MATTHEWS INTERNATIONAL CORP
Form 10-Q
August 10, 2015

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

Form 10 Q

x Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Quarterly Period Ended June 30, 2015

Commission File No. 0 9115

MATTHEWS INTERNATIONAL CORPORATION
(Exact Name of registrant as specified in its charter)

PENNSYLVANIA	25 0644320
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

TWO NORTHSHORE CENTER, PITTSBURGH, PA	15212 5851
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (412) 442 8200

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of July 31, 2015, shares of common stock outstanding were:

Class A Common Stock 32,964,476 shares

PART I FINANCIAL INFORMATION
MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollar amounts in thousands)

	June 30, 2015		September 30, 2014	
ASSETS				
Current assets:				
Cash and cash equivalents		$69,788		$63,003
Accounts receivable, net		268,306		282,730
Inventories		142,911		152,842
Deferred income taxes		13,589		18,197
Other current assets		54,274		49,456
Total current assets		548,868		566,228
Investments		26,937		23,130
Property, plant and equipment: Cost	$466,601		$459,388	
Less accumulated depreciation	(267,609)		(250,073)	
		198,992		209,315
Deferred income taxes		6,062		4,019
Other assets		14,271		20,027
Goodwill		788,936		819,467
Other intangible assets, net		346,316		381,862
Total assets		$1,930,382		$2,024,048
LIABILITIES				
Current liabilities:				
Long-term debt, current maturities		$11,981		$15,228
Trade accounts payable		61,445		72,040
Accrued compensation		63,595		60,690
Accrued income taxes		5,324		7,079
Deferred income tax		111		235
Other current liabilities		106,558		98,011
Total current liabilities		249,014		253,283
Long-term debt		676,418		714,027
Accrued pension		80,263		78,550
Postretirement benefits		20,430		20,351
Deferred income taxes		124,291		129,335
Other liabilities		28,444		53,296
Total liabilities		1,178,860		1,248,842
SHAREHOLDERS' EQUITY				
Shareholders' equity-Matthews:				
Common stock	$36,334		$36,334	

Additional paid-in capital	114,428		113,225	
Retained earnings	831,914		798,353	
Accumulated other comprehensive loss	(124,400)		(66,817)	
Treasury stock, at cost	(110,451)		(109,950)	
Total shareholders' equity-Matthews		747,825		771,145
Noncontrolling interests		3,697		4,061
Total shareholders' equity		751,522		775,206
Total liabilities and shareholders' equity		$1,930,382		$2,024,048

The accompanying notes are an integral part of these consolidated financial statements.

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollar amounts in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Sales	$364,752	$279,983	$1,057,730	$756,765
Cost of sales	(229,316)	(175,753)	(669,929)	(480,977)
Gross profit	135,436	104,230	387,801	275,788
Selling and administrative expenses	(108,031)	(72,400)	(315,536)	(208,736)
Operating profit	27,405	31,830	72,265	67,052
Investment income	58	456	1,031	1,683
Interest expense	(4,849)	(2,785)	(15,116)	(8,240)
Other income (deductions), net	9,845	(899)	6,420	(2,773)
Income before income taxes	32,459	28,602	64,600	57,722
Income taxes	(9,245)	(9,185)	(18,314)	(19,616)
Net income	23,214	19,417	46,286	38,106
Net (income) loss attributable to noncontrolling interests	(74)	(376)	189	(286)
Net income attributable to Matthews shareholders	$23,140	$19,041	$46,475	$37,820
Earnings per share attributable to Matthews shareholders:				
Basic	$0.70	$0.70	$1.41	$1.38
Diluted	$0.70	$0.69	$1.40	$1.37

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollar amounts in thousands)

	Three Months Ended June 30,					
	Matthews		Noncontrolling Interest		Total	
	2015	2014	2015	2014	2015	2014
Net income (loss):	$23,140	$19,041	$ 74	$ 376	$23,214	$19,417
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustment	8,283	477	(9)	120	8,274	597
Pension plans and other postretirement benefits	876	565	-	-	876	565
Unrecognized gain (loss) on derivatives:						
Net change from periodic revaluation	664	(1,965)	-	-	664	(1,965)
Net amount reclassified to earnings	581	1,212	-	-	581	1,212
Net change in unrecognized gain (loss) on derivatives	1,245	(753)	-	-	1,245	(753)
Other comprehensive income (loss), net of tax	10,404	289	(9)	120	10,395	409
Comprehensive income (loss)	$33,544	$19,330	$ 65	$ 496	$33,609	$19,826

