MATTHEWS INTERNATIONAL CORP
Form 10-Q
August 05, 2009

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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 June 30, 2009

Commission File No. 0-9115

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

| PENNSYLVANIA<br>(State or other jurisdiction of<br>Incorporation or organization) | 25-0644320<br>(I.R.S. Employer<br>Identification No.) |
|---|---|
| TWO NORTHSHORE CENTER,<br>PITTSBURGH, PA<br>(Address of principal executive offices) | 15212-5851<br><br>(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o 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.
Large accelerated filer x Accelerated filer o Non-accelerated filer o

Smaller reporting company 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 July 31, 2009, shares of common stock outstanding were:

Class A Common Stock 30,339,498 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)

| | June 30, 2009 (unaudited) | | September 30, 2008 | |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | | $ 51,893 | | $ 50,667 |
| Short-term investments | | 62 | | 62 |
| Accounts receivable, net | | 136,751 | | 145,288 |
| Inventories | | 94,248 | | 96,388 |
| Deferred income taxes | | 1,308 | | 1,271 |
| Other current assets | | 12,127 | | 9,439 |
| Total current assets | | 296,389 | | 303,115 |
| Investments | | 12,515 | | 10,410 |
| Property, plant and equipment: Cost | 294,083 | | 288,865 | |
| Less accumulated depreciation | (159,339) | | (143,127) | |
| | | 134,744 | | 145,738 |
| Deferred income taxes | | 20,936 | | 17,714 |
| Other assets | | 19,181 | | 17,754 |
| Goodwill | | 374,443 | | 359,641 |
| Other intangible assets, net | | 55,674 | | 59,910 |
| Total assets | | $ 913,882 | | $ 914,282 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Long-term debt, current maturities | | $ 14,309 | | $ 35,144 |
| Accounts payable | | 25,937 | | 26,647 |
| Accrued compensation | | 33,882 | | 40,188 |
| Accrued income taxes | | 15,480 | | 12,075 |
| Other current liabilities | | 42,298 | | 47,656 |
| Total current liabilities | | 131,906 | | 161,710 |
| Long-term debt | | 238,812 | | 219,124 |
| Accrued pension | | 19,833 | | 17,208 |
| Postretirement benefits | | 22,366 | | 20,918 |
| Deferred income taxes | | 10,558 | | 10,594 |
| Environmental reserve | | 6,579 | | 7,382 |
| Other liabilities and deferred revenue | | 15,178 | | 12,500 |
| Total liabilities | | 445,232 | | 449,436 |

| | | | | |
|---|---|---|---|---|
| Minority interest and minority interest arrangement | | 29,208 | | 30,891 |
| | | | | |
| Shareholders' equity: | | | | |
| Common stock | 36,334 | | 36,334 | |
| Additional paid-in capital | 45,987 | | 47,250 | |
| Retained earnings | 546,274 | | 511,130 | |
| Accumulated other comprehensive income | (11,022) | | (2,979) | |
| Treasury stock, at cost | (178,131) | | (157,780) | |
| | | 439,442 | | 433,955 |
| | | | | |
| Total liabilities and shareholders' equity | | $ 913,882 | | $ 914,282 |

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 June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Sales | $ 192,047 | $ 219,270 | $ 580,695 | $ 599,445 |
| Cost of sales | (116,581) | (132,351) | (364,260) | (360,304) |
| Gross profit | 75,466 | 86,919 | 216,435 | 239,141 |
| Selling and administrative expenses | (45,656) | (50,185) | (143,107) | (141,237) |
| Operating profit | 29,810 | 36,734 | 73,328 | 97,904 |
| Investment income | 1,324 | 392 | 629 | 1,395 |
| Interest expense | (2,759) | (2,648) | (9,053) | (6,682) |
| Other income (loss), net | 80 | (122) | 83 | 246 |
| Minority interest | (901) | (785) | (999) | (2,052) |
| Income before income taxes | 27,554 | 33,571 | 63,988 | 90,811 |
| Income taxes | (9,486) | (12,193) | (21,889) | (31,719) |
| Net income | $ 18,068 | $ 21,378 | $ 42,099 | $ 59,092 |
| Earnings per share: | | | | |
| Basic | $0.60 | $0.69 | $1.39 | $1.91 |
| Diluted | $0.60 | $0.69 | $1.38 | $1.90 |

