

MATTHEWS INTERNATIONAL CORP  
Form 10-Q  
May 06, 2008

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

Form 10-Q

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

For The Quarterly Period Ended March 31, 2008

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 x

No o

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. Check one:

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Large accelerated filer Accelerated filer Non-accelerated filer o  
x o

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

Yes o No x

As of April 30, 2008, shares of common stock outstanding were:

Class A Common Stock 31,186,524 shares

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

|   | March 31, 2008<br>(unaudited) | September 30, 2007 |
|---|-------------------------------|--------------------|
| <b>ASSETS</b>                               |                               |                    |
| Current assets:                             |                               |                    |
| Cash and cash equivalents                   | \$ 65,820                     | \$ 44,002          |
| Short-term investments                      | 73                            | 105                |
| Accounts receivable, net                    | 118,594                       | 120,882            |
| Inventories                                 | 90,842                        | 93,834             |
| Deferred income taxes                       | 1,647                         | 1,666              |
| Other current assets                        | 10,528                        | 6,025              |
| <b>Total current assets</b>                 | <b>287,504</b>                | <b>266,514</b>     |
| Investments                                 | 15,935                        | 12,044             |
| Property, plant and equipment: Cost         | 226,420                       | 218,921            |
| Less accumulated depreciation               | (140,921)                     | (129,995)          |
|   | 85,499                        | 88,926             |
| Deferred income taxes                       | 24,346                        | 23,311             |
| Other assets                                | 12,771                        | 10,670             |
| Goodwill                                    | 327,643                       | 318,298            |
| Other intangible assets, net                | 49,611                        | 51,306             |
| <b>Total assets</b>                         | <b>\$ 803,309</b>             | <b>\$ 771,069</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                               |                    |
| Current liabilities:                        |                               |                    |
| Long-term debt, current maturities          | \$ 26,536                     | \$ 27,057          |
| Accounts payable                            | 25,248                        | 22,859             |
| Accrued compensation                        | 29,455                        | 31,205             |
| Accrued income taxes                        | 17,338                        | 5,792              |
| Other current liabilities                   | 34,554                        | 36,543             |
| <b>Total current liabilities</b>            | <b>133,131</b>                | <b>123,456</b>     |
| Long-term debt                              | 124,888                       | 142,273            |
| Accrued pension                             | 24,706                        | 23,629             |
| Postretirement benefits                     | 21,125                        | 20,743             |
| Deferred income taxes                       | 10,597                        | 11,799             |
| Environmental reserve                       | 7,606                         | 7,841              |
| Other liabilities and deferred revenue      | 13,459                        | 14,550             |
| Shareholders' equity:                       |                               |                    |

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|  |            |            |
|--|------------|------------|
| Common stock                               | 36,334     | 36,334     |
| Additional paid-in capital                 | 41,982     | 41,570     |
| Retained earnings                          | 501,826    | 467,846    |
| Accumulated other comprehensive income     | 21,859     | 13,390     |
| Treasury stock, at cost                    | (134,204)  | (132,362)  |
|  | 467,797    | 426,778    |
| Total liabilities and shareholders' equity | \$ 803,309 | \$ 771,069 |

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, |            |
|-------------------------------------|---------------------------------|------------|-------------------------------|------------|
|                                     | 2008                            | 2007       | 2008                          | 2007       |
| Sales                               | \$ 197,827                      | \$ 202,979 | \$ 380,175                    | \$ 378,403 |
| Cost of sales                       | (117,593)                       | (128,772)  | (227,953)                     | (239,262)  |
| Gross profit                        | 80,234                          | 74,207     | 152,222                       | 139,141    |
| Selling and administrative expenses | (45,842)                        | (42,562)   | (91,052)                      | (83,312)   |
| Operating profit                    | 34,392                          | 31,645     | 61,170                        | 55,829     |
| Investment income                   | 491                             | 439        | 1,003                         | 850        |
| Interest expense                    | (1,890)                         | (1,924)    | (4,034)                       | (3,740)    |
| Other income, net                   | 123                             | 79         | 368                           | 210        |
| Minority interest                   | (715)                           | (591)      | (1,267)                       | (1,111)    |
| Income before income taxes          | 32,401                          | 29,648     | 57,240                        | 52,038     |
| Income taxes                        | (12,118)                        | (11,147)   | (19,526)                      | (19,566)   |
| Net income                          | \$ 20,283                       | \$ 18,501  | \$ 37,714                     | \$ 32,472  |
| Earnings per share:                 |                                 |            |                               |            |
| Basic                               | \$.66                           | \$.58      | \$1.22                        | \$1.02     |
| Diluted                             | \$.65                           | \$.58      | \$1.21                        | \$1.02     |

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, |                  |
|---|-------------------------------|------------------|
|   | 2008                          | 2007             |
| Cash flows from operating activities:   |                               |                  |
| Net income  | \$ 37,714                     | \$ 32,472        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |                  |
| Depreciation and amortization   | 10,250                        | 10,274           |
| Net loss (gain) on sale of assets   | 259                           | (1,525)          |
| Minority interest   | 1,267                         | 1,111            |
| Stock-based compensation expense  | 2,547                         | 1,720            |
| Change in deferred taxes  | (1,393)                       | 331              |
| Changes in working capital items  | 5,078                         | (19,333)         |
| Increase in other assets  | (2,346)                       | (963)            |
| Increase in other liabilities   | 721                           | 71               |
| Increase in pension and postretirement benefits                                   | 1,708                         | 2,664            |
| <b>Net cash provided by operating activities</b>                                  | <b>55,805</b>                 | <b>26,822</b>    |
| Cash flows from investing activities:   |                               |                  |
| Capital expenditures  | (4,472)                       | (10,679)         |
| Proceeds from sale of assets  | 333                           | 3,764            |
| Acquisitions, net of cash acquired  | (1,526)                       | (8,361)          |
| Purchases of investments  | (4,165)                       | (596)            |
| Proceeds from disposition of investments  | -                             | 134              |
| <b>Net cash used in investing activities</b>                                      | <b>(9,830)</b>                | <b>(15,738)</b>  |
| Cash flows from financing activities:   |                               |                  |
| Proceeds from long-term debt  | 9,661                         | 32,343           |
| Payments on long-term debt  | (29,803)                      | (22,184)         |
| Proceeds from the sale of treasury stock  | 5,398                         | 5,780            |
| Purchases of treasury stock   | (9,134)                       | (11,901)         |
| Tax benefit of exercised stock options  | 911                           | 1,469            |
| Dividends   | (3,734)                       | (3,486)          |
| Distributions to minority interests   | (1,173)                       | (895)            |
| <b>Net cash (used in) provided by financing activities</b>                        | <b>(27,874)</b>               | <b>1,126</b>     |
| Effect of exchange rate changes on cash   | 3,717                         | 1,580            |
| <b>Net increase in cash and cash equivalents</b>                                  | <b>\$ 21,818</b>              | <b>\$ 13,790</b> |

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

4

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(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 memorials and 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 memorials and 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 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 manufactures and provides brand management, printing plates, 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 China.

