

MATTHEWS INTERNATIONAL CORP  
Form 10-Q  
May 06, 2011

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

Form 10-Q

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

For The Quarterly Period Ended March 31, 2011

Commission File No. 0-9115

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

PENNSYLVANIA  
(State or other jurisdiction of  
Incorporation or organization)

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

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

15212-5851

(Zip Code)

Registrant's telephone number, including area  
code

(412) 442-8200

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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

Yes ☒

No ☐

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

Yes ☒

No ☐

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

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Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting  
company ☐

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

Yes ☐ No ☒

As of April 30, 2011, shares of common stock outstanding were:

Class A Common Stock 29,513,243 shares

PART I - FINANCIAL INFORMATION  
MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)  
(Dollar amounts in thousands, except per share data)

|                                     | March 31, 2011 | September 30, 2010 |
|-------------------------------------|----------------|--------------------|
| <b>ASSETS</b>                       |                |                    |
| Current assets:                     |                |                    |
| Cash and cash equivalents           | \$60,331       | \$59,715           |
| Short-term investments              | 1,392          | 1,395              |
| Accounts receivable, net            | 150,179        | 151,038            |
| Inventories                         | 122,495        | 107,926            |
| Deferred income taxes               | 1,663          | 1,666              |
| Other current assets                | 15,254         | 13,915             |
| Total current assets                | 351,314        | 335,655            |
| Investments                         | 16,069         | 13,642             |
| Property, plant and equipment: Cost | 321,157        | 308,630            |
| Less accumulated depreciation       | (189,136 )     | (178,880 )         |
|                                     | 132,021        | 129,750            |
| Deferred income taxes               | 32,467         | 30,555             |
| Other assets                        | 17,581         | 21,101             |
| Goodwill                            | 444,058        | 405,180            |
| Other intangible assets, net        | 58,860         | 57,942             |
| Total assets                        | \$1,052,370    | \$993,825          |
| <b>LIABILITIES</b>                  |                |                    |
| Current liabilities:                |                |                    |
| Long-term debt, current maturities  | \$10,095       | \$12,073           |
| Accounts payable                    | 35,820         | 36,308             |
| Accrued compensation                | 34,874         | 39,062             |
| Accrued income taxes                | 11,318         | 12,984             |
| Other current liabilities           | 47,568         | 47,686             |
| Total current liabilities           | 139,675        | 148,113            |
| Long-term debt                      | 248,445        | 225,256            |
| Accrued pension                     | 52,094         | 50,276             |
| Postretirement benefits             | 23,818         | 23,307             |
| Deferred income taxes               | 16,538         | 15,950             |
| Environmental reserve               | 5,749          | 5,961              |
| Other liabilities                   | 37,063         | 31,234             |
| Total liabilities                   | 523,382        | 500,097            |

**SHAREHOLDERS' EQUITY**

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Shareholders' equity-Matthews:

|  |            |                 |               |
|--|------------|-----------------|---------------|
| Common stock                                   | 36,334     | 36,334          |               |
| Additional paid-in capital                     | 45,341     | 48,294          |               |
| Retained earnings                              | 643,992    | 621,923         |               |
| Accumulated other comprehensive loss           | (25,156 )  | (37,136 )       |               |
| Treasury stock, at cost                        | (207,778 ) | (207,470 )      |               |
| Total shareholders' equity-Matthews            |            | 492,733         | 461,945       |
| Noncontrolling interests                       |            | 36,255          | 31,783        |
| Total shareholders' equity                     |            | 528,988         | 493,728       |
| <br>Total liabilities and shareholders' equity |            | <br>\$1,052,370 | <br>\$993,825 |

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

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

|   | Three Months Ended<br>March 31, |            | Six Months Ended<br>March 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2011                            | 2010       | 2011                          | 2010       |
| Sales   | \$220,151                       | \$200,866  | \$427,495                     | \$393,839  |
| Cost of sales   | (132,038 )                      | (123,085 ) | (259,637 )                    | (242,668 ) |
| Gross profit  | 88,113                          | 77,781     | 167,858                       | 151,171    |
| Selling and administrative expenses                       | (59,628 )                       | (50,663 )  | (117,407 )                    | (101,877 ) |
| Operating profit  | 28,485                          | 27,118     | 50,451                        | 49,294     |
| Investment income   | 498                             | 809        | 1,649                         | 2,004      |
| Interest expense  | (2,087 )                        | (1,812 )   | (3,839 )                      | (3,751 )   |
| Other income (deductions), net                            | (697 )                          | (633 )     | (966 )                        | (731 )     |
| Income before income taxes                                | 26,199                          | 25,482     | 47,295                        | 46,816     |
| Income taxes  | (9,080 )                        | (9,187 )   | (16,653 )                     | (16,865 )  |
| Net income  | 17,119                          | 16,295     | 30,642                        | 29,951     |
| Less: net income attributable to noncontrolling interests | (532 )                          | (364 )     | (841 )                        | (1,024 )   |
| Net income attributable to Matthews shareholders          | \$16,587                        | \$15,931   | \$29,801                      | \$28,927   |
| Earnings per share attributable to Matthews shareholders: |                                 |            |                               |            |
| Basic   | \$0.56                          | \$0.53     | \$1.01                        | \$0.97     |
| Diluted   | \$0.56                          | \$0.53     | \$1.01                        | \$0.96     |

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



MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
for the six months ended March 31, 2011 and 2010 (Unaudited)  
(Dollar amounts in thousands, except per share data)

|  | Shareholders' Equity - Matthews |            |           |               |               |             |           |
|--|---------------------------------|------------|-----------|---------------|---------------|-------------|-----------|
|  | Accumulated                     |            |           |               |               |             |           |
|  | Common                          | Additional | Retained  | Other         | Treasury      | Non-        |           |
|  | Stock                           | Paid-in    | Earnings  | Comprehensive | Stock         | controlling | Total     |
|  |                                 | Capital    |           | Income        |               | interests   |           |
|  |                                 |            |           | (Loss)        |               |             |           |
| Balance, September 30, 2010                  | \$36,334                        | \$48,294   | \$621,923 | \$ (37,136 )  | \$ (207,470 ) | \$31,783    | \$493,728 |
| Net income                                   | -                               | -          | 29,801    | -             | -             | 841         | 30,642    |
| Minimum pension liability                    | -                               | -          | -         | 1,606         | -             | -           | 1,606     |
| Translation adjustment                       | -                               | -          | -         | 9,508         | -             | 1,524       | 11,032    |
| Fair value of derivatives                    | -                               | -          | -         | 866           | -             | -           | 866       |
| Total comprehensive income                   |                                 |            |           |               |               |             | 44,146    |
| Stock-based compensation                     | -                               | 3,608      | -         | -             | -             | -           | 3,608     |
| Purchase of 211,890 shares of treasury stock | -                               | -          | -         | -             | (7,400 )      | -           | (7,400 )  |
| Issuance of 234,562 shares of treasury stock | -                               | (6,561 )   | -         | -             | 7,092         | -           | 531       |
| Dividends, \$.16 per share                   | -                               | -          | (4,727 )  | -             | -             | -           | (4,727 )  |
| Distributions to noncontrolling interests    |                                 |            |           |               |               | (621 )      | (621 )    |
| Arrangement-noncontrolling interest          |                                 |            | (3,005 )  |               |               | 2,728       | (277 )    |
| Balance, March 31, 2011                      | \$36,334                        | \$45,341   | \$643,992 | \$ (25,156 )  | \$ (207,778 ) | \$36,255    | \$528,988 |