	Nine Months Ended June 30,					
	Matthews		Noncontrolling Interest		Total	
	2015	2014	2015	2014	2015	2014
Net income (loss):	$46,475	$37,820	$(189)	$286	$46,286	$38,106
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustment	(59,647)	3,246	(80)	66	(59,727)	3,312
Pension plans and other postretirement benefits	2,766	1,622	-	-	2,766	1,622
Unrecognized gain (loss) on derivatives:						
Net change from periodic revaluation	(2,548)	(2,437)	-	-	(2,548)	(2,437)
Net amount reclassified to earnings	1,846	2,511	-	-	1,846	2,511
Net change in unrecognized gain (loss) on derivatives	(702)	74	-	-	(702)	74
Other comprehensive income (loss), net of tax	(57,583)	4,942	(80)	66	(57,663)	5,008
Comprehensive income (loss)	$(11,108)	$42,762	$(269)	$352	$(11,377)	$43,114

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the nine months ended June 30, 2015 and 2014 (Unaudited)
(Dollar amounts in thousands, except per share data)

	Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2014	$36,334	$113,225	$798,353	$ (66,817)	$(109,950)	$ 4,061	$775,206
Net income	-	-	46,475	-	-	(189)	46,286
Minimum pension liability	-	-	-	2,766	-	-	2,766
Translation adjustment	-	-	-	(59,647)	-	(80)	(59,727)
Fair value of derivatives	-	-	-	(702)	-	-	(702)
Total comprehensive income							(11,377)
Stock-based compensation	-	6,838	-	-	-	-	6,838
Purchase of 212,783 shares of treasury stock	-	-	-	-	(9,897)	-	(9,897)
Issuance of 332,183 shares of treasury stock	-	(6,919)	-	-	10,680	-	3,761
Cancellations of 34,789 shares of treasury stock	-	1,284	-	-	(1,284)	-	-
Dividends, $.39 per share	-	-	(12,914)	-	-	-	(12,914)
Distributions to noncontrolling interests	-	-	-	-	-	(95)	(95)
Balance, June 30, 2015	$36,334	$114,428	$831,914	$ (124,400)	$(110,451)	$ 3,697	$751,522

	Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2013	$36,334	$ 47,315	$769,124	$ (26,940)	$(283,006)	$ 3,465	$546,292
Net income	-	-	37,820	-	-	286	38,106
Minimum pension liability	-	-	-	1,622	-	-	1,622
Translation adjustment	-	-	-	3,246	-	66	3,312
Fair value of derivatives	-	-	-	74	-	-	74
Total comprehensive income							43,114
Stock-based compensation	-	4,906	-	-	-	-	4,906
Purchase of 112,863 shares of treasury stock	-	-	-	-	(4,639)	-	(4,639)
Issuance of 218,578 shares of treasury stock	-	(6,796)	-	-	8,785	-	1,989
Cancellations of 77,597 shares of treasury stock	-	3,156	-	-	(3,156)	-	-

Dividends, $.33 per share	-	-	(9,118)	-	-	-	(9,118)
Distributions to noncontrolling interests	-	-	-	-	-	(165)	(165)
Balance, June 30, 2014	$36,334	$ 48,581	$797,826	$ (21,998)	$(282,016)	$ 3,652	$582,379

The accompanying notes are an integral part of these consolidated financial statements.

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollar amounts in thousands)

	Nine Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$46,286	$38,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,071	28,020
Stock-based compensation expense	6,838	4,906
Change in deferred taxes	(12,528)	(751)
Gain on sale of assets	(153)	(571)
Unrealized gain on investments	(617)	(1,283)
Trade name write-offs	4,842	-
Changes in working capital items	22,242	(10,987)
Decrease (increase) in other assets	2,792	(1,835)
Decrease in other liabilities	(14,416)	(1,125)
Increase in pension and postretirement benefits	6,199	6,190
Other, net	(6,217)	1,745
Net cash provided by operating activities	102,339	62,415
Cash flows from investing activities:		
Capital expenditures	(34,665)	(18,754)
Acquisitions, net of cash acquired	(1,703)	-
Proceeds from sale of assets	912	45
Proceeds from sale of subsidiary	10,418	-
Restricted cash	(12,925)	-
Net cash used in investing activities	(37,963)	(18,709)
Cash flows from financing activities:		
Proceeds from long-term debt	47,421	20,352
Payments on long-term debt	(82,325)	(28,479)
Payments on contingent consideration	-	(3,703)
Proceeds from the sale of treasury stock	3,907	2,045
Purchases of treasury stock	(9,897)	(4,639)
Dividends	(12,914)	(9,118)
Distributions to noncontrolling interests	(95)	(165)
Net cash used in financing activities	(53,903)	(23,707)
Effect of exchange rate changes on cash	(3,688)	526
Net change in cash and cash equivalents	$6,785	$20,525

Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	-	$949

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2015
(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a provider principally of brand solutions, memorialization products and industrial products. Brand solutions include brand development, deployment and delivery (consisting of brand management, printing plates and cylinders, pre-media services and imaging services for consumer packaged goods and retail customers, merchandising display systems, and marketing and design services). Memorialization products consist primarily of bronze and granite memorials and other memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Industrial products include marking and coding equipment and consumables, industrial automation products and order fulfillment systems for identifying, tracking, picking and conveying consumer and industrial products.

The Company has production and marketing facilities in the United States, Central and South America, Canada, Europe, Australia and Asia.

Note 2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10 Q and Rule 10 01 of Regulation S X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10 K for the year ended September 30, 2014. The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. All intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications and Revisions:

The Company identified a theft of funds by an employee that had occurred over a multi-year period through May 2015 which was not previously reflected in the Company's results of operations. The cumulative amount of the loss has been determined to be approximately $14,771. The corresponding pre-tax earnings amounts applicable to fiscal years 2015, 2014 and 2013 were approximately $2,170, $1,720, and $1,257, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 2. Basis of Presentation (continued)

Pursuant to the guidance of Staff Accounting Bulletin ("SAB") No. 99, "Materiality", the Company evaluated the materiality of these amounts quantitatively and qualitatively, and has concluded that the amounts described above were not material to any of its annual or quarterly prior period financial statements or trends of financial results. However, because of the significance of the cumulative out-of-period correction to the fiscal 2015 third quarter, the prior period financial statements have been revised, in accordance with SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements".

The following table reconciles the effect of the adjustments to the previously reported Consolidated Statements of Income for the three and nine month periods ended June 30, 2014:

	Three months ended June 30, 2014			Nine months ended June 30, 2014		
	Previously Reported	Adjustment	As Adjusted	Previously Reported	Adjustment	As Adjusted
Consolidated Statements of Income						
Other income (deductions), net	$(897)	$(2)*	$(899)	$(2,669)	$(104)*	$(2,773)
Income before income taxes	28,966	(364)	28,602	58,854	(1,132)	57,722
Income taxes	(9,327)	142	(9,185)	(20,058)	442	(19,616)
Net income	19,639	(222)	19,417	38,796	(690)	38,106
Net income attributable to Matthews shareholders	19,263	(222)	19,041	38,510	(690)	37,820
Comprehensive income	20,048	(222)	19,826	43,804	(690)	43,114
Earnings per share:						
Basic	0.70	-	0.70	1.41	(0.03)	1.38
Diluted	0.70	(0.01)	0.69	1.40	(0.03)	1.37

*Certain other reclassification adjustments between other income (deductions), net and selling and administrative expenses totaling $362 and $1,028 for the three and nine months ended June 30, 2014, respectively, are also reflected in the adjustment amounts in order to conform to the current period's presentation, which began in the first quarter of fiscal 2015. These reclassification adjustments are not material to the prior year presentation.

The following table reconciles the effect of the adjustments to the previously reported Consolidated Statement of Cash Flows for the nine month period ended June 30, 2014:

	Nine months ended June 30, 2014		
	Previously Reported	Adjustment	As Adjusted
Consolidated Statements of Cash Flows			
Net income	$38,796	$(690)	38,106
Changes in deferred taxes	(309)	(442)	(751)
Net cash provided by operating activities	63,547	(1,132)	62,415
Net change in cash and cash equivalents	21,657	(1,132)	20,525

There was no impact to the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Shareholders' Equity for any of the respective periods other than the impact on Net Income. The retained earnings balance as of September 30, 2014 and 2013 was adjusted by $(7,687) and $(6,638), respectively, as a result of this matter. In addition, the immaterial corrections did not affect the Company's compliance with debt covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 3. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level fair value hierarchy is used to prioritize the inputs used in valuations, as defined below:

Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The fair values of the Company's assets and liabilities measured on a recurring basis are categorized as follows:

	June 30, 2015				September 30, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Derivatives (1)	-	$622	-	$622	-	$2,457	-	$2,457
Trading securities	$19,438	-	-	19,438	$19,038	-	-	$19,038
Total assets at fair value	$19,438	$622	-	$20,060	$19,038	$2,457	-	$21,495
Liabilities:								
Derivatives (1)	-	$1,444	-	$1,444	-	$2,127	-	$2,127
Total liabilities at fair value	-	$1,444	-	$1,444	-	$2,127	-	$2,127

(1) Interest rate swaps are valued based on observable market swap rates.