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. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and six months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008. 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, 2007. 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.

Note 3. Inventories



Inventories consisted of the following:

|                               | March 31, 2008 | September 30, 2007 |
|-------------------------------|----------------|--------------------|
| Materials and finished goods  | \$ 84,318      | \$ 86,304          |
| Labor and overhead in process | 6,524          | 7,530              |
|                               | \$ 90,842      | \$ 93,834          |

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

## Note 4. Debt

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is \$225,000 and the facility's maturity is September 10, 2012. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from .40% to .80% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at March 31, 2008 were \$129,167. The weighted-average interest rate on outstanding borrowings at March 31, 2008 and 2007 was 4.60% and 5.14%, respectively.

The Company has entered into the following interest rate swaps:

| Date           | Initial Amount | Fixed Interest Rate | Interest Rate Spread at March 31, 2008 | Equal Quarterly Payments | Maturity Date  |
|----------------|----------------|---------------------|--|--------------------------|----------------|
| April 2004     | \$50,000       | 2.66%               | .40%                                   | \$2,500                  | April 2009     |
| September 2005 | 50,000         | 4.14                | .40                                    | 3,333                    | April 2009     |
| August 2007    | 15,000         | 5.07                | .40                                    | -                        | April 2009     |
| August 2007    | 10,000         | 5.07                | .40                                    | -                        | April 2009     |
| September 2007 | 25,000         | 4.77                | .40                                    | -                        | September 2012 |

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 \$2,838 (\$1,731 after tax) at March 31, 2008 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2008, approximately \$819 of the \$1,731 loss included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with National Westminster Bank Plc for borrowings up to 10.0 million Euros (\$15,787). On May 2, 2008, the maximum amount of borrowings available under this facility was increased to 25.0 million Euros (\$39,000). Outstanding borrowings under the credit facility totaled 8.0 million Euros (\$12,630) at March 31, 2008. The weighted-average interest rate on outstanding borrowings of MIGmbH at March 31, 2008 and 2007 was 5.11% and 4.0%, respectively.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 4.7 million Euros (\$7,496) at March 31, 2008. Matthews International S.p.A. also has three lines of credit totaling 8.4 million Euros (\$13,214) with the same Italian banks. Outstanding borrowings on these lines were 1.1 million Euros (\$1,768) at March 31, 2008. The weighted-average interest rate on outstanding borrowings of Matthews International S.p.A. at March 31, 2008 and 2007 was 3.26%.

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

Note 5. Comprehensive Income

Comprehensive income consists of net income adjusted for changes, net of the related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and pension and postretirement liabilities. For the three months ended March 31, 2008 and 2007, comprehensive income was \$28,894 and \$20,091, respectively. For the six months ended March 31, 2008 and 2007, comprehensive income was \$46,181 and \$38,805, respectively.

Note 6. Share-Based Payments

The Company maintains a stock incentive plan (the "1992 Incentive Stock Plan") that provided for grants of stock options, restricted shares and certain other types of stock-based awards. In February 2008, the Company's shareholders approved the adoption of a new plan, the 2007 Equity Incentive Plan ("the 2007 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 Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 2,200,000. There will be no further grants under the 1992 Incentive Stock Plan. At March 31, 2008, there were 2,200,000 shares reserved for future issuance under the 2007 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. 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. 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, 2008 and 2007, total stock-based compensation cost totaled \$1,432 and \$848, respectively. For the six-month periods ended March 31, 2008 and 2007, total stock-based compensation cost totaled \$2,547 and \$1,720, respectively. The associated future income tax benefit recognized was \$558 and \$331 for the three-month periods ended March 31, 2008 and 2007, respectively, and was \$993 and \$671 for the six-month periods ended March 31, 2008 and 2007, respectively.

For the three-month periods ended March 31, 2008 and 2007, the amount of cash received from the exercise of stock options was \$4,685 and \$3,659, respectively. For the six-month periods ended March 31, 2008 and 2007, the amount of cash received from the exercise of stock options was \$5,398 and \$5,780, respectively. In connection with these exercises, the tax benefits realized by the Company for the three-month periods ended March 31, 2008 and 2007 were \$1,499 and \$1,335, respectively, and the tax benefits realized by the Company for the six-month periods ended March

31, 2008 and 2007 were \$1,669 and \$2,332, respectively.

7

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

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

Changes to restricted stock for the six months ended March 31, 2008 were as follows:

|                                  | Shares  | Weighted-average<br>grant-date<br>fair value |
|----------------------------------|---------|--|
| Non-vested restricted stock      |         |  |
| Non-vested at September 30, 2007 | 9,249   | \$ 40.56                                     |
| Granted                          | 132,069 | 38.83  |
| Vested                           | -       | -  |
| Expired or forfeited             | (1,990) | 38.56  |
| Non-vested at March 31, 2008     | 139,328 | \$ 38.95                                     |

As of March 31, 2008, the total unrecognized compensation cost related to unvested restricted stock was \$3,540 and is expected to be recognized over a weighted average period of 2.3 years.

The transactions for shares under options for the six months ended March 31, 2008 were as follows:

| Option shares                   | 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, 2007 | 2,100,577 | \$ 33.60                                  |  |                                 |
| Granted                         | -         | -   |  |                                 |
| Exercised                       | (214,568) | 28.01                                     |  |                                 |
| Expired or forfeited            | (85,595)  | 37.65                                     |  |                                 |
| Outstanding, March 31, 2008     | 1,800,414 | \$ 34.07                                  | 6.8  | \$ 25,527                       |
| Exercisable, March 31, 2008     | 624,105   | \$ 27.94                                  | 5.4  | \$ 12,677                       |

The weighted-average grant date fair value of options granted for the six-months ended March 31, 2007 was \$12.29. The fair value of shares earned during the three-month periods ended March 31, 2008 and 2007 was \$640 and \$1,481, respectively, and \$3,594 and \$3,301 during the six-month periods ended March 31, 2008 and 2007, 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, 2008 and 2007 was \$4,347 and \$5,742, respectively.