Shareholders' Equity - Matthews  
Accumulated

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|  | Common   | Additional<br>Paid-in | Retained  | Other<br>Comprehensive | Treasury     | Non-<br>controlling |           |
|--|----------|-----------------------|-----------|------------------------|--------------|---------------------|-----------|
|  | Stock    | Capital               | Earnings  | Income<br>(Loss)       | Stock        | interests           | Total     |
| Balance,<br>September 30,<br>2009                  | \$36,334 | \$47,436              | \$559,786 | \$ (29,884 )           | \$(179,454 ) | \$4,676             | \$438,894 |
| Net income   | -        | -                     | 28,927    | -                      | -            | 1,024               | 29,951    |
| Minimum<br>pension liability                       | -        | -                     | -         | 1,578                  | -            | -                   | 1,578     |
| Translation<br>adjustment                          | -        | -                     | -         | (14,410 )              | -            | 113                 | (14,297 ) |
| Fair value of<br>derivatives                       | -        | -                     | -         | 424                    | -            | -                   | 424       |
| Total<br>comprehensive<br>income                   |          |                       |           |                        |              |                     | 17,656    |
| Stock-based<br>compensation                        | -        | 3,293                 | -         | -                      | -            | -                   | 3,293     |
| Purchase of<br>272,125 shares of<br>treasury stock | -        | -                     | -         | -                      | (9,386 )     | -                   | (9,386 )  |
| Issuance<br>of 30,790 shares<br>of treasury stock  | -        | (5,843 )              | -         | -                      | 6,633        | -                   | 790       |
| Dividends, \$.14<br>per share                      | -        | -                     | (4,244 )  | -                      | -            | -                   | (4,244 )  |
| Distributions to<br>noncontrolling<br>interests    |          |                       |           |                        |              | (234 )              | (234 )    |
| Balance, March<br>31, 2010                         | \$36,334 | \$44,886              | \$584,469 | \$ (42,292 )           | \$(182,207 ) | \$5,579             | \$446,769 |

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



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

|   | Six Months Ended<br>March 31, |           |
|---|-------------------------------|-----------|
|   | 2011                          | 2010      |
| Cash flows from operating activities:   |                               |           |
| Net income  | \$30,642                      | \$29,951  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |           |
| Depreciation and amortization   | 13,627                        | 12,543    |
| Gain on investments   | (700 )                        | (601 )    |
| (Gain) loss on sale of assets   | (888 )                        | 68        |
| Stock-based compensation expense  | 3,608                         | 3,293     |
| Change in deferred taxes  | (429 )                        | (2,372 )  |
| Changes in working capital items  | (18,675 )                     | 10,966    |
| Decrease (increase) in other assets   | 3,520                         | (3,513 )  |
| (Decrease) increase in other liabilities  | (1,888 )                      | 175       |
| Increase in pension and postretirement benefits                                   | 4,961                         | 5,170     |
| Net cash provided by operating activities   | 33,778                        | 55,680    |
| Cash flows from investing activities:   |                               |           |
| Capital expenditures  | (7,687 )                      | (8,410 )  |
| Proceeds from sale of assets  | 992                           | 100       |
| Acquisitions, net of cash acquired  | (31,693 )                     | (14,606 ) |
| Proceeds from sale of investments   | 2                             | 638       |
| Purchases of investments  | (1,641 )                      | (1,612 )  |
| Net cash used in investing activities   | (40,027 )                     | (23,890 ) |
| Cash flows from financing activities:   |                               |           |
| Proceeds from long-term debt  | 39,636                        | 25,484    |
| Payments on long-term debt  | (22,979 )                     | (38,812 ) |
| Proceeds from the sale of treasury stock  | 491                           | 726       |
| Purchases of treasury stock   | (7,400 )                      | (9,386 )  |
| Excess tax benefit of share-based compensation arrangements                       | 40                            | 64        |
| Dividends   | (4,727 )                      | (4,244 )  |
| Distributions to noncontrolling interests   | (621 )                        | (234 )    |
| Net cash provided by (used in) financing activities                               | 4,440                         | (26,402 ) |
| Effect of exchange rate changes on cash   | 2,425                         | (2,186 )  |
| Net change in cash and cash equivalents   | \$616                         | \$3,202   |

Non-cash investing and financing activities:

|  |         |     |
|--|---------|-----|
| Acquisition of equipment under capital lease | \$2,764 | \$- |
|--|---------|-----|

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

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

March 31, 2011

(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze and granite memorials, other memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, marking products and merchandising solutions. The Company's products and operations are comprised of six business segments: Bronze, Casket, Cremation, Graphics Imaging, Marking Products and Merchandising Solutions. The Bronze segment is a leading manufacturer of cast bronze and granite memorials, other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Casket segment is a leading casket manufacturer and distributor in North America and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets primarily in North America. The Graphics Imaging segment provides brand management, printing plates, gravure cylinders, pre-press services and imaging services for the primary packaging and corrugated industries. The Marking Products segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

The Company has manufacturing and marketing facilities in the United States, Mexico, Canada, Europe, Australia and Asia.

Note 2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010. The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. All intercompany accounts and transactions have been eliminated.

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



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

Note 3. Fair Value Measurements

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

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

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

Level 3: Unobservable inputs for the asset or liability.

As of March 31, 2011 and September 30, 2010, the fair values of the Company's assets and liabilities measured on a recurring basis are categorized as follows:

|                                 | March 31, 2011 |         |         |          | September 30, 2010 |         |         |          |
|---------------------------------|----------------|---------|---------|----------|--------------------|---------|---------|----------|
|                                 | Level 1        | Level 2 | Level 3 | Total    | Level 1            | Level 2 | Level 3 | Total    |
| Assets:                         |                |         |         |          |                    |         |         |          |
| Short-term investments          | \$1,392        | -       | -       | \$1,392  | \$1,395            | -       | -       | \$1,395  |
| Trading securities              | 14,076         | -       | -       | 14,076   | 11,770             | -       | -       | 11,770   |
| Total assets at fair value      | \$15,468       | -       | -       | \$15,468 | \$13,165           | -       | -       | \$13,165 |
| Liabilities:                    |                |         |         |          |                    |         |         |          |
| Derivatives (1)                 | -              | \$3,024 | -       | \$3,024  | -                  | \$4,445 | -       | \$4,445  |
| Total liabilities at fair value | -              | \$3,024 | -       | \$3,024  | -                  | \$4,445 | -       | \$4,445  |

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

Note 4. Inventories

Inventories consisted of the following:

|                               | March 31, 2011 | September 30, 2010 |
|-------------------------------|----------------|--------------------|
| Materials and finished goods  | \$ 101,602     | \$ 93,737          |
| Labor and overhead in process | 20,893         | 14,189             |
|                               | \$ 122,495     | \$ 107,926         |



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

Note 5. Debt

In December 2010, the Company entered into a new domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the new facility is \$300,000 and borrowings under the facility bear interest at LIBOR plus a factor ranging from 1.00% to 1.50% based on the Company's leverage ratio. The facility's maturity is December 2015. The new facility replaced the Company's \$225,000 Revolving Credit Facility. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility.

The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$25,000) is available for the issuance of commercial and standby letters of credit. Outstanding borrowings on the Revolving Credit Facilities were \$209,500 and \$187,000 as of March 31, 2011 and September 30, 2010, respectively. The weighted-average interest rate on outstanding borrowings on these facilities at March 31, 2011 and 2010 was 2.85% and 3.01%, respectively.

The Company has entered into the following interest rate swaps:

| Effective Date | Amount   | Fixed Interest Rate | Interest Rate Spread at March 31, 2011 | Maturity Date  |
|----------------|----------|---------------------|--|----------------|
| September 2007 | \$25,000 | 4.77%               | 1.25%                                  | September 2012 |
| May 2008       | 30,000   | 3.72%               | 1.25%                                  | September 2012 |
| October 2008   | 20,000   | 3.46%               | 1.25%                                  | October 2011   |
| November 2011  | 25,000   | 2.13%               | 1.25%                                  | November 2014  |
| September 2012 | 25,000   | 3.03%               | 1.25%                                  | December 2015  |
| March 2012     | 25,000   | 2.44%               | 1.25%                                  | March 2015     |

The interest rate swaps have been designated as cash flow hedges of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective.

