. The acquisition was funded through a combination of cash-on-hand and borrowings under our senior revolving credit facility. The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair value at the acquisition date. The following table summarizes the purchase price allocation (in thousands):

Current assets	$83,575
Property, plant and equipment	11,377
Goodwill	39,295
Other intangible assets	24,009
Total assets acquired	158,256
Current liabilities	68,115
Deferred income taxes	1,179
Noncontrolling interest of consolidated joint venture	700
Net assets acquired	88,262
Cash acquired	36,655
Net purchase price	$51,607

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets. This acquisition generated $39.3 million of goodwill, of which $28.5 million is tax deductible.

The equity in consolidated joint venture represents the acquired equity in KVPB Power Partners. KVPB Power Partners was subsequently renamed to MXPB Power Partners (the "Joint Venture"). The Joint Venture was formed by Kvaerner North American Construction Inc. and an engineering firm to engineer and construct a combined cycle power plant in Dover, Delaware. The Company holds a 65% voting and economic interest in the Joint Venture. The total acquired equity of the Joint Venture was $2.0 million of which the Company's portion was approximately $1.3 million and the other party owns a non-controlling interest of $0.7 million. At December 31, 2014, the noncontrolling interest holder's share of the equity of the Joint Venture was a negative $7.6 million. The Company's share at December 31, 2014 was a negative $14.1 million.

The unaudited financial information in the table below for the three and six months ended December 30, 2013 is presented on a pro forma basis, as though Matrix Service Company and Matrix NAC had been combined as of July 1, 2012. The pro forma earnings for the three and six months ended December 31, 2013 were adjusted to include incremental amortization expense of $1.1 million and $2.1 million, respectively, and depreciation expense of $0.6 million and $1.2 million, respectively.

	Three Months Ended December 31, 2013	Six Months Ended December 31, 2013
	(pro forma)	
	(In thousands, except per share data)	
Revenues	$395,600	$671,832
Net income attributable to Matrix Service Company	$12,422	$19,834
Basic earnings per common share	$0.47	$0.76
Diluted earnings per common share	$0.46	$0.74

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Note 3 – Uncompleted Contracts
Contract terms of the Company’s construction contracts generally provide for progress billings based on project milestones. The excess of costs incurred and estimated earnings over amounts billed on uncompleted contracts is reported as a current asset. The excess of amounts billed over costs incurred and estimated earnings recognized on uncompleted contracts is reported as a current liability. Gross and net amounts on uncompleted contracts are as follows:

	December 31, 2014	June 30, 2014
	(in thousands)	
Costs incurred and estimated earnings recognized on uncompleted contracts	$1,649,633	$1,435,242
Billings on uncompleted contracts	1,707,674	1,470,674
	$(58,041)	$(35,432)
Shown on balance sheet as:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$69,573	$73,008
Billings on uncompleted contracts in excess of costs and estimated earnings	127,614	108,440
	$(58,041)	$(35,432)

Progress billings in accounts receivable at December 31, 2014 and June 30, 2014 included retentions to be collected within one year of $28.2 million and $30.0 million, respectively. Contract retentions collectible beyond one year are included in Other Assets on the Condensed Consolidated Balance Sheet and totaled $2.5 million at December 31, 2014 and $4.3 million at June 30, 2014.

Other
In the three month and six months ended December 31, 2014, our results of operations were materially impacted by charges resulting from a change in estimate related to an acquired EPC joint venture project in the Electrical Infrastructure segment, as described in Note 2 - Acquisitions. The charges resulted in a reduction to operating income of $22.9 million and $26.2 million and an after-tax reduction of $7.9 million and $9.0 million to net income attributable to Matrix Service Company for the three and six months ended December 31, 2014, respectively. At December 31, 2014, the project was approximately 74% complete. The Company expects the project to be completed by the end of the current fiscal year. The change in estimate was driven primarily by delays, technical impacts, and additional work that has compressed the Company's delivery schedule obligations. The charges reflect management's best estimate of the total contract revenues to be recognized and total costs at completion.
During the second quarter of fiscal 2014, our results of operations were materially impacted by a charge resulting from a change in estimate on an aboveground storage tank project. The charge resulted in a $4.4 million and $4.0 million decrease in operating income for the three and six months ended December 31, 2013, respectively.

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Note 4 – Intangible Assets Including Goodwill
Goodwill
The changes in the carrying value of goodwill by segment are as follows:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Goodwill	$60,896	$13,943	$10,949	$9,049	$94,837
Cumulative impairment loss (1)	(17,653)	(3,000)	(922)	(3,425)	(25,000)
Net balance at June 30, 2014	43,243	10,943	10,027	5,624	69,837
Acquisition related adjustment	164	—	—	55	219
Acquisition of HDB (2)	—	3,054	—	—	3,054
Translation adjustment (3)	(521)	—	(203)	(174)	(898)
Net balance at December 31, 2014	$42,886	$13,997	$9,824	$5,505	$72,212

(1) A $25.0 million impairment charge was recorded in February 2005 as a result of the Company's operating performance in fiscal 2005.

(2) Amount represents goodwill in connection with the Company's acquisition of HDB. The acquisition is discussed further in Note 2 - Acquisitions.

(3) The translation adjustments relate to the periodic translation of Canadian Dollar denominated goodwill recorded as a part of a prior Canadian acquisition as well as the periodic translation of the Canadian entity acquired with the purchase of KNAC. The acquisition of KNAC is discussed further in Note 2 - Acquisitions.

Other Intangible Assets
Information on the carrying value of other intangible assets is as follows:

		At December 31, 2014		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)	(In thousands)		
Intellectual property	6 to 15	$2,460	$(1,003)	$1,457
Customer based	1.5 to 15	28,168	(5,090)	23,078
Non-compete agreements	3 to 5	1,353	(657)	696
Trade names	3 to 5	1,615	(49)	1,566
Total amortizing intangible assets		33,596	(6,799)	26,797

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	Useful Life	At June 30, 2014 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Years)	(In thousands)		
Intellectual property	6 to 15	$2,460	$(920)	$1,540
Customer based	1.5 to 15	27,662	(2,949)	24,713
Non-compete agreements	3 to 5	1,312	(471)	841
Trade name	5	165	(33)	132
Total amortizing intangibles		31,599	(4,373)	27,226
Trade name	Indefinite	1,450	—	1,450
Total intangible assets		$33,049	$(4,373)	$28,676

The increase in the gross carrying amount of other intangible assets at December 31, 2014 compared to June 30, 2014 is due to the August 22, 2014 acquisition of HDB. The HDB intangible asset consists of amortizing customer-based intangibles with a fair value of $0.9 million and useful life of 10 years. Please refer to Note 2 - Acquisitions for additional information.

