

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

Form 10-Q

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

For The Quarterly Period Ended December 31, 2015

Commission File No. 0-9115

**MATTHEWS INTERNATIONAL CORPORATION**

(Exact Name of registrant as specified in its charter)

PENNSYLVANIA  
(State or other jurisdiction of  
Incorporation or organization)

25-0644320  
(I.R.S. Employer  
Identification No.)

TWO NORTSHORE CENTER, PITTSBURGH, PA  
(Address of principal executive offices)

15212-5851  
(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

No

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

No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes

No

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

Class A Common Stock 33,016,114 shares

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

|  | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|--|--------------------------|---------------------------|
| <b>ASSETS</b>                              |                          |                           |
| Current assets:                            |                          |                           |
| Cash and cash equivalents                  | \$ 65,106                | \$ 72,196                 |
| Restricted cash                            | 12,925                   | 12,925                    |
| Accounts receivable, net                   | 268,071                  | 283,963                   |
| Inventories                                | 171,633                  | 171,423                   |
| Other current assets                       | <u>66,833</u>            | <u>64,394</u>             |
| Total current assets                       | 584,568                  | 604,901                   |
| Investments                                | 25,878                   | 25,517                    |
| Property, plant and equipment: Cost        | \$ 518,798               | \$ 501,595                |
| Less accumulated depreciation              | <u>(292,026)</u>         | <u>(274,187)</u>          |
|  | 226,772                  | 227,408                   |
| Deferred income taxes                      | 13,190                   | 20,691                    |
| Other assets                               | 15,576                   | 13,773                    |
| Goodwill                                   | 851,474                  | 855,728                   |
| Other intangible assets, net               | <u>408,742</u>           | <u>415,000</u>            |
| Total assets                               | <u>\$ 2,126,200</u>      | <u>\$ 2,163,018</u>       |
| <b>LIABILITIES</b>                         |                          |                           |
| Current liabilities:                       |                          |                           |
| Long-term debt, current maturities         | \$ 12,389                | \$ 11,737                 |
| Trade accounts payable                     | 62,788                   | 68,896                    |
| Accrued compensation                       | 45,802                   | 63,931                    |
| Accrued income taxes                       | 12,040                   | 11,448                    |
| Other current liabilities                  | <u>90,437</u>            | <u>92,731</u>             |
| Total current liabilities                  | 223,456                  | 248,743                   |
| Long-term debt                             | 901,460                  | 891,217                   |
| Accrued pension                            | 97,082                   | 95,753                    |
| Postretirement benefits                    | 19,356                   | 19,415                    |
| Deferred income taxes                      | 137,791                  | 144,705                   |
| Other liabilities                          | <u>27,326</u>            | <u>29,139</u>             |
| Total liabilities                          | 1,406,471                | 1,428,972                 |
| <b>SHAREHOLDERS' EQUITY</b>                |                          |                           |
| Shareholders' equity-Matthews:             |                          |                           |
| Common stock                               | \$ 36,334                | \$ 36,334                 |
| Additional paid-in capital                 | 108,730                  | 115,890                   |
| Retained earnings                          | 843,655                  | 843,955                   |
| Accumulated other comprehensive loss       | (157,711)                | (150,326)                 |
| Treasury stock, at cost                    | <u>(112,907)</u>         | <u>(115,033)</u>          |
| Total shareholders' equity-Matthews        | 718,101                  | 730,820                   |
| Noncontrolling interests                   | <u>1,628</u>             | <u>3,226</u>              |
| Total shareholders' equity                 | <u>719,729</u>           | <u>734,046</u>            |
| Total liabilities and shareholders' equity | <u>\$ 2,126,200</u>      | <u>\$ 2,163,018</u>       |

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

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

|  | <b>Three Months Ended</b> |                  |
|--|---------------------------|------------------|
|  | <b>December 31,</b>       |                  |
|  | <b>2015</b>               | <b>2014</b>      |
| Sales  | \$ 354,232                | \$ 343,584       |
| Cost of sales  | <u>(227,665)</u>          | <u>(218,914)</u> |
| Gross profit   | 126,567                   | 124,670          |
| Selling and administrative expenses                              | <u>(114,529)</u>          | <u>(99,085)</u>  |
| Operating profit   | 12,038                    | 25,585           |
| Investment income  | 701                       | 271              |
| Interest expense   | (5,840)                   | (5,333)          |
| Other income (deductions), net                                   | (874)                     | (1,304)          |
| Income before income taxes                                       | <u>6,025</u>              | <u>19,219</u>    |
| Income taxes   | <u>(1,522)</u>            | <u>(4,974)</u>   |
| Net income   | 4,503                     | 14,245           |
| Net loss attributable to noncontrolling interests                | <u>111</u>                | <u>115</u>       |
| Net income attributable to Matthews shareholders                 | <u>\$ 4,614</u>           | <u>\$ 14,360</u> |
| <b>Earnings per share attributable to Matthews shareholders:</b> |                           |                  |
| Basic  | <u>\$ .14</u>             | <u>\$ .44</u>    |
| Diluted  | <u>\$ .14</u>             | <u>\$ .43</u>    |

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 December 31,**

|  | Matthews          |                    | Noncontrolling Interest |                 | Total             |                    |
|--|-------------------|--------------------|-------------------------|-----------------|-------------------|--------------------|
|  | 2015              | 2014               | 2015                    | 2014            | 2015              | 2014               |
| Net income (loss):                                     | \$ 4,614          | \$ 14,360          | \$ (111)                | \$ (115)        | \$ 4,503          | \$ 14,245          |
| Other comprehensive (loss) income ("OCI"), net of tax: |                   |                    |                         |                 |                   |                    |
| Foreign currency translation adjustment                | (10,069)          | (26,282)           | (53)                    | (10)            | (10,122)          | (26,292)           |
| Pension plans and other postretirement Benefits        | 1,102             | 925                | -                       | -               | 1,102             | 925                |
| Unrecognized gain (loss) on derivatives:               |                   |                    |                         |                 |                   |                    |
| Net change from periodic revaluation                   | 1,076             | (1,468)            | -                       | -               | 1,076             | (1,468)            |
| Net amount reclassified to earnings                    | 506               | 657                | -                       | -               | 506               | 657                |
| Net change in unrecognized gain (loss) on derivatives  | 1,582             | (811)              | -                       | -               | 1,582             | (811)              |
| Other comprehensive loss, net of tax                   | (7,385)           | (26,168)           | (53)                    | (10)            | (7,438)           | (26,178)           |
| Comprehensive loss                                     | <u>\$ (2,771)</u> | <u>\$ (11,808)</u> | <u>\$ (164)</u>         | <u>\$ (125)</u> | <u>\$ (2,935)</u> | <u>\$ (11,933)</u> |

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

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
for the three months ended December 31, 2015 and 2014 (Unaudited)  
(Dollar amounts in thousands, except per share data)

**Shareholders' Equity**

|   | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>(Loss) Income</b> | <b>Treasury<br/>Stock</b> | <b>Non-<br/>controlling<br/>interests</b> | <b>Total</b>      |
|---|-------------------------|---|------------------------------|--|---------------------------|---|-------------------|
| Balance, September 30, 2014                     | \$ 36,334               | \$ 113,225                                | \$ 798,353                   | \$ (66,817)  | \$ (109,950)              | \$ 4,061                                  | \$ 775,206        |
| Net income (loss)                               | -                       | -   | 14,360                       | -  | -                         | (115)                                     | 14,245            |
| Minimum pension liability                       | -                       | -   | -                            | 925  | -                         | -   | 925               |
| Translation adjustment                          | -                       | -   | -                            | (26,282)   | -                         | (10)                                      | (26,292)          |
| Fair value of derivatives                       | -                       | -   | -                            | (811)  | -                         | -   | (811)             |
| Total comprehensive loss                        |                         |   |                              |  |                           |   | (11,933)          |
| Stock-based compensation                        | -                       | 2,525                                     | -                            | -  | -                         | -   | 2,525             |
| Purchase of 173,749 shares of treasury stock    | -                       | -   | -                            | -  | (8,016)                   | -   | (8,016)           |
| Issuance of 303,214 shares of treasury stock    | -                       | (6,164)                                   | -                            | -  | 9,753                     | -   | 3,589             |
| Cancellation of 32,739 Shares of treasury stock |                         | 1,201                                     |                              |  | (1,201)                   |   |                   |
| Dividends, \$.13 per share                      | -                       | -   | (4,302)                      | -  | -                         | -   | (4,302)           |
| Balance, December 31, 2014                      | <u>\$ 36,334</u>        | <u>\$ 110,787</u>                         | <u>\$ 808,411</u>            | <u>\$ (92,985)</u>   | <u>\$ (109,414)</u>       | <u>\$ 3,936</u>                           | <u>\$ 757,069</u> |