The fair value of the interest rate swaps reflected an unrealized loss of \$3,024 (\$1,845 after tax) at March 31, 2011 that is included in shareholders' equity as part of accumulated other comprehensive loss. Assuming market rates remain constant with the rates at March 31, 2011, approximately \$1,331 of the \$1,845 loss included in accumulated other comprehensive loss is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

At March 31, 2011 and September 30, 2010, the interest rate swap contracts were reflected as a liability on the balance sheets. The following derivatives are designated as hedging instruments:

## Liability Derivatives

| Balance Sheet Location:   | March 31, 2011 | September 30,<br>2010 |
|---------------------------|----------------|-----------------------|
| Current liabilities:      |                |                       |
| Other current liabilities | \$ 2,182       | \$ 2,623              |
| Long-term liabilities     |                |                       |
| Other liabilities         | 842            | 1,822                 |
| Total derivatives         | \$ 3,024       | \$ 4,445              |



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

## Note 5. Debt (continued)

The loss recognized on derivatives was as follows:

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Location of<br>Gain or (Loss)<br>Recognized in<br>Income (Loss)<br>on<br>Derivative | Amount of<br>Loss Recognized<br>in Income (Loss)<br>on Derivatives<br>Three Months ended March 31,<br>2011 |          | Amount of<br>Loss Recognized<br>in Income (Loss)<br>on Derivatives<br>Six Months ended March 31,<br>2011 |            |
|---|---|--|----------|--|------------|
|   |   | 2011   | 2010     | 2011   | 2010       |
| Interest rate<br>swaps                                  | Interest<br>expense   | \$ (701)   | \$ (946) | \$ (1,459)   | \$ (1,893) |

The Company recognized the following losses in accumulated other comprehensive loss ("OCL"):

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Amount of Gain or<br>(Loss) Recognized in<br>OCL on Derivatives<br>March 31,<br>2011 |                   | Location of<br>Gain or<br>(Loss)<br>Reclassified<br>from<br>Accumulated<br>OCL into<br>Income<br>(Effective<br>Portion*) | Amount of Gain or (Loss)<br>Reclassified from<br>Accumulated OCL into<br>Income<br>(Effective Portion*)<br>March 31,<br>2011 |                   |
|---|--|-------------------|--|--|-------------------|
|   | March 31,<br>2011  | March 31,<br>2010 | (Effective<br>Portion*)  | March 31,<br>2011  | March 31,<br>2010 |
| Interest rate<br>swaps                                  | \$ (24)  | \$ (732)          | Interest<br>expense  | \$ (890)   | \$ (1,155)        |

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

The Company, through certain of its German subsidiaries, has a credit facility with a European bank. The maximum amount of borrowings available under this facility was 25.0 million Euros (\$35,435). Outstanding borrowings under the credit facility totaled 12.0 million Euros at March 31, 2011 and September 30, 2010. The weighted-average interest rate on outstanding borrowings under this facility at March 31, 2011 and 2010 was 1.78% and 1.58%, respectively.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 7.3 million Euros (\$10,322) and 7.9 million Euros (\$10,816) at March 31, 2011 and September 30, 2010, respectively. The weighted-average interest rate

on outstanding borrowings of Saueressig at March 31, 2011 and 2010 was 6.37% and 5.99%, respectively.

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

Note 5. Debt (continued)

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 8.5 million Euros (\$12,005) and 10.8 million Euros (\$14,680) at March 31, 2011 and September 30, 2010, respectively. Matthews International S.p.A. also has three lines of credit totaling 8.4 million Euros (\$11,864) with the same Italian banks. Outstanding borrowings on these lines were 1.0 million Euros (\$1,474) and 2.1 million Euros (\$2,834) at March 31, 2011 and September 30, 2010, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at March 31, 2011 and 2010 was 3.40% and 3.66%, respectively.

As of March 31, 2011 the fair value of the Company's long-term debt, including current maturities, approximated the carrying value included in the Condensed Consolidated Balance Sheet. At September 30, 2010, the fair value of the Company's long-term debt, including current maturities, was approximately \$225,052.

Note 6. Share-Based Payments

The Company maintains an equity incentive plan (the "2007 Equity Incentive Plan") that provides for the grants of stock options, restricted shares, stock-based performance units and certain other types of stock-based awards. Under the 2007 Equity Incentive Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 2,200,000. The Company also maintains a stock incentive plan (the "1992 Incentive Stock Plan") that previously provided for grants of stock options, restricted shares and certain other types of stock-based awards. There will be no further grants under the 1992 Incentive Stock Plan. At March 31, 2011, there were 1,134,844 shares reserved for future issuance under the 2007 Equity Incentive Plan. Both plans are administered by the Compensation Committee of the Board of Directors.

The option price for each stock option granted under either plan may not be less than the fair market value of the Company's common stock on the date of grant. Outstanding stock options are generally exercisable in one-third increments upon the attainment of 10%, 33% and 60% appreciation in the market value of the Company's Class A Common Stock. In addition, options generally vest in one-third increments after three, four and five years, respectively, from the grant date (but, in any event, not until the attainment of the market value thresholds). The options expire on the earlier of ten years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company generally settles employee stock option exercises with treasury shares. With respect to outstanding restricted share grants, generally one-half of the shares vest on the third anniversary of the grant. For shares granted prior to fiscal 2011, the remaining one-half of the shares vest in one-third increments upon attainment of 10%, 25% and 40% appreciation in the market value of the Company's Class A Common Stock. For shares granted in fiscal 2011, the remaining one-half of the shares vest in one-third increments upon attainment of 5%, 15% and 25% appreciation in the market value of the Company's Class A Common Stock. Additionally, beginning in fiscal 2009, restricted shares cannot vest until the first anniversary of the grant date. Unvested restricted shares generally expire on the earlier of five years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company issues restricted shares from treasury shares.

For the three-month periods ended March 31, 2011 and 2010, total stock-based compensation cost totaled \$1,851 and \$1,684, respectively. For the six-month periods ended March 31, 2011 and 2010, total stock-based compensation cost totaled \$3,608 and \$3,293, respectively. The associated future income tax benefit recognized was \$721 and \$656 for the three-month periods ended March 31, 2011 and 2010, respectively, and \$1,407 and \$1,284 for the six-month periods ended March 31, 2011 and 2010, respectively.

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

Note 6. Share-Based Payments (continued)

For the three-month periods ended March 31, 2011 and 2010, the amount of cash received from the exercise of stock options was \$338 and \$54, respectively. For the six-month periods ended March 31, 2011 and 2010, the amount of cash received from the exercise of stock options was \$491 and \$726, respectively. In connection with these exercises, the tax benefits realized by the Company were \$132 and \$15 for the three-month periods ended March 31, 2011 and 2010, respectively, and \$191 and \$151 for the six-month periods ended March 31, 2011 and 2010, respectively.

Changes to restricted stock for the six months ended March 31, 2011 were as follows:

|                                  | Shares    | Weighted-<br>average<br>grant-date<br>fair value |
|----------------------------------|-----------|--|
| Non-vested at September 30, 2010 | 437,442   | \$36.06  |
| Granted                          | 199,960   | 30.79  |
| Vested                           | (56,440 ) | 38.54  |
| Expired or forfeited             | (1,173 )  | 34.72  |
| Non-vested at March 31, 2011     | 579,789   | 34.00  |

As of March 31, 2011, the total unrecognized compensation cost related to unvested restricted stock was \$6,686 and is expected to be recognized over a weighted average period of 1.6 years.

