

SCHULMAN A INC
Form 10-Q
April 05, 2016

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 29, 2016

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. 0-7459

A. SCHULMAN, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware 34-0514850
(State or Other Jurisdiction (I.R.S. Employer
of Incorporation or Organization) Identification No.)

3637 Ridgewood Road, Fairlawn, Ohio 44333
(Address of Principal Executive Offices) (ZIP Code)

Registrant's telephone number, including area code: (330) 666-3751

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 (§232.405 of this chapter) 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 definition 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 (Do not check if a smaller reporting company) 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

Number of shares of common stock, \$1.00 par value, outstanding as of April 1, 2016– 29,429,382

TABLE OF CONTENTS

	PAGE
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1</u> <u>Financial Statements</u>	<u>1</u>
<u>Item 2</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3</u> <u>Quantitative and Qualitative Disclosure about Market Risk</u>	<u>33</u>
<u>Item 4</u> <u>Controls and Procedures</u>	<u>33</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1A</u> <u>Risk Factors</u>	<u>35</u>
<u>Item 2</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
<u>Item 6</u> <u>Exhibits</u>	<u>36</u>
<u>SIGNATURES</u>	
Exhibit 10.1	
Exhibit 10.2	
Exhibit 10.3	
Exhibit 10.4	
Exhibit 10.5	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	
EX-101 LABEL LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

PART I—FINANCIAL INFORMATION

Item 1—Financial Statements

A. SCHULMAN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands, except per share data)			
Net sales	\$591,761	\$542,295	\$1,240,980	\$1,157,348
Cost of sales	501,937	464,221	1,046,227	992,430
Selling, general and administrative expenses	71,604	70,093	148,841	130,640
Restructuring expense	2,214	2,662	3,760	7,881
Operating income	16,006	5,319	42,152	26,397
Interest expense	13,790	2,311	27,408	4,670
Foreign currency transaction (gains) losses	950	1,141	1,679	2,240
Other (income) expense, net	(88	) (311	) (17	) (565
Gain on early extinguishment of debt	—	(1,290	) —	(1,290
Income (loss) from continuing operations before taxes	1,354	3,468	13,082	21,342
Provision (benefit) for U.S. and foreign income taxes	(487	) 3,971	3,764	8,457
Income (loss) from continuing operations	1,841	(503	) 9,318	12,885
Income (loss) from discontinued operations, net of tax	181	(58	) 201	(68
Net income (loss)	2,022	(561	) 9,519	12,817
Noncontrolling interests	(430	) (327	) (834	) (547
Net income (loss) attributable to A. Schulman, Inc.	1,592	(888	) 8,685	12,270
Convertible special stock dividends	1,875	—	3,750	—
Net income (loss) available to A. Schulman, Inc. common stockholders	\$(283	) \$(888	) \$4,935	\$12,270
Weighted-average number of shares outstanding:				
Basic	29,292	29,138	29,257	29,078
Diluted	29,292	29,138	29,455	29,538
Basic earnings per share available to A. Schulman, Inc. common stockholders				
Income (loss) from continuing operations	\$(0.02	) \$(0.03	) \$0.16	\$0.42
Income (loss) from discontinued operations	0.01	—	0.01	—
Net income (loss) available to A. Schulman, Inc. common stockholders	\$(0.01	) \$(0.03	) \$0.17	\$0.42
Diluted earnings per share available to A. Schulman, Inc. common stockholders				
Income (loss) from continuing operations	\$(0.02	) \$(0.03	) \$0.16	\$0.42
Income (loss) from discontinued operations	0.01	—	0.01	—
Net income (loss) available to A. Schulman, Inc. common stockholders	\$(0.01	) \$(0.03	) \$0.17	\$0.42
Cash dividends per common share	\$0.205	\$0.205	\$0.410	\$0.410
Cash dividends per share of convertible special stock	\$15.00	\$—	\$30.00	\$—

The accompanying notes are an integral part of the consolidated financial statements

A. SCHULMAN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
Net income (loss)	\$2,022	\$(561)	) \$9,519	\$12,817
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	(9,243	) (32,491	) (20,019	) (58,106
Defined benefit retirement plans, net of tax	150	599	1,165	935
Other comprehensive income (loss)	(9,093	) (31,892	) (18,854	) (57,171
Comprehensive income (loss)	(7,071	) (32,453	) (9,335	) (44,354
Less: comprehensive income (loss) attributable to noncontrolling interests	(224	) 290	111	486
Comprehensive income (loss) attributable to A. Schulman, Inc.	\$(6,847	) \$(32,743	) \$(9,446	) \$(44,840

The accompanying notes are an integral part of the consolidated financial statements

- 2 -

A. SCHULMAN, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	February 29, 2016 (In thousands)	August 31, 2015	
ASSETS			
Current assets:			
Cash and cash equivalents	\$46,878	\$96,872	
Accounts receivable, less allowance for doubtful accounts of \$11,052 at February 29, 2016 and \$10,777 at August 31, 2015	390,372	413,943	
Inventories	299,726	317,328	
Prepaid expenses and other current assets	61,134	60,205	
Total current assets	798,110	888,348	
Property, plant and equipment, at cost:			
Land and improvements	32,754	31,674	
Buildings and leasehold improvements	171,463	164,759	
Machinery and equipment	427,870	427,183	
Furniture and fixtures	34,694	34,393	
Construction in progress	24,718	23,866	
Gross property, plant and equipment	691,499	681,875	
Accumulated depreciation	379,157	367,381	
Net property, plant and equipment	312,342	314,494	
Deferred charges and other noncurrent assets	87,955	90,749	
Goodwill	622,801	623,583	
Intangible assets, net	413,862	434,537	
Total assets	\$2,235,070	\$2,351,711	
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$271,198	\$305,385	
U.S. and foreign income taxes payable	910	4,205	
Accrued payroll, taxes and related benefits	42,770	56,192	
Other accrued liabilities	76,019	70,824	
Short-term debt	25,170	20,710	
Total current liabilities	416,067	457,316	
Long-term debt	999,013	1,045,349	
Pension plans	114,638	117,889	
Deferred income taxes	113,636	115,537	
Other long-term liabilities	22,632	22,885	
Total liabilities	1,665,986	1,758,976	
Commitments and contingencies			
Stockholders' equity:			
Convertible special stock, no par value	120,289	120,289	
Common stock, \$1 par value, authorized - 75,000 shares, issued - 48,503 shares at February 29, 2016 and 48,369 shares at August 31, 2015	48,503	48,369	
Additional paid-in capital	275,588	274,319	
Accumulated other comprehensive income (loss)	(101,591)	(83,460))
Retained earnings	600,582	607,690	
Treasury stock, at cost, 19,073 shares at February 29, 2016 and 19,077 shares at August 31, 2015	(383,047)	(383,121))

Edgar Filing: SCHULMAN A INC - Form 10-Q

Total A. Schulman, Inc.'s stockholders' equity	560,324	584,086
Noncontrolling interests	8,760	8,649
Total equity	569,084	592,735
Total liabilities and equity	\$2,235,070	\$2,351,711

The accompanying notes are an integral part of the consolidated financial statements

- 3 -

A. SCHULMAN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended	
	February 29, 2016	February 28, 2015
	(In thousands)	
Operating from continuing and discontinued operations:		
Net income	\$9,519	\$12,817
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation	25,053	17,990
Amortization	20,032	8,271
Deferred tax provision (benefit)	(2,360)	(96)
Pension, postretirement benefits and other compensation	2,621	6,173
Restricted stock compensation - CEO transition costs, net of cash	—	4,789
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	10,822	(4,197)
Inventories	4,772	3,838
Accounts payable	(30,846)	(38,126)
Income taxes	(1,491)	(1,210)
Accrued payroll and other accrued liabilities	(5,773)	(3,159)
Other assets and long-term liabilities	(1,712)	(6,003)
Net cash provided from (used in) operating activities	30,637	1,087
Investing from continuing and discontinued operations:		
Expenditures for property, plant and equipment	(20,365)	(21,238)
Investment in equity investees	—	(12,456)
Proceeds from the sale of assets	843	1,366
Business acquisitions, net of cash	—	(6,698)
Net cash provided from (used in) investing activities	(19,522)	(39,026)
Financing from continuing and discontinued operations:		
Cash dividends paid to special stockholders	(3,750)	—
Cash dividends paid to common stockholders	(12,043)	(12,006)
Increase (decrease) in short-term debt	4,275	(3,415)
Borrowings on long-term debt	45,655	122,330
Repayments on long-term debt including current portion	(91,350)	(91,381)
Noncontrolling interests' contributions (distributions)	—	(1,750)
Issuances of stock, common and treasury	148	132
Redemptions of common stock	(900)	(4,999)
Purchases of treasury stock	—	(3,335)
Net cash provided from (used in) financing activities	(57,965)	5,576
Effect of exchange rate changes on cash	(3,144)	(11,258)
Net increase (decrease) in cash and cash equivalents	(49,994)	(43,621)
Cash and cash equivalents at beginning of period	96,872	135,493
Cash and cash equivalents at end of period	\$46,878	\$91,872

The accompanying notes are an integral part of the consolidated financial statements

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) GENERAL

The unaudited interim consolidated financial statements included for A. Schulman, Inc. (the "Company") reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of the interim periods presented. All such adjustments are of a normal recurring nature. The fiscal 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. The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto incorporated in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

The results of operations for the three and six months ended February 29, 2016 are not necessarily indicative of the results expected for the fiscal year ending August 31, 2016.

The accounting policies for the periods presented are the same as described in Note 1 – Business and Summary of Significant Accounting Policies to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

Certain items previously reported in specific financial statement captions have been reclassified to conform to the fiscal 2016 presentation.

(2) BUSINESS ACQUISITIONS

Citadel

On June 1, 2015, the Company acquired all of the issued and outstanding shares of privately held Citadel, a portfolio company of certain private equity firms, for \$801.6 million. Citadel is a plastics materials science business that produces engineered composites and engineered plastics for specialty product applications spanning multiple industries including transportation, industrial & construction, consumer, electrical, energy and healthcare & safety. The acquisition expands the Company's presence, especially in the North America engineered plastics markets as well as balances the global geographic footprint and gives A. Schulman a second growth platform with its added-value specialty engineered composites business. The business enhances the Company's existing portfolio and presents expansion opportunities in other sectors such as aerospace, medical, LED lighting and oil & gas. Through this acquisition the Company's portfolio becomes more specialized, which enables the Company to better serve its global customer base with comprehensive solutions to address their needs such as light-weighting, material replacement, and high temperature strength.

The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of assets acquired and liabilities assumed which were determined with the assistance of independent valuations using discounted cash flow and comparative market multiple approaches, quoted market prices and estimates made by management. The purchase price allocation is subject to further adjustment until all pertinent information regarding the acquired inventory, intangible assets, accrued liabilities and deferred taxes are fully evaluated by the Company.

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the preliminary estimated fair value of the assets acquired and liabilities assumed from the Citadel acquisition at the date of acquisition:

	As of June 1, 2015 (In thousands)
Accounts receivable	\$71,767
Inventories	40,812
Prepaid expenses and other current assets	15,302
Property, plant and equipment	78,112
Intangible assets	325,000
Other long-term assets	3,606
Total assets acquired	\$534,599
Accounts payable	28,854
Accrued liabilities	20,069
Deferred income taxes, long-term	116,102
Other long-term liabilities	3,121
Total liabilities assumed	\$168,146
Identifiable net assets acquired	\$366,453
Goodwill	435,107
Net assets acquired	\$801,560

The Company recorded acquired intangible assets of \$325.0 million, with an estimated weighted-average useful life of 14.1 years. These intangible assets include customer related intangibles of \$230.5 million, developed technology of \$75.3 million, and trademarks and trade names of \$19.2 million, with estimated weighted-average useful lives of 14.0 years, 16.3 years and 8.1 years, respectively. In addition, the estimated fair value of accounts receivable acquired was \$71.8 million with the gross contractual amount being \$72.1 million.

Goodwill is calculated as the excess of the purchase price over the estimated fair values of the assets acquired and the liabilities assumed in the acquisition, and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The amount allocated to goodwill associated with the Citadel acquisition is primarily the result of anticipated synergies resulting from the consolidation and centralization of manufacturing and global purchasing activities, insurance savings, elimination of duplicate corporate administrative costs and the previously discussed market expansion. The Company allocated the goodwill to its USCAN engineered plastics and global engineered composites reporting units. Except for certain pre-acquisition tax-deductible goodwill, none of the goodwill associated with this transaction is deductible for income tax purposes.

