MATTHEWS INTERNATIONAL CORP
Form 10-Q
May 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10 Q
Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2018
or
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from _____ to _____

Commission File No. 0 09115

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

PENNSYLVANIA	25 0644320
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
TWO NORTHSHORE CENTER, PITTSBURGH, PA	15212 5851
(Address of principal executive offices)	(Zip Code)

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

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 Web site, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Smaller reporting company
Accelerated filer	Emerging growth company
Non-accelerated filer	(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 March 31, 2018, shares of common stock outstanding were: Class A Common Stock 32,133,806 shares

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollar amounts in thousands)

	March 31, 2018		September 30, 2017	
ASSETS				
Current assets:				
Cash and cash equivalents		$64,831		$57,515
Accounts receivable, net		342,341		319,566
Inventories		182,057		171,445
Other current assets		58,167		46,533
Total current assets		647,396		595,059
Investments		49,772		37,667
Property, plant and equipment: Cost	$613,194		$570,879	
Less accumulated depreciation	(351,541)		(335,346)	
		261,653		235,533
Deferred income taxes		2,362		2,456
Other assets		63,967		51,758
Goodwill		972,961		897,794
Other intangible assets, net		464,878		424,382
Total assets		$2,462,989		$2,244,649
LIABILITIES				
Current liabilities:				
Long-term debt, current maturities		$26,876		$29,528
Trade accounts payable		71,176		66,607
Accrued compensation		55,523		62,210
Accrued income taxes		21,667		21,386
Other current liabilities		135,809		105,401
Total current liabilities		311,051		285,132
Long-term debt		1,019,442		881,602
Accrued pension		106,352		103,273
Postretirement benefits		19,125		19,273
Deferred income taxes		102,276		139,430
Other liabilities		52,661		25,680
Total liabilities		1,610,907		1,454,390
SHAREHOLDERS' EQUITY				
Shareholders' equity-Matthews:				
Common stock	$36,334		$36,334	
Additional paid-in capital	123,835		123,432	
Retained earnings	990,082		948,830	
Accumulated other comprehensive loss	(128,342)		(154,115)	

Treasury stock, at cost	(170,350)	(164,774)
Total shareholders' equity-Matthews	851,559	789,707
Noncontrolling interests	523	552
Total shareholders' equity	852,082	790,259
Total liabilities and shareholders' equity	$2,462,989	$2,244,649

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Sales	$414,061	$380,916	$783,515	$729,914
Cost of sales	(264,095)	(242,494)	(502,850)	(464,225)
Gross profit	149,966	138,422	280,665	265,689
Selling expense	(37,417)	(36,326)	(74,560)	(71,630)
Administrative expense	(74,509)	(69,634)	(143,460)	(137,593)
Intangible amortization	(8,249)	(5,634)	(14,930)	(10,575)
Operating profit	29,791	26,828	47,715	45,891
Investment (loss) income	(74)	780	393	1,117
Interest expense	(9,262)	(6,614)	(17,063)	(12,762)
Other income (deductions), net	(171)	(153)	(830)	(708)
Income before income taxes	20,284	20,841	30,215	33,538
Income tax (provision) benefit	(2,212)	(5,973)	23,015	(8,462)
Net income	18,072	14,868	53,230	25,076
Net loss attributable to noncontrolling interests	110	52	132	166
Net income attributable to Matthews shareholders	$18,182	$14,920	$53,362	$25,242
Earnings per share attributable to Matthews shareholders:				
Basic	$0.57	$0.46	$1.68	$0.78
Diluted	$0.57	$0.46	$1.68	$0.77