Note 4. Inventories

Inventories consisted of the following:

	June 30, 2015	September 30, 2014
Raw materials	$44,836	$46,152
Work in process	34,006	38,631
Finished goods	64,069	68,059
	$142,911	$152,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 5. Debt

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. In connection with the acquisition of Schawk, Inc. ("Schawk") in July 2014, the Company entered into amendments to the Revolving Credit Facility to amend certain terms of the Revolving Credit Facility and increase the maximum amount of borrowings available under the facility from $500,000 to $900,000. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from .75% to 2.00% (1.75% at June 30, 2015) based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility.

The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $30,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at June 30, 2015 and September 30, 2014 were $655,425 and $680,000, respectively. The weighted-average interest rate on outstanding borrowings at June 30, 2015 and 2014 was 2.51% and 2.55%, respectively.

The Company has entered into the following interest rate swaps:

Effective Date	Amount	Fixed Interest Rate	Interest Rate Spread at June 30, 2015	Maturity Date
October 2011	$25,000	1.67%	1.75%	October 2015
June 2012	$40,000	1.88%	1.75%	June 2022
August 2012	$35,000	1.74%	1.75%	June 2022
September 2012	$25,000	3.03%	1.75%	December 2015
September 2012	$25,000	1.24%	1.75%	March 2017
November 2012	$25,000	1.33%	1.75%	November 2015
May 2014	$25,000	1.35%	1.75%	May 2018
November 2014	$25,000	1.26%	1.75%	June 2018
March 2015	$25,000	1.49%	1.75%	March 2019

The Company enters into interest rate swaps in order to achieve a mix of fixed and variable rate debt that it deems appropriate. The interest rate swaps have been designated as cash flow hedges of the future variable interest payments under the Revolving Credit Facility, which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective.

The fair value of the interest rate swaps reflected an unrealized loss of $822 ($501 after tax) at June 30, 2015 and an unrealized gain, net of unrealized losses, of $330 ($201 after tax) at September 30, 2014. The net unrealized gain and loss are included in shareholders' equity as part of accumulated other comprehensive income ("AOCI"). Assuming market rates remain constant with the rates at June 30, 2015, a loss (net of tax) of approximately $527 included in AOCI is expected to be recognized in earnings over the next twelve months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 5. Debt (continued)

At June 30, 2015 and September 30, 2014, the interest rate swap contracts were reflected in the consolidated balance sheets as follows:

Derivatives	June 30, 2015	September 30, 2014
Current assets:		
Other current assets	$89	$ 324
Long-term assets:		
Other assets	534	2,133
Current liabilities:		
Other current liabilities	(953)	(1,808)
Long-term liabilities:		
Other liabilities	(492)	(319)
Total derivatives	$(822)	$ 330

The loss recognized on derivatives was as follows:

Derivatives in Cash Flow Hedging Relationships	Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivatives Three Months ended June 30,		Amount of Loss Recognized in Income on Derivatives Nine Months ended June 30,	
		2015	2014	2015	2014
Interest rate swaps	Interest expense	$(953)	$(1,987)	$(3,026)	$(4,117)

The Company recognized the following gains or losses in AOCI:

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Recognized in AOCI on Derivatives		Location of Gain or (Loss) Reclassified From AOCI into Income (Effective Portion*)	Amount of Loss Reclassified from AOCI into Income (Effective Portion*)	
	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014

Interest rate swaps	$(2,548)	$(2,437)	Interest expense	$(1,846)	$(2,511)

*There is no ineffective portion or amount excluded from effectiveness testing.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 5. Debt (continued)

The Company, through certain of its European subsidiaries, has a credit facility with a European bank. The maximum amount of borrowings available under this facility is 35.0 million Euros ($38,994). Outstanding borrowings under the credit facility totaled 11.3 million Euros ($12,586) and 17.5 million Euros ($22,055) at June 30, 2015 and September 30, 2014, respectively. The weighted-average interest rate on outstanding borrowings under this facility at June 30, 2015 and 2014 was 1.50% and 1.35%, respectively.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 1.6 million Euros ($1,790) and 1.2 million Euros ($1,576) at June 30, 2015 and September 30, 2014, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at June 30, 2015 and 2014 was 3.85% and 4.04%, respectively.