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)

| | Nine Months Ended June 30, 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 42,099 | $ 59,092 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 23,118 | 17,200 |
| Net loss on sale of assets | 393 | 405 |
| Minority interest | 999 | 2,052 |
| Stock-based compensation expense | 4,358 | 3,821 |
| Change in deferred taxes | (1,757) | (1,875) |
| Changes in working capital items | (1,017) | 3,990 |
| Increase in other assets | (1,426) | (3,780) |
| Decrease in other liabilities | (833) | (283) |
| Increase (decrease) in pension and postretirement benefits | 3,561 | (2,117) |
| Net cash provided by operating activities | 69,495 | 78,505 |
| Cash flows from investing activities: | | |
| Capital expenditures | (11,556) | (7,867) |
| Proceeds from sale of assets | 311 | 922 |
| Acquisitions, net of cash acquired | (4,843) | (90,919) |
| Purchases of investments | (2,615) | (4,177) |
| Proceeds from disposition of investments | - | 5,457 |
| Net cash used in investing activities | (18,703) | (96,584) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 45,156 | 114,246 |
| Payments on long-term debt | (56,309) | (68,343) |
| Proceeds from the sale of treasury stock | 1,143 | 6,631 |
| Purchases of treasury stock | (27,348) | (25,889) |
| Tax benefit of exercised stock options | 98 | 992 |
| Dividends | (6,078) | (5,581) |
| Distributions to minority interests | (2,291) | (1,330) |
| Net cash (used in) provided by financing activities | (45,629) | 20,726 |
| Effect of exchange rate changes on cash | (3,937) | 4,206 |
| Net increase in cash and cash equivalents | $ 1,226 | $ 6,853 |

| | | |
|---|---|---|
| Non-cash investing and financing activities: | | |
| Capital expenditures financed by capital leases | $ 5,130 | $ - |

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

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(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 and distributor in North America and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets. The Graphics Imaging segment manufactures and provides brand management, printing plates, gravure cylinders, pre-press services and imaging services for the primary packaging and corrugated industries. The Marking Products segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

The Company has manufacturing and marketing facilities in the United States, Mexico, Canada, Europe, Australia and 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 nine months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. 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, 2008. 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.

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

Note 3. Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements", ("SFAS No. 157") for its financial assets and liabilities effective October 1, 2008. SFAS 157-2 extended the effective date for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The Company is evaluating the potential impact of SFAS No. 157, as it relates to pension plan assets, nonfinancial assets and liabilities on the consolidated financial statements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three level fair value hierarchy to prioritize the inputs used in valuations, as defined below:

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

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

Level 3: Unobservable inputs for the asset or liability.

As of June 30, 2009, the fair values of the Company's assets and liabilities measured on a recurring basis are categorized as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Short term investments | $ 62 | - | - | $ 62 |
| Trading securities | 9,950 | - | - | 9,950 |
| Total assets at fair value | $ 10,012 | - | - | $ 10,012 |
| | | | | |
| Liabilities: | | | | |
| Derivatives, net of tax of $2,158 (1) | - | $ 3,376 | - | $ 3,376 |
| Total liabilities at fair value | - | $ 3,376 | - | $ 3,376 |

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

Note 4. Inventories

Inventories consisted of the following:

| | June 30, 2009 | September 30, 2008 |
|---|---|---|
| Materials and finished goods | $ 82,049 | $ 84,925 |
| Labor and overhead in process | 12,199 | 11,463 |
| | $ 94,248 | $ 96,388 |

Note 5. Debt

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is $225,000 and the facility's maturity is September 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

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

Note 5. Debt (continued)

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 $20,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at June 30, 2009 were $177,500. The weighted-average interest rate on outstanding borrowings at June 30, 2009 and 2008 was 3.95% and 4.38%, respectively.