A. Schulman's fiscal year ends on August 31 while Citadel's fiscal year ended on December 31. The pro forma information in the table below for the three and six months ended February 28, 2015 includes (1) A. Schulman's three and six months ended February 28, 2015 and (2) Citadel's three and six months ended March 30, 2015. The following pro forma information represents the consolidated results of the Company as if the Citadel acquisition occurred on September 1, 2013:

	Three months ended February 28, 2015	Six months ended February 28, 2015
	(In thousands, except per share data)	
Net sales	\$666,980	\$1,406,718
	\$(6,978	) \$928

Net income (loss) available to A. Schulman, Inc. common
stockholders

Net income (loss) per share of common stock available to A.
Schulman, Inc. - diluted \$(0.24) \$0.03

- 6 -

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The unaudited pro forma information has been adjusted with respect to certain aspects of the acquisition to reflect the following:

- Citadel acquired The Composites Group (“TCG”) in November of 2014. For purposes of the pro forma information disclosed above, the TCG acquisition was included as if the acquisition date was on September 1, 2013. Additional depreciation and amortization expenses that would have been recognized assuming fair value adjustments to the existing Citadel assets acquired and liabilities assumed, including intangible assets, fixed assets and expense associated with the fair value step-up of inventory acquired.
- Increased interest expense due to additional borrowings to fund the acquisition.
- Adjustment of valuation allowances associated with US deferred tax assets.
- Acquisition-related costs of \$14.1 million, which were incurred during fiscal 2015, are reflected as if incurred during the three months ended November 30, 2013.
- Costs associated with acquisition bridge financing of \$18.8 million, which were incurred during fiscal 2015, are reflected as if incurred during the three months ended November 30, 2013.

The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of the acquired business. Accordingly, such pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisition been completed on September 1, 2013, nor are they indicative of the future operating results of the Company.

The following table summarizes the Company's other business acquisitions for the periods presented:

Transaction Description	Date of Transaction	Purchase	
		Consideration	Segment
		(In millions)	
Compco Pty. Ltd.	September 2, 2014	\$6.7	APAC

The Company incurred approximately \$4.2 million and \$6.1 million of acquisition and integration related costs, the majority of which are included in selling, general and administrative expenses, during the three and six months ended February 29, 2016, respectively, and \$3.3 million and \$4.4 million during the three and six months ended February 28, 2015, respectively.

(3) GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the Company's carrying value of goodwill are as follows:

	EMEA	USCAN	LATAM	APAC	EC	Total
	(In thousands)					
Balance as of August 31, 2015	\$75,714	\$285,791	\$11,695	\$901	\$249,482	\$623,583
Acquisitions ⁽¹⁾	—	512	—	—	3,204	3,716
Translation	(4,313)	—	(183)	(2)	—	(4,498)
Balance as of February 29, 2016	\$71,401	\$286,303	\$11,512	\$899	\$252,686	\$622,801

⁽¹⁾ Activity relates to adjustments to preliminary purchase price allocation made in fiscal 2016, primarily due to inventory valuation adjustments.

The following table summarizes intangible assets with finite useful lives by major category:

February 29, 2016	August 31, 2015
-------------------	-----------------

Edgar Filing: SCHULMAN A INC - Form 10-Q

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Customer related	\$358,663	\$(53,364)	\$305,299	\$360,193	\$(40,447)	\$319,746
Developed technology	95,093	(13,186)	81,907	93,518	(9,398)	84,120
Registered trademarks and tradenames	34,515	(7,859)	26,656	37,964	(7,293)	30,671
Total finite-lived intangible assets	\$488,271	\$(74,409)	\$413,862	\$491,675	\$(57,138)	\$434,537

Amortization expense of intangible assets was \$9.3 million and \$18.6 million for the three and six months ended February 29, 2016, respectively, and \$3.3 million and \$6.7 million for the three and six months ended February 28, 2015, respectively.

- 7 -

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) LONG-TERM DEBT AND CREDIT ARRANGEMENTS

The following table summarizes short-term and long-term debt:

	February 29, 2016	August 31, 2015
	(In thousands)	
Notes payable and other, due within one year	\$10,091	\$5,584
Current portion of long-term debt	15,079	15,126
Short-term debt	\$25,170	\$20,710
Revolving credit facility, LIBOR plus applicable spread, due June 2020	\$15,755	\$—
Term Loan A, LIBOR plus applicable spread, due June 2020	182,500	187,500
U.S. Term Loan B, LIBOR plus applicable spread, due June 2022	343,094	344,781
Euro Term Loan B, LIBOR plus applicable spread, due June 2022	78,727	137,818
Senior notes, 6.875%, due June 2023	375,000	375,000
Capital leases and other long-term debt	3,937	250
Long-term debt	\$999,013	\$1,045,349

For a detailed discussion of the Company's long-term debt and credit arrangements, refer to Note 5 in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

The Company is in compliance with its debt covenants as of February 29, 2016.

The Company made prepayments of €50.0 million on its Euro Term Loan B debt during the six months ended February 29, 2016, in addition to normal required payments of \$7.5 million on all term debt.

(5) FAIR VALUE MEASUREMENT

The following table presents information about the Company's assets and liabilities measured at fair value:

	February 29, 2016				August 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(In thousands)							
Assets recorded at fair value:								
Foreign exchange forward contracts	\$802	\$—	\$802	\$—	\$1,818	\$—	\$1,818	\$—
Liabilities recorded at fair value:								
Foreign exchange forward contracts	\$1,349	\$—	\$1,349	\$—	\$1,576	\$—	\$1,576	\$—
Liabilities not recorded at fair value:								
Long-term fixed-rate debt	\$355,781	\$—	\$355,781	\$—	\$374,299	\$—	\$374,299	\$—

Cash and cash equivalents are recorded at cost, which approximates fair value. Additionally, the carrying value of the Company's variable-rate debt approximates fair value.

The Company measures the fair value of its foreign exchange forward contracts using an internal model. The model maximizes the use of Level 2 market observable inputs including interest rate curves, currency forward and spot prices, and credit spreads. The total contract value of foreign exchange forward contracts outstanding was \$110.0 million and \$161.5 million as of February 29, 2016 and August 31, 2015, respectively. The amount of foreign exchange forward contracts outstanding as of the end of the period is indicative of the exposure of current balances and the forecasted change in exposures for the following quarter. Any gains or losses associated with these contracts as well as the offsetting gains or losses from the underlying assets or liabilities are included in the foreign currency

transaction (gains) losses line in the Company's consolidated statements of operations. The fair value of the Company's foreign exchange forward contracts is recognized in other current assets or other accrued liabilities in the consolidated balance sheets based on the net settlement value. The foreign exchange forward contracts are entered into with creditworthy financial institutions, generally have a term of three months or less, and the Company does

- 8 -

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

not hold or issue foreign exchange forward contracts for trading purposes. There were no foreign exchange forward contracts designated as hedging instruments as of February 29, 2016 and August 31, 2015.

Long-term fixed-rate debt as of February 29, 2016 and August 31, 2015 represents the Senior Notes, due 2023, recorded at cost and presented at fair value for disclosure purposes. The Level 2 fair value of the Company's fixed-rate debt was estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities.

As of February 29, 2016 and August 31, 2015, the carrying value of the Company's long-term fixed-rate debt recorded on the consolidated balance sheets was \$375.0 million.

For a discussion of the Company's fair value measurement policies under the fair value hierarchy, refer to Note 1 in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015. The Company has not changed its valuation techniques for measuring the fair value of any financial assets or liabilities during fiscal 2016, and transfers between levels within the fair value hierarchy, if any, are recognized at the end of each quarter. There were no transfers between levels during the period presented.

Additionally, the Company remeasures certain assets to fair value, using Level 3 measurements, as a result of the occurrence of triggering events. There were no significant assets or liabilities that were remeasured at fair value on a non-recurring basis during the period presented.

(6) INCOME TAXES

The effective tax rate for the three and six months ended February 29, 2016 was (36.0)% and 28.8%, respectively, and 114.4% and 39.6% for the three and six months ended February 28, 2015, respectively. The decrease in the effective tax rate for the three and six months ended February 29, 2016 as compared with the same periods last year was driven primarily by prior year losses with no tax benefit due to valuation allowances and current year tax benefits related to the extension of certain expired tax provisions by the Protecting Americans from Tax Hikes ("PATH") Act of 2015. The tax benefit for the three months ended February 29, 2016 related primarily to the extension of the "look-thru" provision of the U.S. tax law.

We record quarterly taxes based on overall estimated annual effective tax rates. The difference between our effective tax rate and the U.S. statutory federal income tax rate in the current year is primarily attributable to our overall foreign rate being less than the U.S. statutory federal income tax rate and the extension of certain expired tax provisions by the PATH Act of 2015, partially offset by current year foreign losses with no benefit.

As of February 29, 2016, the Company's gross unrecognized tax benefits totaled \$2.4 million. If recognized, \$1.5 million of the total unrecognized tax benefits would favorably affect the Company's effective tax rate. The Company reports interest and penalties related to income tax matters in income tax expense. As of February 29, 2016, the Company had \$1.1 million of accrued interest and penalties on unrecognized tax benefits.

The Company's statute of limitations is open in various jurisdictions as follows: Germany - from 2005 onward, France - from 2010 onward, U.S. - from 2012 onward, Belgium - from 2012 onward, other foreign jurisdictions - from 2006 onward.

The amount of unrecognized tax benefits is expected to change in the next 12 months; however, the change is not expected to have a significant impact on the financial position of the Company.

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(7) PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The components of the Company's net periodic benefit cost for defined benefit pension and other postretirement benefit plans are shown below:

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
Defined benefit pension plans:				
Service cost	\$1,275	\$1,169	\$2,569	\$2,423
Interest cost	1,041	1,095	2,104	2,263
Expected return on plan assets	(485	) (448	) (989	) (919
Amortization of actuarial loss (gain) and prior service cost (credit), net	712	735	1,436	1,521
Net periodic pension benefit cost	\$2,543	\$2,551	\$5,120	\$5,288
Other postretirement benefit plan:				
Service cost	\$1	\$1	\$2	\$2
Interest cost	97	110	194	220
Amortization of actuarial loss (gain) and prior service cost (credit), net	(149	) (136	) (298	) (271
Net periodic postretirement benefit cost (credit)	\$(51	) \$(25	) \$(102	) \$(49

(8) CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

A summary of the changes in stockholders' equity is as follows:

	Convertible Special Stock	Common Stock (\$1 par value)	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
	(In thousands, except per share data)							
Balance as of August 31, 2015	\$120,289	\$48,369	\$274,319	\$(83,460	) \$607,690	\$(383,121)	\$8,649	\$592,735
Comprehensive income (loss)				(18,131	) 8,685		111	(9,335
Cash dividends paid on common stock, \$0.41 per share					(12,043	)		(12,043
Cash dividends paid on convertible special stock, \$30.00 per share					(3,750	)		(3,750
Issuance of treasury stock			42			74		116
Stock options exercised		2	30					32

Edgar Filing: SCHULMAN A INC - Form 10-Q

Restricted stock issued, net of forfeitures	173	(173)					—	
Redemption of common stock to cover tax withholdings	(41	)	(859	)				(900)
Tax windfall (shortfall) related to share-based incentive compensation			(301	)				(301)
Amortization of restricted stock			2,530					2,530	
Balance as of February 29, 2016	\$120,289	\$48,503	\$275,588	\$ (101,591	)	\$600,582	\$ (383,047)	\$ 8,760	\$569,084

- 10 -

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(9) CONVERTIBLE SPECIAL STOCK

On May 4, 2015, the Company filed with the Delaware Secretary of State a Certificate of Designation, Preferences, Rights and Limitations (the "Certificate of Designation") for the purpose of amending its Restated Certificate of Incorporation to fix the designations, preferences, limitations and relative rights of 125,000 shares of the Company's 6.00% Cumulative Perpetual Convertible Special Stock, without par value (the "Convertible Special Stock"). On May 4, 2015, the Company received gross cash proceeds of \$125.0 million from the sale of 125,000 shares of Convertible Special Stock. As of February 29, 2016 and August 31, 2015, the \$120.3 million amount recorded in the Convertible Special Stock line in the balance sheet is net of issuance costs of \$4.7 million.