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

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

	Three Months Ended March 31,					
	Matthews		Noncontrolling Interest		Total	
	2018	2017	2018	2017	2018	2017
Net income (loss):	$18,182	$14,920	$(110)	$(52)	$18,072	$14,868
Other comprehensive income (loss) ("OCI"), net of tax:						
Foreign currency translation adjustment	11,413	4,108	90	9	11,503	4,117
Pension plans and other postretirement benefits	1,022	1,462	—	—	1,022	1,462
Unrecognized gain (loss) on derivatives:						
Net change from periodic revaluation	3,260	979	—	—	3,260	979
Net amount reclassified to earnings	(133)	(306)	—	—	(133)	(306)
Net change in unrecognized gain (loss) on derivatives	3,127	673	—	—	3,127	673
OCI, net of tax	15,562	6,243	90	9	15,652	6,252
Comprehensive income (loss)	$33,744	$21,163	$(20)	$(43)	$33,724	$21,120

	Six Months Ended March 31,					
	Matthews		Noncontrolling Interest		Total	
	2018	2017	2018	2017	2018	2017
Net income (loss):	$53,362	$25,242	$(132)	$(166)	$53,230	$25,076
OCI, net of tax:						
Foreign currency translation adjustment	19,011	(27,234)	103	68	19,114	(27,166)
Pension plans and other postretirement benefits	2,040	2,998	—	—	2,040	2,998
Unrecognized gain (loss) on derivatives:						
Net change from periodic revaluation	4,893	7,065	—	—	4,893	7,065
Net amount reclassified to earnings	(171)	(799)	—	—	(171)	(799)
Net change in unrecognized gain (loss) on derivatives	4,722	6,266	—	—	4,722	6,266
OCI, net of tax	25,773	(17,970)	103	68	25,876	(17,902)
Comprehensive income (loss)	$79,135	$7,272	$(29)	$(98)	$79,106	$7,174

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

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the six months ended March 31, 2018 and 2017 (Unaudited)
(Dollar amounts in thousands, except per share data)

	Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2017	$36,334	$123,432	$948,830	$ (154,115)	$(164,774)	$ 552	$790,259
Net income (loss)	—	—	53,362	—	—	(132)	53,230
Minimum pension liability	—	—	—	2,040	—	—	2,040
Translation adjustment	—	—	—	19,011	—	103	19,114
Fair value of derivatives	—	—	—	4,722	—	—	4,722
Total comprehensive income							79,106
Stock-based compensation	—	8,132	—	—	—	—	8,132
Purchase of 336,386 shares of treasury stock	—	—	—	—	(18,305)	—	(18,305)
Issuance of 326,827 shares of treasury stock	—	(8,039)	—	—	13,039	—	5,000
Cancellations of 5,214 shares of treasury stock	—	310	—	—	(310)	—	—
Dividends, $0.38 per share	—	—	(12,110)	—	—	—	(12,110)
Balance, March 31, 2018	$36,334	$123,835	$990,082	$ (128,342)	$(170,350)	$ 523	$852,082

	Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2016	$36,334	$117,088	$896,224	$ (181,868)	$(159,113)	$ 669	$709,334
Net income (loss)	—	—	25,242	—	—	(166)	25,076
Minimum pension liability	—	—	—	2,998	—	—	2,998
Translation adjustment	—	—	—	(27,234)	—	68	(27,166)
Fair value of derivatives	—	—	—	6,266	—	—	6,266
Total comprehensive loss							7,174
Stock-based compensation	—	9,017	—	—	—	—	9,017
Purchase of 135,147 shares of treasury stock	—	—	—	—	(9,173)	—	(9,173)
Issuance of 215,058 shares of treasury stock	—	(8,260)	—	—	8,274	—	14
Cancellations of 2,640 shares of treasury stock	—	179	—	—	(179)	—	—
Dividends, $0.34 per share	—	—	(10,809)	—	—	—	(10,809)
Balance, March 31, 2017	$36,334	$118,024	$910,657	$ (199,838)	$(160,191)	$ 571	$705,557