The transactions for non-vested options for the six months ended March 31, 2008 were as follows:

| Non-vested shares                | Shares    | Weighted-average<br>grant-date<br>fair value |
|----------------------------------|-----------|--|
| Non-vested at September 30, 2007 | 1,642,201 | \$ 10.87                                     |
| Granted                          | -         | -  |
| Vested                           | (381,540) | 9.42   |

|                              |              |       |
|------------------------------|--------------|-------|
| Expired or forfeited         | (84,262)     | 11.05 |
| Non-vested at March 31, 2008 | 1,176,399 \$ | 11.32 |

As of March 31, 2008, the total unrecognized compensation cost related to non-vested stock options was approximately \$4,161. This cost is expected to be recognized over a weighted-average period of 2.9 years in accordance with the vesting periods of the options.

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

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

The fair value of each option and 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 stock options (fiscal 2007) and restricted stock (fiscal 2008) for the six months ended March 31, 2008 and 2007.

|                                 | Six Months Ended March<br>31, |       |
|---------------------------------|-------------------------------|-------|
|                                 | 2008                          | 2007  |
| Expected volatility             | 24.0%                         | 24.0% |
| Dividend yield                  | .6%                           | .6%   |
| Average risk free interest rate | 3.6%                          | 4.7%  |
| Average expected term (years):  |                               |       |
| Restricted shares               | 2.3                           | -     |
| Stock options                   | -                             | 6.3   |

The risk free interest rate is based on United States Treasury yields at the date of grant. The dividend yield is based on the most recent dividend payment and average stock price over the 12 months prior to the grant date. Expected volatilities are based on the historical volatility of the Company's stock price. The expected term for the quarter ended March 31, 2007 represents an estimate of the period of time options are expected to remain outstanding. The expected term for the quarter ended March 31, 2008 represents an estimate of the average period of time for restricted shares to vest. Separate employee groups and option characteristics 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 \$30. The equivalent amount paid to a non-employee Chairman of the Board is \$100. 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. Directors may also elect to receive the common stock equivalent of meeting fees credited to a deferred stock account. The value of deferred shares is recorded in other liabilities. A total of 48,697 shares had been deferred under the Director Fee Plan at March 31, 2008. 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 \$50. A total of 22,300 stock options have been granted under the plan. At March 31, 2008, 21,300 options were outstanding and vested. Additionally, 21,600 shares of restricted stock have been granted under the plan, 15,400 of which are unvested at March 31, 2008. A total of 300,000 shares have been authorized to be issued under the Director Fee Plan.

## Note 7. Earnings Per Share

|            | Three Months Ended<br>March 31, |           | Six Months Ended<br>March 31, |           |
|------------|---------------------------------|-----------|-------------------------------|-----------|
|            | 2008                            | 2007      | 2008                          | 2007      |
| Net income | \$ 20,283                       | \$ 18,501 | \$ 37,714                     | \$ 32,472 |



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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Weighted-average common shares outstanding         | 30,972,836 | 31,733,347 | 30,989,359 | 31,699,731 |
| Dilutive securities, primarily stock options       | 229,727    | 135,651    | 209,521    | 184,776    |
| Diluted weighted-average common shares outstanding | 31,202,563 | 31,868,998 | 31,198,880 | 31,884,507 |
| Basic earnings per share                           | \$.66      | \$.58      | \$1.22     | \$1.02     |
| Diluted earnings per share                         | \$.65      | \$.58      | \$1.21     | \$1.02     |

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

Note 8. Pension and Other Postretirement Benefit Plans

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

| Three months ended March 31,   | Pension  |          | Other Postretirement |        |
|--------------------------------|----------|----------|----------------------|--------|
|                                | 2008     | 2007     | 2008                 | 2007   |
| Service cost                   | \$ 1,016 | \$ 1,003 | \$ 146               | \$ 133 |
| Interest cost                  | 1,744    | 1,640    | 348                  | 297    |
| Expected return on plan assets | (1,836)  | (1,612)  | -                    | -      |
| Amortization:                  |          |          |                      |        |
| Prior service cost             | 4        | 3        | (322)                | (322)  |
| Net actuarial loss             | 317      | 385      | 122                  | 72     |
| Net benefit cost               | \$ 1,245 | \$ 1,419 | \$ 294               | \$ 180 |

| Six months ended March 31,     | Pension  |          | Other Postretirement |        |
|--------------------------------|----------|----------|----------------------|--------|
|                                | 2008     | 2007     | 2008                 | 2007   |
| Service cost                   | \$ 2,032 | \$ 2,006 | \$ 292               | \$ 266 |
| Interest cost                  | 3,488    | 3,280    | 696                  | 594    |
| Expected return on plan assets | (3,672)  | (3,224)  | -                    | -      |
| Amortization:                  |          |          |                      |        |
| Prior service cost             | 8        | 6        | (644)                | (644)  |
| Net actuarial loss             | 634      | 770      | 244                  | 144    |
| Net benefit cost               | \$ 2,490 | \$ 2,838 | \$ 588               | \$ 360 |

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 2008. As of March 31, 2008, contributions of \$291 and \$536 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$583 and \$540 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2008.

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, 2008 was 34.1%, compared to 37.6% for the first six months of fiscal 2007. The decrease primarily resulted from the impact of a \$1.9 million reduction in net deferred tax liabilities to reflect the enactment of lower statutory income tax rates in Europe. Excluding the one-time adjustment to deferred taxes, the Company's effective tax rate was 37.4%, compared

to 37.6% for fiscal 2007. 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.

On October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard ("SFAS") No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

(Dollar amounts in thousands, except per share data)

## Note 9. Income Taxes (continued)

expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material effect on the Company's financial statements.

As of the date of adoption, the Company had \$7,400 of unrecognized tax benefits, all of which, if recorded, would impact the 2008 annual effective tax rate. It is reasonably possible that the amount of unrecognized tax benefits could change by approximately \$700 in the next 12 months primarily due to expiration of statutes related to specific tax positions.

Upon adoption of FIN 48, the Company included an estimate of \$2,900 related to penalties and interest that may potentially be applicable in the event of an unfavorable outcome of uncertain tax positions. Changes in this estimate are included as a component of the provision for income taxes in the Consolidated Statements of Income.

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, 2008, the tax years that remain subject to examination by major jurisdiction generally are:

|                   |                  |
|-------------------|------------------|
| United States –   | 2004 and forward |
| Federal and State |                  |
| Canada            | 2003 and forward |
| Europe            | 2002 and forward |
| United Kingdom    | 2006 and forward |
| Australia         | 2002 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 minority interest.