Since August 31, 2015, there have been no changes to the Convertible Special Stock in regards to the:

- ranking upon payment of dividends and distributions upon the Company's liquidation, winding up or dissolution;
- cumulative 6.00% per annum dividend entitlements;
- voting rights;
- redemption rights;
- conversion rate, of which there have been no conversions as of February 29, 2016 and August 31, 2015; and
- optional conversion by the Company on or after May 1, 2020.

The Company paid \$1.9 million and \$3.8 million of convertible special stock dividends during the three and six months ended February 29, 2016, respectively, and currently intends to pay future dividends in cash.

If the Company undergoes a fundamental change, as defined in the Certificate of Designation, and a holder subsequently converts its shares of Convertible Special Stock, the holder will receive, for each share of Convertible Special Stock surrendered for conversion, a number of shares of common stock of the Company as set forth in the Certificate of Designations. There have been no fundamental changes as of February 29, 2016 or August 31, 2015.

(10) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) are as follows⁽¹⁾:

	Foreign Currency Translation Gain (Loss)	Pension and Other Retiree Benefits	Total Accumulated Other Comprehensive Income (Loss)
	(In thousands)		
Balance as of November 30, 2015	\$(60,269)	\$(32,883)	\$(93,152)
Other comprehensive income (loss) before reclassifications	(9,243)	—	(9,243)
Amounts reclassified to earnings	—	150	(2) 150
Net current period other comprehensive income (loss)	(9,243)	150	(9,093)
Less: comprehensive income (loss) attributable to noncontrolling interests	(654)	—	(654)
Net current period other comprehensive income (loss) attributable to A. Schulman, Inc.	(8,589)	150	(8,439)
Balance as of February 29, 2016	\$(68,858)	\$(32,733)	\$(101,591)

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Foreign Currency Translation Gain (Loss)	Pension and Other Retiree Benefits	Total Accumulated Other Comprehensive Income (Loss)
	(In thousands)		
Balance as of August 31, 2015	\$(49,562)	\$(33,898)	\$(83,460)
Other comprehensive income (loss) before reclassifications	(20,019)	—	(20,019)
Amounts reclassified to earnings	—	1,165	⁽²⁾ 1,165
Net current period other comprehensive income (loss)	(20,019)	1,165	(18,854)
Less: comprehensive income (loss) attributable to noncontrolling interests	(723)	—	(723)
Net current period other comprehensive income (loss) attributable to A. Schulman, Inc.	(19,296)	1,165	(18,131)
Balance as of February 29, 2016	\$(68,858)	\$(32,733)	\$(101,591)

	Foreign Currency Translation Gain (Loss)	Pension and Other Retiree Benefits	Total Accumulated Other Comprehensive Income (Loss)
	(In thousands)		
Balance as of November 30, 2014	\$(2,805)	\$(39,141)	\$(41,946)
Other comprehensive income (loss) before reclassifications	(32,491)	—	(32,491)
Amounts reclassified to earnings	—	599	⁽²⁾ 599
Net current period other comprehensive income (loss)	(32,491)	599	(31,892)
Less: comprehensive income (loss) attributable to noncontrolling interests	(37)	—	(37)
Net current period other comprehensive income (loss) attributable to A. Schulman, Inc.	(32,454)	599	(31,855)
Balance as of February 28, 2015	\$(35,259)	\$(38,542)	\$(73,801)

	Foreign Currency Translation Gain (Loss)	Pension and Other Retiree Benefits	Total Accumulated Other Comprehensive Income (Loss)
	(In thousands)		
Balance as of August 31, 2014	\$22,786	\$(39,477)	\$(16,691)
Other comprehensive income (loss) before reclassifications	(58,106)	—	(58,106)
Amounts reclassified to earnings	—	935	⁽²⁾ 935
Net current period other comprehensive income (loss)	(58,106)	935	(57,171)

Edgar Filing: SCHULMAN A INC - Form 10-Q

Less: comprehensive income (loss) attributable to noncontrolling interests	(61	)	—	(61)	
Net current period other comprehensive income (loss) attributable to A. Schulman, Inc.	(58,045	)	935	(57,110)	
Balance as of February 28, 2015	\$(35,259)	\$(38,542)	\$(73,801)

(1) All amounts presented are net of tax. All tax amounts are related to pension and other retiree benefits.

(2) Amounts represent amortization of net actuarial loss and prior service costs and are reclassified from accumulated other comprehensive income into cost of sales and selling, general & administrative expenses on the consolidated statements of operations. These components are included in the computation of net periodic pension cost. Refer to Note 7 of this Form 10-Q for further details.

- 12 -

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(11) SHARE-BASED INCENTIVE COMPENSATION PLANS

During the second quarter of fiscal 2016, the Company granted 55,820 and 334,920 shares of time-based and performance-based restricted stock awards, respectively, with a weighted-average grant date fair value of \$22.91 per share. Vesting of the ultimate number of shares underlying a portion of these performance-based awards, if any, will be dependent upon the Company's return on invested capital ("ROIC") while vesting for the remaining performance-based awards, if any, will be dependent upon the Company's cumulative earnings per share ("Cumulative EPS"), both over a three-year performance period. All other terms and conditions of the awards granted during the current year are consistent with the awards granted in the prior year. Additionally, the Company granted non-employee directors a total of 24,624 shares of unrestricted common stock.

The following table summarizes the impact to the Company's consolidated statements of operations from share-based incentive compensation plans, which is primarily included in selling, general and administrative expenses in the accompanying consolidated statements of operations:

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
Time-based and performance-based restricted stock awards ⁽¹⁾	\$ 842	\$ 2,369	\$ 1,267	\$ 3,676
Board of Directors unrestricted awards	564	630	564	630
CEO transition costs ⁽²⁾	—	6,167	—	6,167
Total share-based incentive compensation	\$ 1,406	\$ 9,166	\$ 1,831	\$ 10,473

⁽¹⁾ The expense related to the performance based restricted stock awards for the three and six months ended February 29, 2016 reflects reduced attainment percentages.

⁽²⁾ CEO transition costs represent a charge for the modification and accelerated vesting upon retirement of the outstanding equity compensation awards granted to Joseph M. Gingo in 2013 and 2014.

Total unrecognized compensation cost, including a provision for estimated forfeitures, related to non-vested stock-based compensation arrangements as of February 29, 2016 was \$4.3 million. This cost is expected to be recognized over a weighted-average period of 2.0 years.

As of February 29, 2016, there were 917,395 shares of common stock available for grant pursuant to the Company's 2006 Incentive Plan, 382,750 shares of common stock available for grant pursuant to the Company's 2010 Rewards Plan and 1,482,656 shares of common stock available for grant pursuant to the Company's 2014 Equity Incentive Plan. For further discussion of the Company's share-based incentive compensation plans, refer to Note 11 in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

(12) EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if common stock equivalents are exercised as well as the impact of restricted stock awards expected to vest, which combined would then share in the earnings of the Company.

Dividends on convertible special stock that an issuer has paid or intends to pay are deducted from net income or added to the amount of a net loss in computing income available to common stockholders.

The difference between basic and diluted weighted-average shares results from the assumed exercise of outstanding stock options and vesting of restricted stock awards, calculated using the treasury stock method, and the inclusion of the convertible special stock dividends, calculated using the if-converted method.

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company computes income available to common stockholders by deducting dividends accumulated on the convertible special stock from income (loss) from continuing operations and net income (loss). The convertible special stock does not impact the denominator of basic EPS. The dilutive effect of convertible special stock is reflected in diluted EPS by application of the if-converted method. In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be anti-dilutive. The convertible special stock is anti-dilutive whenever the amount of the dividend declared in or accumulated for the current period per share on conversion exceeds basic EPS. For the three and six months ended February 29, 2016, the accumulated dividend per share on conversion exceeded basic EPS, therefore the 2,388,913 shares related to the convertible special stock were considered anti-dilutive.

The following table presents the number of incremental weighted-average shares used in computing diluted per share amounts:

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
Weighted-average shares outstanding:				
Basic	29,292	29,138	29,257	29,078
Incremental shares from equity awards	—	—	198	460
Incremental shares from convertible special stock	—	—	—	—
Diluted	29,292	29,138	29,455	29,538

Diluted weighted-average shares outstanding for the three and six months ended February 29, 2016 excludes 165,141 and 6,638 shares, respectively, related to equity awards, as their inclusion would have been anti-dilutive. For the three months ended February 28, 2015, there were 400,083 anti-dilutive shares related to equity awards that were excluded from diluted weighted-average shares outstanding.

(13) SEGMENT INFORMATION

The Company considers its operating structure and the types of information subject to regular review by its President and Chief Executive Officer (“CEO”), who is the Chief Operating Decision Maker (“CODM”), to identify reportable segments. The CODM makes decisions, assesses performance and allocates resources by the following current reportable segments: Europe, Middle East and Africa (“EMEA”), United States & Canada (“USCAN”), Latin America (“LATAM”), Asia Pacific (“APAC”), and Engineered Composites (“EC”).

The CODM uses net sales to unaffiliated customers, segment gross profit and segment operating income in order to make decisions, assess performance and allocate resources to each segment. Segment operating income does not include items such as restructuring and related costs including accelerated depreciation, asset impairments, or costs and inventory step-up charges related to business acquisitions and integration. Corporate expenses include the compensation of certain personnel, certain audit expenses, Board of Directors related costs, certain insurance costs, costs associated with being a publicly traded entity and other miscellaneous legal and professional fees.

The following table summarizes net sales to unaffiliated customers by segment:

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
EMEA	\$290,330	\$315,146	\$618,426	\$686,337
USCAN	170,817	133,434	349,099	278,141
LATAM	38,158	41,133	83,361	87,314
APAC	45,063	52,582	90,755	105,556

Edgar Filing: SCHULMAN A INC - Form 10-Q

EC	47,393	—	99,339	—
Total net sales to unaffiliated customers	\$591,761	\$542,295	\$1,240,980	\$1,157,348

- 14 -

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Below the Company presents gross profit by segment:

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
EMEA	\$38,953	\$44,507	\$86,637	\$94,213
USCAN	27,241	19,745	57,535	44,374
LATAM	8,466	7,101	18,171	12,751
APAC	8,199	7,382	16,073	14,632
EC	10,987	—	24,195	—
Total segment gross profit	93,846	78,735	202,611	165,970
Inventory step-up	—	—	—	(341)
Accelerated depreciation and restructuring related costs	(2,504)	(596)	(4,381)	(596)
Costs related to acquisitions and integrations	(1,970)	(65)	(2,099)	(115)
Lucent costs ⁽¹⁾	452	—	(1,378)	—
Total gross profit	\$89,824	\$78,074	\$194,753	\$164,918

Below is a reconciliation of segment operating income to operating income and income from continuing operations before taxes:

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
EMEA	\$15,612	\$16,277	\$35,765	\$36,316
USCAN	10,427	5,925	22,590	17,317
LATAM	4,229	2,281	9,833	2,877
APAC	4,670	3,423	8,977	6,931
EC	1,450	—	5,552	—
Total segment operating income	36,388	27,906	82,717	63,441
Corporate	(7,684)	(9,006)	(16,172)	(16,490)
Costs related to acquisitions and integrations	(4,261)	(3,337)	(6,127)	(4,389)
Restructuring and related costs	(5,769)	(3,779)	(10,439)	(9,359)
Accelerated depreciation	(2,057)	(298)	(3,510)	(298)
Lucent costs ⁽¹⁾	(611)	—	(4,317)	—
Inventory step-up	—	—	—	(341)
CEO transition costs	—	(6,167)	—	(6,167)
Operating income	16,006	5,319	42,152	26,397
Interest expense	(13,790)	(2,311)	(27,408)	(4,670)
Foreign currency transaction gains (losses)	(950)	(1,141)	(1,679)	(2,240)
Other income (expense), net	88	311	17	565
Gain on early extinguishment of debt	—	1,290	—	1,290
Income from continuing operations before taxes	\$1,354	\$3,468	\$13,082	\$21,342

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

⁽¹⁾ Refer to Note 15 for additional discussion on this matter. Lucent costs in costs of sales include additional product and manufacturing operational costs for reworking inventory. Additional Lucent costs in selling, general and administrative expenses include legal and investigative costs and dedicated internal personnel costs that would have otherwise been focused on normal operations.