Effective December 31, 2014, the Company redesignated a trade name with a value of $1.4 million from an indefinite lived to a definite lived intangible asset and assigned a useful life of three years. The change in designation was an impairment indicator. The Company conducted an impairment analysis and concluded that no impairment existed.

Amortization expense totaled $2.4 million in the six months ended December 31, 2014 and $0.5 million in the six months ended December 31, 2013. We estimate that the remaining amortization expense at 12/31/2014 will be as follows (in thousands):

Period ending:	
Remainder of Fiscal 2015	$2,584
Fiscal 2016	3,375
Fiscal 2017	3,291
Fiscal 2018	2,950
Fiscal 2019	2,583
Thereafter	12,014
Total estimated remaining amortization expense at 12/31/2014	26,797

Note 5 – Debt

The Company has a five-year $200.0 million senior secured revolving credit facility under a credit agreement (the "Credit Agreement") that expires March 13, 2019. Advances under the credit facility may be used for working capital, acquisitions, capital expenditures, issuances of letters of credit and other lawful purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

- Our Senior Leverage Ratio, as defined in the agreement, may not exceed 2.50 to 1.00, determined as of the end of each fiscal quarter.
- We are required to maintain a Fixed Charge Coverage Ratio, as defined in the agreement, greater than or equal to 1.25 to 1.00, determined as of the end of each fiscal quarter.
- Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to $20.0 million per 12-month period.

Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The additional margin on Alternate Base Rate and LIBOR-based loans ranges between 0.25% and 1.0% and between 1.25% and 2.0%, respectively.

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The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. $40.0 million. Amounts borrowed in Canadian dollars will bear interest either at the CDOR Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.25% to 2.0%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.75% to 2.5%. The CDOR Rate is equal to the sum of the annual rate of interest, which is the rate determined as being the arithmetic average of the quotations of all institutions listed in respect of the relevant CDOR interest period for Canadian Dollar denominated bankers' acceptances, plus 0.1%. The Canadian Prime Rate is equal to the greater of (i) the rate of interest per annum most recently announced or established by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect on such day for determining interest rates for Canadian Dollar denominated commercial loans in Canada and (ii) the CDOR Rate plus 1.0%.
The Unused Credit Facility Fee is between 0.20% and 0.35% based on the Senior Leverage Ratio.

The Credit Agreement includes a Senior Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended December 31, 2014, Consolidated EBITDA, as defined in the Credit Agreement, was $75.3 million. Accordingly, at December 31, 2014, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at December 31, 2014 was $34.2 million.
Availability under the senior credit facility was as follows:

	December 31, 2014	June 30, 2014
	(In thousands)	
Senior credit facility	$200,000	$200,000
Capacity constraint due to the Senior Leverage Ratio	11,818	—
Capacity under the credit facility	188,182	200,000
Borrowings outstanding	11,789	11,621
Letters of credit	30,526	23,017
Availability under the senior credit facility	$145,867	$165,362

Outstanding borrowings at December 31, 2014 under our Credit Agreement were used primarily for Canadian dollar advances required for short term working capital, including cross-border purchases of materials and services.
At December 31, 2014, the Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

Note 6 – Income Taxes

Deferred income taxes are computed using the liability method whereby deferred tax assets and liabilities are recognized based on temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates. Deferred tax assets are reduced by a valuation allowance when a determination is made that it is more likely than not that some, or all, of the deferred tax assets will not be realized based on the weight of all available evidence. Evidence which is objectively verifiable carries a higher weight in the analysis. The ultimate realization of deferred tax assets is dependent upon the existence of sufficient taxable income of the appropriate character within the carryback and carryforward period available under the tax law. Sources of taxable income include future reversals of existing taxable temporary differences, future earnings and available tax planning strategies.
The Company provides for income taxes regardless of whether it has received a tax assessment. Taxes are provided when it is considered probable that additional taxes will be due in excess of amounts included in the tax return. The Company regularly reviews exposure to additional income taxes due, and as further information is known or events occur, adjustments may be recorded.

The effective tax rate was (31.3)% and 103.8% for the three and six months ended December 31, 2014, respectively. The primary reason for the significant variation between the Company's effective tax rate and the statutory tax rate is due to charges the Company took in connection with an acquired EPC joint venture project, as described in Note 3 - Uncompleted Contracts.

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The Company consolidates the joint venture and reports a noncontrolling interest. Accordingly, the Company does not receive a tax benefit for the noncontrolling interest holder's share of the project loss.

Note 7 – Commitments and Contingencies

Insurance Reserves

The Company maintains insurance coverage for various aspects of its operations. However, exposure to potential losses is retained through the use of deductibles, self-insured retentions and coverage limits.

Typically our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide warranties for materials and workmanship. The Company may also be required to name the customer as an additional insured up to the limits of insurance available, or we may be required to purchase special insurance policies or surety bonds for specific customers or provide letters of credit in lieu of bonds to satisfy performance and financial guarantees on some projects. Matrix maintains a performance and payment bonding line sufficient to support the business. The Company generally requires its subcontractors to indemnify the Company and the Company's customer and name the Company as an additional insured for activities arising out of the subcontractors' work. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of the Company, to secure the subcontractors' work or as required by the subcontract.

There can be no assurance that our insurance and the additional insurance coverage provided by our subcontractors will fully protect us against a valid claim or loss under the contracts with our customers.

Unapproved Change Orders and Claims

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of $9.6 million at December 31, 2014 and $13.1 million at June 30, 2014. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, since customers may not pay these amounts until final resolution of related claims, collection of these amounts may extend beyond one year.

Other

The Company and its subsidiaries are participants in various legal actions. It is the opinion of management that none of the known legal actions will have a material impact on the Company's financial position, results of operations or liquidity.

Note 8 – Earnings per Common Share

Basic earnings per share ("Basic EPS") is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share ("Diluted EPS") includes the dilutive effect of stock options and nonvested deferred shares.