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

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

	Six Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	$53,230	$25,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,986	32,294
Stock-based compensation expense	8,132	9,017
Deferred tax benefit	(38,429)	(2,063)
Gain on sale of assets	(813)	(403)
Unrealized gain on investments	(199)	(1,411)
Changes in working capital items	(7,818)	(5,095)
Increase in other assets	(8,192)	(9,105)
Increase (decrease) in other liabilities	3,361	(2,041)
Increase in pension and postretirement benefits	6,267	7,696
Other operating activities, net	3,745	(9,679)
Net cash provided by operating activities	56,270	44,286
Cash flows from investing activities:		
Capital expenditures	(21,854)	(13,250)
Acquisitions, net of cash acquired	(119,689)	(92,564)
Proceeds from sale of assets	1,731	960
Purchases of investments	(11,746)	—
Net cash used in investing activities	(151,558)	(104,854)
Cash flows from financing activities:		
Proceeds from long-term debt	627,192	239,427
Payments on long-term debt	(495,109)	(168,977)
Proceeds from the exercise of stock options	—	14
Purchases of treasury stock	(18,305)	(9,173)
Dividends	(12,110)	(10,809)
Net cash provided by financing activities	101,668	50,482
Effect of exchange rate changes on cash	936	(2,022)
Net change in cash and cash equivalents	$7,316	$(12,108)
Non-cash investing and financing activities:		
Acquisition of long-term asset under financing arrangement	$14,544	$—

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

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2018
(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 technologies. Brand solutions include brand development, deployment and delivery (consisting of brand management, pre-media services, printing plates and cylinders, 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 technologies 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 facilities in the United States, Europe, Asia, Canada, Australia, and Central and South America.

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") 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 GAAP 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 GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2018. 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, 2017. The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. Investments in certain companies over which the Company exerts significant influence, but does not control the financial and operating decisions, are accounted for as equity method investments. Investments in certain companies over which the Company does not exert significant influence are accounted for as cost method investments. All intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP 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 Pronouncements:

Issued

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220), which provides new guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act. This ASU is effective for the Company beginning in fiscal year 2020, and does allow for early adoption. The Company is in the process of assessing the impact this ASU will have on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), which provides new guidance intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. This ASU is effective for the Company beginning in fiscal year 2020. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), which provides new guidance intended to clarify and reduce complexities in applying stock compensation guidance to a change to the terms or conditions of share-based payment awards. This ASU is effective for the Company beginning in fiscal year 2019. The Company is in the process of assessing the impact this ASU will have on its consolidated financial statements.

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

Note 2. Basis of Presentation (continued)

In February 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which provides new guidance intended to improve the disclosure requirements related to the service cost component of net benefit cost. This ASU is effective for the Company beginning in fiscal year 2019. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business, which provides new guidance intended to make the definition of a business more operable and allow for more consistency in application. This ASU is effective for the Company beginning in interim periods starting in fiscal year 2019. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which provides new guidance intended to clarify the presentation of certain cash flow items including debt prepayments, debt extinguishment costs, contingent considerations payments, and insurance proceeds, among other things. This ASU is effective for the Company beginning in interim periods starting in fiscal year 2019, and early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides new guidance on how an entity should account for leases and recognize associated lease assets and liabilities. This ASU requires lessees to recognize assets and liabilities that arise from financing and operating leases on the Consolidated Balance Sheet. The implementation of this standard will require application of the new guidance at the beginning of the earliest comparative period presented, once adopted. This ASU is effective for the Company beginning in interim periods starting in fiscal year 2020, and does allow for early adoption. The Company is in the process of assessing the impact this ASU will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which provides new guidance intended to improve the recognition, measurement, presentation and disclosure of financial instruments. This ASU is effective for the Company beginning in interim periods starting in fiscal year 2019. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements
to Financial Instruments—Overall (Subtopic 825-10), that provides guidance related to implementation issues and corrects or improves certain aspects of the financial instruments guidance. The adoption of these ASUs are not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. The FASB issued ASU 2015-14 in August 2015 which resulted in a deferral of the original effective date of ASU 2014-09. During 2016 and 2017, the FASB issued six ASUs that address implementation issues and correct or improve certain aspects of the new revenue recognition guidance, including ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Identifying Performance Obligations and Licensing, ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842) and ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606). These ASUs do not change the core principles in the revenue recognition guidance outlined above. ASU No. 2014-09 and the related ASUs referenced above are effective for Matthews beginning October 1, 2018. The Company has completed its initial detailed assessment of all global revenue arrangements and related impact of the new standard compared to historical accounting policies on a representative sample of contracts and it does not expect the adoption of these ASUs will have a material impact on its consolidated financial statements. The Company is continuing to assess the ultimate impact that the adoption of this standard will have on its consolidated financial statements and related disclosure. In addition, the Company is evaluating the changes that will be required in its internal controls as a result of the adoption of this new standard. The Company is planning to adopt the provisions of these ASUs using the modified retrospective method for existing transactions on October 1, 2018.