Information about the Company's segments follows:

|                              | Three Months Ended |                   | Six Months Ended  |                   |
|------------------------------|--------------------|-------------------|-------------------|-------------------|
|                              | March 31,<br>2008  | March 31,<br>2007 | March 31,<br>2008 | March 31,<br>2007 |
| Sales to external customers: |                    |                   |                   |                   |
| Memorialization:             |                    |                   |                   |                   |
| Bronze                       | \$ 60,948          | \$ 56,159         | \$ 115,114        | \$ 106,587        |
| Casket                       | 61,397             | 58,845            | 117,173           | 112,668           |
| Cremation                    | 6,425              | 6,661             | 12,809            | 13,295            |
|                              | 128,770            | 121,665           | 245,096           | 232,550           |

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|                         |            |            |            |            |
|-------------------------|------------|------------|------------|------------|
| <b>Brand Solutions:</b> |            |            |            |            |
| Graphics Imaging        | 38,511     | 36,890     | 73,506     | 70,641     |
| Marking Products        | 14,911     | 14,097     | 29,618     | 27,777     |
| Merchandising Solutions | 15,635     | 30,327     | 31,955     | 47,435     |
|                         | 69,057     | 81,314     | 135,079    | 145,853    |
|                         | \$ 197,827 | \$ 202,979 | \$ 380,175 | \$ 378,403 |

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

## Note 10. Segment Information (continued)

|                         | Three Months Ended |           | Six Months Ended |           |
|-------------------------|--------------------|-----------|------------------|-----------|
|                         | March 31,          |           | March 31,        |           |
|                         | 2008               | 2007      | 2008             | 2007      |
| Operating profit:       |                    |           |                  |           |
| Memorialization:        |                    |           |                  |           |
| Bronze                  | \$ 16,918          | \$ 15,899 | \$ 29,887        | \$ 27,525 |
| Casket                  | 7,741              | 5,577     | 14,767           | 11,488    |
| Cremation               | 1,324              | 1,215     | 2,371            | 1,991     |
|                         | 25,983             | 22,691    | 47,025           | 41,004    |
| Brand Solutions:        |                    |           |                  |           |
| Graphics Imaging        | 4,717              | 3,335     | 7,459            | 5,525     |
| Marking Products        | 2,282              | 2,083     | 3,708            | 4,469     |
| Merchandising Solutions | 1,410              | 3,536     | 2,978            | 4,831     |
|                         | 8,409              | 8,954     | 14,145           | 14,825    |
|                         | \$ 34,392          | \$ 31,645 | \$ 61,170        | \$ 55,829 |

## Note 11. Acquisitions

In February 2008, the Company signed an agreement to purchase a 78% ownership interest in Saueressig GmbH & Co. KG (“Saueressig”). Saueressig is headquartered in Vreden, Germany. The purchase price will be approximately 76 million Euros (\$120,000) on a cash-free, debt-free basis, and will be funded through a combination of cash and debt. The acquisition is designed to expand Matthews products and services in the global graphics imaging market. Completion of this transaction is expected to close in May 2008.

In July 2007, The York Group, Inc. (“York”), a wholly-owned subsidiary of the Company, reached a settlement agreement with Yorktowne Caskets, Inc. and its shareholders (collectively “Yorktowne”) with respect to all outstanding litigation between the parties. In exchange for the mutual release, the principal terms of the settlement included the assignment by Yorktowne of certain customer and employment-related contracts to York and the purchase by York of certain assets, including York-product inventory, of Yorktowne.

In June 2007, the Company acquired a 60% interest in Beijing Kenuohua Electronic Technology Co., Ltd., (“Kenuohua”), an ink-jet equipment manufacturer, headquartered in Beijing, China. The acquisition was structured as a stock purchase. The acquisition was intended to expand Matthews’ marking products manufacturing and distribution capabilities in Asia.

In December 2006, the Company paid additional purchase consideration of \$7,000 under the terms of the Milso Industries (“Milso”) acquisition agreement.

## 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 combination of valuation techniques, including discounted cash flows. 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 quarter of fiscal 2008 and determined that no additional adjustments to the carrying values of goodwill were necessary at March 31, 2008.

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

## Note 12. Goodwill and Other Intangible Assets (continued)

Changes to goodwill, net of accumulated amortization, for the six months ended March 31, 2008, were as follows:

|                                      | Bronze    | Casket     | Cremation | Graphics<br>Imaging | Marking<br>Products | Merchandising<br>Solutions | Consolidated |
|--------------------------------------|-----------|------------|-----------|---------------------|---------------------|----------------------------|--------------|
| Balance at<br>September 30,<br>2007  | \$ 77,375 | \$ 120,555 | \$ 6,536  | \$ 95,632           | \$ 9,062            | \$ 9,138                   | \$ 318,298   |
| Additions during<br>period           | -         | 763        | -         | -                   | 151                 | -                          | 914          |
| Dispositions                         |           |            |           | (161)               |                     |                            | (161)        |
| Translation and<br>other adjustments | 2,764     | -          | -         | 5,557               | 271                 | -                          | 8,592        |
| Balance at<br>March 31, 2008         | \$ 80,139 | \$ 121,318 | \$ 6,536  | \$ 101,028          | \$ 9,484            | \$ 9,138                   | \$ 327,643   |

The additions to Casket goodwill during fiscal 2008 related primarily to additional consideration paid in accordance with the purchase agreement with Royal Casket Company. The addition to Marking Products goodwill related to the purchase of a 60% interest in Kenuohua.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of March 31, 2008 and September 30, 2007, respectively.

|                          | Carrying<br>Amount | Accumulated<br>Amortization | Net       |
|--------------------------|--------------------|-----------------------------|-----------|
| March 31, 2008:          |                    |                             |           |
| Trade names              | \$ 25,903          | \$ -*                       | \$ 25,903 |
| Customer relationships   | 25,146             | (4,669)                     | 20,477    |
| Copyrights/patents/other | 7,292              | (4,061)                     | 3,231     |
|                          | \$ 58,341          | \$ (8,730)                  | \$ 49,611 |
| September 30, 2007:      |                    |                             |           |
| Trade names              | \$ 26,140          | \$ -*                       | \$ 26,140 |
| Customer relationships   | 25,215             | (3,977)                     | 21,238    |
| Copyrights/patents/other | 7,382              | (3,454)                     | 3,928     |
|                          | \$ 58,737          | \$ (7,431)                  | \$ 51,306 |

\* Not subject to amortization

The change in intangible assets during the quarter ended March 31, 2008 was due to the impact of fluctuations in foreign currency exchange rates on intangible assets denominated in foreign currencies and additional amortization.