**Shareholders' Equity**

|  | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>(Loss) Income</b> | <b>Treasury<br/>Stock</b> | <b>Non-<br/>controlling<br/>interests</b> | <b>Total</b>      |
|--|-------------------------|---|------------------------------|--|---------------------------|---|-------------------|
| Balance, September 30, 2015                  | \$ 36,334               | \$ 115,890                                | \$ 843,955                   | \$ (150,326)   | \$ (115,033)              | \$ 3,226                                  | \$ 734,046        |
| Net income (loss)                            | -                       | -   | 4,614                        | -  | -                         | (111)                                     | 4,503             |
| Minimum pension liability                    | -                       | -   | -                            | 1,102  | -                         | -   | 1,102             |
| Translation adjustment                       | -                       | -   | -                            | (10,069)   | -                         | (53)                                      | (10,122)          |
| Fair value of derivatives                    | -                       | -   | -                            | 1,582  | -                         | -   | 1,582             |
| Total comprehensive loss                     |                         |   |                              |  |                           |   | (2,935)           |
| Stock-based compensation                     | -                       | 2,526                                     | -                            | -  | -                         | -   | 2,526             |
| Purchase of 120,156 shares of treasury stock | -                       | -   | -                            | -  | (6,730)                   | -   | (6,730)           |
| Issuance of 213,370 shares of treasury stock | -                       | (6,959)                                   | -                            | -  | 8,856                     | -   | 1,897             |
| Dividends, \$.15 per share                   | -                       | -   | (4,914)                      | -  | -                         | -   | (4,914)           |
| Acquisition of noncontrolling interest       | -                       | (2,727)                                   | -                            | -  | -                         | (1,434)                                   | (4,161)           |
| Balance, December 31, 2015                   | <u>\$ 36,334</u>        | <u>\$ 108,730</u>                         | <u>\$ 843,655</u>            | <u>\$ (157,711)</u>  | <u>\$ (112,907)</u>       | <u>\$ 1,628</u>                           | <u>\$ 719,729</u> |

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

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

|   | <b>Three Months Ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>December 31,</b>       |                   |
|   | <b>2015</b>               | <b>2014</b>       |
| <b>Cash flows from operating activities:</b>                                      |                           |                   |
| Net income  | \$ 4,503                  | \$ 14,245         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                   |
| Depreciation and amortization   | 15,748                    | 15,428            |
| Stock-based compensation expense  | 2,526                     | 2,525             |
| Changes in deferred taxes   | (629)                     | (7,605)           |
| Gain on sale of assets  | (206)                     | (31)              |
| Unrealized gain on investments  | (424)                     | -                 |
| Changes in working capital items  | (12,486)                  | (12,982)          |
| Increase in other assets  | (1,703)                   | (98)              |
| Decrease in other liabilities   | (87)                      | (1,395)           |
| Increase in pension and postretirement benefits                                   | 3,041                     | 1,945             |
| Other, net  | (264)                     | (3,609)           |
|   | <u>10,019</u>             | <u>8,423</u>      |
| <b>Cash flows from investing activities:</b>                                      |                           |                   |
| Capital expenditures  | (14,158)                  | (9,268)           |
| Proceeds from sale of assets  | 849                       | 629               |
| Proceeds from sale of subsidiary  | -                         | 10,418            |
|   | <u>(13,309)</u>           | <u>1,779</u>      |
| <b>Cash flows from financing activities:</b>                                      |                           |                   |
| Proceeds from long-term debt  | 21,634                    | 10,928            |
| Payments on long-term debt  | (10,366)                  | (17,925)          |
| Proceeds from the exercise of stock options                                       | 1,798                     | 3,727             |
| Purchases of treasury stock   | (6,730)                   | (8,016)           |
| Dividends   | (4,914)                   | (4,302)           |
| Transaction with noncontrolling interest  | (4,161)                   | -                 |
|   | <u>(2,739)</u>            | <u>(15,588)</u>   |
| Effect of exchange rate changes on cash   | <u>(1,061)</u>            | <u>(1,603)</u>    |
| Net change in cash and cash equivalents   | <u>\$ (7,090)</u>         | <u>\$ (6,989)</u> |

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

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

December 31, 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 global provider of brand solutions, memorialization products and industrial automation solutions. 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 primarily for the cemetery and funeral home industries. Industrial automation solutions 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 consolidated 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 three months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2016. 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, 2015. 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.

**New Accounting Pronouncement:**

*Issued and Adopted*

In November 2015, the Financial Accounting Standards Board issued new guidance intended to simplify the presentation of deferred income taxes in a classified statement of financial position. The new deferred income tax guidance requires that all deferred income tax balances be classified as non-current assets and liabilities on the classified statement of financial position. The Company has chosen to early-adopt this standard for the quarter ended December 31, 2015, and retrospectively adjust the prior period presentation to conform to the new standard. The adjustment totaled \$19,753 in current deferred tax assets and \$340 in current deferred tax liabilities being reclassified as non-current deferred tax assets and liabilities, respectively, in the September 30, 2015 Consolidated Balance Sheet.

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

**Note 2. Basis of Presentation (continued)**

**Reclassification and Revision:**

Amounts presented for the quarter ended December 31, 2014 have been revised to reflect additional expense related to a theft of funds by an employee that had occurred over a multi-year period.

The following table reconciles the effect of the adjustments to the previously reported Consolidated Statement of Income for the three month period ended December 31, 2014:

|  | <b>Three months ended December 31, 2014</b> |                   |                    |
|--|---|-------------------|--------------------|
|  | <b>Previously<br/>Reported</b>              | <b>Adjustment</b> | <b>As Adjusted</b> |
| <b>Consolidated Statement of Income</b>                          |   |                   |                    |
| Other deductions, net  | \$ (435)                                    | \$ (869)          | \$ (1,304)         |
| Income before income taxes                                       | 20,088                                      | (869)             | 19,219             |
| Income taxes   | (5,252)                                     | 278               | (4,974)            |
| Net income   | 14,836                                      | (591)             | 14,245             |
| Net income attributable to Matthews shareholders                 | 14,951                                      | (591)             | 14,360             |
| Comprehensive loss   | (11,342)                                    | (591)             | (11,933)           |
| <b>Earnings per share attributable to Matthews shareholders:</b> |   |                   |                    |
| Basic  | 0.45  | (0.01)            | 0.44               |
| Diluted  | 0.45  | (0.02)            | 0.43               |

The following table reconciles the effect of the adjustments to the previously reported Consolidated Statement of Cash Flows for the three month period ended December 31, 2014:

|   | <b>Three months ended December 31, 2014</b> |                   |                    |
|---|---|-------------------|--------------------|
|   | <b>Previously<br/>Reported</b>              | <b>Adjustment</b> | <b>As Adjusted</b> |
| <b>Consolidated Statement of Cash Flows</b> |   |                   |                    |
| Net income                                  | \$ 14,836                                   | \$ (591)          | \$ 14,245          |
| Changes in working capital items            | (12,704)                                    | (278)             | (12,982)           |
| Net cash provided by operating activities   | 9,292                                       | (869)             | 8,423              |
| Net change in cash and cash equivalents     | (6,120)                                     | (869)             | (6,989)            |

There was no impact to the Consolidated Statement of Comprehensive Income or the Consolidated Statement of Shareholders' Equity for the three months ended December 31, 2014 other than the impact on Net Income.