The transactions for shares under options for the six months ended March 31, 2011 were as follows:

|                                 | Shares    | Weighted-<br>average<br>exercise<br>price | Weighted-<br>average<br>remaining<br>contractual<br>term | Aggregate<br>intrinsic<br>value |
|---------------------------------|-----------|---|--|---------------------------------|
| Outstanding, September 30, 2010 | 953,326   | \$36.32                                   |  |                                 |
| Granted                         | -         | -   |  |                                 |
| Exercised                       | (22,382 ) | 21.91                                     |  |                                 |
| Expired or forfeited            | (13,481 ) | 36.65                                     |  |                                 |
| Outstanding, March 31, 2011     | 917,463   | 36.67                                     | 4.4  | \$1,727                         |
| Exercisable, March 31, 2011     | 556,738   | 35.25                                     | 4.0  | \$1,839                         |

No shares were earned during the three-month and six-month periods ended March 31, 2011. During the three-month and six-month periods ended March 31, 2010, the fair value of shares earned was \$86 and \$3,120, respectively. The intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the six-month periods ended March 31, 2011 and 2010 was \$288 and \$457, respectively.



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

Note 6. Share-Based Payments (continued)

The transactions for non-vested options for the six months ended March 31, 2011 were as follows:

|                                  | Shares   | Weighted-average<br>grant-date<br>fair value |
|----------------------------------|----------|--|
| Non-vested shares                |          |  |
| Non-vested at September 30, 2010 | 366,179  | \$ 13.54                                     |
| Granted                          | -        | -  |
| Vested                           | -        | -  |
| Expired or forfeited             | (5,454 ) | 10.90  |
| Non-vested at March 31, 2011     | 360,725  | 13.58  |

As of March 31, 2011, the total unrecognized compensation cost related to non-vested stock options was approximately \$145. This cost is expected to be recognized over a weighted-average period of 0.6 years in accordance with the vesting periods of the options.

The fair value of each restricted stock grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value of restricted stock for the quarters ended March 31, 2011 and 2010.

|                                 | Six Months Ended March<br>31, |   |      |   |
|---------------------------------|-------------------------------|---|------|---|
|                                 | 2011                          |   | 2010 |   |
| Expected volatility             | 30.0                          | % | 30.0 | % |
| Dividend yield                  | 1.0                           | % | .8   | % |
| Average risk free interest rate | 1.2                           | % | 2.3  | % |
| Average expected term (years)   | 2.0                           |   | 2.2  |   |

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

Under the Company's Director Fee Plan, directors (except for the Chairman of the Board) who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$60. The equivalent amount paid to a non-employee Chairman of the Board is \$130. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. The value of deferred shares is recorded in other liabilities. A total of 26,689 shares had been deferred under the Director Fee Plan at March 31, 2011. Additionally, directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of \$80. A total of 22,300 stock options have been granted under the plan. At March 31, 2011, 17,800

options were outstanding and vested. Additionally, 64,923 shares of restricted stock have been granted under the plan, 23,623 of which were unvested at March 31, 2011. A total of 300,000 shares have been authorized to be issued under the Director Fee Plan.



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

Note 7. Earnings Per Share Attributable to Matthews' Shareholders

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

|   | Three Months Ended<br>March 31, |           | Six Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|-------------------------------|-----------|
|   | 2011                            | 2010      | 2011                          | 2010      |
| Net income attributable to Matthews shareholders                                    | \$ 16,587                       | \$ 15,931 | \$ 29,801                     | \$ 28,927 |
| Less: dividends and undistributed earnings<br>allocated to participating securities | 338                             | 249       | 562                           | 398       |
| Net income available to<br>Matthews shareholders                                    | \$ 16,249                       | \$ 15,682 | \$ 29,239                     | \$ 28,529 |
| Weighted-average shares outstanding (in thousands):                                 |                                 |           |                               |           |
| Basic shares  | 28,961                          | 29,841    | 28,993                        | 29,910    |
| Effect of dilutive securities:  |                                 |           |                               |           |
| Stock options   | 19                              | 26        | 18                            | 29        |
| Phantom stock units   | 25                              | 25        | 26                            | 25        |
| Diluted shares  | 29,005                          | 29,892    | 29,037                        | 29,964    |

Options to purchase 287,968 and 605,602 shares of common stock were not included in the computation of diluted earnings per share for the three months and six months ended March 31, 2011, respectively, because the inclusion of these options would be anti-dilutive. Options to purchase 621,050 and 812,071 shares of common stock were not included in the computation of diluted earnings per share for the three months and six months ended March 31, 2010, respectively, because the inclusion of these options would be anti-dilutive.

Note 8. Pension and Other Postretirement Benefit Plans

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

|                                | Pension  |          | Other Postretirement |        |
|--------------------------------|----------|----------|----------------------|--------|
| Three months ended March 31,   | 2011     | 2010     | 2011                 | 2010   |
| Service cost                   | \$ 1,237 | \$ 1,078 | \$ 158               | \$ 173 |
| Interest cost                  | 1,867    | 1,853    | 313                  | 346    |
| Expected return on plan assets | (1,843)  | (1,717)  | -                    | -      |
| Amortization:                  |          |          |                      |        |
| Prior service cost             | 6        | (10)     | (119)                | (181)  |
| Net actuarial loss             | 1,338    | 1,338    | 102                  | 130    |
| Net benefit cost               | \$ 2,605 | \$ 2,542 | \$ 454               | \$ 468 |



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

Note 8. Pension and Other Postretirement Benefit Plans (continued)

| Six months ended March 31,     | Pension  |          | Other Postretirement |        |
|--------------------------------|----------|----------|----------------------|--------|
|                                | 2011     | 2010     | 2011                 | 2010   |
| Service cost                   | \$2,474  | \$2,156  | \$316                | \$346  |
| Interest cost                  | 3,734    | 3,706    | 626                  | 692    |
| Expected return on plan assets | (3,686 ) | (3,434 ) | -                    | -      |
| Amortization:                  |          |          |                      |        |
| Prior service cost             | 12       | (20 )    | (238 )               | (362 ) |
| Net actuarial loss             | 2,676    | 2,676    | 204                  | 260    |
| Net benefit cost               | \$5,210  | \$5,084  | \$908                | \$936  |

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the postretirement benefit plan are made from the Company's operating funds. Under IRS regulations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal year 2011. During the six months ended March 31, 2011, contributions of \$372 and \$519 were made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$392 and \$574 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2011.

Note 9. Income Taxes

Income tax provisions for the Company's interim periods are based on the effective income tax rate expected to be applicable for the full year. The Company's effective tax rate for the six months ended March 31, 2011 was 35.2%, compared to 36.0% for the first six months of fiscal 2010. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state and foreign income taxes.

The Company had unrecognized tax benefits (excluding penalties and interest) of \$3,431 and \$3,422 on March 31, 2011 and September 30, 2010, respectively, all of which, if recorded, would impact the 2011 annual effective tax rate. It is reasonably possible that \$326 of the unrecognized tax benefits could be recognized in the next 12 months primarily due to tax examinations and the expiration of statutes related to specific tax positions.

The Company classifies interest and penalties on tax uncertainties as a component of the provision for income taxes. The Company included \$208 in interest and penalties in the provision for income taxes for the first six months of fiscal 2011. Total penalties and interest accrued were \$2,620 and \$2,412 at March 31, 2011 and September 30, 2010, respectively. These accruals may potentially be applicable in the event of an unfavorable outcome of uncertain tax positions.

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

Note 9. Income Taxes (continued)

The Company is currently under examination in several tax jurisdictions and remains subject to examination until the statute of limitations expires for those tax jurisdictions. As of March 31, 2011, the tax years that remain subject to examination by major jurisdiction generally are:

|                         |                  |
|-------------------------|------------------|
| United States – Federal | 2007 and forward |
| United States – State   | 2007 and forward |
| Canada                  | 2006 and forward |
| Europe                  | 2002 and forward |
| United Kingdom          | 2009 and forward |
| Australia               | 2006 and forward |
| Asia                    | 2004 and forward |

Note 10. Segment Information

The Company's products and operations consist of two principal businesses that are comprised of three operating segments each, as described under Nature of Operations (Note 1): Memorialization Products (Bronze, Casket, Cremation) and Brand Solutions (Graphics Imaging, Marking Products, Merchandising Solutions). Management evaluates segment performance based on operating profit (before income taxes) and does not allocate non-operating items such as investment income, interest expense, other income (deductions), net, and net income attributable to noncontrolling interests.