The computation of basic and diluted earnings per share is as follows:

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(In thousands, except per share data)			
Basic EPS:				
Net income attributable to Matrix Service Company	$3,286	$ 10,306	$9,200	$ 16,858
Weighted average shares outstanding	26,600	26,245	26,535	26,180
Basic EPS	$0.12	$ 0.39	$0.35	$ 0.64
Diluted EPS:				
Weighted average shares outstanding – basic	26,600	26,245	26,535	26,180
Dilutive stock options	115	168	131	157
Dilutive nonvested deferred shares	441	471	488	435

Diluted weighted average shares	27,156	26,884	27,154	26,772
Diluted EPS	$0.12	$ 0.38	$0.34	$ 0.63

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The following securities are considered antidilutive and have been excluded from the calculation of Diluted EPS:

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(In thousands)			
Nonvested deferred shares	123	4	227	2

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Note 9 – Segment Information
We operate our business through four reportable segments: Electrical Infrastructure, Oil Gas & Chemical, Storage Solutions, and Industrial.
The Electrical Infrastructure segment primarily encompasses construction and maintenance services to a variety of power generation facilities, such as combined cycle plants, natural gas fired power stations, and renewable energy installations. We also provide high voltage services to investor owned utilities, including construction of new substations, upgrades of existing substations, short-run transmission line installations, distribution upgrades and maintenance, and storm restoration services.
The Oil Gas & Chemical segment includes our traditional turnaround activities, plant maintenance services and construction in the downstream petroleum industry. Another key offering is industrial cleaning services, which include hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the petrochemical, natural gas, gas processing and compression, and upstream petroleum markets.
The Storage Solutions segment includes new construction of crude and refined products aboveground storage tanks (“ASTs”), as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks, including liquefied natural gas (“LNG”), liquid nitrogen/liquid oxygen (“LIN/LOX”), liquid petroleum (“LPG”) tanks and other specialty vessels, including spheres. We also offer AST products including floating roof seals. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.
The Industrial segment includes construction and maintenance work in the iron and steel and mining and minerals industries, bulk material handling and fertilizer production facilities, as well as work for clients in other industrial markets.
The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies footnote included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2014. Intersegment sales and transfers are recorded at cost; therefore, no intercompany profit or loss recognized.
Segment assets consist primarily of accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, property, plant and equipment, goodwill and other intangible assets.

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Matrix Service Company
Notes to Condensed Consolidated Financial Statements
(unaudited)

Results of Operations
(In thousands)

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Gross revenues				
Electrical Infrastructure	$58,533	$ 37,180	$114,206	$ 70,057
Oil Gas & Chemical	76,419	62,121	130,618	124,913
Storage Solutions	129,987	180,655	263,337	289,201
Industrial	79,972	31,130	159,332	53,821
Total gross revenues	$344,911	$ 311,086	$667,493	$ 537,992
Less: Inter-segment revenues				
Electrical Infrastructure	$—	$ —	$—	$ —
Oil Gas & Chemical	962	10	1,802	307
Storage Solutions	182	78	241	470
Industrial	887	—	887	—
Total inter-segment revenues	$2,031	$ 88	$2,930	$ 777
Consolidated revenues				
Electrical Infrastructure	$58,533	$ 37,180	$114,206	$ 70,057
Oil Gas & Chemical	75,457	62,111	128,816	124,606
Storage Solutions	129,805	180,577	263,096	288,731
Industrial	79,085	31,130	158,445	53,821
Total consolidated revenues	$342,880	$ 310,998	$664,563	$ 537,215
Gross profit (loss)				
Electrical Infrastructure	$(16,058)	$ 3,854	$(16,547)	$ 7,184
Oil Gas & Chemical	7,352	6,686	11,738	14,217
Storage Solutions	14,231	19,788	28,749	32,625
Industrial	10,430	3,822	20,394	5,600
Total gross profit	$15,955	$ 34,150	$44,334	$ 59,626
Operating income (loss)				
Electrical Infrastructure	$(18,522)	$ 860	$(22,178)	$ 2,160
Oil Gas & Chemical	2,682	2,407	3,260	5,670
Storage Solutions	6,627	10,760	13,730	16,592
Industrial	5,542	790	10,064	1,157
Total operating income	$(3,671)	$ 14,817	$4,876	$ 25,579

Total assets by segment were as follows:

	December 31, 2014	June 30, 2014
Electrical Infrastructure	$ 113,071	$120,264
Oil Gas & Chemical	79,843	72,406
Storage Solutions	200,391	200,493
Industrial	99,084	105,049
Unallocated assets	73,693	70,720
Total segment assets	$ 566,082	$568,932

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING ESTIMATES
There have been no material changes in our critical accounting policies from those reported in our fiscal 2014 Annual Report on Form 10-K filed with the SEC. For more information on our critical accounting policies, see Part II, Item 7 of our fiscal 2014 Annual Report on Form 10-K. The following section provides certain information with respect to our critical accounting estimates as of the close of our most recent quarterly period.

Goodwill
The Company has five significant reporting units with goodwill representing 59%, 12%, 8%, 8% and 6% of the total goodwill balance. Our most recent annual goodwill impairment test, performed in the fourth quarter of fiscal 2014, indicated that the fair value of these reporting units exceeded their respective carrying values by 94%, 182%, 124%, 165% and 193%, respectively. The remaining 6% of total goodwill is spread between two other reporting units. Based on the excess of estimated fair value over carrying value and the absence of any indicators of impairment at December 31, 2014, the Company does not currently anticipate recording a goodwill impairment charge for any of its operating units.

Other Intangible Assets
Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives ranging from 1.5 to 15 years. Intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment. Annually, we evaluate the remaining useful lives of intangible assets not being amortized to determine whether facts and circumstances continue to support an indefinite useful life and review both amortizing and non-amortizing intangible assets for impairment indicators. Based on these reviews, effective December 31, 2014 the Company redesignated a trade name with a value of $1.4 million from an indefinite lived to a definite lived intangible asset and assigned a useful life of three years. The change in designation was an impairment indicator. The Company conducted an impairment analysis and concluded that no impairment existed. Excluding the redesignated trade name discussed above, the Company determined that no other impairment indicators existed at December 31, 2014.

Unapproved Change Orders and Claims
Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of $9.6 million at December 31, 2014 and $13.1 million at June 30, 2014. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings.

Insurance Reserves
We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, self-insured retentions and coverage limits. We establish reserves for claims using a combination of actuarially determined estimates and management judgment on a case-by-case basis and update our evaluations as further information becomes known. Judgments and assumptions, including the assumed losses for claims incurred but not reported, are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. If actual results of claim settlements are different than the amounts estimated, we may be exposed to gains and losses that could be significant.