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:

|  | <b>December 31, 2015</b> |                        |                    |                         | <b>September 30, 2015</b> |                        |                    |                         |
|--|--------------------------|------------------------|--------------------|-------------------------|---------------------------|------------------------|--------------------|-------------------------|
|  | <u>Level 1</u>           | <u>Level 2</u>         | <u>Level 3</u>     | <u>Total</u>            | <u>Level 1</u>            | <u>Level 2</u>         | <u>Level 3</u>     | <u>Total</u>            |
| <b>Assets:</b>                         |                          |                        |                    |                         |                           |                        |                    |                         |
| Derivatives (1)                        | \$ -                     | \$ 125                 | \$ -               | \$ 125                  | \$ -                      | \$ -                   | \$ -               | \$ -                    |
| Trading securities                     | 18,868                   | -                      | -                  | \$ 18,868               | 18,444                    | -                      | -                  | 18,444                  |
| <b>Total assets at fair value</b>      | <b><u>\$ 18,868</u></b>  | <b><u>\$ 125</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ 18,993</u></b> | <b><u>\$ 18,444</u></b>   | <b><u>\$ -</u></b>     | <b><u>\$ -</u></b> | <b><u>\$ 18,444</u></b> |
| <b>Liabilities:</b>                    |                          |                        |                    |                         |                           |                        |                    |                         |
| Derivatives (1)                        | \$ -                     | \$ 1,217               | \$ -               | \$ 1,217                | \$ -                      | \$ 3,686               | \$ -               | \$ 3,686                |
| <b>Total liabilities at fair value</b> | <b><u>\$ -</u></b>       | <b><u>\$ 1,217</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 1,217</u></b>  | <b><u>\$ -</u></b>        | <b><u>\$ 3,686</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 3,686</u></b>  |

(1) Interest rate swaps are valued based on observable market swap rates and are classified within Level 2 of the fair value hierarchy.

**Note 4. Inventories**

Inventories consisted of the following:

|                 | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|-----------------|--------------------------|---------------------------|
| Raw materials   | \$ 50,624                | \$ 48,636                 |
| Work in process | 34,977                   | 32,567                    |
| Finished goods  | 86,032                   | 90,220                    |
|                 | <b><u>\$ 171,633</u></b> | <b><u>\$ 171,423</u></b>  |

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. The maximum amount of borrowings available under the facility is \$900,000 and borrowings under the facility bear interest at LIBOR plus a factor ranging from .75% to 2.00% (1.75% at December 31, 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 December 31, 2015 and September 30, 2015 were \$872,425 and \$857,425, respectively. The weighted-average interest rate on outstanding borrowings at December 31, 2015 and 2014 was 2.31% and 2.51%, respectively.

The Company has entered into the following interest rate swaps:

| Effective Date | Amount   | Fixed Interest Rate | Interest Rate Spread at December 31, |  | Maturity Date  |
|----------------|----------|---------------------|--------------------------------------|--|----------------|
|                |          |                     | 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   | 1.24%               | 1.75%                                |  | March 2017     |
| 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     |
| September 2015 | 25,000   | 1.39%               | 1.75%                                |  | September 2020 |
| November 2015  | 25,000   | 1.32%               | 1.75%                                |  | November 2020  |
| December 2015  | 25,000   | 1.59%               | 1.75%                                |  | December 2020  |

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, net of unrealized gains, of \$1,092 (\$666 after tax) at December 31, 2015 and an unrealized loss, net of unrealized gains, of \$3,686 (\$2,248 after tax) at September 30, 2015. 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 December 31, 2015, a loss (net of tax) of approximately \$240 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 December 31, 2015 and September 30, 2015, the interest rate swap contracts were reflected in the consolidated balance sheets as follows:

| Derivatives               | <u>December 31, 2015</u> | <u>September 30, 2015</u> |
|---------------------------|--------------------------|---------------------------|
| Current assets:           |                          |                           |
| Other current assets      | \$ 26                    | \$ -                      |
| Long-term assets:         |                          |                           |
| Other assets              | 99                       | -                         |
| Current liabilities:      |                          |                           |
| Other current liabilities | (420)                    | (1,165)                   |
| Long-term liabilities:    |                          |                           |
| Other liabilities         | (797)                    | (2,521)                   |
| Total derivatives         | <u>\$ (1,092)</u>        | <u>\$ (3,686)</u>         |

The loss recognized on derivatives was as follows:

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Location of<br>Loss<br>Recognized<br>in Income on<br>Derivative | Amount of Loss<br>Recognized in Income<br>on Derivatives<br>Three Months Ended December 31, |           |
|---|---|---|-----------|
|   |   | 2015  | 2014      |
| Interest rate swaps                                     | Interest expense  | \$(830)   | \$(1,077) |

The Company recognized the following gains or losses in AOCI:

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Amount of Gain or (Loss)<br>Recognized in<br>AOCI on Derivatives |                              | Location of<br>Gain or<br>(Loss)<br>Reclassified<br>from<br>AOCI into<br>Income<br>(Effective<br>Portion*) | Amount of Loss<br>Reclassified from<br>AOCI into Income<br>(Effective Portion*) |                              |
|---|--|------------------------------|--|---|------------------------------|
|   | <u>December 31,<br/>2015</u>                                     | <u>December 31,<br/>2014</u> |  | <u>December 31,<br/>2015</u>  | <u>December 31,<br/>2014</u> |
| Interest rate swaps                                     | \$1,076  | \$(1,468)                    | Interest expense   | \$(506)   | \$(657)                      |

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

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 (\$38,171). Outstanding borrowings under the credit facility totaled 20.9 million Euros (\$22,810) and 23.9 million Euros (\$26,829) at December 31, 2015 and September 30, 2015, respectively. The weighted-average interest rate on outstanding borrowings under this facility at December 31, 2015 and 2014 was 1.50% and 1.27%, respectively.

**Note 5. Debt (continued)**

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 965,452 Euros (\$1,053) and 734,452 Euros (\$824) at December 31, 2015 and September 30, 2015, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at December 31, 2015 and 2014 was 4.00% and 4.24%, respectively.

The Company, through its German subsidiary, Wetzel GmbH ("Wetzel"), has several loans with various European banks. Outstanding borrowings on these loans totaled 1.5 million Euros (\$1,597) and 1.9 million Euros (\$2,110) at December 31, 2015 and September 30, 2015, respectively. The weighted-average interest rate on outstanding borrowings of Wetzel at December 31, 2015 and 2014 was 6.12% and 5.74%, 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 3.5 million Euros (\$3,780) and 4.3 million Euros (\$4,772) at December 31, 2015 and September 30, 2015, respectively. Matthews International S.p.A. also has three lines of credit totaling 11.3 million Euros (\$12,356) with the same Italian banks. Outstanding borrowings on these lines were 5.7 million Euros (\$6,192) and 4.6 million Euros (\$5,166) at December 31, 2015 and September 30, 2015, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at December 31, 2015 and 2014 was 3.33% and 3.18%, 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 December 31, 2015 and September 30, 2015, the Company has presented the funded letter of credit as restricted cash on the Consolidated Balance Sheet.

As of December 31, 2015 and September 30, 2015 the fair value of the Company's long-term debt, including current maturities, approximated the carrying value included in the Consolidated Balance Sheet.

**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 December 31, 2015, there were 1,050,058 shares reserved for future issuance under the 2012 Equity Incentive Plan. All plans are administered by the Compensation Committee of the Board of Directors.

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

**Note 6. Share-Based Payments (continued)**

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, 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 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 December 31, 2015 and 2014, total stock-based compensation cost totaled \$2,526 and \$2,525, respectively. The associated future income tax benefit recognized was \$985 for the three-month periods ended December 31, 2015 and 2014.

For the three-month periods ended December 31, 2015 and 2014, the amount of cash received from the exercise of stock options was \$1,798 and \$3,727, respectively. In connection with these exercises, the tax benefits realized by the Company for the three-month periods ended December 31, 2015 and 2014 were \$283 and \$315, respectively.

The transactions for restricted stock for the three months ended December 31, 2015 were as follows:

|                                  | Shares         | Weighted-<br>average<br>grant-date<br>fair value |
|----------------------------------|----------------|--|
| Non-vested at September 30, 2015 | 570,567        | \$33.66  |
| Granted                          | 213,370        | 52.08  |
| Vested                           | (249,340)      | 29.94  |
| Expired or forfeited             | (2,785)        | 36.89  |
| Non-vested at December 31, 2015  | <u>531,812</u> | <u>44.93</u>                                     |

As of December 31, 2015, the total unrecognized compensation cost related to unvested restricted stock was \$15,636 and is expected to be recognized over a weighted average period of 2.0 years.

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

**Note 6. Share-Based Payments (continued)**

The transactions for shares under options for the quarter ended December 31, 2015 were as follows:

|                                 | Shares         | Weighted-<br>average<br>exercise price | Weighted-<br>average<br>remaining<br>contractual<br>term | Aggregate<br>intrinsic<br>value |
|---------------------------------|----------------|--|--|---------------------------------|
| Outstanding, September 30, 2015 | 337,938        | \$39.19                                |  |                                 |
| Exercised                       | (47,834)       | 37.59                                  |  |                                 |
| Expired or forfeited            | (98,745)       | 37.33                                  |  |                                 |
| Outstanding, December 31, 2015  | <u>191,359</u> | 40.56                                  | 0.9  | \$2,468                         |
| Exercisable, December 31, 2015  | <u>114,193</u> | 40.56                                  | 0.9  | \$1,473                         |

No options vested during the three months ended December 31, 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 three-month periods ended December 31, 2015 and 2014 was \$898 and \$841, respectively.