Information about the Company's segments follows:

|                              | Three Months Ended<br>March 31, |           | Six Months Ended<br>March 31, |           |
|------------------------------|---------------------------------|-----------|-------------------------------|-----------|
|                              | 2011                            | 2010      | 2011                          | 2010      |
| Sales to external customers: |                                 |           |                               |           |
| Memorialization:             |                                 |           |                               |           |
| Bronze                       | \$52,857                        | \$53,719  | \$103,370                     | \$102,978 |
| Casket                       | 65,878                          | 55,249    | 126,122                       | 105,913   |
| Cremation                    | 9,807                           | 8,991     | 19,460                        | 17,491    |
|                              | 128,542                         | 117,959   | 248,952                       | 226,382   |
| Brand Solutions:             |                                 |           |                               |           |
| Graphics Imaging             | 64,834                          | 60,335    | 124,861                       | 120,141   |
| Marking Products             | 14,521                          | 11,867    | 27,442                        | 23,433    |
| Merchandising Solutions      | 12,254                          | 10,705    | 26,240                        | 23,883    |
|                              | 91,609                          | 82,907    | 178,543                       | 167,457   |
|                              | \$220,151                       | \$200,866 | \$427,495                     | \$393,839 |



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

## Note 10. Segment Information (continued)

|                         | Three Months Ended<br>March 31, |          | Six Months Ended<br>March 31, |          |
|-------------------------|---------------------------------|----------|-------------------------------|----------|
|                         | 2011                            | 2010     | 2011                          | 2010     |
| Operating profit:       |                                 |          |                               |          |
| Memorialization:        |                                 |          |                               |          |
| Bronze                  | \$10,811                        | \$12,200 | \$20,937                      | \$22,560 |
| Casket                  | 8,944                           | 8,740    | 14,791                        | 14,548   |
| Cremation               | 1,118                           | 953      | 2,170                         | 2,083    |
|                         | 20,873                          | 21,893   | 37,898                        | 39,191   |
| Brand Solutions:        |                                 |          |                               |          |
| Graphics Imaging        | 5,907                           | 4,577    | 9,625                         | 8,566    |
| Marking Products        | 1,888                           | 1,279    | 2,914                         | 1,879    |
| Merchandising Solutions | (183)                           | (631)    | 14                            | (342)    |
|                         | 7,612                           | 5,225    | 12,553                        | 10,103   |
|                         | \$28,485                        | \$27,118 | \$50,451                      | \$49,294 |

## Note 11. Acquisitions

In March 2011, the Company acquired Innovative Picking Technologies, Inc. (“IPTI”), a manufacturer of paperless order fulfillment systems. The transaction is intended to expand the Company’s presence and product breadth in the marking products industry.

In October 2010, the Company acquired Freeman Metal Products, Inc. and its affiliated companies (“Freeman”), a manufacturer and distributor of caskets. The purchase price for the acquisition was \$22,800, plus additional consideration up to \$6,000 contingent on operating performance over the next three years. The transaction is intended to provide synergies in the manufacturing and distribution of caskets and expand the Company’s market presence in the Southeast and South Central regions of the United States.

In October 2010, the Company acquired the remaining 25% interest in Rudolf Reproflex GmbH & Co. KG (“Reproflex”). The Company acquired a 75% interest in Reproflex in 2001.

## Note 12. Goodwill and Other Intangible Assets

Goodwill related to business combinations is not amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a discounted cash flow technique. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets. The Company performed its annual impairment review in the second fiscal quarter of 2011 and determined that no additional adjustments to the carrying values of goodwill or indefinite-lived intangible assets were necessary.



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

Note 12. Goodwill and Other Intangible Assets (continued)

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

|                                      | Bronze   | Casket    | Cremation | Graphics<br>Imaging | Marking<br>Products | Merchandising<br>Solutions | Consolidated |
|--------------------------------------|----------|-----------|-----------|---------------------|---------------------|----------------------------|--------------|
| Goodwill                             | \$88,613 | \$140,553 | \$16,799  | \$149,161           | \$10,168            | \$ 9,138                   | \$ 414,432   |
| Accumulated<br>impairment losses     | (412 )   | -         | (5,000 )  | (3,840 )            | -                   | -                          | (9,252 )     |
| Balance at<br>September 30,<br>2010  | 88,201   | 140,553   | 11,799    | 145,321             | 10,168              | 9,138                      | \$ 405,180   |
| Additions during<br>period           | -        | 22,239    | -         | 4,917               | 4,833               | -                          | 31,989       |
| Translation and<br>other adjustments | 1,199    | -         | 152       | 5,420               | 118                 | -                          | 6,889        |
| Goodwill                             | 89,812   | 162,792   | 16,951    | 159,498             | 15,119              | 9,138                      | 453,310      |
| Accumulated<br>impairment losses     | (412 )   | -         | (5,000 )  | (3,840 )            | -                   | -                          | (9,252 )     |
| Balance at March<br>31, 2011         | \$89,400 | \$162,792 | \$11,951  | \$155,658           | \$15,119            | \$ 9,138                   | \$ 444,058   |

The addition to Casket goodwill primarily represents the acquisition of Freeman; the addition to Graphics goodwill represents the acquisition of the remaining 25% interest in Reproflex; and the addition to Marking Products goodwill represents the acquisition of IPTI.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of March 31, 2011 and September 30, 2010, respectively.

|                          | Carrying<br>Amount | Accumulated<br>Amortization | Net        |
|--------------------------|--------------------|-----------------------------|------------|
| March 31, 2011:          |                    |                             |            |
| Trade names              | \$24,443           | \$ -                        | * \$24,443 |
| Trade names              | 1,748              | (997 )                      | 751        |
| Customer relationships   | 42,933             | (12,218 )                   | 30,715     |
| Copyrights/patents/other | 9,633              | (6,682 )                    | 2,951      |
|                          | \$78,757           | \$ (19,897 )                | \$ 58,860  |
| September 30, 2010:      |                    |                             |            |
| Trade names              | \$24,314           | \$ -                        | * \$24,314 |
| Trade names              | 1,689              | (780 )                      | 909        |



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|                          |          |            |   |          |
|--------------------------|----------|------------|---|----------|
| Customer relationships   | 40,607   | (10,674    | ) | 29,933   |
| Copyrights/patents/other | 8,984    | (6,198     | ) | 2,786    |
|                          | \$75,594 | \$ (17,652 | ) | \$57,942 |

\* Not subject to amortization

The net change in intangible assets during the six months ended March 31, 2011 included the acquisition of intangibles in connection with the Freeman acquisition, in addition to the impact of foreign currency fluctuations during the period and additional amortization.

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

Note 12. Goodwill and Other Intangible Assets (continued)

Amortization expense on intangible assets was \$1,151 and \$937 for the three-month periods ended March 31, 2011 and 2010, respectively. For the six-month periods ended March 31, 2011 and 2010, amortization expense was \$2,214 and \$1,787, respectively. The remaining amortization expense is estimated to be \$1,680 in 2011, \$3,183 in 2012, \$2,863 in 2013, \$2,702 in 2014 and \$2,540 in 2015.

Note 13. Subsequent Events:

In connection with its May 2008 acquisition of a 78% interest in Saueressig, the Company entered into an option agreement related to the remaining 22% interest in Saueressig. The option agreement contained certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. In April 2011, the Company completed the purchase of the remaining 22% interest in Saueressig for 19.3 million Euros.