Globally, the Company operates in six product families: (1) custom performance colors, (2) engineered composites, (3) masterbatch solutions, (4) engineered plastics, (5) specialty powders and (6) distribution services. The three and six months ended February 28, 2015 include a reclassification of revenue between product families to better reflect the way the businesses are managed. The consolidated net sales for these product families are as follows:

	Three months ended					
	February 29, 2016			February 28, 2015		
	(In thousands, except for %'s)					
Custom Performance Colors	\$43,843	7	%	\$45,865	8	%
Engineered Composites	47,393	8		—	—	
Masterbatch Solutions	164,618	28		175,470	33	
Engineered Plastics	211,414	36		173,212	32	
Specialty Powders	59,998	10		69,233	13	
Distribution Services	64,495	11		78,515	14	
Total consolidated net sales	\$591,761	100	%	\$542,295	100	%

	Six months ended					
	February 29, 2016			February 28, 2015		
	(In thousands, except for %'s)					
Custom Performance Colors	\$90,363	7	%	\$97,163	8	%
Engineered Composites	99,339	8		—	—	
Masterbatch Solutions	346,514	28		373,828	33	
Engineered Plastics	445,631	36		368,180	32	
Specialty Powders	127,419	10		151,590	13	
Distribution Services	131,714	11		166,587	14	
Total consolidated net sales	\$1,240,980	100	%	\$1,157,348	100	%

(14) RESTRUCTURING

Fiscal 2016 Restructuring Plan

USCAN Plan

In October 2015, as part of the Company's previously announced Citadel acquisition integration strategy and a careful evaluation of capacity utilization and manufacturing capabilities, the Company approved plans to close three manufacturing facilities in Evansville, Indiana and consolidate production into other existing facilities in the area. The Company also plans to relocate production of its engineered plastics products from its Akron, Ohio facility into other facilities in Evansville, while retaining masterbatch solutions production in Akron. Overall, the Company expects to reduce headcount by approximately 25 as a result of these actions. The Company recorded minimal pretax employee-related costs and \$1.8 million and \$3.0 million of accelerated depreciation costs during the three and six months ended February 29, 2016, respectively. The Company anticipates recognizing approximately \$2.0 million to \$3.0 million of additional pretax employee-related cash and other charges as well as approximately \$2.0 million to \$3.0 million of additional pretax machinery and equipment accelerated depreciation through fiscal 2017. As of February 29, 2016, the Company has a minimal balance accrued for this plan. Cash payments associated with this plan are expected to occur through fiscal 2017 as the plan is completed.

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

EC Plan

In the second quarter of fiscal 2016, the Company approved plans to optimize the Engineered Composites segment administrative functions and reduced headcount by approximately 10 in the second and third quarters of fiscal 2016. The Company recorded \$0.9 million of pretax employee-related restructuring expense during the three and six months ended February 29, 2016. As of February 29, 2016, the Company has a balance of \$0.1 million accrued for the employee-related costs related to this plan. The Company expects additional charges of \$0.7 million related to this plan to be recognized during the remainder of fiscal 2016. Cash payments associated with this plan are expected to occur through fiscal 2016 as the plan is completed.

Fiscal 2015 Restructuring Plans

EMEA Plans

In August 2015, the Company approved plans to integrate the existing Paris, Montereau, and Beaucaire, France facilities into one new facility in St. Germain-Laval, France. As a result of this consolidation, the Company plans to reduce headcount in France by approximately 20 in fiscal 2016, partially offset by the addition of approximately 15 associates at the Company's new facility. The Company has recognized pre-tax employee-related costs and other charges of \$0.6 million and \$1.0 million and accelerated depreciation costs of \$0.2 million and \$0.5 million during the three and six months ended February 29, 2016, respectively. The Company expects to incur minimal pretax employee-related costs and accelerated depreciation throughout the remainder of fiscal 2016. As of February 29, 2016, the Company has a balance of \$1.3 million accrued for this plan. Cash payments associated with this plan are expected to occur through fiscal 2017 as the plan is completed.

In May 2015, the Company announced plans to relocate its EMEA Shared Service Center from Londerzeel, Belgium to Poznan, Poland as part of the Company's ongoing cost control initiatives. The Company reduced headcount by approximately 40 employees in Londerzeel, Belgium during fiscal 2016 and added a similar amount of headcount in Poznan, Poland. The Company recorded minimal pretax employee-related costs and other charges during the three months ended February 29, 2016 and \$0.5 million during the six months ended February 29, 2016 and expects to recognize minimal additional pre-tax employee-related costs through the remainder of fiscal 2016. As of February 29, 2016, the Company has a balance of \$1.5 million accrued for this plan. Cash payments associated with this plan are expected to occur through fiscal 2017 as the plan is completed.

For discussion of the Company's previous restructuring plans, refer to Note 16 in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

The following table summarizes the activity related to the Company's restructuring plans:

	Employee-related Costs	Other Costs	Translation Effect	Total Restructuring Costs
	(In thousands)			
Accrual balance as of August 31, 2015	\$5,786	\$461	\$(864)	) \$5,383
Fiscal 2016 charges	2,426	1,334	—	3,760
Fiscal 2016 payments	(3,295)	) (1,466)	—	(4,761)
Translation	—	—	(154)	) (154)
Accrual balance as of February 29, 2016	\$4,917	\$329	\$(1,018)	) \$4,228

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Restructuring expenses are excluded from segment operating income but are attributable to the reportable segments as follows:

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(In thousands)			
EMEA	\$759	\$1,345	\$1,970	\$5,619
USCAN	490	855	724	1,656
LATAM	94	462	164	606
APAC	—	—	31	—
EC	871	—	871	—
Total restructuring expense	\$2,214	\$2,662	\$3,760	\$7,881

(15) COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is at times subject to pending and threatened legal actions, some for which the relief or damages sought may be substantial. Although the Company is not able to predict the outcome of such legal actions, after reviewing all pending and threatened legal actions with counsel and based on information currently available, management believes that the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on the results of operations, financial position or cash flow of the Company. However, it is possible, that the ultimate resolution of such matters, if unfavorable, may be material to the results of operations in a particular future period as the time and amount of any resolution of such legal actions and its relationship to the future results of operations are not currently known.

Reserves are established for legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. In many lawsuits and arbitrations, it is not considered probable that a liability has been incurred or it is not possible to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no reserve would be recognized until that time.

There were no material changes to the Company's future contractual obligations as previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

Lucent Matter

As previously reported by the Company in its filings with the SEC, on June 1, 2015, the Company completed the acquisition of Citadel and its subsidiaries from certain private equity firms for \$801.6 million. In August 2015, the Company identified quality reporting issues affecting certain product lines at two manufacturing facilities located on Lynch Road in Evansville, Indiana. Both facilities are a part of Lucent Polymers, Inc. ("Lucent"), an indirect wholly-owned subsidiary of Citadel which was acquired as part of the Citadel acquisition. Specifically, the Company discovered discrepancies between laboratory data and certifications provided by Lucent to customers with respect to certain products. The Company also discovered inaccuracies in materials and information provided by Lucent employees to Underwriter Laboratories with respect to such products.

The Company took immediate decisive actions following its initial discoveries, including implementing protocols designed so that future shipments of products meet customer specifications and customer certification requirements, entering into discussions and exploring different certification standards with customers and other third parties. The Company has notified and is working with affected customers to deliver accurate certifications with respect to products going forward. In addition, the Company has notified and is cooperating with Underwriter Laboratories to institute necessary corrective action.

The Company also commenced an internal investigation into these matters. The Company's internal investigation, which is ongoing, has revealed that the discrepancies and inaccuracies initially identified were due to practices at Lucent under its prior ownership pursuant to which Lucent falsified test results on documents provided to customers

and other parties pertaining to the physical properties of certain Lucent products.

To date, no customers, or other parties have initiated recalls, or have made material claims against or sought to terminate their relationships with the Company or its subsidiaries.

The Company incurred the following costs related to the Lucent matter that negatively impacted the Company's operating results in the three and six months ended February 29, 2016:

- 18 -

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Three months ended February 29, 2016 (In thousands)	Six months ended
Inventory rework, remediation actions, and legal and investigative costs	\$611	\$4,317
Recurring additional costs to produce product to customer specifications	1,530	2,659
Total Lucent Matter costs	\$2,141	\$6,976

The Company continues with the internal investigation as to the scope of products, customers, and other parties affected. As no customer or other parties have initiated recalls, or have made material claims against or sought to terminate their relationships with the Company or its subsidiaries from the date we identified this issue in August through the date of filing, we are currently unable to conclude that litigation or claims losses related to these matters are probable or to estimate the potential range of losses. The Company is currently unable to determine whether such issues will have any future material adverse effect on our financial position, liquidity, or results of operations.

The Company has reviewed its legal position in connection with the purchase agreement of Citadel and intends to pursue its contractual rights to seek remedy. The Company has provided a written claim notice to the sellers and to the escrow agent with respect to the indemnity escrow established in connection with the stock purchase agreement pursuant to which the Company acquired Citadel and its subsidiaries. As of February 29, 2016, approximately \$31.0 million remained in such indemnity escrow.

As Lucent was effectively acquired by Citadel in December of 2013, the Company also submitted written claim notices pursuant to the Agreement and Plan of Merger, dated December 6, 2013, among The Matrixx Group, Incorporated, LPI Merger Sub, Inc., LPI Holding Company, River Associates Investments, LLC and certain stockholders of LPI Holding Company, pursuant to which Citadel initially acquired Lucent, and pursuant to the representations and warranties insurance policy issued in connection with that acquisition.

The Company is continuing to assess the scope of indemnifiable losses under these agreements and to evaluate all other possible claims and remedies which may be available to the Company and its subsidiaries in connection with this matter.

(16) ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (“the FASB”) issued new guidance which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification on the statement of cash flows, and accounting for forfeitures. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods. Early application is permitted. The Company is currently evaluating the effects this standard will have on its consolidated financial statements together with evaluating the adoption date.

In February 2016, the FASB issued new accounting guidance which requires companies to recognize a lease liability and right-of-use asset on the balance sheet for operating leases with a term greater than one year. The standard is effective for fiscal years beginning after December 15, 2018. Early application is permitted. The Company regularly enters into operating leases which previously did not require recognition on the balance sheet. The Company is currently evaluating the effects this standard will have on its consolidated financial statements together with evaluating the adoption date.

In November 2015, the FASB issued new accounting guidance that requires deferred tax assets and liabilities to be classified as noncurrent in the balance sheet. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods. Early application is permitted. The Company is currently evaluating the effects that the adoption of this guidance will have on its consolidated financial statements together with evaluating the adoption date.

In May 2014, the FASB issued new accounting guidance that creates a single revenue recognition model, while clarifying the principles for recognizing revenue. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods. The Company will adopt the new guidance on September 1, 2018. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on its consolidated financial statements.

No other new accounting pronouncements issued or with effective dates during fiscal 2016 had or are expected to have a material impact on the Company's consolidated financial statements.

- 19 -

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help investors understand our results of operations, financial condition and current business environment. The MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report and the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

The MD&A is organized as follows:

- Overview: From management’s point of view, we discuss the following:

Summary of our business and the markets in which we operate; and

Significant events during the current fiscal year.

Results of Operations: An analysis of our results of operations as reflected in our consolidated financial statements.

Throughout this MD&A, the Company provides operating results for continuing operations exclusive of certain items such as costs related to acquisitions and integration, restructuring and related expenses, and asset write-downs, which are considered relevant to aid analysis and understanding of the Company’s results and business trends.

Liquidity and Capital Resources: An analysis of our cash flows, working capital, debt structure, contractual obligations and other commercial commitments.

Overview

Business Summary

A. Schulman, Inc. is an international supplier of high-performance plastic formulations, resins and services headquartered in Fairlawn, Ohio. The Company’s customers span a wide range of markets such as packaging, mobility, building & construction, electronics & electrical, agriculture, personal care & hygiene, custom services, and sports, leisure & home. The Chief Operating Decision Maker (“CODM”) makes decisions, assesses performance and allocates resources by the following five reportable segments:

• Europe, Middle East and Africa (“EMEA”),

• United States & Canada (“USCAN”),

• Latin America (“LATAM”),

• Asia Pacific (“APAC”), and

• Engineered Composites (“EC”).

As of February 29, 2016, the Company has approximately 5,000 employees and 58 manufacturing facilities worldwide. Globally, the Company operates in six product families: (1) custom performance colors, (2) engineered composites, (3) masterbatch solutions, (4) engineered plastics, (5) specialty powders and (6) distribution services.