The transactions for non-vested options for the quarter ended December 31, 2015 were as follows:

|                                  | Shares        | Weighted-<br>average<br>grant-date<br>fair value |
|----------------------------------|---------------|--|
| Non-vested shares                |               |  |
| Non-vested at September 30, 2015 | 166,406       | \$12.43  |
| Expired or forfeited             | (89,240)      | 12.56  |
| Non-vested at December 31, 2015  | <u>77,166</u> | 12.29  |

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 granted during the periods ended December 31, 2015 and 2014.

|                                 | Three Months Ended<br>December 31, |       |
|---------------------------------|------------------------------------|-------|
|                                 | 2015                               | 2014  |
| Expected volatility             | 20.7%                              | 22.2% |
| Dividend yield                  | 1.0%                               | 1.0%  |
| Average risk-free interest rate | 1.7%                               | 1.7%  |
| Average expected term (years)   | 2.1                                | 1.8   |

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, 2015, 2014 and 2013 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.

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

**Note 6. Share-Based Payments (continued)**

The Company maintains the 1994 Director Fee Plan and the 2014 Director Fee Plan (collectively, the "Director Fee Plans"). There will be 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 2016, either cash or shares of the Company's Class A Common Stock with a value equal to \$75. The annual retainer fee for fiscal 2016 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 December 31, 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 2016. A total of 22,300 stock options have been granted under the Director Fee Plans. At December 31, 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 issued under the 2014 Director Fee Plan and are unvested at December 31, 2015. A total of 150,000 shares have been authorized to be issued under the 2014 Director Fee Plan.

**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:

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>December 31,</b>       |                  |
|   | <b>2015</b>               | <b>2014</b>      |
| Net income attributable to Matthews shareholders                                    | \$ 4,614                  | \$ 14,360        |
| Less: dividends and undistributed earnings<br>allocated to participating securities | -                         | 5                |
| Net income available to Matthews shareholders                                       | <u>\$ 4,614</u>           | <u>\$ 14,365</u> |
| <b>Weighted-average shares outstanding (in thousands):</b>                          |                           |                  |
| Basic shares  | 32,946                    | 32,919           |
| Effect of dilutive securities   | 249                       | 174              |
| Diluted shares  | <u>33,195</u>             | <u>33,093</u>    |

There were no anti-dilutive securities for the three months ended December 31, 2015 or 2014.

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

**Note 8. Pension and Other Postretirement Benefit Plans**

The Company provides defined benefit pension and other postretirement plans to certain employees. Net periodic pension and other postretirement benefit cost for the plans included the following:

|                                | <b>Three Months Ended December 31,</b> |                 |                             |               |
|--------------------------------|--|-----------------|-----------------------------|---------------|
|                                | <b>Pension</b>                         |                 | <b>Other Postretirement</b> |               |
|                                | <b>2015</b>                            | <b>2014</b>     | <b>2015</b>                 | <b>2014</b>   |
| Service cost                   | \$ 1,813                               | \$ 1,655        | \$ 101                      | \$ 114        |
| Interest cost                  | 2,406                                  | 2,145           | 211                         | 221           |
| Expected return on plan assets | (2,407)                                | (2,470)         | -                           | -             |
| Amortization:                  |  |                 |                             |               |
| Prior service cost             | (46)                                   | (45)            | (49)                        | (49)          |
| Net actuarial loss             | 1,866                                  | 1,564           | -                           | -             |
| Net benefit cost               | <u>\$ 3,632</u>                        | <u>\$ 2,849</u> | <u>\$ 263</u>               | <u>\$ 286</u> |

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the postretirement benefit plan are made from the Company's operating funds. Under IRS regulations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal year 2016.

Contributions made and anticipated for fiscal year 2016 are as follows:

| <b>Contributions</b>   | <b>Pension</b> | <b>Other<br/>Postretirement</b> |
|--|----------------|---------------------------------|
| Contributions during the three months ended December 31, 2015: |                |                                 |
| Supplemental retirement plan                                   | \$ 181         | \$ -                            |
| Other postretirement plan                                      | -              | 451                             |
| Additional contributions expected in fiscal 2016:              |                |                                 |
| Supplemental retirement plan                                   | \$ 568         | \$ -                            |
| Other postretirement plan                                      | -              | 558                             |

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

**Note 9. Accumulated Other Comprehensive Income**

The change in AOCI by component, net of tax, for the three month periods ended December 31, 2015 and 2014 were as follows:

|  | Post-retirement<br>benefit plans | Currency translation<br>adjustment | Derivatives     | Total               |
|--|----------------------------------|------------------------------------|-----------------|---------------------|
| Attributable to Matthews:                |                                  |                                    |                 |                     |
| Balance, September 30, 2014              | \$ (39,651)                      | \$ (27,367)                        | \$ 201          | \$ (66,817)         |
| OCI before reclassification              | -                                | (26,282)                           | (1,468)         | (27,750)            |
| Amounts reclassified from AOCI (a)       | 925                              | -                                  | (b) 657         | 1,582               |
| Net current-period OCI                   | 925                              | (26,282)                           | (811)           | (26,168)            |
| Balance, December 31, 2014               | <u>\$ (38,726)</u>               | <u>\$ (53,649)</u>                 | <u>\$ (610)</u> | <u>\$ (92,985)</u>  |
| Attributable to noncontrolling interest: |                                  |                                    |                 |                     |
| Balance, September 30, 2014              | -                                | \$ 516                             | -               | \$ 516              |
| OCI before reclassification              | -                                | (10)                               | -               | (10)                |
| Net current-period OCI                   | -                                | (10)                               | -               | (10)                |
| Balance, December 31, 2014               | <u>-</u>                         | <u>\$ 506</u>                      | <u>-</u>        | <u>\$ 506</u>       |
|  | Post-retirement<br>benefit plans | Currency translation<br>adjustment | Derivatives     | Total               |
| Attributable to Matthews:                |                                  |                                    |                 |                     |
| Balance, September 30, 2015              | \$ (43,474)                      | \$ (104,604)                       | \$ (2,248)      | \$ (150,326)        |
| OCI before reclassification              | -                                | (10,069)                           | 1,076           | (8,993)             |
| Amounts reclassified from AOCI (a)       | 1,102                            | -                                  | (b) 506         | 1,608               |
| Net current-period OCI                   | 1,102                            | (10,069)                           | 1,582           | (7,385)             |
| Balance, December 31, 2015               | <u>\$ (42,372)</u>               | <u>\$ (114,673)</u>                | <u>\$ (666)</u> | <u>\$ (157,711)</u> |
| Attributable to noncontrolling interest: |                                  |                                    |                 |                     |
| Balance, September 30, 2015              | -                                | \$ 366                             | -               | \$ 366              |
| OCI before reclassification              | -                                | (53)                               | -               | (53)                |
| Net current-period OCI                   | -                                | (53)                               | -               | (53)                |
| Balance, December 31, 2015               | <u>-</u>                         | <u>\$ 313</u>                      | <u>-</u>        | <u>\$ 313</u>       |

(a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see note 8).

(b) Amounts were included in interest expense in the periods the hedged item affected earnings (see note 5).

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

**Note 9. Accumulated Other Comprehensive Income (continued)**

Reclassifications out of AOCI for the three month periods ended December 31, 2015 and 2014 were as follows:

| Details about AOCI Components | Amount reclassified from AOCI           |   |   |
|-------------------------------|---|---|---|
|                               | Three months ended<br>December 31, 2015 | Three months ended<br>December 31, 2014 | Affected line item in the Statement of income |
| Postretirement benefit plans  |   |   |   |
| Prior service (cost) credit   | \$ 95                                   | \$ 94                                   | (a)   |
| Actuarial losses              | (1,866)                                 | (1,564)                                 | (a)   |
|                               | (1,771)                                 | (1,470)                                 | (b) Total before tax                          |
|                               | (669)                                   | (545)                                   | Tax provision (benefit)                       |
|                               | \$ (1,102)                              | \$ (925)                                | Net of tax                                    |
| Derivatives                   |   |   |   |
| Interest rate swap contracts  | \$ (830)                                | \$ (1,077)                              | Interest expense                              |
|                               | (830)                                   | (1,077)                                 | (b) Total before tax                          |
|                               | (324)                                   | (420)                                   | Tax provision (benefit)                       |
|                               | \$ (506)                                | \$ (657)                                | Net of tax                                    |

- (a) Amounts are included in the computation of pension and other postretirement benefit expense, which is reported in both cost of goods sold and selling and administrative expenses. For additional information, see Note 8.
- (b) For pre-tax items, positive amounts represent income and negative amounts represent expense.