Amortization expense on intangible assets was \$740 and \$421 for the three-month periods ended March 31, 2008 and 2007, respectively. For the six-month periods ended March 31, 2008 and 2007, amortization expense was \$1,483 and \$1,048, respectively. Amortization expense is estimated to be \$1,378 in 2008, \$2,614 in 2009, \$1,757 in 2010, \$1,725 in 2011 and \$1,662 in 2012.

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

Note 13. Accounting Pronouncements

In June 2006, the FASB issued FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption will be reported as an adjustment to beginning retained earnings in the period of adoption. The Company adopted FIN 48 as of October 1, 2007 which did not have a material effect on the financial statements. See Note 9 for additional disclosures related to the adoption of FIN 48.

Effective September 30, 2007, the Company adopted the recognition and related disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158") which amends SFAS No. 87, No. 88, No. 106 and No. 132(R). SFAS No. 158 requires the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. This provision of the SFAS No. 158 is effective for public companies for fiscal years beginning after December 15, 2008. The Company currently measures plan assets and benefit obligations as of July 31 of each year. The Company is considering the implications of this provision and the feasibility of earlier adoption of this portion of the statement. Upon adoption, this provision is not expected to have a material effect on the financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, however, for non-financial assets and liabilities the effective date has been extended to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 157.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) requires recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in a business combination, goodwill acquired or a gain from a bargain purchase. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R).

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"). SFAS No. 160 amends Accounting Research Bulletin 51 and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. The Statement requires that consolidated net income reflect the amounts attributable to both the parent and the noncontrolling interest, and also includes additional disclosure requirements. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") to require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements. The Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. The Company is currently evaluating the impact of the adoption of SFAS No. 161.

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, 2007. 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 commodity prices and the related 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  |        | Years ended           |        |
|---------------------|-------------------|--------|-----------------------|--------|
|                     | March 31,<br>2008 | 2007   | September 30,<br>2007 | 2006   |
| Sales               | 100.0%            | 100.0% | 100.0%                | 100.0% |
| Gross profit        | 40.0%             | 36.8%  | 37.4%                 | 38.0%  |
| Operating profit    | 16.1%             | 14.8%  | 14.9%                 | 15.9%  |
| Income before taxes | 15.1%             | 13.8%  | 13.8%                 | 14.7%  |
| Net income          | 9.9%              | 8.6%   | 8.6%                  | 9.3%   |

Sales for the six months ended March 31, 2008 were \$380.2 million, compared to \$378.4 million for the six months ended March 31, 2007. The increase reflected higher sales in the Company's Memorialization businesses, the acquisition of a 60% interest in a Chinese ink-jet manufacturer, Beijing Kenuohua Electronic Technology Co., Ltd. ("Kenuohua"), in June 2007 and the effect of higher foreign currency values against the U.S. dollar. These increases were offset by lower sales volume in the Company's Brand Solutions businesses, which included the absence of a large one-time Merchandising Solutions project completed in the second quarter a year ago (which exceeded \$10 million in revenue) and the sale of the segment's marketing consultancy business in August 2007. For the six months ended March 31, 2008, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately

\$10.4 million on the Company's consolidated sales compared to the six months ended March 31, 2007.

In the Memorialization businesses, Bronze segment sales for the first six months of fiscal 2008 were \$115.1 million compared to \$106.6 million for the first six months of fiscal 2007. The increase primarily reflected higher selling prices and increases in the value of foreign currencies against the U.S. dollar, partially offset by a decline in the volume of memorial products. Sales for the Casket segment were \$117.2 million for the first six months of fiscal 2008 compared to \$112.7 million for the same period in fiscal 2007. The increase resulted primarily from higher average selling prices, which reflected the transition to direct distribution in certain territories and increased net price realization. The increase

was partially offset by lower unit volume. Sales for the Cremation segment were \$12.8 million for the first half of fiscal 2008 compared to \$13.3 million for the same period a year ago. The decrease primarily reflected lower sales of services and supplies. The decrease was partially offset by higher cremation equipment sales, reflecting improved product mix and higher selling prices. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in the first half of fiscal 2008 were \$73.5 million, compared to \$70.6 million for the same period a year ago. The increase primarily reflected an increase in the value of foreign currencies against the U.S. dollar, partially offset by lower sales in the U.S. and U.K. markets. Marking Products segment sales for the six months ended March 31, 2008 were \$29.6 million, compared to \$27.8 million for the first six months of fiscal 2007. The increase was due mainly to the acquisition of Kenuohua in June 2007 and an increase in the value of foreign currencies against the U.S. dollar. These increases were offset partially by lower product demand in the U.S. market, reflecting a slowdown in several of the segment's markets, including the building products and materials handling markets. Sales for the Merchandising Solutions segment were \$32.0 million for the first half of fiscal 2008, compared to \$47.4 million for the same period a year ago. The decrease is attributable to a significant one-time project for one of the segment's customers in the second quarter of fiscal 2007, which exceeded \$10.0 million in revenue, and the sale of the segment's marketing consultancy business in August 2007.

Gross profit for the six months ended March 31, 2008 was \$152.2 million, compared to \$139.1 million for the six months ended March 31, 2007. Consolidated gross profit as a percent of sales increased from 36.8% for the first half of fiscal 2007 to 40.0% for the first six months of fiscal 2008. The increase in consolidated gross profit primarily reflected the impact of higher sales, higher foreign currency values against the U.S. dollar, the expansion to direct distribution by the Casket segment, the acquisition of Kenuohua and the effects of cost structure initiatives implemented in the last half of 2007 in several of the Company's businesses. These gains were partially offset by the effects of lower Graphics Imaging segment sales in the U.S. and U.K. markets and lower sales in the Merchandising Solutions segment.

Selling and administrative expenses for the six months ended March 31, 2008 were \$91.1 million, compared to \$83.3 million for the first half of fiscal 2007. Consolidated selling and administrative expenses as a percent of sales were 23.9% for the six months ended March 31, 2008, compared to 22.0% for the same period last year. The increases in costs and percentage of sales primarily resulted from the continued expansion of the Casket segment's direct distribution capabilities, the acquisition of Kenuohua in June 2007 and increases in the values of foreign currencies against the U.S. dollar. The first half of fiscal 2007 included an earn-out charge of approximately \$1.3 million under the Milso Industries ("Milso") acquisition-related agreements which did not recur in fiscal 2008.