The Company, through its German subsidiary, Wetzel GmbH ("Wetzel"), has several loans with various European banks. Outstanding borrowings under these loans totaled 2.4 million Euros ($2,650) and 2.9 million Euros ($3,624) at June 30, 2015 and September 30, 2014, respectively. The weighted-average interest rate on outstanding borrowings of Wetzel at June 30, 2015 and 2014 was 5.82% and 7.62%, respectively.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 4.6 million Euros ($5,094) and 5.5 million Euros ($6,922) at June 30, 2015 and September 30, 2014, respectively. Matthews International S.p.A. also has three lines of credit totaling 11.3 million Euros ($12,623) with the same Italian banks. Outstanding borrowings on these lines were 3.6 million Euros ($4,020) and 4.8 million Euros ($6,063) at June 30, 2015 and September 30, 2014, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at June 30, 2015 and 2014 was 3.21% and 3.13%, respectively.

In September 2014, a claim seeking to draw upon a letter of credit issued by the Company of $12,925 was filed with respect to a project for a customer. In January 2015, the Company made payment on the draw to the financial institution for the letter of credit. Pursuant to an action initiated by the Company, a court order has been issued requiring these funds to ultimately be remitted to the court pending resolution of the dispute between the parties. While it is possible the resolution of this matter could be unfavorable to the Company, management has assessed the customer's claim to be without merit and, based on information available as of this filing, expects that the ultimate resolution of this matter will not have a material adverse effect on Matthews' financial condition, results of operations or cash flows. As of June 30, 2015, the Company has presented the funded letter of credit within other current assets on the Condensed Consolidated Balance Sheet.

As of June 30, 2015 and September 30, 2014 the fair value of the Company's long-term debt, including current maturities, approximated the carrying value included in the Condensed Consolidated Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 6. Share-Based Payments

The Company maintains an equity incentive plan (the "2012 Equity Incentive Plan") that provides for grants of stock options, restricted shares, stock-based performance units and certain other types of stock-based awards. The Company also maintains an equity incentive plan (the "2007 Equity Incentive Plan") and a stock incentive plan (the "1992 Incentive Stock Plan") that previously provided for grants of stock options, restricted shares and certain other types of stock-based awards. Under the 2012 Equity Incentive Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 2,500,000. There will be no further grants under the 2007 Equity Incentive Plan or the 1992 Incentive Stock Plan. At June 30, 2015, there were 1,476,798 shares reserved for future issuance under the 2012 Equity Incentive Plan. All plans are administered by the Compensation Committee of the Board of Directors.

The option price for each stock option granted under any of the plans may not be less than the fair market value of the Company's Class A Common Stock on the date of grant. Outstanding stock options are generally exercisable in one-third increments upon the attainment of pre-defined levels of appreciation in the market value of the Company's Class A Common Stock. In addition, options generally vest in one-third increments after three, four and five years, respectively, from the grant date (but, in any event, not until the attainment of the market value thresholds). The options expire on the earlier of ten years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company generally settles employee stock option exercises with treasury shares.

With respect to outstanding restricted share grants, for grants made prior to fiscal 2013, generally one-half of the shares vest on the third anniversary of the grant date, with the remaining one-half of the shares vesting in one-third increments upon attainment of pre-defined levels of appreciation in the market value of the Company's Class A Common Stock. For grants made in and after fiscal 2013, generally one-half of the shares vest on the third anniversary of the grant, one-quarter of the shares vest in one-third increments upon the attainment of pre-defined levels of adjusted earnings per share, and the remaining one-quarter of the shares vest in one-third increments upon attainment of pre-defined levels of appreciation in the market value of the Company's Class A Common Stock. Additionally, restricted shares cannot vest until the first anniversary of the grant date. Unvested restricted shares generally expire on the earlier of five years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company issues restricted shares from treasury shares.