**Note 10. Income Taxes**

Income tax provisions for the Company's interim periods are based on the effective income tax rate expected to be applicable for the full year. The Company's effective tax rate for the three months ended December 31, 2015 was 25.3%, compared to 25.9% for the three months ended December 31, 2014. The decrease in the effective tax rate for the fiscal 2016 first quarter primarily reflected lower tax rates in certain foreign jurisdictions and the benefit of the recent extension of the U.S. research and development tax credit. Fiscal 2015 reflected the benefit of the utilization of certain tax attributes as a result of legal structure reorganization in foreign jurisdictions. The difference between the Company's fiscal 2016 first quarter effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes, offset by lower foreign income taxes.

The Company had unrecognized tax benefits (excluding penalties and interest) of \$4,115 and \$4,086 on December 31, 2015 and September 30, 2015, respectively, all of which, if recorded, would impact the 2016 annual effective tax rate.

The Company classifies interest and penalties on tax uncertainties as a component of the provision for income taxes. Total penalties and interest accrued were \$2,029 and \$2,010 at December 31, 2015 and September 30, 2015, respectively. These accruals may potentially be applicable in the event of an unfavorable outcome of uncertain tax positions.

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

**Note 10. Income Taxes (continued)**

The Company is currently under examination in several tax jurisdictions and remains subject to examination until the statute of limitations expires for those tax jurisdictions. As of December 31, 2015, the tax years that remain subject to examination by major jurisdiction generally are:

|                         |                  |
|-------------------------|------------------|
| United States – Federal | 2012 and forward |
| United States – State   | 2011 and forward |
| Canada                  | 2010 and forward |
| Europe                  | 2009 and forward |
| United Kingdom          | 2013 and forward |
| Australia               | 2011 and forward |
| Asia                    | 2009 and forward |

**Note 11. Segment Information**

The Company manages its businesses under three segments: SGK Brand Solutions, Memorialization and Industrial. The SGK Brand Solutions segment includes 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). The Memorialization segment consists primarily of bronze and granite memorials and other memorialization products, caskets and cremation equipment primarily for the cemetery and funeral home industries. The Industrial segment includes marking and coding equipment and consumables, industrial automation products and order fulfillment systems for identifying, tracking, picking and conveying consumer and industrial products. Management evaluates segment performance based on operating profit (before income taxes) and does not allocate non-operating items such as investment income, interest expense, other income (deductions), net and noncontrolling interest.

Information about the Company's segments follows:

|                                     | <b>Three Months Ended<br/>December 31,</b> |                   |
|-------------------------------------|--|-------------------|
|                                     | <b>2015</b>                                | <b>2014</b>       |
| <u>Sales to external customers:</u> |  |                   |
| SGK Brand Solutions                 | \$ 178,291                                 | \$ 200,834        |
| Memorialization                     | 147,611                                    | 116,223           |
| Industrial                          | 28,330                                     | 26,527            |
|                                     | <u>\$ 354,232</u>                          | <u>\$ 343,584</u> |
|                                     |  |                   |
|                                     | <b>Three Months Ended<br/>December 31,</b> |                   |
|                                     | <b>2015</b>                                | <b>2014</b>       |
| <u>Operating profit:</u>            |  |                   |
| SGK Brand Solutions                 | \$ 2,755                                   | \$ 1,850          |
| Memorialization                     | 7,689                                      | 21,486            |
| Industrial                          | 1,594                                      | 2,249             |
|                                     | <u>\$ 12,038</u>                           | <u>\$ 25,585</u>  |

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

**Note 12. Acquisitions**

On August 19, 2015, the Company acquired Aurora Products Group, LLC ("Aurora") for \$211,604 (net of cash acquired), subject to a working capital adjustment. Aurora provides burial, cremation, and technology products to funeral home clients and distributors in the United States and Canada. The acquisition is designed to expand the Company's memorialization product offerings and geographic distribution footprint in the United States. The preliminary purchase price allocation related to the Aurora acquisition is not finalized as of December 31, 2015, and is based upon a preliminary valuation which is subject to change as the Company obtains additional information, including with respect to fixed assets, intangible assets, certain liabilities and related taxes.

**Note 13. Goodwill and Other Intangible Assets**

A summary of the carrying amount of goodwill attributable to each segment as well as the changes in such amounts are as follows:

|                                   | <u>SGK Brand<br/>Solutions</u> | <u>Memorialization</u> | <u>Industrial</u> | <u>Consolidated</u> |
|-----------------------------------|--------------------------------|------------------------|-------------------|---------------------|
| Goodwill                          | \$ 466,647                     | \$ 346,946             | \$ 52,887         | \$ 866,480          |
| Accumulated impairment losses     | (5,752)                        | (5,000)                | -                 | (10,752)            |
| Balance at September 30, 2015     | <u>460,895</u>                 | <u>341,946</u>         | <u>52,887</u>     | <u>855,728</u>      |
| Additions during period           | -                              | -                      | -                 | -                   |
| Translation and other adjustments | (4,995)                        | 904                    | (163)             | (4,254)             |
| Goodwill                          | 461,652                        | 347,850                | 52,724            | 862,226             |
| Accumulated impairment losses     | (5,752)                        | (5,000)                | -                 | (10,752)            |
| Balance at December 31, 2015      | <u>\$ 455,900</u>              | <u>\$ 342,850</u>      | <u>\$ 52,724</u>  | <u>\$ 851,474</u>   |

The Company performed its annual impairment review in the second quarter of fiscal 2015 and has determined that estimated fair value for all reporting units exceeded carrying value, therefore no adjustments to the carrying value of goodwill were necessary.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of December 31, 2015 and September 30, 2015, respectively.

|                            | <u>Carrying<br/>Amount</u> | <u>Accumulated<br/>Amortization</u> | <u>Net</u>        |
|----------------------------|----------------------------|-------------------------------------|-------------------|
| <b>December 31, 2015:</b>  |                            |                                     |                   |
| Trade names                | \$ 168,467                 | \$ -*                               | \$ 168,467        |
| Trade names                | 1,781                      | (1,707)                             | 74                |
| Customer relationships     | 285,909                    | (46,667)                            | 239,242           |
| Copyrights/patents/other   | 11,315                     | (10,356)                            | 959               |
|                            | <u>\$ 467,472</u>          | <u>\$ (58,730)</u>                  | <u>\$ 408,742</u> |
| <b>September 30, 2015:</b> |                            |                                     |                   |
| Trade names                | \$ 168,467                 | \$ -*                               | \$ 168,467        |
| Trade names                | 1,815                      | (1,718)                             | 97                |
| Customer relationships     | 296,689                    | (51,393)                            | 245,296           |
| Copyrights/patents/other   | 11,389                     | (10,249)                            | 1,140             |
|                            | <u>\$ 478,360</u>          | <u>\$ (63,360)</u>                  | <u>\$ 415,000</u> |

\* Not subject to amortization

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

**Note 13. Goodwill and Other Intangible Assets (continued)**

The net change in intangible assets during the three months ended December 31, 2015 included the impact of foreign currency fluctuations during the period and additional amortization.

Amortization expense on intangible assets was \$5,216 and \$4,650 for the three-month periods ended December 31, 2015 and 2014, respectively. Amortization expense is estimated to be \$16,081 for the rest of 2016, \$20,315 in 2017, \$19,020 in 2018, \$17,985 in 2019 and \$16,866 in 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**CAUTIONARY STATEMENT:**

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation ("Matthews" or the "Company") and related notes thereto included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in mortality and cremation rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, including the risks associated with the Company's acquisition of Schawk, Inc. ("Schawk") in July 2014 and Aurora Products Group, LLC ("Aurora") in August 2015, and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered individually significant to consolidated sales, changes in the distribution of the Company's products or the potential loss of one or more of the Company's larger customers are also considered risk factors.