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

Note 2. Basis of Presentation (continued)

Adopted

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which provides new guidance intended to simplify the subsequent measurement of goodwill and removing Step 2 from the goodwill impairment process. The Company has early adopted this ASU in the first quarter ended December 31, 2017. The adoption of this ASU had no impact on the Company's consolidated financial statements, but modifies the methodology to assess and measure goodwill impairment prospectively.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The Company early adopted this ASU in the fourth quarter of fiscal 2017, which resulted in a reduction to income tax expense of $1,234, and a corresponding favorable impact on diluted earnings per share of $0.04, both of which have been retroactively included in the first quarter results for fiscal 2017.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which provides new guidance to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of this ASU in the first quarter ended December 31, 2017 had no impact on the Company's consolidated financial statements.

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:

	March 31, 2018				September 30, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Derivatives (1)	$ —	$ 9,912	$ —	$ 9,912	$ —	$ 3,990	$ —	$ 3,990
Equity and fixed income mutual funds	—	21,685	—	21,685	—	21,649	—	21,649
Other investments	—	5,976	—	5,976	—	5,810	—	5,810
Total assets at fair value	$ —	$ 37,573	$ —	$ 37,573	$ —	$ 31,449	$ —	$ 31,449
Liabilities:								
Derivatives (1)	$ —	$ —	$ —	$ —	$ —	$ 31	$ —	$ 31

Total liabilities at fair value	$ —	$ —	$ 31	$ 31

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

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

Note 4. Inventories

Inventories consisted of the following:

	March 31, 2018	September 30, 2017
Raw materials	$33,375	$ 29,396
Work in process	70,191	61,917
Finished goods	78,491	80,132
	$182,057	$ 171,445

Note 5. Debt

The Company has a domestic credit facility with a syndicate of financial institutions that includes a $900,000 senior secured revolving credit facility and a $250,000 senior secured amortizing term loan. The term loan requires scheduled principal payments of 5.0% of the outstanding principal in year one, 7.5% in year two, and 10.0% in years three through five, payable in quarterly installments. The balance of the revolving credit facility and the term loan are due on the maturity date of April 26, 2021. Borrowings under both the revolving credit facility and the term loan bear interest at LIBOR plus a factor ranging from 0.75% to 2.00% (1.25% at March 31, 2018) based on the Company's secured leverage ratio. The secured leverage ratio is defined as net secured indebtedness divided by adjusted EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from 0.15% to 0.25% (based on the Company's leverage ratio) of the unused portion of the revolving credit facility.

The domestic credit facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $35,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the revolving credit facility at March 31, 2018 and September 30, 2017 were $386,000 and $525,000, respectively. Outstanding borrowings on the term loan at March 31, 2018 and September 30, 2017 were $222,944 and $232,479, respectively. The weighted-average interest rate on outstanding borrowings for the domestic credit facility (including the effects of interest rate swaps) at March 31, 2018 and March 31, 2017 was 2.68% and 2.70%, respectively.