For the three-month periods ended June 30, 2015 and 2014, total stock-based compensation cost totaled $2,274 and $1,667, respectively. For the nine-month periods ended June 30, 2015 and 2014, total stock-based compensation cost totaled $6,838 and $4,906, respectively. The associated future income tax benefit recognized was $887 and $650 for the three-month periods ended June 30, 2015 and 2014, respectively, and $2,667 and $1,913 for the nine-month periods ended June 30, 2015 and 2014, respectively.

For the three-month periods ended June 30, 2015 and 2014, the amount of cash received from the exercise of stock options was $129 and $217, respectively. For the nine-month periods ended June 30, 2015 and 2014, the amount of cash received from the exercise of stock options was $3,907 and $2,045, respectively. In connection with these exercises, the tax benefits realized by the Company were $16 and $1 for the three-month period ended June 30, 2015 and 2014, respectively, and $337 and $186 for the nine-month periods ended June 30, 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 6. Share-Based Payments (continued)

The transactions for restricted stock for the nine months ended June 30, 2015 were as follows:

	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2014	575,150	$ 33.83
Granted	215,370	40.07
Vested	(158,992)	34.42
Expired or forfeited	(36,294)	28.53
Non-vested at June 30, 2015	595,234	36.26

As of June 30, 2015, the total unrecognized compensation cost related to unvested restricted stock was $9,774 and is expected to be recognized over a weighted average period of 1.7 years.

The transactions for shares under options for the nine months ended June 30, 2015 were as follows:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding, September 30, 2014	512,322	$38.62		
Exercised	(102,544)	38.10		
Expired or forfeited	(69,173)	36.53		
Outstanding, June 30, 2015	340,605	39.20	1.0	$4,747
Exercisable, June 30, 2015	97,000	38.78	0.8	1,392

No options vested during the three-month and nine-month periods ended June 30, 2015 and 2014, respectively. The intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the nine-month periods ended June 30, 2015 and 2014 was $897 and $510, respectively.

The transactions for non-vested options for the nine months ended June 30, 2015 were as follows:

	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2014	312,442	$11.21
Expired or forfeited	(68,837)	11.70
Non-vested at June 30, 2015	243,605	11.07

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 6. Share-Based Payments (continued)

The fair value of each restricted stock grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value of restricted stock for the nine months ended June 30, 2015 and 2014.

	Nine Months Ended June 30,	
	2015	2014
Expected volatility	22.2%	26.6%
Dividend yield	1.0 %	1.1 %
Average risk-free interest rate	1.7 %	1.4 %
Average expected term (years)	1.8	2.0

The risk-free interest rate is based on United States Treasury yields at the date of grant. The dividend yield is based on the most recent dividend payment and average stock price over the 12 months prior to the grant date. Expected volatilities are based on the historical volatility of the Company's stock price. The expected term for grants in the years ended September 30, 2014, 2013 and 2012 represents an estimate of the average period of time for restricted shares to vest. The option characteristics for each grant are considered separately for valuation purposes.

The Company maintains the 1994 Director Fee Plan and the 2014 Director Fee Plan (collectively, the "Director Fee Plans"). Since adoption of the 2014 Director Fee Plan, there have been no further fees or share-based awards granted under the 1994 Director Fee Plan. Under the 2014 Director Fee Plan, non-employee directors (except for the Chairman of the Board) each receive, as an annual retainer fee for fiscal 2015, either cash or shares of the Company's Class A Common Stock with a value equal to $75. The annual retainer fee for fiscal 2015 paid to a non-employee Chairman of the Board is $175. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. The value of deferred shares is recorded in other liabilities. A total of 17,005 shares had been deferred under the Director Fee Plans at June 30, 2015. Additionally, non-employee directors each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of $110 for fiscal 2015. A total of 22,300 stock options have been granted under the Director Fee Plans. At June 30, 2015, there were no options outstanding. Additionally, 136,568 shares of restricted stock have been granted under the Director Fee Plans, 33,418 of which were unvested at June 30, 2015. A total of 150,000 shares have been authorized under the 2014 Director Fee Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 7. Earnings Per Share Attributable to Matthews' Shareholders

The information used to compute earnings per share attributable to Matthews' common shareholders was as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Net income attributable to Matthews shareholders	$23,140	$19,041	$46,475	$37,820
Less: dividends and undistributed earnings allocated to participating securities	2	35	8	128
Net income available to Matthews shareholders	$23,138	$19,006	$46,467	$37,692
Weighted-average shares outstanding (in thousands):				
Basic shares	32,962	27,294	32,947	27,223
Effect of dilutive securities	234	197	258	227
Diluted shares	33,196	27,491	33,205	