Recently Issued Accounting Standards

Accounting Standards Update 2014-09 (Topic 606), Revenue from Contracts with Customers
On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the revenue model to contracts within its scope, an entity:

• Identifies the contract(s) with a customer (step 1).
• Identifies the performance obligations in the contract (step 2).

• Determines the transaction price (step 3).

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• Allocates the transaction price to the performance obligations in the contract (step 4).
• Recognizes revenue when (or as) the entity satisfies a performance obligation (step 5).

The ASU also requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU's disclosure requirements are significantly more comprehensive than those in existing revenue standards. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. We expect to adopt this standard in fiscal 2018 and are currently evaluating its expected impact on our financial statements.

Accounting Standards Update 2014-08 (Topics 205 and 360), Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

On April 10, 2014, the FASB issued ASU 2014-08, " Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The FASB issued the ASU to provide additional information and to make it more difficult for a disposal transaction to qualify as a discontinued operation (since the FASB believes that too many disposal transactions were qualifying as discontinued operations under the old definition). Under the previous guidance in ASC 205-20-45-1, the results of operations of a component of an entity were classified as a discontinued operation if all of the following conditions were met:

• "The component "has been disposed of or is classified as held for sale."
• "The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction."
• "The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction."

The new guidance eliminates the second and third criteria above and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale.The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The Company adopted this standard as of January 1, 2015. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2014-15 (Subtopic 205-40)—Presentation of Financial Statements—Going Concern : Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statement. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The FASB believes that requiring management to perform the assessment will enhance the timeliness, clarity, and consistency of related disclosures and improve convergence with international financial reporting standards ("IFRSs") (which emphasize management's responsibility for performing the going-concern assessment). However, the time horizon for the assessment (look-forward period) and the disclosure thresholds under U.S. GAAP and IFRSs will continue to differ. The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. We expect to adopt this standard in fiscal 2017.

RESULTS OF OPERATIONS

Overview

We operate our business through the following four segments:

The Electrical Infrastructure segment primarily encompasses construction and maintenance services to a variety of power generation facilities, such as combined cycle plants, natural gas fired power stations, and renewable energy installations. We also provide high voltage services to investor owned utilities, including construction of new substations, upgrades of existing substations, short-run transmission line installations, distribution upgrades and maintenance, and storm restoration services.

The Oil Gas & Chemical segment includes our traditional turnaround activities, plant maintenance services and construction in the downstream petroleum industry. Another key offering is industrial cleaning services, which include hydroblasting,

hydroexcavating, chemical cleaning and vacuum services. We also perform work in the petrochemical, natural gas, gas processing and compression, and upstream petroleum markets.
The Storage Solutions segment includes new construction of crude and refined products ASTs, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including LNG, LIN/LOX, LPG tanks and other specialty vessels including spheres. We also offer AST products including floating roof seals. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.
The Industrial segment includes construction and maintenance work in the iron and steel and mining and minerals industries, bulk material handling and fertilizer production facilities, as well as work for clients in other industrial markets.

Three Months Ended December 31, 2014 Compared to the Three Months Ended December 31, 2013

Consolidated

Consolidated revenues were $342.9 million for the three months ended December 31, 2014, an increase of $31.9 million, or 10.3%, from consolidated revenues of $311.0 million in the same period in the prior fiscal year. As discussed in Note 2 - Acquisitions, the Company acquired Kvaerner North American Construction, which we refer to as Matrix NAC, late in the second quarter of fiscal 2014. Therefore, the impact to fiscal 2014 revenue was not significant. The revenue increase is primarily attributable to the inclusion of a full quarter of Matrix NAC revenue in fiscal 2015. On a segment basis, consolidated revenues increased in the Industrial, Electrical Infrastructure and Oil Gas & Chemical segments by $48.0 million, $21.3 million and $13.4 million respectively, partially offset by a decrease in the Storage Solutions segment of $50.8 million.

Consolidated gross profit was $16.0 million in the three months ended December 31, 2014 compared to $34.2 million in the three months ended December 31, 2013. Fiscal 2015 gross margins were reduced 6.7% to 4.7% due to an acquired EPC joint venture project charge of $22.9 million, as described in Note 3 - Uncompleted Contracts. Fiscal 2014 gross margins were 11.0%.

Consolidated SG&A expenses were $19.6 million in the three months ended December 31, 2014 compared to $19.3 million in the same period a year earlier. SG&A expense as a percentage of revenue decreased to 5.7% in the three months ended December 31, 2014 compared to 6.2% for the three months ended December 31, 2013.

Interest expense was $0.3 million in the three months ended December 31, 2014, and $0.4 million in the three months ended December 31, 2013. Fiscal 2015 results include $0.3 million of interest income attributable to an award received due to the settlement of a customer dispute.

The Company consolidates the joint venture described in Note 2 - Acquisitions, and reports a noncontrolling interest. Accordingly, the Company's operating income includes the noncontrolling interest holder's share of the acquired EPC project loss for which the Company does not receive a tax benefit.

The table below reflects the Company's effective tax rate exclusive of the noncontrolling interest for the three months ended December 31, 2014 and December 31, 2013:

	Three Months Ended	
	December 31, 2014	December 31, 2013
	(In thousands)	
Income (loss) before income tax expense	$(3,691)	$14,406
Less: Loss attributable to the noncontrolling interest	8,132	—

Pretax income attributable to Matrix Service Company	$4,441	$14,406
Provision for federal, state and foreign income taxes	$1,155	$4,095
Effective tax rate exclusive of noncontrolling interest	26.0 %	28.4 %

The fiscal 2015 effective tax rate includes an additional tax benefit of $0.8 million from the reinstatement of the R&D tax credit through calendar year 2014. For the three months ended December 31, 2013, the Company received a tax benefit of $1.7 million as the result of an increase in the estimated R&D tax credit.

For the three months ended December 31, 2014, net income attributable to Matrix Service Company and the related fully diluted earnings per share were $3.3 million and $0.12 compared to $10.3 million and $0.38 in the same period a year earlier.

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Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased $21.3 million to $58.5 million in the three months ended December 31, 2014 compared to $37.2 million in the same period a year earlier. The increased revenue volume in the three months ended December 31, 2014 was due to the inclusion of a full quarter of Matrix NAC activity and favorable volumes in our legacy transmission and distribution business. The acquired EPC joint venture project charge reduced gross margins by 39.3% to (27.4%) in the three months ended December 31, 2014. Gross margins were 10.4% in the same period a year earlier. The acquired EPC joint venture project is a loss project which requires recognition of the entire estimated loss. Therefore, all future revenues associated with this project will be recognized with zero margin that will negatively impact margins in this segment until project completion, which is expected to occur in late fiscal 2015.

Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment increased to $75.5 million in the three months ended December 31, 2014 compared to $62.1 million in the same period a year earlier. The increase of $13.4 million, or 21.6%, was primarily due to higher levels of maintenance and routine capital work. Gross margins decreased to 9.7% in fiscal 2015 from 10.8% in the three months ended December 31, 2013. Project execution remained strong in the second quarter of fiscal 2015. Although improved from the first quarter, the under recovery of construction overhead costs continued to negatively impact margins in this segment. We expect higher margins in this segment for the remainder of fiscal 2015 as work volumes increase leading to a more efficient utilization of construction overhead costs.

Storage Solutions

Revenues for the Storage Solutions segment decreased to $129.8 million in the three months ended December 31, 2014 compared to $180.6 million in the same period a year earlier. The revenue attributable to aboveground storage tank work is consistent with prior year volumes. The decline is primarily due to a significant spike in terminal balance of plant work in the prior period. Gross margins were 11.0% for fiscal 2015 and fiscal 2014. The prior year gross margins were reduced by 2.6% due to a project charge of $4.4 million.

Industrial

Revenues for the Industrial segment increased to $79.1 million in the three months ended December 31, 2014 compared to $31.1 million in the same period a year earlier. The increase of $48.0 million was primarily due to the inclusion of a full quarter of Matrix NAC activity. Gross margins were 13.2% in the three months ended December 31, 2014 compared to 12.3% in the same period a year earlier. Fiscal 2015 gross margins were positively impacted by a favorable settlement with a customer.

Six Months Ended December 31, 2014 Compared to the Six Months Ended December 31, 2013
Consolidated

Consolidated revenues were $664.6 million for the six months ended December 31, 2014, an increase of $127.4 million, or 23.7%, from consolidated revenues of $537.2 million in the same period in the prior fiscal year. As discussed in Note 2 - Acquisitions, the Company acquired Kvaerner North American Construction, which we refer to as Matrix NAC, late in the second quarter of fiscal 2014. Therefore, the impact to fiscal 2014 revenue was not significant. The revenue increase is primarily attributable to the inclusion of six months of Matrix NAC revenue in fiscal 2015. On a segment basis, consolidated revenues increased in the Industrial, Electrical Infrastructure and Oil Gas & Chemical segments by $104.7 million, $44.1 million and $4.2 million respectively, partially offset by a decrease in the Storage Solutions segment of $25.6 million.

Consolidated gross profit was $44.3 million in the six months ended December 31, 2014 compared to $59.6 million in the six months ended December 31, 2013. Fiscal 2015 gross margins were reduced by 4.4% to 6.7% related to an acquired EPC joint venture project charge of $26.2 million. Fiscal 2014 gross margins were 11.1%.

Consolidated SG&A expenses were $39.5 million in the six months ended December 31, 2014 compared to $34.0 million in the same period a year earlier. The increase of $5.5 million, or 16.2%, is primarily attributable to increased business volumes. SG&A expense as a percentage of revenue was 5.9% in the six months ended December 31, 2014 compared to 6.3% in the same period a year earlier.

Interest expense was $0.7 million in the six months ended December 31, 2014, and $0.6 million in the six months ended December 31, 2013. Fiscal 2015 results include $0.3 million of interest income attributable to an award received due to the settlement of a customer dispute.

The Company consolidates the joint venture described in Note 2 - Acquisitions, and reports a noncontrolling interest. Accordingly, the Company's operating income includes the noncontrolling interest holder's share of the acquired EPC project loss for which the Company does not receive a tax benefit.

The table below reflects the Company's effective tax rate exclusive of the noncontrolling interest for the six months ended December 31, 2014 and December 31, 2013:

	Six Months Ended December 31, 2014 (In thousands)		December 31, 2013	
Income before income tax expense	$4,603		$24,862	
Less: Loss attributable to the noncontrolling interest	9,376		—	
Pretax income attributable to Matrix Service Company	$13,979		$24,862	
Provision for federal, state and foreign income taxes	$4,779		$7,999	
Effective tax rate exclusive of noncontrolling interest	34.2	%	32.2	%

The fiscal 2015 effective tax rate includes an additional tax benefit of $0.8 million from the reinstatement of the R&D tax credit through calendar year 2014. For the six months ended December 31, 2013, the Company received a tax benefit of $1.7 million as the result of an increase in the estimated R&D tax credit.

For the six months ended December 31, 2014, net income attributable to Matrix Service Company and the related fully diluted earnings per share were $9.2 million and $0.34 compared to $16.9 million and $0.63 in the same period a year earlier.

Electrical Infrastructure

Revenues for the Electrical Infrastructure segment increased $44.1 million to $114.2 million in the six months ended December 31, 2014 compared to $70.1 million in the same period a year earlier. The increased revenue volume in the six months ended December 31, 2014 was primarily due to the inclusion of Matrix NAC activity and favorable volumes in our legacy transmission and distribution business. The acquired EPC joint venture project charge reduced gross margins by 25.1% to (14.5%) in the six months ended December 31, 2014. Gross margins were 10.3% in the same period a year earlier. The acquired EPC joint venture project is a loss project which requires recognition of the entire estimated loss. Therefore, all future revenues associated with this project will be recognized with zero margin that will negatively impact margins in this segment until project completion, which is expected to occur in late fiscal 2015.

Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment increased to $128.8 million in the six months ended December 31, 2014 compared to $124.6 million in the same period a year earlier. The increase of $4.2 million was primarily due to higher levels of maintenance and routine capital work. Gross margins were 9.1% in the six months ended December 31, 2014 compared to 11.4% a year earlier. Project execution remained strong in fiscal 2015. Although the recovery of overhead improved in the second quarter, year to date results were negatively affected by under recovered construction overhead costs. We expect higher margins in this segment for the remainder of fiscal 2015 as work volumes increase leading to a more efficient utilization of construction overhead costs.

Storage Solutions

Revenues for the Storage Solutions segment decreased to $263.1 million in the six months ended December 31, 2014 compared to $288.7 million in the same period a year earlier. The decline is primarily due to a significant spike in terminal balance of plant work in the prior period, partially offset by higher revenue attributable to aboveground storage tank work in the current period, which has increased across the business. Fiscal 2015 gross margins were 10.9% compared to 11.3% in the same period in the prior year. The fiscal 2014 gross margins were reduced by 1.7% to 11.3% due to a project charge of $4.0 million.