**RESULTS OF OPERATIONS:**

The following table sets forth the sales and operating profit for the Company's three reporting segments for the quarters ended December 31, 2015 and 2014.

|                               | <b>Three Months Ended<br/>December 31,</b> |                   |
|-------------------------------|--|-------------------|
|                               | <b>2015</b>                                | <b>2014</b>       |
| <i>(Dollars in thousands)</i> |  |                   |
| <b>Sales:</b>                 |  |                   |
| SGK Brand Solutions           | \$ 178,291                                 | \$ 200,834        |
| Memorialization               | 147,611                                    | 116,223           |
| Industrial                    | 28,330                                     | 26,527            |
|                               | <u>\$ 354,232</u>                          | <u>\$ 343,584</u> |
| <b>Operating Profit:</b>      |  |                   |
| SGK Brand Solutions           | \$ 2,755                                   | \$ 1,850          |
| Memorialization               | 7,689                                      | 21,486            |
| Industrial                    | 1,594                                      | 2,249             |
|                               | <u>\$ 12,038</u>                           | <u>\$ 25,585</u>  |

Sales for the quarter ended December 31, 2015 were \$354.2 million, compared to \$343.6 million for the quarter ended December 31, 2014. The increase in fiscal 2016 sales principally reflected the acquisition of Aurora, increased sales in the Industrial segment and higher sales of memorial products, partially offset by a decline in the SGK Brand Solutions segment. Additionally, consolidated sales for the current quarter were unfavorably impacted by changes in foreign currencies against the U.S. dollar of approximately \$13.8 million.

In the SGK Brand Solutions segment, sales for the fiscal 2016 first quarter were \$178.3 million, compared to \$200.8 million for the fiscal 2015 first quarter. The decrease in sales resulted primarily from unfavorable changes in foreign currency values against the U.S. dollar of approximately \$11.4 million, the prior year divestiture by the segment of a small software business, and slower market conditions in the U.S. and Europe. Memorialization segment sales for the fiscal 2016 first quarter were \$147.6 million, compared to \$116.2 million for the first quarter of fiscal 2015. The increase in sales resulted principally from the acquisition of Aurora (\$33.2 million), higher sales of bronze and granite memorials and higher cremation equipment sales in the U.S. market. These sales increases were partially offset by lower unit sales of caskets, and the unfavorable impact of changes in foreign currency values against the U.S. dollar of approximately \$1.8 million. Industrial segment sales were \$28.3 million for the first quarter of fiscal 2016, compared to \$26.5 million for the first quarter of fiscal 2015. The increase resulted principally from higher sales of warehouse control and fulfillment systems in North America, which was partially offset by the unfavorable impact of changes in foreign currency values against the U.S. dollar of approximately \$549,000.

Gross profit for the quarter ended December 31, 2015 was \$126.6 million, compared to \$124.7 million for the same period a year ago. Consolidated gross profit as a percent of sales was 35.7% for the first quarter of fiscal 2016, compared to 36.3% in the fiscal 2015 first quarter. The increase in gross profit primarily reflected the impact of higher sales. Fiscal 2016 gross profit also included an expense of \$4.0 million for the partial write-off of inventory step-up value related to the Aurora acquisition. The decrease in gross profit as a percent of sales reflected the write-off of inventory step-up value, partially offset by benefits from cost-structure initiatives in the SGK Brand Solutions segment, resulting from acquisition integration activities.

Selling and administrative expenses for the three months ended December 31, 2015 were \$114.5 million, compared to \$99.1 million for the first quarter of fiscal 2015. Consolidated selling and administrative expenses as a percent of sales were 32.3% for the quarter ended December 31, 2015, compared to 28.8% for the same period last year. The increase in selling and administrative expenses was primarily attributable to higher sales and the acquisition of Aurora. In addition, fiscal 2016 selling and administrative expenses included acquisition integration costs, and an increase of \$870,000 in intangible asset amortization related to the Aurora acquisition. Fiscal 2015 first quarter selling and administrative expenses included the impact of the favorable settlement of litigation, net of related expenses, in the Memorialization segment of \$9.0 million, partially offset by expenses of \$6.9 million related to Schawk acquisition integration activities and expenses related to strategic cost-reduction initiatives of \$1.0 million.

Operating profit for the quarter ended December 31, 2015 was \$12.0 million, compared to \$25.6 million for the quarter ended December 31, 2014. The SGK Brand Solutions segment operating profit for the quarter ended December 31, 2015 was \$2.8 million, compared to \$1.9 million for the same period a year ago. The increase in segment operating profit primarily resulted from lower administrative costs as a result of acquisition integration and a reduction in intangible amortization expense. Fiscal 2016 first quarter operating profit included \$7.3 million of acquisition-related expenses. Operating profit for the SGK Brand Solutions segment in the first quarter of fiscal 2015 included \$6.9 million of acquisition-related expenses and \$816,000 of expenses related to strategic cost-reduction initiatives. Memorialization segment operating profit for the fiscal 2016 first quarter was \$7.7 million, compared to \$21.5 million for the first quarter of fiscal 2015. Fiscal 2016 segment operating profit was favorably impacted by the Aurora acquisition. Memorialization segment fiscal 2016 operating profit also included charges totaling \$7.2 million, primarily representing acquisition-related expenses. In addition, the segment reported an \$870,000 increase in intangible asset amortization as a result of the Aurora acquisition. Fiscal 2015 Memorialization segment operating profit reflected the favorable impact of the settlement of litigation, net of related expenses, of \$9.0 million. Operating profit for the Industrial segment for the fiscal 2016 first quarter was \$1.6 million, compared to \$2.2 million for the same period a year ago, reflecting the favorable impact of higher sales, which was more than offset by increased new product development costs in fiscal 2016.

Investment income was \$701,000 for the quarter ended December 31, 2015, compared to \$271,000 for the quarter ended December 31, 2014. The increase reflected higher rates of return on investments held in trust for certain of the Company's benefit plans. Interest expense for the fiscal 2016 first quarter was \$5.8 million, compared to \$5.3 million for the same period a year ago. The increase in interest expense primarily reflected higher average debt levels resulting from the acquisition of Aurora in August 2015. Other deductions, net, for the quarter ended December 31, 2015 represented a decrease in pre-tax income of \$874,000, compared to a decrease in pre-tax income of \$1.3 million for the same quarter a year ago. Other income and deductions generally include banking-related fees and the impact of currency gains and losses on certain intercompany debt and foreign denominated receivables and payables. Fiscal 2015 other income and deductions included losses related to a theft of funds by an employee that had occurred over a multi-year period, totaling \$869,000 for the three months ended December 31, 2014.

The Company's effective tax rate for the three months ended December 31, 2015 was 25.3%, compared to 25.9% for the first quarter of fiscal 2015 and 29.4% for the fiscal 2015 full year. The decrease in the effective tax rate for the fiscal 2016 first quarter primarily reflected lower tax rates in certain foreign jurisdictions and the benefit of the recent extension of the U.S. research and development tax credit. Fiscal 2015 reflected the benefit of the utilization of certain tax attributes as a result of legal structure reorganization in foreign jurisdictions. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes, offset by lower foreign income taxes.

Net earnings attributable to noncontrolling interests was a loss of \$111,000 in the fiscal 2016 first quarter, compared to a loss of \$115,000 for the same period a year ago. The net earnings attributable to noncontrolling interests primarily reflected losses in less than wholly-owned Memorialization and Industrial businesses.

## LIQUIDITY AND CAPITAL RESOURCES:

Net cash provided by operating activities was \$10.0 million for the first quarter of fiscal 2016, compared to \$8.4 million for the first quarter of fiscal 2015. Operating cash flow for both periods reflected net income adjusted for depreciation, amortization, stock-based compensation expense and non-cash pension expense. Net changes in working capital items, which principally related to fiscal year-end compensation-related payments, resulted in a use of working capital of approximately \$12.5 million in fiscal 2016. Net changes in working capital items, which principally related to fiscal year-end compensation-related payments, resulted in a use of working capital of approximately \$13.0 million in fiscal 2015.