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

### Cautionary Statement:

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation ("Matthews" or the "Company") and related notes thereto included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended September 30, 2010. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered individually significant to consolidated sales, changes in the distribution of the Company's products or the potential loss of one or more of the Company's larger customers are also considered risk factors.

### Results of Operations:

The following table sets forth certain income statement data of the Company expressed as a percentage of net sales for the periods indicated.

|   | Six months ended<br>March 31, |   |       |   |
|---|-------------------------------|---|-------|---|
|   | 2011                          |   | 2010  |   |
| Sales   | 100.0                         | % | 100.0 | % |
| Gross profit                                      | 39.3                          | % | 38.4  | % |
| Operating profit                                  | 11.8                          | % | 12.5  | % |
| Net income attributable to Matthews' shareholders | 7.0                           | % | 7.3   | % |

Sales for the six months ended March 31, 2011 were \$427.5 million, compared to \$393.8 million for the six months ended March 31, 2010. Higher sales were reported in all of the Company's business segments. The increase primarily reflected the impact of recent acquisitions and higher sales volume in the Brand Solutions businesses, partially offset by an unfavorable impact of approximately \$3.4 million from changes in foreign currency values against the U.S. dollar.

In the Memorialization businesses, Bronze segment sales for the first six months of fiscal 2011 were \$103.4 million compared to \$103.0 million for the first six months of fiscal 2010. The increase primarily reflected sales of granite products resulting from the acquisition of United Memorial Products ("UMP") in December 2009, partially offset by a decline in bronze product revenues. The decline in bronze product revenues reflected higher unit volume, offset by an

unfavorable change in product mix. Sales for the Casket segment were \$126.1 million for the first six months of fiscal 2011 compared to \$105.9 million for the same period in fiscal 2010. The increase resulted principally from recent acquisitions. Excluding the impact of acquisitions, sales for the segment were slightly higher than a year ago, reflecting higher unit sales in the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010.

Sales for the Cremation segment were \$19.5 million for the first half of fiscal 2011 compared to \$17.5 million for the same period a year ago. The increase principally reflected the acquisition of a cremation equipment manufacturer in the U.K. in March 2010 and higher sales of cremation equipment in Europe, partially offset by lower sales of cremation equipment in the U.S. market. The decline in U.S. equipment sales primarily resulted from delays related to customer financing and required permits. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in the first six months of fiscal 2011 were \$124.9 million, compared to \$120.1 million for the same period a year ago. The increase resulted from higher sales in the European, U.S. and Asian markets, partially offset by an approximately \$4.0 million impact from unfavorable changes in the value of foreign currencies against the U.S. dollar. Marking Products segment sales for the six months ended March 31, 2011 were \$27.4 million, compared to \$23.4 million for the first six months of fiscal 2010. The increase was primarily attributable to higher unit volumes of equipment and consumables in the U.S. and China, and a small U.S. acquisition in March 2011. Sales for the Merchandising Solutions segment were \$26.2 million for the first half of fiscal 2011, compared to \$23.9 million for the same period a year ago. The increase principally reflected higher project volume for several global customers.

Gross profit for the six months ended March 31, 2011 was \$167.9 million, compared to \$151.2 million for the six months ended March 31, 2010. Consolidated gross profit as a percent of sales for the first half of fiscal 2011 increased to 39.3% from 38.4% for the first half of fiscal 2010. The increase in consolidated gross profit and gross profit percentage primarily reflected higher sales in the Brand Solutions businesses and the benefits from cost structure initiatives. The increases were partially offset by higher commodity costs in the Bronze and Casket segments.

Selling and administrative expenses for the six months ended March 31, 2011 were \$117.4 million, compared to \$101.9 million for the first half of fiscal 2010. Consolidated selling and administrative expenses as a percent of sales were 27.5% for the six months ended March 31, 2011, compared to 25.9% for the same period last year. The increase in selling and administrative expenses was primarily attributable to recent acquisitions.

Operating profit for the six months ended March 31, 2011 was \$50.5 million, compared to \$49.3 million for the six months ended March 31, 2010. Bronze segment operating profit for the six months ended March 31, 2011 was \$20.9 million, compared to \$22.6 million for the first half of fiscal 2010. The decrease primarily reflected an unfavorable shift in mix of bronze product sales and higher bronze material cost. Casket segment operating profit was \$14.8 million for the first six months of fiscal 2011, compared to \$14.5 million for the same period in fiscal 2010. Casket segment operating profit for the current quarter reflected the benefit of acquisitions and higher unit sales in the fiscal 2011 second quarter compared to the same quarter in fiscal 2010, offset partially by higher steel and fuel costs. Cremation segment operating profit for the first half of fiscal 2011 was \$2.2 million, compared to \$2.1 million for the same period in the prior year. The increase principally reflected higher sales, partially offset by the impact of a change in mix of equipment sales, with a higher level of European sales, which generally have lower margins than sales in the U.S. Graphics Imaging segment operating profit for the six months ended March 31, 2011 was \$9.6 million, compared to \$8.6 million for the same period in fiscal 2010. The increase reflected higher sales and improvements in the segment's U.S. cost structure, partially offset by the unfavorable impact of changes in foreign currencies against the U.S. dollar. Operating profit for the Marking Products segment for the first half of fiscal 2011 was \$2.9 million, compared to \$1.9 million for the same period a year ago. The increase primarily resulted from higher sales. Merchandising Solutions segment operating profit was \$14,000 for the first six months of fiscal 2011, compared to an operating loss of \$342,000 for the same period in fiscal 2010. The increase primarily reflected higher sales in fiscal 2011.

Investment income was \$1.6 million for the six months ended March 31, 2011, compared to \$2.0 million for the six months ended March 31, 2010. The decrease primarily resulted from lower average levels of invested funds. Interest expense was approximately \$3.8 million for the first six months of fiscal 2011 and 2010. Other income (deductions),

net for the six months ended March 31, 2011 was a reduction of income of \$966,000, compared to \$731,000 for the same period last year.

The Company's effective tax rate for the six months ended March 31, 2011 was 35.2%, compared to 36.0% for the same period last year. The Company's effective tax rate for the fiscal 2010 full year was 35.8%, excluding the impact of unusual items. The fiscal 2011 tax rate reflects the favorable impact from implementation of European operating structure initiatives in fiscal 2011. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes, offset partially by lower foreign income taxes.

Net income attributable to noncontrolling interests in the first six months of fiscal 2011 was \$841,000, compared to \$1.0 million in the first six months of fiscal 2010. The decrease related principally to the Company's acquisition of the remaining 25% interest in one of its less than wholly-owned German graphics businesses effective October 1, 2010.

#### Goodwill:

Goodwill related to business combinations is not amortized, but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a discounted cash flow technique. The Company performed its annual impairment review in the second quarter of fiscal 2011 and determined that no additional adjustments to the carrying values of goodwill were necessary at March 31, 2011.

#### Liquidity and Capital Resources:

Net cash provided by operating activities was \$33.8 million for the six months ended March 31, 2011, compared to \$55.7 million for the first six months of fiscal 2010. Operating cash flow for both periods reflected net income adjusted for depreciation, amortization, stock-based compensation expense and pension expense, partially offset by decreases in deferred taxes. Changes in working capital items, principally increases in inventory and fiscal year-end compensation related payments, were the principal factors in the year-over-year decline.