In December 2017, the Company issued $300,000 aggregate principal amount of 5.25% senior unsecured notes due December 1, 2025 (the "2025 Senior Notes"). The 2025 Senior Notes bear interest at a rate of 5.25% per annum with interest payable semi-annually in arrears on June 1 and December 1 of each year beginning on June 1, 2018. The Company's obligations under the 2025 Senior Notes are guaranteed by certain of the Company's direct and indirect wholly-owned domestic subsidiaries. The Company is subject to certain covenants and other restrictions in connection with the 2025 Senior Notes. The proceeds from the 2025 Senior Notes were used primarily to reduce indebtedness under the Company's domestic credit facility. The Company incurred direct financing fees and costs in connection with 2025 Senior Notes of $4,127, which are being deferred and amortized over the term of the 2025 Senior Notes.

The Company has a $115,000 accounts receivable securitization facility (the "Securitization Facility") with certain financial institutions. The Securitization Facility, which had an original maturity date of April 4, 2019, was amended subsequent to the end of the Company's fiscal second quarter, to extend the maturity date until April 11, 2020. Under the Securitization Facility, the Company and certain of its domestic subsidiaries sell, on a continuous basis without recourse, their trade receivables to Matthews Receivables Funding Corporation, LLC (“Matthews RFC”), a wholly-owned bankruptcy-remote subsidiary of the Company. Matthews RFC in turn assigns a collateral interest in these receivables to certain financial institutions, and then may borrow funds under the Securitization Facility. The Securitization Facility does not qualify for sale treatment. Accordingly, the trade receivables and related debt obligations remain on the Company's Consolidated Balance Sheet. Borrowings under the Securitization Facility bear interest at LIBOR plus 0.75%. The Company is required to pay an annual commitment fee ranging from 0.25% to 0.35% of the unused portion of the Securitization Facility. Outstanding borrowings under the Securitization Facility at March 31, 2018 and September 30, 2017 were $99,600 and $95,825, respectively. At March 31, 2018, the interest rate on borrowings under this facility was 2.63%.

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

Note 5. Debt (continued)

The following table presents information related to interest rate contracts entered into by the Company and designated as cash flow hedges:

	March 31, 2018		September 30, 2017	
Pay fixed swaps - notional amount	$404,688		$414,063	
Net unrealized gain	$9,912		$3,959	
Weighted-average maturity period (years)	2.8		3.3	
Weighted-average received rate	1.88	%	1.23	%
Weighted-average pay rate	1.35	%	1.34	%

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 future variable interest payments, 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 gain of $9,912 ($6,414 after tax) at March 31, 2018 and an unrealized gain, net of unrealized losses, of $3,959 ($2,415 after tax) at September 30, 2017. The net unrealized gain is included in shareholders' equity as part of accumulated other comprehensive income ("AOCI"). Assuming market rates remain constant with the rates at March 31, 2018, a gain (net of tax) of approximately $1,072 included in AOCI is expected to be recognized in earnings over the next twelve months.

At March 31, 2018 and September 30, 2017, the interest rate swap contracts were reflected in the Consolidated Balance Sheets as follows:

Derivatives	March 31, 2018	September 30, 2017	
Current assets:			
Other current assets	$ 3,039	$ 1,098	
Long-term assets:			
Other assets	6,873	2,892	
Current liabilities:			
Other current liabilities	—	(7	)
Long-term liabilities:			
Other liabilities	—	(24	)
Total derivatives	$ 9,912	$ 3,959	

The gains recognized on derivatives were as follows:

Derivatives in Cash Flow Hedging Relationships	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivatives	Amount of Gain Recognized in Income on Derivatives
		Three Months	Six Months Ended

		Ended March 31,		March 31,	
		2018	2017	2018	2017
Interest rate swaps	Interest expense	$202	$503	$265	$1,310

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

Note 5. Debt (continued)

The Company recognized the following gains in AOCI:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in AOCI on Derivatives		Location of Gain Reclassified From AOCI into Income (Effective Portion*)	Amount of Gain Reclassified from AOCI into Income (Effective Portion*)	
	March 31, 2018	March 31, 2017		March 31, 2018	March 31, 2017
Interest rate swaps	$4,893	$ 7,065	Interest expense	$171	$ 799