Cash used in investing activities was \$13.3 million for the quarter ended December 31, 2015, compared to cash provided by investing activities of \$1.8 million for the quarter ended December 31, 2014. Investing activities for the first quarter of fiscal 2016 primarily reflected capital expenditures of \$14.2 million. Investing activities for the first quarter of fiscal 2015 primarily reflected capital expenditures of \$9.3 million and net proceeds of \$10.4 million from the sale of a subsidiary.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new production machinery, equipment, software and systems, and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged \$34.1 million for the last three fiscal years. Capital spending for fiscal 2016 is currently expected to be approximately \$45.0 million. The increase in fiscal 2016 expected capital spending reflects the addition of the historical capital requirements of Schawk and Aurora, and additional information technology capital spending related to the Company's systems integration activities. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash used in financing activities for the quarter ended December 31, 2015 was \$2.7 million, primarily reflecting proceeds from long-term debt, net of repayments, of \$11.3 million, proceeds from stock option exercises of \$1.8 million, treasury stock purchases of \$6.7 million, dividends of \$4.9 million to the Company's shareholders, and noncontrolling interest payments of \$4.2 million. Cash used in financing activities for the quarter ended December 31, 2014 was \$15.6 million, primarily reflecting repayment of long-term debt, net of proceeds from borrowings, of \$7.0 million, proceeds from stock option exercises of \$3.7 million, treasury stock purchases of \$8.0 million, and dividends of \$4.3 million to the Company's shareholders.

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is \$900.0 million and borrowings under the facility bear interest at LIBOR plus a factor ranging from .75% to 2.00% (1.75% at December 31, 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 \$30.0 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at December 31, 2015 and September 30, 2015 were \$872.4 million and \$857.4 million, respectively. The weighted-average interest rate on outstanding borrowings at December 31, 2015 and 2014 was 2.31% and 2.51%, respectively.

The Company has entered into the following interest rate swaps (dollars in thousands):

| <b>Effective Date</b> | <b>Amount</b> | <b>Fixed Interest Rate</b> | <b>Interest Rate Spread at December 31, 2015</b> | <b>Maturity Date</b> |
|-----------------------|---------------|----------------------------|--|----------------------|
| June 2012             | \$40,000      | 1.88%                      | 1.75%  | June 2022            |
| August 2012           | 35,000        | 1.74%                      | 1.75%  | June 2022            |
| September 2012        | 25,000        | 1.24%                      | 1.75%  | March 2017           |
| 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           |
| September 2015        | 25,000        | 1.39%                      | 1.75%  | September 2020       |
| November 2015         | 25,000        | 1.32%                      | 1.75%  | November 2020        |
| December 2015         | 25,000        | 1.59%                      | 1.75%  | December 2020        |

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 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, net of unrealized gains, of \$1.1 million (\$666,000 after tax) at December 31, 2015 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at December 31, 2015, a loss (net of tax) of approximately \$240,000 included in accumulated other comprehensive income is expected to be recognized in earnings over the next twelve months.

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 (\$38.2 million). Outstanding borrowings under the credit facility totaled 20.9 million Euros (\$22.8 million) and 23.9 million Euros (\$26.8 million) at December 31, 2015 and September 30, 2015, respectively. The weighted-average interest rate on outstanding borrowings under this facility at December 31, 2015 and 2014 was 1.50% and 1.27%, 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 1.0 million Euros (\$1.1 million) and 734,000 Euros (\$824,000) at December 31, 2015 and September 30, 2015, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at December 31, 2015 and 2014 was 4.00% and 4.24%, respectively.

The Company, through its German subsidiary, Wetzel GmbH ("Wetzel"), has several loans with various European banks. Outstanding borrowings on these loans totaled 1.5 million Euros (\$1.6 million) and 1.9 million Euros (\$2.1 million) at December 31, 2015 and September 30, 2015. The weighted-average interest rate on outstanding borrowings of Wetzel at December 31, 2015 and 2014 was 6.12% and 5.74%, 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 3.5 million Euros (\$3.8 million) and 4.3 million Euros (\$4.8 million) at December 31, 2015 and September 30, 2015, respectively. Matthews International S.p.A. also has three lines of credit totaling 11.3 million Euros (\$12.4 million) with the same Italian banks. Outstanding borrowings on these lines were 5.7 million Euros (\$6.2 million) and 4.6 million Euros (\$5.2 million) at December 31, 2015 and September 30, 2015, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at December 31, 2015 and 2014 was 3.33% and 3.18%, respectively.

In September 2014, a claim seeking to draw upon a letter of credit issued by the Company of \$12.9 million 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 December 31, 2015 and September 30, 2015, the Company has presented the funded letters of credit as restricted cash on the Consolidated Balance Sheet.

The Company has a stock repurchase program. Under the current authorization, the Company's Board of Directors has authorized the repurchase of a total of 5,000,000 shares of Matthews' common stock under the program, of which 3,040,866 shares remain available for repurchase as of December 31, 2015. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions set forth in the Company's Restated Articles of Incorporation.

Consolidated working capital of the Company was \$361.1 million at December 31, 2015, compared to \$356.2 million at September 30, 2015. Cash and cash equivalents were \$65.1 million at December 31, 2015, compared to \$72.2 million at September 30, 2015. The Company's current ratio was 2.6 and 2.4 at December 31, 2015 and September 30, 2015, respectively.

#### **ENVIRONMENTAL MATTERS:**

The Company's operations are subject to various federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations impose limitations on the discharge of materials into the environment and require the Company to obtain and operate in compliance with conditions of permits and other government authorizations. As such, the Company has developed environmental, health, and safety policies and procedures that include the proper handling, storage and disposal of hazardous materials.

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate.

At December 31, 2015, an accrual of approximately \$4.3 million had been recorded for environmental remediation (of which \$1.0 million was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. Changes in the accrued environmental remediation obligation from the prior fiscal year reflect payments charged against the accrual.

While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

**ACQUISITIONS:**

On August 19, 2015, the Company acquired Aurora Products Group, LLC ("Aurora") for \$211.6 million (net of cash acquired), subject to a working capital adjustment. Aurora provides burial, cremation, and technology products to funeral home clients and distributors in the United States and Canada. The acquisition is designed to expand the Company's memorialization product offerings and geographic distribution footprint in the United States. The preliminary purchase price allocation related to the Aurora acquisition is not finalized as of December 31, 2015, and is based upon a preliminary valuation which is subject to change as the Company obtains additional information, including with respect to fixed assets, intangible assets, certain liabilities and related taxes.

## FORWARD-LOOKING INFORMATION:

Matthews has a three-pronged strategy to attain annual growth in earnings per share. This strategy consists of the following: internal growth (which includes organic growth, cost structure and productivity improvements, new product development and the expansion into new markets with existing products), acquisitions and share repurchases under the Company's stock repurchase program (see "Liquidity and Capital Resources").

With respect to the remainder of fiscal 2016, the Company expects to continue to devote a significant level of effort to the integrations of Schawk and Aurora. Due to the size of these acquisitions and the projected synergy benefits from integration, these efforts are anticipated to continue for an extended period of time. The costs associated with these integrations, and acquisition-related step-up expense, will impact the Company's operating results for fiscal 2016. Consistent with its practice, the Company plans to identify these costs on a quarterly basis as incurred.

## CRITICAL ACCOUNTING POLICIES:

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. Therefore, the determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, economic conditions, and in some cases, actuarial techniques. Actual results may differ from those estimates. A discussion of market risks affecting the Company can be found in "Quantitative and Qualitative Disclosures about Market Risk" in this Quarterly Report on Form 10-Q.

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements and in the critical accounting policies in Management's Discussion and Analysis included in the Company's Annual Report on Form 10-K for the year ended September 30, 2015. Management believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the company's operating results and financial condition.

## LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company's contractual obligations at December 31, 2015, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

|                                    | Payments due in fiscal year:  |           |              |              |            |
|------------------------------------|-------------------------------|-----------|--------------|--------------|------------|
|                                    | 2016                          |           |              |              |            |
|                                    | Total                         | Remainder | 2017 to 2018 | 2019 to 2020 | After 2020 |
| Contractual Cash Obligations:      |                               |           |              |              |            |
|                                    | (Dollar amounts in thousands) |           |              |              |            |
| Revolving credit facilities        | \$ 895,235                    | \$ -      | \$ 895,235   | \$ -         | \$ -       |
| Notes payable to banks             | 7,177                         | 4,328     | 2,849        | -            | -          |
| Short-term borrowings              | 6,532                         | 6,532     | -            | -            | -          |
| Capital lease obligations          | 6,316                         | 1,072     | 1,055        | 4,189        | -          |
| Non-cancelable operating leases    | 47,086                        | 15,025    | 22,750       | 7,596        | 1,715      |
| Total contractual cash obligations | \$ 962,346                    | \$ 26,957 | \$ 921,889   | \$ 11,785    | \$ 1,715   |

A significant portion of the loans included in the table above bear interest at variable rates. At December 31, 2015, the weighted-average interest rate was 2.31% on the Company's domestic Revolving Credit Facility, 1.50% on the credit facility through the Company's European subsidiaries, 4.00% on bank loans to its wholly-owned subsidiary, Saueressig, 6.12% on bank loans to its wholly-owned subsidiary, Wetzell and 3.33% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company is not required to make any significant contributions to its principal retirement plan in fiscal 2016. During the three months ended December 31, 2015, contributions of \$181,000 and \$451,000 were made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$568,000 and \$558,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2016.