Lucent Matter

As previously reported by the Company in its filings with the SEC, on June 1, 2015, the Company completed the acquisition of Citadel and its subsidiaries from certain private equity firms for \$801.6 million. In August 2015, the Company identified quality reporting issues affecting certain product lines at two manufacturing facilities located on Lynch Road in Evansville, Indiana. Both facilities are a part of Lucent Polymers, Inc. (“Lucent”), an indirect wholly-owned subsidiary of Citadel which was acquired as part of the Citadel acquisition. Specifically, the Company discovered discrepancies between laboratory data and certifications provided by Lucent to customers with respect to certain products. The Company also discovered inaccuracies in materials and information provided by Lucent employees to Underwriter Laboratories with respect to such products.

The Company took immediate decisive actions following its initial discoveries, including implementing protocols designed so that future shipments of products meet customer specifications and customer certification requirements, entering into discussions and exploring different certification standards with customers and other third parties. The Company has notified and is working with affected customers to deliver accurate certifications with respect to products going forward. In addition, the Company has notified and is cooperating with Underwriter Laboratories to institute necessary corrective action.

The Company also commenced an internal investigation into these matters. The Company’s internal investigation, which is ongoing, has revealed that the discrepancies and inaccuracies initially identified were due to practices at Lucent under its prior ownership pursuant to which Lucent falsified test results on documents provided to customers

and other parties pertaining to the physical properties of certain Lucent products.

- 20 -

To date, no customers, or other parties have initiated recalls, or have made material claims against or sought to terminate their relationships with the Company or its subsidiaries.

The Company incurred the following costs related to the Lucent matter that negatively impacted the Company's operating results in the three and six months ended February 29, 2016:

	Three months ended February 29, 2016 (In thousands)	Six months ended
Inventory rework, remediation actions, and legal and investigative costs	\$ 611	\$4,317
Recurring costs to produce product to customer specifications	1,530	2,659
Total Lucent Matter costs	\$2,141	\$6,976

The Company continues with the internal investigation as to the scope of products, customers, and other parties affected. As no customer or other parties have initiated recalls, or have made material claims against or sought to terminate their relationships with the Company or its subsidiaries from the date we identified this issue in August through the date of filing, we are currently unable to conclude that litigation or claims losses related to these matters are probable or to estimate the potential range of losses. The Company is currently unable to determine whether such issues will have any future material adverse effect on our financial position, liquidity, or results of operations.

The Company has reviewed its legal position in connection with the purchase agreement of Citadel and intends to pursue its contractual rights to seek remedy. The Company has provided a written claim notice to the sellers and to the escrow agent with respect to the indemnity escrow established in connection with the stock purchase agreement pursuant to which the Company acquired Citadel and its subsidiaries. As of February 29, 2016, approximately \$31.0 million remained in such indemnity escrow.

As Lucent was effectively acquired by Citadel in December of 2013, the Company also submitted written claim notices pursuant to the Agreement and Plan of Merger, dated December 6, 2013, among The Matrixx Group, Incorporated, LPI Merger Sub, Inc., LPI Holding Company, River Associates Investments, LLC and certain stockholders of LPI Holding Company, pursuant to which Citadel initially acquired Lucent, and pursuant to the representations and warranties insurance policy issued in connection with that acquisition.

The Company is continuing to assess the scope of indemnifiable losses under these agreements and to evaluate all other possible claims and remedies which may be available to the Company and its subsidiaries in connection with this matter.

Fiscal Year 2016 Significant Events

The following represent significant events during fiscal year 2016:

1. Restructuring Plans. In the second quarter of fiscal 2016, the Company approved plans to optimize the Engineered Composites segment administrative functions.

In October 2015, the Company announced a plan to close three manufacturing facilities in Evansville, Indiana and consolidate production into other existing facilities in the area. The Company also plans to relocate production of its engineered plastics products from its Akron, Ohio facility into other facilities in Evansville, Indiana while retaining masterbatch solutions production in Akron, Ohio.

Overall, the Company expects to realize annual savings of approximately \$11.0 million on completion of these activities.

2. Global Expansion. The Company intends to expand its production and technological capabilities in China, Turkey and Saudi Arabia through continued progress in production facility investments, as previously announced.

Results of Operations
Segment Information

EMEA	Three months ended				Favorable (unfavorable)	
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX
	(In thousands, except for %'s and per pound data)					
Pounds sold	288,350	308,858	(20,508)	(6.6)%		
Net sales	\$290,330	\$315,146	\$(24,816)	(7.9)%	\$(20,978)	(1.2)%
Segment gross profit	\$38,953	\$44,507	\$(5,554)	(12.5)%	\$(2,813)	(6.2)%
Segment gross profit percentage	13.4	% 14.1	%			
Segment operating income	\$15,612	\$16,277	\$(665)	(4.1)%	\$(906)	1.5 %
Price per pound	\$1.007	\$1.020	\$(0.013)	(1.3)%	\$(0.073)	5.9 %
Segment operating income per pound	\$0.054	\$0.053	\$0.001	1.9 %	\$(0.003)	7.5 %

Three months ended February 29, 2016

EMEA net sales for the three months ended February 29, 2016 were \$290.3 million, a decrease of \$24.8 million compared to the prior year period. Excluding the unfavorable impact of foreign currency translation of \$21.0 million, net sales decreased primarily due to lower volumes in the distribution services and specialty powders product families, as customer purchases decreased in anticipation of lower petroleum-based commodity prices. The volume decrease was partially offset by increased volume in engineered plastics and masterbatch solutions.

EMEA gross profit was \$39.0 million for the three months ended February 29, 2016. Excluding the negative impact of foreign currency translation of \$2.8 million, gross profit decreased by \$2.7 million, or 6.2%, primarily due to lower volumes as noted above.

EMEA operating income for the three months ended February 29, 2016 was \$15.6 million. Excluding the negative impact of foreign currency translation of \$0.9 million, operating income increased by \$0.3 million, or 1.5%. Operating income increased due to lower selling, general and administrative ("SG&A") expense, partially offset by lower gross profit as noted above. SG&A expense decreased by \$4.9 million primarily due to the favorable impact of foreign currency translation of \$1.9 million, decreased variable incentive compensation of \$2.6 million and lower professional fees of \$0.8 million.

EMEA	Six months ended				Favorable (unfavorable)	
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX
	(In thousands, except for %'s and per pound data)					
Pounds sold	603,276	625,316	(22,040)	(3.5)%		
Net sales	\$618,426	\$686,337	\$(67,911)	(9.9)%	\$(65,129)	(0.4)%
Segment gross profit	\$86,637	\$94,213	\$(7,576)	(8.0)%	\$(8,727)	1.2 %
Segment gross profit percentage	14.0	% 13.7	%			
Segment operating income	\$35,765	\$36,316	\$(551)	(1.5)%	\$(3,078)	7.0 %
Price per pound	\$1.025	\$1.098	\$(0.073)	(6.6)%	\$(0.108)	3.2 %
Segment operating income per pound	\$0.059	\$0.058	\$0.001	1.7 %	\$(0.005)	10.3 %

Six months ended February 29, 2016

EMEA net sales for the six months ended February 29, 2016 were \$618.4 million, a decrease of \$67.9 million compared with the prior year period. Excluding the unfavorable impact of foreign currency translation of \$65.1 million, net sales decreased slightly, primarily due to lower volumes in the distribution services and specialty powders product families, as customer purchases decreased in anticipation of lower petroleum-based commodity prices. The

volume decrease was partially offset by increased volume in engineered plastics and masterbatch solutions.

- 22 -

EMEA gross profit was \$86.6 million for the six months ended February 29, 2016. Excluding the negative impact of foreign currency translation of \$8.7 million, gross profit increased by \$1.2 million, or 1.2%, primarily due to improved product mix more than offsetting lower volumes.

EMEA operating income for the six months ended February 29, 2016 was \$35.8 million. Excluding the negative impact of foreign currency translation of \$3.1 million, operating income increased by \$2.5 million, or 7.0%. Operating income increased due to higher gross profit as noted above and lower SG&A expense. SG&A expense decreased by \$7.0 million primarily due to the favorable impact of foreign currency translation of \$5.6 million and decreased variable compensation expense of \$2.1 million.

USCAN	Three months ended				Favorable (unfavorable)		
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX	
	(In thousands, except for %'s and per pound data)						
Pounds sold	189,465	133,469	55,996	42.0	%		
Net sales	\$170,817	\$133,434	\$37,383	28.0	%	\$(385)	) 28.3 %
Segment gross profit	\$27,241	\$19,745	\$7,496	38.0	%	\$(82)	) 38.4 %
Segment gross profit percentage	15.9	% 14.8	%				
Segment operating income	\$10,427	\$5,925	\$4,502	76.0	%	\$(81)	) 77.4 %
Price per pound	\$0.902	\$1.000	\$(0.098)	(9.8)	)%	\$(0.002)	) (9.6) %
Segment operating income per pound	\$0.055	\$0.044	\$0.011	25.0	%	\$—	25.0 %

Three months ended February 29, 2016

USCAN net sales for the three months ended February 29, 2016 were \$170.8 million, an increase of \$37.4 million or 28.0% compared with the prior-year period. During the second quarter of fiscal 2016, the incremental contribution from the Citadel acquisition was \$54.6 million and 66.1 million pounds in net sales and volume, respectively. While Citadel provided an incremental benefit during the period, the Citadel net sales and volume decreased 18% and 12%, respectively, when compared to the same prior-year period due to the previously disclosed Lucent quality matter and lower customer demand from the impact of the economic slowdown. The prior-year period discussion for Citadel is for comparative purposes only given the Company's acquisition of Citadel on June 1, 2015.

The incremental Citadel net sales were partially offset by lower legacy volume in the engineered plastics, specialty powders and masterbatch solutions product families, which experienced a decrease in customer demand due to the slowdown in certain sectors of the economy. Additionally, legacy volumes declined due to customer destocking related to lower oil prices. The price per pound decrease of 9.6% is primarily due to lower raw material prices and acquisition-related product mix.

USCAN gross profit was \$27.2 million for the three months ended February 29, 2016, an increase of \$7.5 million from the comparable period last year. The benefits of the Citadel acquisition and related integration were partially offset by lower organic volumes as noted above.

USCAN operating income for the three months ended February 29, 2016 was \$10.4 million compared with \$5.9 million in the same quarter of fiscal 2015. Operating income increased due to the higher gross profit as noted above, partially offset by incremental SG&A expenses from the Citadel acquisition of \$4.5 million, which included additional intangible asset amortization expense of \$2.9 million. Excluding the Citadel acquisition, SG&A expenses decreased by \$1.5 million primarily due to decreased compensation expense related to prior restructuring activity and decreased variable incentive compensation expense of \$1.1 million in the quarter.

Included in USCAN segment results for the three months ended February 29, 2016 are incremental Lucent costs of \$1.5 million required to produce products to meet customer specifications. Additional Lucent costs excluded from segment operating income for the three months ended February 29, 2016 are \$0.6 million primarily related to legal and investigative costs.

Edgar Filing: SCHULMAN A INC - Form 10-Q

USCAN	Six months ended				Favorable (unfavorable)			
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX		
	(In thousands, except for %'s and per pound data)							
Pounds sold	387,910	286,433	101,477	35.4	%			
Net sales	\$349,099	\$278,141	\$70,958	25.5	%	\$(885)	) 25.8	%
Segment gross profit	\$57,535	\$44,374	\$13,161	29.7	%	\$(174)	) 30.1	%
Segment gross profit percentage	16.5	% 16.0	%					
Segment operating income	\$22,590	\$17,317	\$5,273	30.4	%	\$(173)	) 31.4	%
Price per pound	\$0.900	\$0.971	\$(0.071)	(7.3)	)%	\$(0.002)	) (7.1))%
Segment operating income per pound	\$0.058	\$0.060	\$(0.002)	(3.3)	)%	\$(0.001)	) (1.7))%

Six months ended February 29, 2016

USCAN net sales for the six months ended February 29, 2016 were \$349.1 million, an increase of \$71.0 million or 25.5% compared with the prior-year period. During the six months ended February 29, 2016, the incremental contribution from the Citadel acquisition was \$113.7 million and 136.5 million pounds in net sales and volume, respectively. While Citadel provided an incremental benefit during the period, the Citadel net sales and volume decreased 16% and 9%, respectively, when compared to the same prior-year period due to the previously disclosed Lucent quality matter and lower customer demand from the impact of the economic slowdown. The prior-year period discussion for Citadel is for comparative purposes only given the Company's acquisition of Citadel on June 1, 2015. The incremental Citadel net sales were partially offset by lower legacy volume in the engineered plastics, specialty powders and masterbatch solutions product families, which experienced a decrease in customer demand due to the slowdown in certain sectors of the economy. Additionally, legacy volumes declined due to customer destocking related to lower oil prices. The price per pound decrease of 7.1% is primarily due to lower raw material prices and acquisition-related product mix.