*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, which is guaranteed by Matthews International Corporation. The maximum amount of borrowing available under this facility is €35.0 million ($43,143). The credit facility matures in December 2018 and the Company intends to extend this facility. Outstanding borrowings under the credit facility totaled €12.4 million ($15,236) and €22.1 million ($26,126) at March 31, 2018 and September 30, 2017, respectively. The weighted-average interest rate on outstanding borrowings under this facility at March 31, 2018 and 2017 was 1.75%.

The Company’s German subsidiary, Matthews Europe GmbH & Co. KG, has €15.0 million ($18,490) of senior unsecured notes with European banks. The notes are guaranteed by Matthews International Corporation and mature in November 2019. A portion of the notes (€5.0 million) have a fixed interest rate of 1.40%, and the remainder bear interest at Euro LIBOR plus 1.40%. The weighted-average interest rate on the notes at March 31, 2018 and 2017 was 1.40%.

The Company, through its Italian subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled €1.2 million ($1,418) and €2.6 million ($3,079) at March 31, 2018 and September 30, 2017, respectively. The maturity dates for these loans range from April 2018 through November 2019. Matthews International S.p.A. also has multiple on-demand lines of credit totaling €11.3 million ($13,966) with the same Italian banks. Outstanding borrowings on these lines were €268,000 ($330) and €4.0 million ($4,735) at March 31, 2018 and September 30, 2017, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at March 31, 2018 and 2017 was 2.23% and 2.31%, respectively.

Other debt totaled $918 and $1,032 at March 31, 2018 and September 30, 2017, respectively. The weighted-average interest rate on these outstanding borrowings was 2.82% and 2.39% at March 31, 2018 and 2017, respectively.

In September 2014, a claim was filed seeking to draw upon a letter of credit issued by the Company of £8,570,000 ($12,013 at March 31, 2018) with respect to a performance guarantee on a project in Saudi Arabia. Management assessed the customer's demand to be without merit and initiated an action with the court in the United Kingdom (the "Court"). Pursuant to this action, an order was issued by the Court in January 2015 requiring that, upon receipt by the customer, the funds were to be remitted by the customer to the Court pending resolution of the dispute between the parties. As a result, the Company made payment on the draw to the financial institution for the letter of credit and the funds were ultimately received by the customer. The customer did not remit the funds to the Court as ordered. On June 14, 2016, the Court ruled completely in favor of Matthews following a trial on the merits. However, as the customer has neither yet remitted the funds nor complied with the final, un-appealed orders of the Court, it is possible the resolution of this matter could have an unfavorable financial impact on Matthews' results of operations. The Company has determined that resolution of this matter may take an extended period of time and therefore has classified the funded letter of credit within other assets on the Consolidated Balance Sheets as of March 31, 2018 and September 30, 2017. The Company will continue to assess collectability related to this matter as facts and circumstances evolve.

As of March 31, 2018 and September 30, 2017, the fair value of the Company's long-term debt, including current maturities, approximated the carrying value included in the Consolidated Balance Sheets. The Company was in compliance with all of its debt covenants as of March 31, 2018.

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

Note 6. Share-Based Payments

The Company maintains an equity incentive plan (the "2017 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 "2012 Equity Incentive Plan") that previously provided for grants of stock options, restricted shares, stock-based performance units and certain other types of stock-based awards. Under the 2017 Equity Incentive Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 1,700,000. There will be no further grants under the 2012 Equity Incentive Plan. At March 31, 2018, there were 1,700,000 shares reserved for future issuance under the 2017 Equity Incentive Plan. All Plans are administered by the Compensation Committee of the Board of Directors.