Cash used in investing activities was \$40.0 million for the six months ended March 31, 2011, compared to \$23.9 million for the six months ended March 31, 2010. Investing activities for the first half of fiscal 2011 primarily reflected capital expenditures of \$7.7 million, payments (net of cash acquired) of \$31.7 million for acquisitions, net purchases of investments of \$1.6 million and proceeds from the sale of assets of \$1.0 million. Investing activities for the first half of fiscal 2010 reflected capital expenditures of \$8.4 million, payments (net of cash acquired) of \$14.6 million for acquisitions and net purchases of investments of \$1.6 million.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged \$17.6 million for the last three fiscal years. Capital spending for fiscal 2011 is expected to be in the range of \$20.0 to \$25.0 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash provided by financing activities for the six months ended March 31, 2011 was \$4.4 million, primarily reflecting long-term debt proceeds, net of repayments, of \$16.7 million, proceeds of \$491,000 from the sale of treasury stock (stock option exercises), treasury stock purchases of \$7.4 million, dividends of \$4.7 million to the Company's shareholders and distributions to noncontrolling interests of \$621,000. Cash used in financing activities for the first half of 2010 was \$26.4 million, primarily reflecting long-term repayments, net of proceeds, of \$13.3 million, treasury stock purchases of \$9.4 million, dividends of \$4.2 million to the Company's shareholders, distributions to noncontrolling interests of \$234,000 and proceeds of \$726,000 from the sale of treasury stock (stock option exercises).

In December 2010, the Company entered into a new domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the new facility is \$300.0 million and borrowings under the facility bear interest at LIBOR plus a factor ranging from 1.00% to 1.50% based on the Company's leverage ratio.



The facility's maturity is December 2015. The new facility replaced the Company's \$225.0 million Revolving Credit Facility. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$25.0 million) is available for the issuance of commercial and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility as of March 31, 2011 and September 30, 2010 were \$209.5 million and \$187.0 million, respectively. The weighted-average interest rate on outstanding borrowings under the credit facilities was 2.85% and 3.01% at March 31, 2011 and 2010, respectively.

The Company has entered into the following interest rate swaps:

| Effective Date | Date           | Amount       | Fixed Interest Rate | Interest Rate Spread at March 31, 2011 | Maturity Date  |
|----------------|----------------|--------------|---------------------|--|----------------|
| September 2007 | September 2007 | \$25 million | 4.77%               | 1.25%                                  | September 2012 |
| May 2008       | May 2008       | 30 million   | 3.72%               | 1.25%                                  | September 2012 |
| October 2008   | October 2008   | 20 million   | 3.46%               | 1.25%                                  | October 2011   |
| November 2011  | February 2011  | 25 million   | 2.13%               | 1.25%                                  | November 2014  |
| September 2012 | February 2011  | 25 million   | 3.03%               | 1.25%                                  | December 2015  |
| March 2012     | March 2011     | 25 million   | 2.44%               | 1.25%                                  | March 2015     |

The interest rate swaps have been designated as cash flow hedges of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective.

The fair value of the interest rate swaps reflected an unrealized loss of \$3.0 million (\$1.8 million after tax) at March 31, 2011 that is included in shareholders' equity as part of accumulated other comprehensive loss. Assuming market rates remain constant with the rates at March 31, 2011, approximately \$1.3 million of the \$1.8 million loss included in accumulated other comprehensive loss is expected to be recognized in earnings as interest expense over the next twelve months.

The Company, through certain of its German subsidiaries, has a credit facility with a European bank. The maximum amount of borrowings available under this facility was 25.0 million Euros (\$35.4 million). Outstanding borrowings under the credit facility totaled 12.0 million Euros at March 31, 2011 and September 30, 2010. The weighted-average interest rate on outstanding borrowings under this facility at March 31, 2011 and 2010 was 1.78% and 1.58%, respectively.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 7.3 million Euros (\$10.3 million) and 7.9 million Euros (\$10.8 million) at March 31, 2011 and September 30, 2010, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at March 31, 2011 and 2010 was 6.37% and 5.99%, respectively.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 8.5 million Euros (\$12.0 million) and 10.8 million Euros

(\$14.7 million) at March 31, 2011 and September 30, 2010, respectively. Matthews International S.p.A. also has four lines of credit totaling 8.4 million Euros (\$11.9 million) with the same Italian banks. Outstanding borrowings on these lines were 1.0 million Euros (\$1.5 million) and 2.1 million Euros (\$2.8 million) at March 31, 2011 and September 30, 2010, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at March 31, 2011 and 2010 was 3.40% and 3.66%, respectively.

The Company has a stock repurchase program. Under the current authorization, the Company's Board of Directors has authorized the repurchase of a total of 2,500,000 shares of Matthews' common stock under the program, of which 1,061,985 shares had been repurchased as of March 31, 2011.

The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

Consolidated working capital of the Company was \$211.6 million at March 31, 2011, compared to \$187.5 million at September 30, 2010. Cash and cash equivalents were \$60.3 million at March 31, 2011, compared to \$59.7 million at September 30, 2010. The Company's current ratio was 2.5 at March 31, 2011, compared to 2.3 at September 30, 2010.

#### Environmental Matters:

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

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its acquisition, The York Group, Inc. ("York"), a wholly-owned subsidiary of the Company, was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a landfill site in York, Pennsylvania. At this time, the Company has not been joined in any lawsuit or administrative order related to the site or its clean-up.

At March 31, 2011, an accrual of approximately \$6.6 million had been recorded for environmental remediation (of which \$827,000 was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. Changes in the accrued environmental remediation obligation from the prior fiscal year reflect payments charged against the accrual.

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

#### Acquisitions:

In March 2011, the Company acquired Innovative Picking Technologies, Inc., a U.S. manufacturer of paperless order fulfillment systems. The transaction is intended to expand the Company's presence and product breadth in the marking products industry.

In October 2010, the Company acquired Freeman Metal Products, Inc. and its affiliated companies, a manufacturer and distributor of caskets. The purchase price for the acquisition was \$22.8 million, plus additional consideration up to \$6.0 million contingent on operating performance over the next three years. The transaction is intended to provide synergies in the manufacturing and distribution of caskets and expand the Company's market presence in the Southeast and South Central regions of the United States.

In October 2010, the Company acquired the remaining 25% interest in Rudolf Reproflex GmbH & Co. KG (“Reproflex”). The Company acquired a 75% interest in Reproflex in 2001.

## Forward-Looking Information:

Matthews has a three-pronged strategy to attain annual growth in earnings per share. This strategy consists of the following: internal growth (which includes organic growth, productivity improvements, new product development and the expansion into new markets with existing products), acquisitions and share repurchases under the Company's stock repurchase program (see "Liquidity and Capital Resources"). For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of 11.9%.

The Company continues to expect that certain market conditions could have a significant influence on expectations for the remainder of fiscal 2011. Rising commodity costs and the ongoing trend in the casketed death rate are important considerations for the Bronze and Casket segments. In addition, competitive pricing conditions and shifting product mix for memorial products remain challenges. However, recent volume growth in the Casket segment and Brand Solutions businesses, in addition to an increase in the Company's U.S. cremation equipment order backlog, were encouraging.

On this basis, the Company is maintaining its estimate for fiscal 2011 earnings per share to grow in the mid-to-high single digit percentage range over fiscal 2010 (excluding unusual charges in both years).

## Critical Accounting Policies:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Therefore, the determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, economic conditions, and in some cases, actuarial techniques. Actual results may differ from those estimates. A discussion of market risks affecting the Company can be found in "Quantitative and Qualitative Disclosures about Market Risk" in this Quarterly Report on Form 10-Q.

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements and in the critical accounting policies in Management's Discussion and Analysis included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010. Management believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the company's operating results and financial condition.

## LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company's contractual obligations at March 31, 2011, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

|                               | Total     | Payments due in fiscal year: |          |         | After     |
|-------------------------------|-----------|------------------------------|----------|---------|-----------|
|                               |           | Remainder                    | 2012 to  | 2014 to |           |
|                               |           | 2011                         | 2013     | 2015    | 2015      |
| (Dollar amounts in thousands) |           |                              |          |         |           |
| Contractual Cash Obligations: |           |                              |          |         |           |
| Revolving credit facilities   | \$226,509 | \$-                          | \$17,009 | \$-     | \$209,500 |
| Notes payable to banks        | 25,255    | 3,015                        | 10,405   | 8,633   | 3,202     |
| Short-term borrowings         | 1,474     | 1,474                        | -        | -       | -         |
| Capital lease obligations     | 5,498     | 1,672                        | 3,365    | 461     | -         |

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|                                    |           |          |          |          |           |
|------------------------------------|-----------|----------|----------|----------|-----------|
| Non-cancelable operating leases    | 18,858    | 4,907    | 10,689   | 3,262    | -         |
| Total contractual cash obligations | \$277,594 | \$11,068 | \$41,468 | \$12,356 | \$212,702 |

A significant portion of the loans included in the table above bear interest at variable rates. At March 31, 2011, the weighted-average interest rate was 2.85% on the Company's domestic Revolving Credit Facility, 1.78% on the credit facility through the Company's German subsidiaries, 3.40% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A, and 6.37% on bank loans to its majority-owned subsidiary, Saueressig.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company is not required to make any significant contributions to its principal retirement plan in fiscal 2011. During the six months ended March 31, 2011, contributions of \$372,000 and \$519,000 were made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$392,000 and \$574,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2011.

In connection with its May 2008 acquisition of a 78% interest in Saueressig, the Company entered into an option agreement related to the remaining 22% interest in Saueressig. The option agreement contained certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. In April 2011, the Company completed the purchase of the remaining 22% interest in Saueressig for 19.3 million Euros.

Unrecognized tax benefits are positions taken, or expected to be taken, on an income tax return that may result in additional payments to tax authorities. If a tax authority agrees with the tax position taken, or expected to be taken, or the applicable statute of limitations expires, then additional payments will not be necessary. As of March 31, 2011, the Company had unrecognized tax benefits, excluding penalties and interest, of approximately \$3.4 million. The timing of potential future payments related to the unrecognized tax benefits is not presently determinable. The Company believes that its current liquidity sources, combined with its operating cash flow and borrowing capacity, will be sufficient to meet its capital needs for the foreseeable future.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

The Company has entered into interest rate swaps as listed under "Liquidity and Capital Resources".

The interest rate swaps have been designated as cash flow hedges of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective.

The fair value of the interest rate swaps reflected an unrealized loss of \$3.0 million (\$1.8 million after tax) at March 31, 2011 that is included in equity as part of accumulated other comprehensive loss. A decrease of 10% in market interest rates (e.g. a decrease from 5.0% to 4.5%) would result in an increase of approximately \$322,000 in the fair

value liability of the interest rate swaps.

Commodity Price Risks - In the normal course of business, the Company is exposed to commodity price fluctuations related to the purchases of certain materials and supplies (such as bronze ingot, steel, fuel and wood) used in its manufacturing operations.



The Company obtains competitive prices for materials and supplies when available. In addition, based on competitive market conditions and to the extent that the Company has established pricing terms with customers through contracts or similar arrangements, the Company's ability to immediately increase the price of its products to offset the increased costs may be limited.

**Foreign Currency Exchange Rates** - The Company is subject to changes in various foreign currency exchange rates, including the Euro, British Pound, Canadian Dollar, Australian Dollar, Swedish Krona, Chinese Yuan, Hong Kong Dollar and Polish Zloty, in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. A strengthening of the U. S. dollar of 10% would have resulted in a decrease in reported sales of \$15.9 million and a decrease in reported operating income of 1.7 million for the six months ended March 31, 2011.

**Actuarial Assumptions** – The most significant actuarial assumptions affecting pension expense and pension obligations include the valuation of retirement plan assets, the discount rate and the estimated return on plan assets. The estimated return on plan assets is currently based upon projections provided by the Company's independent investment advisor, considering the investment policy of the plan and the plan's asset allocation. The fair value of plan assets and discount rate are "point-in-time" measures, and the recent volatility of the debt and equity markets makes estimating future changes in fair value of plan assets and discount rates more challenging. The following table summarizes the impact on the September 30, 2010 actuarial valuations of changes in the primary assumptions affecting the Company's principal retirement plan and supplemental retirement plan.

|   | Impact of Changes in Actuarial Assumptions |           |                           |        |                                  |          |
|---|--|-----------|---------------------------|--------|----------------------------------|----------|
|   | Change in Discount Rate                    |           | Change in Expected Return |        | Change in Market Value of Assets |          |
|   | +1%  | -1%       | +1%                       | -1%    | +5%                              | -5%      |
|   | (Dollar amounts in thousands)              |           |                           |        |                                  |          |
| Increase (decrease) in net benefit cost             | \$ (2,147))                                | \$ 2,698  | \$(925))                  | \$9255 | \$ (833))                        | \$ 833   |
| Increase (decrease) in projected benefit obligation | (19,144))                                  | 24,017    | -                         | -      | -                                | -        |
| Increase (decrease) in funded status                | 19,144                                     | (24,017)) | -                         | -      | 4,743                            | (4,743)) |

#### Item 4. Controls and Procedures:

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

Management, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures in effect as of March 31, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2011, the

Company's disclosure controls and procedures were effective to provide reasonable assurance that material information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, and that such information is recorded, summarized and properly reported within the appropriate time period, relating to the Company and its consolidated subsidiaries, required to be included in the Exchange Act reports, including this Quarterly Report on Form 10-Q.

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

#### Stock Repurchase Plan

The Company has a stock repurchase program. Under the current authorization, the Company's Board of Directors has authorized the repurchase of a total of 2,500,000 shares of Matthews' common stock under the program, of which 1,061,985 shares had been repurchased as of March 31, 2011. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

The following table shows the monthly fiscal 2011 stock repurchase activity:

| Period        | Total number<br>of shares<br>purchased | Average<br>price<br>paid per<br>share | Total number of<br>shares purchased<br>as part of a<br>publicly<br>announced plan | Maximum number<br>of shares that may<br>yet be purchased<br>under the plan |
|---------------|--|---------------------------------------|---|--|
| October 2010  | 760                                    | \$ 33.44                              | 760   | 1,649,145  |
| November 2010 | 11,735                                 | 33.31                                 | 11,735  | 1,637,410  |
| December 2010 | 69,048                                 | 33.69                                 | 69,048  | 1,568,362  |
| January 2011  | 20,347                                 | 34.14                                 | 20,347  | 1,548,015  |
| February 2011 | 35,000                                 | 36.16                                 | 35,000  | 1,513,015  |
| March 2011    | 75,000                                 | 35.96                                 | 75,000  | 1,438,015  |
| Total         | 211,890                                | 34.92                                 | 211,890   |  |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| Exhibit<br>No. | Description   |
|----------------|---|
| 10.1           | Sale and Purchase and Transfer Agreement-B Regarding the Sale and Purchase and Transfer of a Partnership Interest in Saueressig GmbH & Co. KG   |
| 31.1           | Certification of Principal Executive Officer for Joseph C. Bartolacci   |
| 31.2           | Certification of Principal Financial Officer for Steven F. Nicola   |
| 32.1           | Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Joseph C. Bartolacci |
| 32.2           | Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Steven F. Nicola     |

(b) Reports on Form 8-K

On January 21, 2011, Matthews filed a Current Report on Form 8-K under Item 2.02 in connection with a press release announcing its earnings for the first fiscal quarter of 2011.

On February 22, 2011, Matthews filed a Current Report on Form 8-K under Item 5.07 reporting the results of the matters voted on at the Company's Annual Meeting of Shareholders held on February 17, 2011.

On February 24, 2011, Matthews filed a Current Report on Form 8-K under Item 5.02 in connection with a press release announcing the resignation of Director Martin Schlatter.

SIGNATURES

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

MATTHEWS INTERNATIONAL CORPORATION  
(Registrant)

Date: May 6, 2011

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

Date: May 6, 2011

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