USCAN gross profit was \$57.5 million for the six months ended February 29, 2016, an increase of \$13.2 million from the comparable period last year. The benefits of the Citadel acquisition and related integration were partially offset by lower organic volumes.

USCAN operating income for the six months ended February 29, 2016 was \$22.6 million compared with \$17.3 million in the same quarter of fiscal 2015. Operating income increased due to the above noted increase in gross profit, partially offset by incremental SG&A expenses from the Citadel acquisition of \$10.4 million, which included additional intangible asset amortization expense of \$5.8 million. Excluding the Citadel acquisition, SG&A expenses decreased by \$2.5 million primarily due to \$2.3 million of decreased compensation expense due to prior restructuring activity and decreased variable incentive compensation expense.

Included in USCAN segment results for the six months ended February 29, 2016 are incremental Lucent costs of \$2.7 million required to produce products to meet customer specifications. Additional Lucent costs excluded from segment operating income of \$4.3 million include additional product and manufacturing operational costs for reworking inventory, legal and investigative costs, and dedicated internal personnel costs that would have otherwise been focused on normal operations.

LATAM	Three months ended				Favorable (unfavorable)			
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX		
	(In thousands, except for %'s and per pound data)							
Pounds sold	32,708	30,393	2,315	7.6	%			
Net sales	\$38,158	\$41,133	\$(2,975)	(7.2)	)%	\$(9,254)	) 15.3	%
Segment gross profit	\$8,466	\$7,101	\$1,365	19.2	%	\$(1,484)	) 40.1	%

Edgar Filing: SCHULMAN A INC - Form 10-Q

Segment gross profit percentage	22.2	%	17.3	%						
Segment operating income	\$4,229		\$2,281		\$1,948	85.4	%	\$(454)	) 105.3	%
Price per pound	\$1.167		\$1.353		\$(0.186)	(13.7)	)%	\$(0.283)	) 7.2	%
Segment operating income per pound	\$0.129		\$0.075		\$0.054	72.0	%	\$(0.014)	) 90.7	%

- 24 -

Edgar Filing: SCHULMAN A INC - Form 10-Q

Three months ended February 29, 2016

LATAM net sales for the three months ended February 29, 2016 were \$38.2 million, a decrease of \$3.0 million or 7.2% compared with the prior-year period. Excluding the unfavorable impact of foreign currency translation of \$9.3 million, net sales increased 15.3% primarily driven by strong volume growth in masterbatch solutions due to our successful strategic focus in the packaging and agricultural markets within the region.

LATAM gross profit was \$8.5 million for the three months ended February 29, 2016, an increase of \$1.4 million or 19.2% from the comparable period last year. Excluding the impact of unfavorable foreign currency translation of \$1.5 million, gross profit increased 40.1% compared to the prior year period, primarily due to improved product mix and operational improvements.

LATAM operating income for the three months ended February 29, 2016 was \$4.2 million compared with \$2.3 million in the same quarter of fiscal 2015. Operating income increased due to improved gross profit, as noted above, and decreased SG&A expenses primarily related to the favorable impact of foreign currency translation of \$1.0 million.

LATAM	Six months ended				Favorable (unfavorable)	
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX
	(In thousands, except for %'s and per pound data)					
Pounds sold	70,066	63,337	6,729	10.6	%	
Net sales	\$83,361	\$87,314	\$(3,953)	(4.5)	)%	\$(19,870)) 18.2 %
Segment gross profit	\$18,171	\$12,751	\$5,420	42.5	%	\$(2,438)) 61.6 %
Segment gross profit percentage	21.8	% 14.6	%			
Segment operating income	\$9,833	\$2,877	\$6,956	241.8	%	\$(200)) 248.7 %
Price per pound	\$1.190	\$1.379	\$(0.189)	(13.7)	)%	\$(0.283)) 6.8 %
Segment operating income per pound	\$0.140	\$0.045	\$0.095	211.1	%	\$(0.003)) 217.8 %

Six months ended February 29, 2016

LATAM net sales for the six months ended February 29, 2016 were \$83.4 million, a decrease of \$4.0 million or 4.5% compared with the prior-year period. Excluding the unfavorable impact of foreign currency translation of \$19.9 million, net sales increased 18.2% primarily driven by strong volume growth in masterbatch solutions due to our successful strategic focus in the packaging and agricultural markets within the region.

LATAM gross profit was \$18.2 million for the six months ended February 29, 2016, an increase of \$5.4 million or 42.5% from the comparable period last year. Excluding the impact of unfavorable foreign currency translation of \$2.4 million, gross profit increased 61.6% compared to the prior year period, primarily due to improved product mix and operational improvements.

LATAM operating income for the six months ended February 29, 2016 was \$9.8 million compared with \$2.9 million in the same period of fiscal 2015. Operating income increased due to improved gross profit, as noted above, and decreased SG&A expenses primarily related to the favorable impact of foreign currency translation of \$2.2 million.

APAC	Three months ended				Favorable (unfavorable)	
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX
	(In thousands, except for %'s and per pound data)					
Pounds sold	43,840	44,257	(417)	(0.9))%	
Net sales	\$45,063	\$52,582	\$(7,519)	(14.3)	)%	\$(5,019)) (4.8) %
Segment gross profit	\$8,199	\$7,382	\$817	11.1	%	\$(496)) 17.8 %
Segment gross profit percentage	18.2	% 14.0	%			

Edgar Filing: SCHULMAN A INC - Form 10-Q

Segment operating income	\$4,670	\$3,423	\$1,247	36.4	%	\$(194	)	42.1	%
Price per pound	\$1.028	\$1.188	\$(0.160)	(13.5)%	\$(0.114)	(3.9)%
Segment operating income per pound	\$0.107	\$0.077	\$0.030	39.0	%	\$(0.004	)	44.2	%

- 25 -

Three months ended February 29, 2016

APAC net sales for the three months ended February 29, 2016 were \$45.1 million, a decrease of \$7.5 million or 14.3% compared with the same prior-year period. Excluding the negative foreign currency translation of \$5.0 million, net sales decreased by 4.8%. Increased volume in masterbatch solutions and customer performance colors was more than offset by reduced volume in specialty powders.

APAC gross profit for the three months ended February 29, 2016 was \$8.2 million, an increase of \$0.8 million compared with the prior-year period. Gross profit benefited from improved product mix partially offset by negative foreign currency translation of \$0.5 million.

APAC operating income for the three months ended February 29, 2016 was \$4.7 million compared with \$3.4 million in the prior-year comparable quarter. The increase in operating income was primarily due to the aforementioned increase in gross profit and decreased SG&A expenses primarily due to the favorable impact of foreign currency translation of \$0.3 million and decreased variable incentive compensation of \$0.4 million.

APAC	Six months ended				Favorable (unfavorable)	
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact	Excluding FX
	(In thousands, except for %'s and per pound data)					
Pounds sold	86,883	86,487	396	0.5	%	
Net sales	\$90,755	\$105,556	\$(14,801)	(4.9)	%)	\$(11,703) (2.9)%
Segment gross profit	\$16,073	\$14,632	\$1,441	9.8	%	\$(1,117) 17.5%
Segment gross profit percentage	17.7	% 13.9	%			
Segment operating income	\$8,977	\$6,931	\$2,046	29.5	%	\$(411) 35.4%
Price per pound	\$1.045	\$1.220	\$(0.175)	(14.3)	%)	\$(0.134) (3.4)%
Segment operating income per pound	\$0.103	\$0.080	\$0.023	28.8	%	\$(0.005) 35.0%

Six months ended February 29, 2016

APAC net sales for the six months ended February 29, 2016 were \$90.8 million, a decrease of \$14.8 million or 4.9% compared with the same prior-year period. Excluding the negative foreign currency translation of \$11.7 million, net sales decreased by 2.9%. Increased volume in masterbatch solutions, engineered plastics and customer performance colors was partially offset by reduced volume in specialty powders.

APAC gross profit for the six months ended February 29, 2016 was \$16.1 million, an increase of \$1.4 million compared with the prior-year period. Gross profit benefited from improved product mix partially offset by negative foreign currency translation of \$1.1 million.

APAC operating income for the six months ended February 29, 2016 was \$9.0 million compared with \$6.9 million in the prior-year comparable period. The increase in operating income was primarily due to the aforementioned increase in gross profit and decreased SG&A expenses primarily due to the favorable impact of foreign currency translation of \$0.7 million and decreased variable incentive compensation of \$0.4 million.

EC	Three months ended February 29, 2016
	(In thousands, except for %'s and per pound data)
Pounds sold	40,825
Net sales	\$47,393
Segment gross profit	\$10,987
Segment gross profit percentage	23.2 %
Segment operating income	\$1,450
Price per pound	\$1.161
Segment operating income per pound	\$0.036

Three months ended February 29, 2016

EC net sales for the three months ended February 29, 2016 were \$47.4 million, a decrease of \$6.0 million over the prior-year comparable period. The prior-year period discussion is for comparative purposes only given the Company's acquisition of Citadel on June 1, 2015. An increase in organic volumes in the EC business was offset by the decrease in oil and gas market sales and the impact of unfavorable currency translation of \$1.4 million.

EC gross profit for the three months ended February 29, 2016 was \$11.0 million, a decrease of \$3.2 million over the prior year. Gross profit decreased primarily due to the decreased sales as noted above and the unfavorable impact of foreign currency translation of \$0.2 million.

EC operating income for the three months ended February 29, 2016 was \$1.5 million, a decrease of \$1.4 million over the prior year. The decrease in operating income was primarily due to lower gross profit as noted above, partially offset by decreased SG&A expenses of \$1.8 million related to integration synergies, restructuring savings and decreased intangible amortization expense over the prior year comparable period.

EC	Six months ended February 29, 2016 (In thousands, except for %'s and per pound data)	
Pounds sold	84,921	
Net sales	\$99,339	
Segment gross profit	\$24,195	
Segment gross profit percentage	24.4	%
Segment operating income	\$5,552	
Price per pound	\$1.170	
Segment operating income per pound	\$0.065	

Six months ended February 29, 2016

EC net sales for the six months ended February 29, 2016 were \$99.3 million, an increase of \$6.6 million over the prior-year comparable period. The prior-year period discussion is for comparative purposes only given the Company's acquisition of Citadel on June 1, 2015. The incremental contribution of Citadel's November 2014 acquisition of The Composites Group ("TCG") was \$14.8 million and 5.4 million pounds in net sales and volume, respectively. An increase in organic volumes in the legacy EC business was offset by the decrease in oil and gas market sales and the impact of unfavorable currency translation of \$3.7 million.

EC gross profit for the six months ended February 29, 2016 was \$24.2 million, a decrease of \$1.3 million over the prior year. Gross profit decreased primarily due to the decreased sales as noted above and the unfavorable impact of foreign currency translation of \$0.8 million.

EC operating income for the six months ended February 29, 2016 was \$5.6 million, a decrease of \$1.8 million over the prior year. The decrease in operating income was primarily due to decreased gross profit as noted above and an increase to SG&A expenses of \$0.5 million for which the integration synergies and restructuring savings were more than offset by the incremental TCG SG&A expenses of \$1.5 million.

Consolidated	Three months ended				Favorable (unfavorable)		FX Impact	Excluding FX	
	February 29, 2016	February 28, 2015	Increase (decrease)						
	(In thousands, except for %'s and per pound data)								
Pounds sold	595,188	516,977	78,211	15.1	%				
Net sales	\$591,761	\$542,295	\$49,466	9.1	%	\$(35,636)	)	15.7	%
Operating income	\$16,006	\$5,319	\$10,687	200.9	%	\$(1,456)	)	228.3	%
Total operating income before certain items*	\$28,704	\$18,900	\$9,804	51.9	%	\$(1,635)	)	60.5	%
Price per pound	\$0.994	\$1.049	\$(0.055)	(5.2)	)%	\$(0.060)	)	0.5	%
Total operating income per pound before certain items*	\$0.048	\$0.037	\$0.011	29.7	%	\$(0.003)	)	37.8	%

* Total operating income before certain items, a non-GAAP measurement, represents segment operating income combined with Corporate expenses. For a reconciliation of segment operating income to operating income and income from continuing operations before taxes, refer to Note 13 of this Form 10-Q.