Operating profit for the six months ended March 31, 2008 was \$61.2 million, compared to \$55.8 million for the six months ended March 31, 2007. The increase reflected higher operating income in four of the Company's six operating segments. Bronze segment operating profit for the first half of fiscal 2008 was \$29.9 million, compared to \$27.5 million for the same period in fiscal 2007. The increase reflected the impact of higher sales and increases in the value of foreign currencies against the U.S. dollar. Operating profit for the Casket segment for the first six months of fiscal 2008 was \$14.8 million, compared to \$11.5 million for the first half of fiscal 2007. The increase resulted from higher sales and improved productivity. In addition, the first six months of fiscal 2007 included the charge of \$1.3 million in connection with earn-out provisions under the Milso acquisition related agreements. Cremation segment operating profit for the six months ended March 31, 2008 was \$2.4 million, compared to \$2.0 million for the same period a year ago. The increase primarily reflected the favorable impact of cost controls, improved pricing and better product mix for equipment sales. The Graphics Imaging segment operating profit for the six months ended March 31, 2008 was \$7.5 million, compared to \$5.5 million for the six months ended March 31, 2007. The increase primarily reflected the favorable impact of higher foreign currency values against the U.S. dollar and cost reduction initiatives in fiscal 2007. Operating profit for the Marking Products segment for the first six months of fiscal 2008 was \$3.7 million, compared to \$4.5 million for the same period a year ago. The decrease primarily reflected the impact of lower domestic sales, offset partially by the acquisition of Kenuohua. The Merchandising Solutions segment operating

profit was \$3.0 million for the six months ended March 31, 2008, compared to \$4.8 million for the same period in fiscal 2007. The decrease primarily reflected the sale of the segment's marketing consultancy business in August 2007 and lower sales attributable to a significant one-time project for one of the segment's customers in the second quarter of fiscal 2007. For the six months ended March 31, 2008, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately \$1.6 million on the Company's consolidated operating profit compared to the six months ended March 31, 2007.

Investment income for the six months ended March 31, 2008 was \$1.0 million, compared to \$850,000 for the six months ended March 31, 2007. The increase reflected higher average levels of invested funds. Interest expense for the first half of fiscal 2008 was \$4.0 million, compared to \$3.7 million for the same period last year. The increase in interest expense

primarily reflected higher average debt levels and higher average interest rates during the fiscal 2008 six-month period compared to the same period in fiscal 2007.

Other income, net, for the six months ended March 31, 2008 was \$368,000, compared to \$210,000 for the same period last year. Minority interest deduction was \$1.3 million for the first half of fiscal 2008, compared to \$1.1 million for the same period in fiscal 2007. The increase in the minority interest deduction reflected the acquisition of Kenuohua.

The Company's effective tax rate for the three months ended March 31, 2008 was 37.4%, compared to 37.6% for the second quarter of fiscal 2007 and for the full fiscal year ended September 30, 2007. The Company's effective tax rate for the first six months of fiscal 2008 was 34.1%, compared to 37.6% for the same period last year. The decrease in the effective tax rate for the six-month period in fiscal 2008 resulted from the impact of a \$1.9 million reduction in net deferred tax liabilities to reflect the enactment of lower statutory income tax rates in Europe. Excluding the one-time adjustment to deferred taxes, the Company's effective tax rate for the first six months of fiscal 2008 was 37.4%. 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.

#### 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 combination of valuation techniques, including discounted cash flows. The Company performed its annual impairment review in the second quarter of fiscal 2008 and determined that no additional adjustments to the carrying values of goodwill were necessary at March 31, 2008.

#### Liquidity and Capital Resources:

Net cash provided by operating activities was \$55.8 million for the six months ended March 31, 2008, compared to \$26.8 million for the first six months of fiscal 2007. Operating cash flow for both periods primarily reflected net income adjusted for non-cash charges (depreciation, amortization, stock-based compensation expense and an increase in minority interest), and changes in working capital. Working capital changes in the first six months of fiscal 2008 primarily reflected decreases in accounts receivable and inventory resulting from working capital management initiatives in several segments. Working capital changes in the first half of fiscal 2007 primarily reflected an increase in inventory resulting from the expansion of the Company's casket distribution capabilities.

Cash used in investing activities was \$9.8 million for the six months ended March 31, 2008, compared to \$15.7 million for the six months ended March 31, 2007. Investing activities for the first six months of fiscal 2008 primarily included capital expenditures of \$4.5 million and purchases of investments of \$4.2 million. Investing activities for the first six months of fiscal 2007 primarily included capital expenditures of \$10.7 million, acquisition-related payments of \$8.4 million and proceeds from the disposal of assets of \$3.8 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 \$22.7 million for the last three fiscal years. The capital budget for fiscal 2008 is \$25.2 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.



Cash used in financing activities for the six months ended March 31, 2008 was \$27.9 million, reflecting net repayments of long-term debt of \$20.1 million, purchases of treasury stock of \$9.1 million, proceeds of \$5.4 million from the sale of treasury stock (stock option exercises), a tax benefit of \$911,000 from exercised stock options, payment of dividends of \$3.7 million to the Company's shareholders and distributions of \$1.2 million to minority interests. Cash provided by financing activities for the six months ended March 31, 2007 was \$1.1 million, reflecting net borrowings of long-term debt of \$10.2 million, purchases of treasury stock of \$11.9 million, proceeds of \$5.8 million from the sale of treasury stock (stock option exercises), a tax benefit of \$1.5 million from exercised stock options, payment of dividends of \$3.5 million to the Company's shareholders and distributions of \$895,000 to minority interests.

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is \$225.0 million and the facility's maturity is September 10, 2012. Borrowings under the facility bear interest at LIBOR plus a factor ranging from .40% to .80% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at March 31, 2008 and September 30, 2007 were \$129.1 million and \$147.8 million, respectively. The weighted-average interest rate on outstanding borrowings at March 31, 2008 and 2007 was 4.60% and 5.14%, respectively.

The Company has entered into the following interest rate swaps:

| Date           | Initial Amount | Fixed Interest Rate | Interest Rate Spread at March 31, 2008 | Equal Quarterly Payments | Maturity Date  |
|----------------|----------------|---------------------|--|--------------------------|----------------|
| April 2004     | \$50 million   | 2.66%               | .40%                                   | \$2.5 million            | April 2009     |
| September 2005 | 50 million     | 4.14                | .40                                    | 3.3 million              | April 2009     |
| August 2007    | 15 million     | 5.07                | .40                                    | -                        | April 2009     |
| August 2007    | 10 million     | 5.07                | .40                                    | -                        | April 2009     |
| September 2007 | 25 million     | 4.77                | .40                                    | -                        | September 2012 |

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 \$2.8 million (\$1.7 million after tax) at March 31, 2008 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2008, approximately \$819,000 of the \$1.7 million loss included in accumulated other comprehensive income is expected to be recognized in earnings as interest expense over the next twelve months.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with a bank for borrowings up to 10.0 million Euros (\$15.8 million). On May 2, 2008, the maximum amount of borrowings available under this facility was increased to 25.0 million Euros (approximately \$39.0 million). At March 31, 2008, outstanding borrowings under the credit facility totaled 8.0 million Euros (\$12.6 million). The weighted-average interest rate on outstanding MIGmbH related borrowings at March 31, 2008 and 2007 was 5.11% and 4.00%, respectively.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 4.7 million Euros (\$7.5 million) at March 31, 2008. Matthews International S.p.A. also has three lines of credit totaling approximately 8.4 million Euros (\$13.2 million) with the same Italian banks. Outstanding borrowings on these lines were 1.1 million Euros (\$1.8 million) at

March 31, 2008. The weighted-average interest rate on outstanding borrowings of Matthews International S.p.A. at March 31, 2008 and 2007 was 3.26%.