Industrial

Revenues for the Industrial segment increased to $158.5 million in the six months ended December 31, 2014 compared to $53.8 million in the same period a year earlier. The increase of $104.7 million was primarily due to the inclusion of Matrix NAC activity for the full six-month period. Gross margins were 12.9% in the six months ended December 31, 2014 compared to 10.4% in the same period a year earlier. The gross margins were higher than expected and primarily due to profit recognized on favorable project completions and a favorable settlement with a customer.

Backlog

We define backlog as the total dollar amount of revenues that we expect to recognize as a result of performing work that has been awarded to us through a signed contract, notice to proceed or other type of assurance that we consider firm. The following arrangements are considered firm:

- fixed-price awards;
- minimum customer commitments on cost plus arrangements; and
- certain time and material arrangements in which the estimated value is firm or can be estimated with a reasonable amount of certainty in both timing and amounts.

For long-term maintenance contracts and other established customer arrangements, we include only the amounts that we expect to recognize into revenue over the next 12 months. For all other arrangements, we calculate backlog as the estimated contract amount less revenues recognized as of the reporting date.

The following table provides a summary of changes in our backlog for the three months ended December 31, 2014:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of September 30, 2014	$150,023	$145,499	$538,038	$151,100	$984,660
Project awards	32,668	77,665	38,644	48,214	197,191
Revenue recognized	(58,533)	(75,457)	(129,805)	(79,085)	(342,880)
Backlog as of December 31, 2014	$124,158	$147,707	$446,877	$120,229	$838,971

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The following table provides a summary of changes in our backlog for the six months ended December 31, 2014:

	Electrical Infrastructure	Oil Gas & Chemical	Storage Solutions	Industrial	Total
	(In thousands)				
Backlog as of June 30, 2014	$162,136	$110,217	$482,631	$160,842	915,826
Project awards	76,228	166,306	227,342	117,832	587,708
Revenue recognized	(114,206)	(128,816)	(263,096)	(158,445)	(664,563)
Backlog as of December 31, 2014	$124,158	$147,707	$446,877	$120,229	$838,971

Project awards in all segments are cyclical and are typically the result of a sales process that can take several months to complete. Backlog in the Storage Solutions and Electrical Infrastructure segments typically have the greatest volatility because the project awards can be less frequent and more significant. The second quarter project awards in all segments were generally in line with the Company's expectations. In particular, the Company saw no unusual project award delays or cancellations that were the result of the recent decline in crude oil prices.

Backlog Subsequent Event

In January of 2015, the Company received a project award of approximately $450.0 million. The award is for the construction of a combined cycle power generation station in Canada. The project award will be recorded as an increase to the Electrical Infrastructure segment backlog in the third quarter of fiscal 2015.

Impact of Crude Oil Prices

The effect of declining crude prices on our results for the three and six months ended December 31, 2014 was not significant, and there has been no reduction to our backlog as a result of project cancellations. In addition, we expect that any future impact to the Electrical Infrastructure and Industrial segments will be minimal as these segments have limited exposure to the price of crude.

In our Storage Solutions segment, our customers continue to take a long-term view of the crude market but are becoming more cautious short-term. If the prices continue at current levels or decline further into fiscal 2016, we would expect to see some reduction in customer spending. Although we do not expect the impact to future earnings to be significant, we cannot predict the direction of crude oil prices or our customers' ultimate reaction to the market.

In the mid and downstream portions of the Oil Gas & Chemical segment we expect minimal impact to our revenue volume attributable to maintenance work. However, since some of our customers are integrated oil companies with exposure to the price of crude, if the prices continue at current levels or decline further into fiscal 2016, spending levels may be reduced. Our exposure to upstream clients in the Oil Gas & Chemical segment, who have direct exposure to the price of crude, is limited to the operations from our recent acquisition of substantially all of the assets of HDB Ltd. Limited Partnership which conducts most of its business with upstream exploration companies. Although we expect this customer base to reduce spending, our exposure to upstream clients is not currently significant.

Non-GAAP Financial Measure

EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as earnings before interest expense, income taxes, depreciation and amortization. We have presented EBITDA because it is used by the financial community as a method of measuring our performance and of evaluating the market value of companies considered to be in similar businesses. We believe that the line item on our Consolidated Statements of Income entitled "Net Income" is the most directly comparable GAAP measure to EBITDA. Since EBITDA is not a measure of performance calculated in accordance with GAAP, it should not be considered in isolation of, or as a substitute for, net earnings as an indicator of operating performance. EBITDA, as we calculate it, may not be comparable to similarly titled measures employed by other companies. In addition, this measure is not necessarily a measure of our ability to fund our cash needs. As EBITDA excludes certain financial information compared with net income, the most directly comparable GAAP financial measure, users of this financial information should consider the type of events and transactions that are excluded. Our non-GAAP performance measure, EBITDA, has certain material limitations as follows:

- It does not include interest expense. Because we have borrowed money to finance our operations, pay commitment fees to maintain our credit facility, and incur fees to issue letters of credit under the credit facility, interest expense is a necessary and ongoing part of our costs and has assisted us in generating revenue. Therefore, any measure that excludes interest expense has material limitations.

- It does not include income taxes. Because the payment of income taxes is a necessary and ongoing part of our operations, any measure that excludes income taxes has material limitations.

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- It does not include depreciation or amortization expense. Because we use capital and intangible assets to generate revenue, depreciation and amortization expense is a necessary element of our cost structure. Therefore, any measure that excludes depreciation or amortization expense has material limitations.

A reconciliation of EBITDA to net income follows:

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(In thousands)			
Net income attributable to Matrix Service Company	3,286	10,306	9,200	16,858
Interest expense	300	351	652	574
Provision for income taxes	1,155	4,095	4,779	7,999
Depreciation and amortization	5,769	3,831	11,540	7,551
EBITDA	$10,510	$18,583	$26,171	$32,982

FINANCIAL CONDITION AND LIQUIDITY

Overview

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity for the six months ended December 31, 2014 were cash on hand at the beginning of the fiscal year, capacity under our senior revolving credit facility and cash generated from operations. Cash on hand at December 31, 2014 totaled $68.6 million and availability under the senior revolving credit facility totaled $145.9 million resulting in available liquidity of $214.4 million.