With respect to outstanding restricted share grants, generally one-half of the shares vest on the third anniversary of the grant, one-quarter of the shares vest in one-third increments upon the attainment of pre-defined levels of adjusted earnings per share, and the remaining one-quarter of the shares vest in one-third increments upon attainment of pre-defined levels of appreciation in the market value of the Company's Class A Common Stock. Additionally, restricted shares cannot vest until the first anniversary of the grant date. Unvested restricted shares generally expire on the earlier of three or 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 March 31, 2018 and 2017, stock-based compensation cost totaled $2,658 and $2,920, respectively. For the six-month periods ended March 31, 2018 and 2017, stock-based compensation cost totaled $8,132 and $9,017, respectively. The six-month periods ended March 31, 2018 and 2017 included $2,850 and $3,337 of stock-based compensation cost, respectively, that was recognized at the time of grant for retirement-eligible employees. The associated future income tax benefit recognized for stock-based compensation was $651 and $1,139 for the three-month periods ended March 31, 2018 and 2017, respectively, and $1,521 and $3,517 for the six-month periods ended March 31, 2018 and 2017, respectively.

There were no stock options exercised during the three month period ended March 31, 2017. For the six-month period ended March 31, 2017, the amount of cash received from the exercise of stock options was $14. In connection with these exercises, the tax benefits realized by the Company was $3 for the six-month period ended March 31, 2017. 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 six-month period ended March 31, 2017 and was $9.

The transactions for restricted stock for the six months ended March 31, 2018 were as follows:

	Shares	Weighted-average Grant-date Fair Value
Non-vested at September 30, 2017	501,184	$ 53.65
Granted	234,100	57.05
Vested	(173,280)	51.36
Expired or forfeited	(5,214)	59.51
Non-vested at March 31, 2018	556,790	$ 55.74

As of March 31, 2018, the total unrecognized compensation cost related to unvested restricted stock was $10,906 and is expected to be recognized over a weighted average period of 1.6 years.

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 the fair value of restricted stock granted during the six-month periods ended March 31, 2018 and 2017.

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

Note 6. Share-Based Payments (continued)

	Six Months Ended March 31,	
	2018	2017
Expected volatility	20.5%	20.2%
Dividend yield	1.0 %	1.1 %
Average risk-free interest rate	2.0 %	1.7 %
Average expected term (years)	2.1	2.1

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, 2018, 2017 and 2016 represents an estimate of the average period of time for restricted shares to vest. The option characteristics for each grant are considered separately for valuation purposes.

The Company maintains the 1994 Director Fee Plan and the Amended and Restated 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 Amended and Restated 2014 Director Fee Plan, non-employee directors (except for the Chairman of the Board) each receive, as an annual retainer fee for fiscal 2018, either cash or shares of the Company's Class A Common Stock with a value equal to $85. The annual retainer fee for fiscal 2018 paid to a non-employee Chairman of the Board is $185. 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 22,652 shares had been deferred under the Director Fee Plans as of March 31, 2018. 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 $125 for fiscal 2018. A total of 22,300 stock options have been granted under the Director Fee Plans. At March 31, 2018, there were no options outstanding. Additionally, 173,229 shares of restricted stock have been granted under the Director Fee Plans, 70,079 of which were issued under the Amended and Restated 2014 Director Fee Plan. 20,940 share of restricted stock are unvested at March 31, 2018. A total of 150,000 shares have been authorized to be issued under the Amended and Restated 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:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income attributable to Matthews shareholders	$18,182	$14,920	$53,362	$25,242
Weighted-average shares outstanding (in thousands):				
Basic shares	31,727	32,283	31,722	32,247
Effect of dilutive securities	126	286	124	333

Diluted shares	31,853	32,569	31,846	32,580

Anti-dilutive securities excluded from the dilution calculation were insignificant for the three and six months ended March 31, 2018 and 2017.

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:

	Three months ended March 31,			
	Pension		Other Postretirement	
	2018	2017	2018	2017
Service cost	$2,039	$2,138	$ 84	$ 98
Interest cost	2,049	1,841	158	157
Expected return on plan assets	(2,534)	(2,312)	—	—
Amortization:				