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors had authorized the repurchase of a total of 12,500,000 shares (adjusted for stock splits) of Matthews common stock, of which 10,733,071 shares have been repurchased as of March 31, 2008. 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 Articles of Incorporation.

Consolidated working capital of the Company was \$154.4 million at March 31, 2008, compared to \$143.1 million at September 30, 2007. Cash and cash equivalents were \$65.8 million at March 31, 2008, compared to \$44.0 million at September 30, 2007. The Company's current ratio was 2.2 at March 31, 2008 and September 30, 2007.

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, 2008, an accrual of approximately \$8.5 million had been recorded for environmental remediation (of which \$862,000 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 February 2008, the Company signed an agreement to purchase a 78% ownership interest in Saueressig GmbH & Co. KG ("Saueressig"). Saueressig is headquartered in Vreden, Germany. The purchase price will be approximately 76 million Euros (\$120 million) on a cash-free, debt-free basis, and will be funded through a combination of cash and debt. The acquisition is designed to expand Matthews products and services in the global graphics imaging market. Completion of this transaction is expected to close in May 2008.

In July 2007, The York Group, Inc. ("York"), a wholly-owned subsidiary of the Company, reached a settlement agreement with Yorktowne Caskets, Inc. and its shareholders (collectively "Yorktowne") with respect to all outstanding litigation between the parties. In exchange for the mutual release, the principal terms of the settlement included the assignment by Yorktowne of certain customer and employment-related contracts to York and the purchase by York of certain assets, including York-product inventory, of Yorktowne.

In June 2007, the Company acquired a 60% interest in Beijing Kenuohua Electronic Technology Co., Ltd., ("Kenuohua"), an ink-jet equipment manufacturer, headquartered in Beijing, China. The acquisition was structured as a stock purchase. The acquisition was intended to expand Matthews' marking products manufacturing and distribution capabilities in Asia.

In December 2006, the Company paid additional purchase consideration of \$7.0 million under the terms of the Milso Industries ("Milso") acquisition agreement.

Forward-Looking Information:

The Company's objective with respect to operating performance is to increase annual earnings per share in the range of 12% to 15% annually. For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of approximately 14%.

Matthews has a three-pronged strategy to attain the annual growth rate objective, which has remained unchanged from the prior year. This strategy consists of the following: internal growth (which includes 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.

Significant factors expected to impact fiscal 2008 include the cost of raw materials (particularly bronze ingot and steel), the Casket segment's continuing transition to direct distribution in certain territories, continued weakness in the U.K. graphics market and the impact on the Marking Products segment of a slowdown in several of its markets. The Company remains cautious as to any future volatility in bronze costs, and the price of cold-rolled steel is expected to increase during the last half of fiscal 2008. In addition, the Casket segment will continue its efforts to integrate and manage newly established direct distribution operations. Finally, current conditions relative to the U.K. graphics market and the domestic markets served by the Marking Products segment may continue for the next several quarters.

Based on the Company's growth strategy, factors discussed above and the pending acquisition of Saueressig, the Company currently expects to achieve fiscal 2007 diluted earnings per share growth in the range of \$2.48 to \$2.54, which represents growth in the range of 12% to 15% over fiscal 2007 earnings per share excluding unusual items. This earnings expectation excludes the net impact of the unusual items incurred in fiscal 2007 and the one-time income tax adjustment and any other unusual items that may occur in fiscal 2008.

#### 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, 2007. 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, 2008, 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<br>2012 |
|-------------------------------|-------|-------------------------------|-----------------|-----------------|---------------|
|                               |       | 2008<br>Remainder             | 2009 to<br>2010 | 2011 to<br>2012 |               |
| Contractual Cash Obligations: |       |                               |                 |                 |               |
|                               |       | (Dollar amounts in thousands) |                 |                 |               |

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|   |                   |                  |                  |                   |                 |
|---|-------------------|------------------|------------------|-------------------|-----------------|
| Revolving credit facilities               | \$ 141,796        | \$ 11,667        | \$ 30,129        | \$ 100,000        | \$ -            |
| Notes payable to banks                    | 7,496             | 557              | 2,345            | 2,345             | 2,249           |
| Short-term borrowings                     | 1,786             | 1,786            | -                | -                 | -               |
| Capital lease obligations                 | 353               | 323              | 24               | 6                 | -               |
| Non-cancelable operating leases           | 26,510            | 4,687            | 11,231           | 7,037             | 3,555           |
| <b>Total contractual cash obligations</b> | <b>\$ 177,941</b> | <b>\$ 19,020</b> | <b>\$ 43,729</b> | <b>\$ 109,388</b> | <b>\$ 5,804</b> |

A significant portion of the loans included in the table above bear interest at variable rates. At March 31, 2008, the weighted-average interest rate was 4.60% on the Company's domestic Revolving Credit Facility, 5.11% on the credit facility through the Company's wholly-owned German subsidiary, and 3.26% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company does not currently expect to make any significant contributions to its principal retirement plan in fiscal 2008. As of March 31, 2008, contributions of \$291,000 and \$536,000 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$583,000 and \$540,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2008.

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.

#### Accounting Pronouncements:

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption will be reported as an adjustment to beginning retained earnings in the period of adoption. The Company adopted FIN 48 as of October 1, 2007 which did not have a material effect on the financial statements. See Note 9 for additional disclosures related to the adoption of FIN 48.

Effective September 30, 2007, the Company adopted the recognition and related disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158") which amends SFAS No. 87, No. 88, No. 106 and No. 132(R). SFAS No. 158 requires the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. This provision of the SFAS No. 158 is effective for public companies for fiscal years beginning after December 15, 2008. The Company currently measures plan assets and benefit obligations as of July 31 of each year. The Company is considering the implications of this provision and the feasibility of earlier adoption of this portion of the statement. Upon adoption, this provision is not expected to have a material effect on the financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, however, for non-financial assets and liabilities the effective date has been extended to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 157.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) requires recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in a business combination, goodwill acquired or a gain from a bargain purchase. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R).