Three months ended February 29, 2016

Consolidated net sales for the three months ended February 29, 2016 were \$591.8 million compared with \$542.3 million for the three months ended February 28, 2015. Incremental net sales and volume in the second quarter of fiscal 2016 from the Company's recent Citadel acquisition contributed \$102.0 million and 106.9 million pounds, respectively. Foreign currency translation unfavorably impacted net sales for the three months ended February 29, 2016 by \$35.6 million. Historically, the Company's second fiscal quarter typically represents the lowest revenue period of its fiscal year.

Operating income increased by \$10.7 million for the three months ended February 29, 2016 compared with the same prior-year period. Total operating income before certain items for the three months ended February 29, 2016 was \$28.7 million, an increase of \$9.8 million compared with the same prior-year period. The increase in total operating income before certain items was primarily due to the contribution from the Citadel acquisition of \$4.2 million and decreased legacy SG&A expense of \$8.7 million as noted below, partially offset by the negative impact of foreign currency translation of \$1.6 million.

The Company's SG&A expenses, excluding certain items, increased by \$5.3 million for the three months ended February 29, 2016 compared with the same prior year period. The increase was primarily attributable to the incremental SG&A expense of \$14.0 million from the Citadel acquisition, partially offset by decreased variable incentive compensation of \$6.3 million and the favorable impact of foreign currency translation of \$3.2 million. Certain items excluded from SG&A expenses consist of \$6.5 million of expense related to acquisition and integration activities, restructuring and related costs, and Lucent costs for the three months ended February 29, 2016 and \$10.3 million of expense related to acquisition and integration activities, CEO transition costs, and restructuring and related costs for the three months ended February 28, 2015.

Consolidated	Six months ended				Favorable (unfavorable)		Excluding FX	
	February 29, 2016	February 28, 2015	Increase (decrease)		FX Impact			
	(In thousands, except for %'s and per pound data)							
Pounds sold	1,233,056	1,061,573	171,483	16.2	%			
Net sales	\$1,240,980	\$1,157,348	\$83,632	7.2	%	\$(97,586)	15.7	%
Operating income	\$42,152	\$26,397	\$15,755	59.7	%	\$(3,558)	73.2	%
Total operating income before certain items*	\$66,545	\$46,951	\$19,594	41.7	%	\$(3,863)	50.0	%
Price per pound	\$1.006	\$1.090	\$(0.084)	(7.7	)%	\$(0.080)	(0.4)%
Total operating income per pound before certain items*	\$0.054	\$0.044	\$0.010	22.7	%	\$(0.003)	29.5	%

* Total operating income before certain items, a non-GAAP measurement, represents segment operating income combined with Corporate expenses. For a reconciliation of segment operating income to operating income and income from continuing operations before taxes, refer to Note 13 of this Form 10-Q.

Six months ended February 29, 2016

Consolidated net sales for the six months ended February 29, 2016 were \$1,241.0 million compared with \$1,157.3 million for the six months ended February 28, 2015. Incremental net sales and volume in the six months of fiscal 2016 from the Company's recent Citadel acquisition contributed \$213.0 million and 221.4 million pounds, respectively. Foreign currency translation unfavorably impacted net sales for the six months ended February 29, 2016 by \$97.6 million.

Operating income increased by \$15.8 million for the six months ended February 29, 2016 compared with the same prior-year period. Total operating income before certain items for the six months ended February 29, 2016 was \$66.5 million, an increase of \$19.6 million compared with the same prior-year period. The increase in total operating income

before certain items was primarily due to the contribution from the Citadel acquisition of \$11.3 million and decreased legacy SG&A expense of \$12.0 million as noted below, partially offset by the negative impact of foreign currency translation of \$3.9 million.

The Company's SG&A expenses, excluding certain items, increased by \$17.0 million for the six months ended February 29, 2016 compared with the same prior year period. The increase was primarily attributable to the incremental SG&A expense of \$29.0 million from the Citadel acquisition, partially offset by decreased variable incentive compensation of \$6.2 million and the favorable impact of foreign currency translation of \$8.6 million. Certain items excluded from SG&A expenses consist of \$12.8 million of expense related to acquisition and integration activities, restructuring and related costs, and Lucent costs for the six months ended

- 28 -

February 29, 2016 and \$11.6 million of expense related to acquisition and integration activities, CEO transition costs, and restructuring and related costs for the six months ended February 28, 2015.

Additional consolidated results

Interest expense increased \$11.5 million and \$22.7 million for the three and six months ended February 29, 2016, respectively, compared with the same period in the prior year as a result of higher outstanding debt related to the financing of the Citadel acquisition.

The Company experienced foreign currency transaction losses of \$1.0 million and \$1.7 million for the three and six months ended February 29, 2016, respectively. Generally, the foreign currency transaction gains or losses relate to the changes in the value of the U.S. dollar compared with the Euro and other local currencies throughout all regions, and changes between the Euro and other non-Euro European currencies. The Company may enter into foreign exchange forward contracts to reduce the impact of changes in foreign exchange rates on the consolidated statements of operations. These contracts reduce exposure to currency movements affecting the remeasurement of foreign currency denominated assets and liabilities primarily related to trade receivables and payables, as well as intercompany activities. Any gains or losses associated with these contracts, as well as the offsetting gains or losses from the underlying assets or liabilities, are recognized on the foreign currency transaction line in the consolidated statements of operations. There were no foreign exchange forward contracts designated as hedging instruments as of February 29, 2016 and August 31, 2015.

Net income (loss) available to the Company's common stockholders was a loss of \$0.3 million and income of \$4.9 million for the three and six months ended February 29, 2016, respectively. Net income (loss) available to the Company's common stockholders was a loss of \$0.9 million and income of \$12.3 million for the three and six months ended February 28, 2015, respectively. Foreign currency translation negatively impacted net income by \$0.2 million and \$0.3 million for the three and six months ended February 29, 2016.

Product Families

Globally, the Company operates in six product families: (1) custom performance colors, (2) engineered composites, (3) masterbatch solutions, (4) engineered plastics, (5) specialty powders and (6) distribution services. The three and six months ended February 28, 2015 include a reclassification of revenue between product families to better reflect the way the businesses are managed. The amount and percentage of consolidated net sales for these product families are as follows:

	Three months ended					
	February 29, 2016			February 28, 2015		
	(In thousands, except for %'s)					
Custom Performance Colors	\$43,843	7	%	\$45,865	8	%
Engineered Composites	47,393	8		—	—	
Masterbatch Solutions	164,618	28		175,470	33	
Engineered Plastics	211,414	36		173,212	32	
Specialty Powders	59,998	10		69,233	13	
Distribution Services	64,495	11		78,515	14	
Total consolidated net sales	\$591,761	100	%	\$542,295	100	%
	Six months ended					
	February 29, 2016			February 28, 2015		
	(In thousands, except for %'s)					
Custom Performance Colors	\$90,363	7	%	\$97,163	8	%
Engineered Composites	99,339	8		—	—	
Masterbatch Solutions	346,514	28		373,828	33	
Engineered Plastics	445,631	36		368,180	32	
Specialty Powders	127,419	10		151,590	13	
Distribution Services	131,714	11		166,587	14	
Total consolidated net sales	\$1,240,980	100	%	\$1,157,348	100	%

Capacity

The Company's practical capacity is not based on a theoretical 24-hour, seven-day operation, rather it is determined as the production level at which the manufacturing facilities can operate with an acceptable degree of efficiency, taking into consideration factors such as longer term customer demand, permanent staffing levels, operating shifts, holidays, scheduled maintenance and mix of product. Capacity utilization is calculated by dividing actual production pounds by practical capacity at each plant. A comparison of capacity utilization levels is as follows:

	Three months ended		Six months ended		
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015	
EMEA ⁽¹⁾	71	% 78	% 79	% 85	%
USCAN	64	% 60	% 67	% 64	%
LATAM	66	% 64	% 72	% 68	%
APAC	64	% 62	% 65	% 64	%
EC	64	% —	% 67	% —	%
Worldwide	67	% 69	% 71	% 73	%

⁽¹⁾ EMEA capacity utilization during the second quarter of fiscal 2016 was impacted by planned temporary facility shut-downs to align production with demand.

Restructuring

The following table summarizes the activity related to the Company's restructuring plans:

	Employee-related Costs	Other Costs	Translation Effect	Total Restructuring Costs
	(In thousands)			
Accrual balance as of August 31, 2015	\$5,786	\$461	\$(864)	) \$5,383
Fiscal 2016 charges	2,426	1,334	—	3,760
Fiscal 2016 payments	(3,295)	) (1,466)	) —	(4,761)
Translation	—	—	(154)	) (154)
Accrual balance as of February 29, 2016	\$4,917	\$329	\$(1,018)	) \$4,228

For discussion of the Company's fiscal 2016 restructuring plans, refer to Note 14 in this Form 10-Q.

Income Tax

The effective tax rate for the three and six months ended February 29, 2016 was (36.0)% and 28.8%, respectively, and 114.4% and 39.6% for the three and six months ended February 28, 2015, respectively. The decrease in the effective tax rate for the three and six months ended February 29, 2016 as compared with the same periods last year was driven primarily by prior year losses with no tax benefit due to valuation allowances and current year tax benefits related to the extension of certain expired tax provisions by the Protecting Americans from Tax Hikes ("PATH") Act of 2015. The tax benefit for the three months ended February 29, 2016 related primarily to the extension of the "look-thru" provision of the U.S. tax law.

Goodwill

Goodwill is tested for impairment annually as of June 1. Management uses judgment to determine whether to use a qualitative analysis or a quantitative fair value measurement approach that combines the income and market valuation techniques for each of the Company's reporting units that carry goodwill. These valuation techniques use estimates and assumptions including, but not limited to, the determination of appropriate market comparables, projected future cash flows (including timing and profitability), discount rate reflecting the risk inherent in future cash flows, perpetual growth rate, and projected future economic and market conditions.

If circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying value, the Company would test goodwill for impairment. Factors which would necessitate an interim goodwill impairment assessment include a sustained decline in the Company's stock price, prolonged negative industry or economic trends, and significant under-performance relative to historical or projected future operating results.

As of June 1, 2015, the annual goodwill impairment test date for fiscal 2015, goodwill exists in five of the Company's reporting units in EMEA (masterbatch solutions, engineered plastics, specialty powders, custom performance colors and distribution services), four reporting units in USCAN (masterbatch solutions, custom performance colors, engineered plastics and specialty powders), three reporting units in LATAM (masterbatch solutions, custom performance colors, and specialty powders), and two reporting units in APAC (custom performance colors and engineered plastics). Based on this analysis, management concluded that as of June 1, 2015, there were no indicators of impairment to goodwill.

Management also concluded, based on the quantitative fair value measurements performed, that as of June 1, 2015, the fair values of the EMEA specialty powders and USCAN custom performance colors reporting units exceeded their carrying values by 7.6% and 14.3%, respectively. As of February 29, 2016, the EMEA specialty powders reporting unit had goodwill of \$15.9 million while goodwill in the USCAN custom performance colors reporting unit was \$17.2 million. The goodwill associated with these reporting units is primarily the result of the acquisitions made within the last few years. Generally, goodwill recorded in business combinations is more susceptible to risk of impairment soon after the acquisition primarily because the business combination is recorded at fair value based on operating plans and economic conditions present at the time of the acquisition. If operating results or economic conditions deteriorate soon after an acquisition, it could result in the impairment of the acquired goodwill. A change in macroeconomic conditions in the EMEA and USCAN regions, as well as future changes in the judgments, assumptions and estimates that were used in the Company's goodwill impairment testing for these two reporting units, including the discount rate and future cash flow projections, could result in a significantly different estimate of the fair value.

In addition, on June 1, 2015, the Company acquired all of the issued and outstanding shares of Citadel for \$801.6 million. As of February 29, 2016, the goodwill balance associated with the Citadel acquisition was \$435.1 million, of which \$252.7 million was allocated to the global engineered composites reporting unit and \$182.4 million was allocated to the USCAN engineered plastics reporting unit. See Note 2 and Note 3 to the consolidated financial statements within this Form 10-Q for further discussion.

In the second quarter of fiscal year 2016, the reporting units associated with the Citadel acquisition did not meet volume and revenue expectations, and the product mix had lower margins than planned. We are just now beginning our annual long-term budgeting and strategic planning process. We use the targets, resource allocations, and strategic decisions made in this process as the inputs for the associated cash flows based on the long-term financial forecast and valuations in our annual impairment test. Given recent performance, the global engineered composites and USCAN engineered plastics reporting units, in addition to the EMEA specialty powders and USCAN custom performance colors reporting units, are at an elevated risk of impairment. The Company will continue to monitor the short-term impact to determine if they are indicative of long-term trends.