Factors that routinely impact our short-term liquidity and may impact our long-term liquidity include, but are not limited to:

- Changes in costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs due to contract terms that determine the timing of billings to customers and the collection of those billings

- Some cost plus and fixed price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collections from our customers.

- Time and material contracts are normally billed in arrears. Therefore, we are routinely required to carry these costs until they can be billed and collected.

- Some of our large construction projects may require significant retentions or security in the form of letters of credit.

- Other changes in working capital

- Capital expenditures

Other factors that may impact both short and long-term liquidity include:

- Acquisitions of new businesses

- Strategic investments in new operations

- Purchases of shares under our stock buyback program

- Contract disputes or collection issues
- Capacity constraints under our senior revolving credit facility and remaining in compliance with all covenants contained in the credit agreement

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The HDB acquisition discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q was funded with cash on hand. The Company believes that the remaining availability under our credit facility, as discussed under the caption "Senior Revolving Credit Facility" included in this Financial Condition and Liquidity section of the Form 10-Q, along with cash on hand and cash generated from operations will provide sufficient liquidity to achieve both our short and long-term business objectives.

Cash Flow for the Six Months Ended December 31, 2014

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities for the six months ended December 31, 2014 totaled $5.4 million. The various components of cash flows from operating activities are as follows:

Net Cash Provided by Operating Activities
(In thousands)

Net income (loss)	$(176	)
Non-cash expenses	13,308	
Deferred income tax	1,011	
Cash effect of changes in operating assets and liabilities	(8,883	)
Other	118	
Net cash provided by operating activities	$5,378	

The cash effect of significant changes in operating assets and liabilities net of the effects from acquisitions include the following:

- The change in accounts receivable caused a decrease in cash of $9.2 million. The negative variance is primarily due to the timing of project billings and collections.

- The net change in the combined balance of costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings caused an increase to cash of $22.6 million at December 31, 2014. The favorable variance is attributable to a decrease in costs and estimated earnings in excess of billings of $3.4 million and a $19.2 million increase in billings on uncompleted contracts in excess of costs and estimated earnings both of which were driven by project billings milestones and collections.

- The change in accounts payable resulted in a decrease to cash of $19.4 million. The unfavorable variance is primarily due to the timing of vendor payments.

- The net change in accrued wages and benefits and other accrued expenses resulted in a decrease to cash of $6.4 million. The unfavorable variance is primarily attributable to the payment of short term incentives accrued at June 30, 2014 but paid out during the first quarter of the current fiscal year and the remaining accrued project charge from our joint venture as described in Note 3.

Cash Flows Used for Investing Activities

Investing activities used $13.0 million of cash in the first six months of fiscal 2015 primarily due to the purchase of HDB in the amount of $5.6 million and capital expenditures of $7.7 million. The HDB acquisition is discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q. Capital expenditures consisted primarily of $2.4 million for the purchase of construction equipment, $1.8 million for transportation and fabrication equipment, $3.1 million for office equipment, $0.2 million for land and buildings, and $0.2 million for small tools.

Cash Flows Provided by Financing Activities

Financing activities used less than $0.1 million of cash in the first six months of fiscal 2015 primarily due to net borrowings of $0.2 million under our credit facility and treasury share purchases of $2.4 million, partially offset with $0.4 million of cash received for issuance of stock options and $0.1 million in cash received from employees participating in the Company's employee stock purchase program. The excess tax benefit of exercised stock options and vesting of deferred shares provided

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$1.7 million of cash. Cash borrowings and repayments for the first six months of fiscal 2015 were $9.3 million and $9.1 million, respectively. Cash borrowings were used for Canadian dollar advances to fund our existing Canadian operations including amounts to settle intercompany cross currency billings and other borrowings to finance our short-term working capital requirements.

Senior Revolving Credit Facility

As noted previously in Note 5 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, the Company has a five-year $200.0 million senior secured revolving credit facility under a credit agreement (the "Credit Agreement") that expires March 13, 2019.

The Credit Agreement includes the following covenants and borrowing limitations:

- Our Senior Leverage Ratio, as defined in the agreement, may not exceed 2.50 to 1.00, determined as of the end of each fiscal quarter.
- We are required to maintain a Fixed Charge Coverage Ratio, as defined in the agreement, greater than or equal to 1.25 to 1.00, determined as of the end of each fiscal quarter.
- Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to $20.0 million per 12-month period.

Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The additional margin on Alternate Base Rate and LIBOR-based loans ranges between 0.25% and 1.0% and between 1.25% and 2.0%, respectively.

The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. $40.0 million. Amounts borrowed in Canadian dollars will bear interest either at the CDOR Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.25% to 2.0%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.75% to 2.5%. The CDOR Rate is equal to the sum of the annual rate of interest, which is the rate determined as being the arithmetic average of the quotations of all institutions listed in respect of the relevant CDOR interest period for Canadian Dollar denominated bankers' acceptances, plus 0.1%. The Canadian Prime Rate is equal to the greater of (i) the rate of interest per annum most recently announced or established by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect on such day for determining interest rates for Canadian Dollar denominated commercial loans in Canada and (ii) the CDOR Rate plus 1.0%.

The Unused Credit Facility Fee is between 0.20% and 0.35% based on the Senior Leverage Ratio.

The Credit Agreement includes a Senior Leverage Ratio covenant, which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended December 31, 2014, Consolidated EBITDA, as defined in the Credit Agreement, was $75.3 million. Accordingly, at December 31, 2014, there was a restriction on our ability to access the full amount of the credit facility. Consolidated Funded Indebtedness at December 31, 2014 was $34.2 million.

Availability under the senior credit facility at December 31, 2014 and June 30, 2014 was as follows:

	December 31, 2014	June 30, 2014
	(In thousands)	
Senior credit facility	$200,000	$200,000
Capacity constraint due to the Senior Leverage Ratio	11,818	—
Capacity under the credit facility	188,182	200,000
Borrowings outstanding	11,789	11,621
Letters of credit	30,526	23,017
Availability under the senior credit facility	$145,867	$165,362

Outstanding borrowings at December 31, 2014 included Canadian dollar advances to fund our existing Canadian operations including amounts to settle intercompany cross currency billings and other borrowings to finance our short-term working capital requirements.

The Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

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Dividend Policy

We have never paid cash dividends on our common stock, and the terms of our Credit Agreement limit the amount of cash dividends we can pay. Under our Credit Agreement, we may declare and pay dividends on our capital stock during any fiscal year up to an amount which, when added to all other dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to such date. While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

Stock Repurchase Program and Treasury Shares

Treasury Shares

On November 4, 2014 the Board of Directors approved a stock buyback program that replaced the program that had been in place since November 2012. The new program, which expires on December 31, 2016, allows the Company to purchase up to $25.0 million of common stock annually if sufficient liquidity exists and management believes the purchase would be accretive to the Company's stockholders. The annual share limitation is applied on a calendar year basis. The cumulative number of shares repurchased cannot exceed 2,653,399, which represents 10% of the shares outstanding on the date the new repurchase program was approved.

In addition to the stock buyback program, the Company may withhold shares of common stock to satisfy the tax withholding obligations upon vesting of an employee’s deferred shares. Matrix withheld 100,694 shares in the first six months of fiscal 2015 to satisfy these obligations. These shares were returned to the Company’s pool of treasury shares.

The Company has 1,193,039 treasury shares as of December 31, 2014 and intends to utilize these treasury shares solely in connection with equity awards under the Company’s stock incentive plans.

FORWARD-LOOKING STATEMENTS

This Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-Q which address activities, events or developments which we expect, believe or anticipate will or may occur in the future are forward-looking statements. The words “believes,” “intends,” “expects,” “anticipates,” “projects,” “estimates,” “predicts” and similar expressions are also intended to identify forward-looking statements.

These forward-looking statements include, among others, such things as:

- amounts and nature of future revenues and margins from each of our segments;
- our ability to generate sufficient cash from operations or to raise cash in order to meet our short and long-term capital requirements;
- the likely impact of new or existing regulations or market forces on the demand for our services;
- expansion and other trends of the industries we serve;
- our expectations with respect to the likelihood of a future impairment; and
- our ability to comply with the covenants in our credit agreement.

These statements are based on certain assumptions and analyses we made in light of our experience and our historical trends, current conditions and expected future developments as well as other factors we believe are appropriate. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including:

- the risk factors discussed in our Form 10-K for the fiscal year ended June 30, 2014 and listed from time to time in our filings with the Securities and Exchange Commission;

- the inherently uncertain outcome of current and future litigation;

- the adequacy of our reserves for contingencies;

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- economic, market or business conditions in general and in the oil, gas, power and mining and minerals industries in particular;

- changes in laws or regulations; and

- other factors, many of which are beyond our control.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business operations. We assume no obligation to update publicly, except as required by law, any such forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2014 Annual Report on Form 10-K.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” in Rule 13a-15(e).

The disclosure controls and procedures are designed to provide reasonable, not absolute, assurance of achieving the desired control objectives. The Company’s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all errors or fraud. The design of our internal control system takes into account the fact that there are resource constraints and the benefits of controls must be weighed against the costs. Additionally, controls can be circumvented by the acts of key individuals, collusion or management override.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at December 31, 2014.

We completed the acquisition of Matrix NAC effective December 21, 2013. We are in the process of assessing and, to the extent necessary, making changes to the internal control over financial reporting of Matrix NAC to conform such internal control to that used on our other operations. However, we are not yet required to evaluate, and have not yet fully evaluated, changes in Matrix NAC's internal control over financial reporting. Subject to the foregoing, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended December 31, 2014.

PART II
OTHER INFORMATION
Item 1. Legal Proceedings
We are a party to a number of legal proceedings. We believe that the nature and number of these proceedings are typical for a company of our size engaged in our type of business and that none of these proceedings will result in a material effect on our business, results of operations, financial condition, cash flows or liquidity.
Item 1A. Risk Factors
There were no material changes in our Risk Factors from those reported in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities
The table below sets forth the information with respect to purchases made by the Company of its common stock during the second quarter of fiscal year 2015.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (C)
October 1 to October 31, 2014				
Share Repurchase Program (A)	—	—	—	2,113,497
Employee Transactions (B)	6,325	$24.09	—	
November 1 to November 30, 2014				
Share Repurchase Program (A)	—	—	—	2,653,399
Employee Transactions (B)	41,776	$27.42	—	
December 1 to December 31, 2014				
Share Repurchase Program (A)	—	—	—	2,653,399
Employee Transactions (B)	19,289	$20.66	—	

(A) Represents shares purchased under our stock buyback program.
(B) Represents shares withheld to satisfy the employee's tax withholding obligation that is incurred upon the vesting of deferred shares granted under the Company's stock incentive plans.
(C) On November 4, 2014 the Board of Directors approved a stock buyback program that replaces the program that had been in place since November 2012. The new program, which expires on December 31, 2016, allows the Company to purchase up to $25.0 million annually of common stock if sufficient liquidity exist and management believes the shares purchase would be accretive to the Company's stockholders. The annual share limitation is applied on a calendar year basis. The shares included in this column represent the maximum number of shares that were available to be purchased under the November 2012 plan, which was in effect for month ended October 2014, and the plan that was approved on November 4, 2014, which was in effect for the months ended November and December 2014.

Dividend Policy
We have never paid cash dividends on our common stock, and the terms of our Credit Agreement limit the amount of cash dividends we can pay. Under our Credit Agreement, we may declare and pay dividends on our capital stock during any fiscal year up to an amount which, when added to all other dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to such date. While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

Item 3. Defaults Upon Senior Securities
None
Item 4. Mine Safety Disclosures
Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the "Mine Act") by the federal Mine Safety and Health Administration. We do not act as the owner of any mines, but as a result of our performing services or construction at mine sites as an independent contractor, we are considered an "operator" within the meaning of the Mine Act.
Information concerning mine safety violations or other regulatory matters required to be disclosed in this quarterly report under Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95.
Item 5. Other Information
None
Item 6. Exhibits:

Exhibit 10.1	Amendment Number 1 to Matrix Service Company 2012 Stock and Incentive Compensation Plan (filed as Exhibit A to the Company's Proxy Statement for Annual Meeting of Stockholders dated October 10, 2014, and incorporated by reference herein).
Exhibit 31.1:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.
Exhibit 31.2:	Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.
Exhibit 32.1:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.
Exhibit 32.2:	Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.
Exhibit 95:	Mine Safety Disclosure.
Exhibit 101.INS:	XBRL Instance Document.
Exhibit 101.SCH:	XBRL Taxonomy Schema Document.
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase Document.
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase Document.

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MATRIX SERVICE COMPANY
Date: February 6, 2015	By: /s/ Kevin S. Cavanah Kevin S. Cavanah Vice President and Chief Financial Officer signing on behalf of the registrant and as the registrant’s principal financial officer

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