In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"). SFAS No. 160 amends Accounting Research Bulletin 51 and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. The Statement requires that consolidated net income reflect the amounts attributable to both the parent and the noncontrolling interest, and also includes additional disclosure requirements. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") to require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements. The Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. The Company is currently evaluating the impact of the adoption of SFAS No. 161.

### 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, as amended, which bears interest at variable rates based on LIBOR.

The Company has entered into the following interest rate swaps:

| Date           | Initial Amount | Fixed Interest Rate | Interest Rate Spread at March 31, 2008 | Equal Quarterly Payments | Maturity Date  |
|----------------|----------------|---------------------|--|--------------------------|----------------|
| April 2004     | \$50 million   | 2.66%               | .40%                                   | \$2.5 million            | April 2009     |
| September 2005 | 50 million     | 4.14                | .40                                    | 3.3 million              | April 2009     |
| August 2007    | 15 million     | 5.07                | .40                                    | -                        | April 2009     |
| August 2007    | 10 million     | 5.07                | .40                                    | -                        | April 2009     |
| September 2007 | 25 million     | 4.77                | .40                                    | -                        | September 2012 |

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 \$2.8 million (\$1.7 million after tax) at March 31, 2008 that is included in equity as part of accumulated other comprehensive income. A decrease of 10% in market interest rates (i.e. a decrease from 5.0% to 4.5%) would result in a decrease of approximately \$800,000 in the fair value 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, wood and photopolymers) used in its manufacturing operations. The Company obtains competitive prices for materials and supplies when available.

Foreign Currency Exchange Rates - The Company is subject to changes in various foreign currency exchange rates, including the Euro, the British Pound, Canadian dollar, Australian dollar, Swedish Krona and the Chinese Yuan 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. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of \$9.1 million and a decrease in operating income of \$1.4 million for the six months ended March 31, 2008.

## Item 4. Controls and Procedures

Based on their evaluation at the end of the period covered by this Quarterly Report on Form 10-Q, the Company's chief executive officer and chief financial officer have concluded that 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 (the "Exchange Act")) provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There have been no changes in the Company's internal controls over financial reporting that occurred during the six months ended March 31, 2008 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

On February 15, 2008, The York Group, Inc., a wholly-owned subsidiary of the Company, reached a settlement with Batesville Casket Company, Inc. resolving all litigation previously pending in the United States District Court for the Southern District of Ohio and the Court of Common Pleas of Allegheny County, Pennsylvania.

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

## Stock Repurchase Plan

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors had authorized the repurchase of a total of 12,500,000 shares (adjusted for stock splits) of Matthews common stock, of which 10,733,071 shares have been repurchased as of March 31, 2008. All purchases of the Company's common stock during the first six months of fiscal 2008 were part of the repurchase program.

The following table shows the monthly fiscal 2008 stock repurchase activity:

| Period        | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced plan | Maximum number of shares that may yet be purchased under the plan (1) |
|---------------|----------------------------------|------------------------------|---|---|
| October 2007  | 45,000                           | \$ 43.41                     | 45,000  | 1,953,557   |
| November 2007 | 39,088                           | 42.83                        | 39,088  | 1,914,469   |
| December 2007 | 15,300                           | 45.12                        | 15,300  | 1,899,169   |
| January 2008  | 57,500                           | 45.92                        | 57,500  | 1,841,669   |

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|               |         |          |         |           |
|---------------|---------|----------|---------|-----------|
| February 2008 | 18,300  | 45.70    | 18,300  | 1,823,369 |
| March 2008    | 56,440  | 46.37    | 56,440  | 1,766,929 |
| Total         | 231,628 | \$ 44.95 | 231,628 |           |

23

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Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Shareholders of Matthews International Corporation was held on February 21, 2008. A total of 31,116,157 shares of Class A Common Stock were eligible to vote at such meeting.

The matters voted upon at such meeting were as follows:

1. Election of Directors:

The following individuals were nominated for election to the Board of Directors for a term expiring at the Annual Meeting of Shareholders in the year indicated.

| Nominee           | Term<br>Expiration | Votes For  | Votes<br>Withheld |
|-------------------|--------------------|------------|-------------------|
| Robert G. Neubert | 2011               | 27,707,371 | 1,240,993         |
| Martin Schlatter  | 2011               | 28,535,513 | 412,851           |
| John D. Turner    | 2011               | 27,704,195 | 1,244,169         |

The nominations were made by the Board of Directors and no other nominations were made by any shareholder. The nominees had currently been members of the Board of Directors at the date of the Annual Meeting.

The terms of the following additional directors continued after the meeting: J.C. Bartolacci, G. R. Mahone, W.J. Stallkamp, D.J. DeCarlo, and J.P. O'Leary, Jr.

2. Adoption of Matthews International Corporation 2007 Equity Incentive Plan:

The shareholders voted to ratify the adoption of the 2007 Equity Incentive Plan adopted by the Company's Board of Directors on November 13, 2007.

| Votes For  | Votes Against | Votes Abstained | Non Votes |
|------------|---------------|-----------------|-----------|
| 21,587,990 | 3,297,109     | 1,312,893       | 2,750,372 |

3. Selection of Auditors:

The shareholders voted to ratify the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as independent registered public accountants to audit the records of the Company for the fiscal year ending September 30, 2008.

| Votes For  | Votes Against | Votes Abstained |
|------------|---------------|-----------------|
| 28,754,341 | 187,240       | 6,783           |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| Exhibit<br>No. | Description |
|----------------|-------------|
|----------------|-------------|

- 31.1 Certification of Principal Executive Officer for Joseph C. Bartolacci
- 31.2 Certification of Principal Financial Officer for Steven F. Nicola
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Joseph C. Bartolacci.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Steven F. Nicola.

(b) Reports on Form 8-K

On January 18, 2008, Matthews filed a Current Report on Form 8-K under Item 5.02 in connection with a press release announcing David J. DeCarlo's plan of retirement from employment with the Company.

On January 24, 2008, 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 2008.

On February 22, 2008, 2007, Matthews filed a Current Report on Form 8-K under Item 5.02 in connection with a press release announcing that William J. Stallkamp was named as the Company's new Chairman of the Board of Directors.

On February 26, 2008, Matthews filed a Current Report on Form 8-K under Item 1.01 in connection with a press release announcing the Company signed a definitive agreement for the purchase of a 78% ownership interest in Saueressig GmbH & Co. KG.



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, 2008

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

Date: May 6, 2008

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