Liquidity and Capital Resources

Net cash provided from operations was \$30.6 million and \$1.1 million for the six months ended February 29, 2016 and February 28, 2015, respectively. This increase is primarily due to positive operating cash flow from the Citadel acquisition. The Company's cash and cash equivalents decreased \$50.0 million from August 31, 2015. This decrease was driven primarily by net debt repayments of \$41.4 million, capital expenditures of \$20.4 million, dividend payments of \$15.8 million, and the negative effect of foreign currency translation of \$3.1 million, mostly offset by cash generated from operations of \$30.6 million.

The Company's approximate working capital days are summarized as follows:

	February 29, 2016	August 31, 2015	February 28, 2015
Days in receivables	59	55	59
Days in inventory	55	53	51
Days in payables	43	44	43
Total working capital days	71	64	67

The following table summarizes certain key balances on the Company's consolidated balance sheets and related metrics:

	February 29, 2016	August 31, 2015	\$ Change	% Change
--	----------------------	--------------------	-----------	----------

Edgar Filing: SCHULMAN A INC - Form 10-Q

	(In thousands, except for %'s)				
Cash and cash equivalents	\$46,878	\$96,872	\$(49,994)	(51.6))%
Working capital, excluding cash	\$335,165	\$334,160	\$1,005	0.3	%
Long-term debt	\$999,013	\$1,045,349	\$(46,336)	(4.4))%
Total debt	\$1,024,183	\$1,066,059	\$(41,876)	(3.9))%
Net debt*	\$977,305	\$969,187	\$8,118	0.8	%
Total A. Schulman, Inc. stockholders' equity	\$560,324	\$584,086	\$(23,762)	(4.1))%

* Net debt, a non-GAAP financial measure, represents total debt less cash and cash equivalents. The Company believes that net debt provides useful supplemental liquidity information to investors.

As of February 29, 2016 and August 31, 2015, the Company held 96% of the Company's cash and cash equivalents at its foreign subsidiaries, respectively. The majority of these foreign cash balances are associated with earnings that we have asserted are permanently reinvested and which we plan to use to support continued growth plans outside the U.S. through funding of capital expenditures, acquisitions, operating expenses or other similar cash needs of foreign operations. From time to time, we repatriate cash from foreign subsidiaries to the U.S. through intercompany dividends for normal operating needs and service of outstanding debt. These dividends are typically paid out of current year earnings. A significant portion of our cash and cash equivalents are in the Company's bank accounts that are part of the Company's recently established global cash pooling system, which has resulted in a decrease in cash and cash equivalents needed on hand as of February 29, 2016 as compared to August 31, 2015. In addition, excess cash in the U.S. and EMEA is generally used to repay outstanding debt.

Working capital, excluding cash, was \$335.2 million as of February 29, 2016, an increase of \$1.0 million from August 31, 2015. The primary reasons for the increase in working capital from August 31, 2015 include a decrease in accounts payable of \$34.2 million and a decrease of \$13.4 million in accrued payroll, taxes and related benefits mostly offset by a decrease of \$23.6 million in accounts receivable, a decrease of \$17.6 million in inventory, and an increase of \$5.2 million in other accrued liabilities.

Capital expenditures for the six months ended February 29, 2016 were \$20.4 million compared with \$21.2 million last year. The Company continued regular and ongoing investments in its global manufacturing facilities and technical innovation centers.

Below summarizes the Company's available funds:

	February 29, 2016	August 31, 2015
	(In thousands)	
Existing capacity:		
Revolving Facility	\$300,000	\$300,000
Foreign short-term lines of credit	37,684	34,921
Total capacity from credit lines	\$337,684	\$334,921
Availability:		
Revolving Facility	\$283,294	\$298,574
Foreign short-term lines of credit	26,479	25,999
Total available funds from credit lines	\$309,773	\$324,573

Total available funds from credit lines represents the total capacity from credit lines less outstanding borrowings of \$24.9 million and \$8.9 million as of February 29, 2016 and August 31, 2015, respectively, and issued letters of credit of \$3.0 million and \$1.4 million as of February 29, 2016 and August 31, 2015, respectively.

During the three and six months ended February 29, 2016, the Company declared and paid quarterly cash dividends of \$0.205 and \$0.41, respectively, per share to common stockholders. The total amount of these dividends was \$6.0 million and \$12.0 million, respectively. During the three and six months ended February 29, 2016, the Company declared and paid quarterly cash dividends of \$15.00 and \$30.00, respectively, per share to special stockholders. The total amount of these dividends was \$1.9 million and \$3.8 million, respectively.

For a discussion of the Company's share repurchase programs, refer to Note 18 in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015. The Company repurchased no common stock during fiscal 2016. The Company

repurchased 109,422 shares of common stock in the first quarter of fiscal 2015 at an average price of \$30.46 per share for a total cost of \$3.3 million. As of February 29, 2016, shares valued at \$51.7 million remain authorized for repurchase.

The Company has foreign currency exposures primarily related to the Euro, British pound sterling, Polish zloty, Mexican peso, Brazilian real, and Argentine peso, among others. The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates. Income statement items are translated at average exchange rates prevailing during the period. The resulting translation adjustments are recorded in the accumulated other comprehensive income (loss) account in stockholders' equity. A significant portion of the Company's operations uses the Euro as its functional currency. Accumulated other comprehensive income decreased by \$18.1 million during the six months ended February 29, 2016 primarily due to the strengthening of the U.S. dollar against various foreign currencies, most significantly the Euro which declined by 2.9% from 1.122 U.S. dollars to 1 Euro as of August 31, 2015 to 1.089 as of February 29, 2016.

Cash flow from operations, borrowing capacity under the credit facilities and cash and cash equivalents are expected to provide sufficient liquidity to maintain and grow the Company's current operations and capital expenditure requirements, pay dividends, reduce outstanding debt, pursue acquisitions, and repurchase shares.

Contractual Obligations

As of February 29, 2016, there were no material changes to the Company's future contractual obligations as previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015. The Company's outstanding commercial commitments as of February 29, 2016 are not material to the Company's financial position, liquidity or results of operations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as of February 29, 2016.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Management bases its estimates on historical experience and other factors it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. The Company's critical accounting policies are the same as discussed in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

Accounting Pronouncements

For a discussion of accounting pronouncements, refer to Note 16 of this Form 10-Q.

Cautionary Statements

A number of the matters discussed in this document that are not historical or current facts deal with potential future circumstances and developments and may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historic or current facts and relate to future events and expectations. Forward-looking statements contain such words as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. Forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which management is unable to predict or control, that may cause actual results, performance or achievements to differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results to differ materially from those suggested by these forward-looking statements, and that could adversely affect the Company's future financial performance, include, but are not limited to, the following:

- worldwide and regional economic, business and political conditions, including continuing economic uncertainties in some or all of the Company's major product markets or countries where the Company has operations;
- the effectiveness of the Company's efforts to improve operating margins through sales growth, price increases, productivity gains, and improved purchasing techniques;

• competitive factors, including intense price competition;
• fluctuations in the value of currencies in areas where the Company operates;

- 32 -

- volatility of prices and availability of the supply of energy and raw materials that are critical to the manufacture of the Company's products, particularly plastic resins derived from oil and natural gas;
- changes in customer demand and requirements;
- effectiveness of the Company to achieve the level of cost savings, productivity improvements, growth and other benefits anticipated from acquisitions and the integration thereof, joint ventures and restructuring initiatives;
- escalation in the cost of providing employee health care;
- uncertainties and unanticipated developments regarding contingencies, such as pending and future litigation and other claims, including developments that would require increases in our costs and/or reserves for such contingencies;
- the performance of the global automotive market as well as other markets served;
- further adverse changes in economic or industry conditions, including global supply and demand conditions and prices for products;
- operating problems with our information systems as a result of system security failures such as viruses, cyber-attacks or other causes;
- our current debt position could adversely affect our financial health and prevent us from fulfilling our financial obligations;
- integration of acquisitions, including most recently Citadel, with our existing business, including the risk that the integration will be more costly or more time consuming and complex or simply less effective than anticipated;
- our ability to achieve the anticipated synergies, cost savings and other benefits from the Citadel acquisition;
- substantial time devoted by management to the integration of the Citadel acquisition; and
- failure of counterparties to perform under the terms and conditions of contractual arrangements, including suppliers, customers, buyers and sellers of a business and other third parties with which the Company contracts.

The risks and uncertainties identified above are not the only risks the Company faces. Additional risk factors that could affect the Company's performance are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015. In addition, risks and uncertainties not presently known to the Company or that it believes to be immaterial also may adversely affect the Company. Should any known or unknown risks or uncertainties develop into actual events, or underlying assumptions prove inaccurate, these developments could have material adverse effects on the Company's business, financial condition and results of operations.

Item 3 – Quantitative and Qualitative Disclosure about Market Risk

In the ordinary course of business, the Company is subject to interest rate, foreign currency, and commodity risks. Information related to these risks and management of these exposures is included in Part II, ITEM 7A, QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK, in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015. Exposures to market risks have not changed materially since August 31, 2015.

Item 4 – Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

- 34 -

PART II – OTHER INFORMATION

Items 1, 3, 4 and 5 are not applicable or the answer to such items is negative; therefore, the items have been omitted and no reference is required in this Quarterly Report.

Item 1A – Risk Factors

There are certain risks and uncertainties in the Company's business that could cause our actual results to differ materially from those anticipated. In "ITEM 1A. RISK FACTORS" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015, the Company included a detailed discussion of its risk factors. There are no material changes from the risk factors previously disclosed.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The Company did not repurchase any shares of common stock during the second quarter of fiscal 2016, as the Board indefinitely suspended the 10b5-1 plan during the fourth quarter of fiscal 2015. Shares valued at \$51.7 million remain authorized for repurchase as of February 29, 2016. For further discussion of the Company's Share Repurchase program, refer to Note 18 in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

Table of Contents

A. SCHULMAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Item 6 – Exhibits

(a) Exhibits

Exhibit Number Exhibit

- | | |
|--------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the Company, as amended (for purposes of Commission reporting compliance only). (incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on July 7, 2015). |
| 3.2 | Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on June 27, 2011). |
| 4.1 | Indenture, dated as of May 26, 2015, by and among A. Schulman, Inc., the guarantors party thereto and U.S. Bank National Association, as trustee (including the Form of 6.875% Senior Note due 2023) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on May 28, 2015). |
| 4.2 | First Supplemental Indenture, dated as of June 1, 2015, by and among A. Schulman, Inc., the guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on June 3, 2015). |
| 4.3 | Registration Rights Agreement, dated as of May 26, 2015, by and among A. Schulman, Inc., the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as representatives of the initial purchasers of the Notes) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Commission on May 28, 2015). |
| 4.4 | Joinder to Registration Rights Agreement, dated as of June 1, 2015, by and among A. Schulman, Inc., the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as representatives of the initial purchasers (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Commission on June 3, 2015). |
| 4.5 | Specimen Certificate for 6.00% Cumulative Perpetual Convertible Special Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on May 4, 2015). |
| 10.1 * | Form of 2016 Notice of Grant of Restricted Stock Units for Foreign Employees (filed herewith) |
| 10.2 * | Form of 2016 Award Agreement for Foreign Employees (filed herewith) |
| 10.3 * | Form of 2016 Notice of Grant of Restricted Stock and Restricted Stock Units for Employees (filed herewith) |

Edgar Filing: SCHULMAN A INC - Form 10-Q

- 10.4 * Form of 2016 Award Agreement for Employees (filed herewith)
- 10.5 * Form of 2016 Notice of Equity Grant and Award Agreement for Non-Employee Directors (filed herewith)
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
- 32 Certifications of Principal Executive and Principal Financial Officer pursuant to 18 U.S.C. 1350.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

* Management contract or compensatory plan or arrangement required to be filed as an Exhibit hereto.

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.

A. Schulman, Inc.
(Registrant)

/s/ Joseph J. Levanduski
Joseph J. Levanduski , Executive Vice
President, Chief Financial Officer of A.
Schulman, Inc. (Signing on behalf of Registrant
as a duly authorized officer of Registrant and
signing as the Principal Financial Officer of
Registrant)
Date: April 5, 2016

- 37 -