Unrecognized tax benefits are positions taken, or expected to be taken, on an income tax return that may result in additional payments to tax authorities. If a tax authority agrees with the tax position taken, or expected to be taken, or the applicable statute of limitations expires, then additional payments will not be necessary. As of December 31, 2015, the Company had unrecognized tax benefits, excluding penalties and interest, of approximately \$4.1 million. The timing of potential future payments related to the unrecognized tax benefits is not presently determinable. The Company believes that its current liquidity sources, combined with its operating cash flow and borrowing capacity, will be sufficient to meet its capital needs for the foreseeable future.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:**

In November 2015, the Financial Accounting Standards Board issued new guidance intended to simplify the presentation of deferred income taxes in a classified statement of financial position. The new deferred income tax guidance requires that all deferred income tax balances be classified as non-current assets and liabilities on the classified statement of financial position. The Company has chosen to early-adopt this standard for the quarter ended December 31, 2015, and retrospectively adjust the prior period presentation to conform to the new standard. The adjustment totaled \$19.8 million in current deferred tax assets and \$340,000 in current deferred tax liabilities being reclassified as non-current deferred tax assets and liabilities, respectively, in the September 30, 2015 Consolidated Balance Sheet.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about the Company's market risk involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company has market risk related to changes in interest rates, commodity prices and foreign currency exchange rates. The Company does not generally use derivative financial instruments in connection with these market risks, except as noted below.

**Interest Rates** - The Company's most significant long-term debt instrument is the domestic Revolving Credit Facility which bears interest at variable rates based on LIBOR.

The Company has entered into interest rate swaps as listed under "Liquidity and Capital Resources". 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 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 a net unrealized loss of \$1.1 million (\$666,000 after tax) at December 31, 2015 that is included in equity as part of accumulated other comprehensive income. A decrease of 10% in market interest rates (e.g. a decrease from 5.0% to 4.5%) would result in an increase of approximately \$154,000 in the fair value liability of the interest rate swaps.

**Commodity Price Risks** - In the normal course of business, the Company is exposed to commodity price fluctuations related to the purchases of certain materials and supplies (such as bronze ingot, steel, fuel and wood) used in its manufacturing operations. The Company obtains competitive prices for materials and supplies when available. In addition, based on competitive market conditions and to the extent that the Company has established pricing terms with customers through contracts or similar arrangements, the Company's ability to immediately increase the price of its products to offset the increased costs may be limited.

**Foreign Currency Exchange Rates** - The Company is subject to changes in various foreign currency exchange rates, including the Euro, British Pound, Canadian Dollar, Australian Dollar, Swedish Krona, Chinese Yuan, Hong Kong Dollar, Polish Zloty, Turkish Lira, Indian Rupee and Malaysian Ringgit in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. A strengthening of the U. S. dollar of 10% would have resulted in a decrease in reported sales of \$11.8 million and a decrease in reported operating income of \$939,000 for the three months ended December 31, 2015.

**Actuarial Assumptions** - The most significant actuarial assumptions affecting pension expense and pension obligations include the valuation of retirement plan assets, the discount rate and the estimated return on plan assets. The estimated return on plan assets is currently based upon projections provided by the Company's independent investment advisor, considering the investment policy of the plan and the plan's asset allocation. The fair value of plan assets and discount rate are "point-in-time" measures, and the recent volatility of the debt and equity markets makes estimating future changes in fair value of plan assets and discount rates more challenging.

The following table summarizes the impact on the September 30, 2015 actuarial valuations of changes in the primary assumptions affecting the Company's principal retirement plan and supplemental retirement plan.

|   | <b>Impact of Changes in Actuarial Assumptions</b> |            |                                  |            |   |            |
|---|---|------------|----------------------------------|------------|---|------------|
|   | <b>Change in Discount Rate</b>                    |            | <b>Change in Expected Return</b> |            | <b>Change in Market Value of Assets</b> |            |
|   | <u>+1%</u>  | <u>-1%</u> | <u>+1%</u>                       | <u>-1%</u> | <u>+5%</u>                              | <u>-5%</u> |
|   | (Dollar amounts in thousands)                     |            |                                  |            |   |            |
| Increase (decrease) in net benefit cost             | \$(3,709)   | \$4,596    | \$(1,161)                        | \$1,161    | \$(1,165)                               | \$1,165    |
| Increase (decrease) in projected benefit obligation | (31,200)  | 39,332     | -                                | -          | -                                       | -          |
| Increase (decrease) in funded status                | 31,200  | (39,332)   | -                                | -          | 7,111                                   | (7,111)    |

#### ITEM 4. CONTROLS AND PROCEDURES:

The Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are designed to provide reasonable assurance that information required to be disclosed in our reports filed under that Act (the "Exchange Act"), such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. These disclosure controls and procedures also are designed to provide reasonable assurance that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Management, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures in effect as of December 31, 2015. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2015, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, and that such information is recorded, summarized and properly reported within the appropriate time period, relating to the Company and its consolidated subsidiaries, required to be included in the Exchange Act reports, including this Quarterly Report on Form 10-Q.

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Matthews is subject to various legal proceedings and claims arising in the ordinary course of business. Management does not expect that the results of any of these legal proceedings will have a material adverse effect on Matthews' financial condition, results of operations or cash flows.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Stock Repurchase Plan

The Company has a stock repurchase program. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation. Under the current authorization, the Company's Board of Directors had authorized the repurchase of a total of 5,000,000 shares of Matthews' common stock under the program, of which 3,040,866 shares remain available for repurchase as of December 31, 2015.

The following table shows the monthly fiscal 2016 stock repurchase activity:

| Period        | Total number of shares purchased | Weighted-average price paid per share | Total number of shares purchased as part of a publicly announced plan | Maximum number of shares that may yet be purchased under the plan |
|---------------|----------------------------------|---------------------------------------|---|---|
| October 2015  | 7,574                            | \$ 50.66                              | 7,574   | 3,153,448   |
| November 2015 | 112,582                          | 56.37                                 | 112,582   | 3,040,866   |
| December 2015 | -                                | -                                     | -   | 3,040,866   |
| Total         | <u>120,156</u>                   | <u>\$ 56.01</u>                       | <u>120,156</u>  |   |

### Item 4. Mine Safety Disclosures

Not Applicable.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 31.1        | Certification of Principal Executive Officer for Joseph C. Bartolacci   |
| 31.2        | Certification of Principal Financial Officer for Steven F. Nicola   |
| 32.1        | Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Joseph C. Bartolacci |
| 32.2        | Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Steven F. Nicola     |

**SIGNATURES**

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.

**MATTHEWS INTERNATIONAL CORPORATION**  
(Registrant)

Date: January 29, 2016

/s/ Joseph C. Bartolacci  
Joseph C. Bartolacci, President  
and Chief Executive Officer

Date: January 29, 2016

/s/ Steven F. Nicola  
Steven F. Nicola, Chief Financial Officer  
and Secretary

Exhibit 31.1

CERTIFICATION  
PRINCIPAL EXECUTIVE OFFICER

I, Joseph C. Bartolacci, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Matthews International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2016

/s/Joseph C. Bartolacci

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Joseph C. Bartolacci  
President and  
Chief Executive Officer

Exhibit 31.2

CERTIFICATION  
PRINCIPAL FINANCIAL OFFICER

I, Steven F. Nicola, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Matthews International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2016

/s/Steven F. Nicola

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Steven F. Nicola  
Chief Financial Officer  
and Secretary

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to

Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Matthews International Corporation (the "Company") on Form 10-Q for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph C. Bartolacci, Chief Executive Officer, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Joseph C. Bartolacci

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Joseph C. Bartolacci,  
President and Chief Executive Officer

January 29, 2016

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Matthews International Corporation and will be retained by Matthews International Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to

Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Matthews International Corporation (the "Company") on Form 10-Q for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven F. Nicola, Chief Financial Officer, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Steven F. Nicola

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Steven F. Nicola,  
Chief Financial Officer  
and Secretary

January 29, 2016

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Matthews International Corporation and will be retained by Matthews International Corporation and furnished to the Securities and Exchange Commission or its staff upon request.