The Company has entered into the following interest rate swaps:

| Date | Initial Amount | Fixed Interest Rate | Interest Rate Spread at June 30, 2009 | Maturity Date |
|---|---|---|---|---|
| September 2007 | 25,000 | 4.77 | .60 | September 2012 |
| May 2008 | 40,000 | 3.72 | .60 | September 2012 |
| October 2008 | 20,000 | 3.21 | .60 | October 2010 |
| October 2008 | 20,000 | 3.46 | .60 | October 2011 |

The Company enters into interest rate swaps in order to achieve a mix of fixed and variable rate debt that it deems appropriate. The interest rate swaps have been designated as cash flow hedges of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective.

The fair value of the interest rate swaps reflected an unrealized loss of $5,534 ($3,376 after tax) at June 30, 2009 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2009, approximately $1,302 of the $3,376 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.

On January 1, 2009 the Company adopted 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.

At June 30, 2009 and September 30, 2008, the interest rate swap contracts were reflected as a liability on the balance sheets. The following derivatives are designated as hedging instruments under SFAS No. 133:

Liability Derivatives

| Balance Sheet Location: | June 30, 2009 | | September 30, 2008 | |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Other current liabilities | $ | 2,135 | $ | 580 |
| Long-term liabilities | | | | |
| Other accrued liabilities and deferred revenue | | 3,399 | | 760 |
| Total derivatives | $ | 5,534 | $ | 1,340 |

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

Note 5. Debt (continued)

The income recognized on derivatives was as follows:

| Derivatives in Statement 133 Fair Value Hedging Relationships | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivatives Three Months ended June 30, | | Amount of Gain or (Loss) Recognized in Income on Derivatives Nine months ended June 30, | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| Interest rate swaps | Interest expense | $ (1,110) | $ (319) | $ (2,555) | $ (46) |

The Company recognized the following gains or losses in accumulated other comprehensive income ("OCI"):

| Derivatives in Statement 133 Cash Flow Hedging Relationships | Amount of Gain or (Loss) Recognized in OCI on Derivatives | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion*) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion*) | |
|---|---|---|---|---|---|
| | June 30,2009 | September 30, 2008 | | June 30, 2009 | September 30, 2008 |
| Interest rate swaps | $ (3,376) | $ (817) | Interest expense | $ (1,559) | $ 166 |

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

The Company, through certain of its German subsidiaries, has a credit facility with a European bank. The maximum amount of borrowings available under this facility was 25.0 million Euros ($35,073). Outstanding borrowings under the credit facility totaled 19.7 million Euros ($27,567) at June 30, 2009. The weighted-average interest rate on outstanding borrowings under this facility at June 30, 2009 and 2008 was 2.74% and 5.88%, respectively.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. At June 30, 2009, outstanding borrowings under these loans totaled 10.6 million Euros ($14,872). The weighted-average interest rate on outstanding borrowings of Saueressig at June 30, 2009 and 2008 was 5.84% and 5.76%, 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 13.0 million Euros ($18,274) at June 30, 2009. Matthews International S.p.A. also has three lines of credit totaling 8.4 million Euros ($11,784) with the same Italian banks. Outstanding borrowings on these lines were 2.3 million Euros ($3,258) at June 30, 2009. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at June 30, 2009 and 2008 was 3.80% and 3.92%, respectively.

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

Note 5. Debt (continued)

As of June 30, 2009, the fair value of the Company's long-term debt, including current maturities, was as follows:

| | Carrying Value included in the Balance Sheet | Fair Value |
|---|---|---|
| Long term debt, including current maturities | $ 253,121 | $ 224,621 |

Fair value was calculated using a discounted cash flow model and estimates of current interest rates for similar debt instruments.

Note 6. 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 June 30, 2009 and 2008, comprehensive income was $32,515 and $23,318, respectively. For the nine months ended June 30, 2009 and 2008, comprehensive income was $34,054 and $69,499, respectively.

Note 7. 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 June 30, 2009, there were 2,039,005 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. Additionally, restricted shares granted in fiscal 2009 cannot vest until the first anniversary of the grant date. Unvested restricted shares generally expire on the earlier of five years from the

date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company issues restricted shares from treasury shares.

For the three-month periods ended June 30, 2009 and 2008, total stock-based compensation cost totaled $1,500 and $1,274, respectively. For the nine-month periods ended June 30, 2009 and 2008, total stock-based compensation cost totaled $4,358 and $3,821, respectively. The associated future income tax benefit recognized was $585 and $497 for the three-month periods ended June 30, 2009 and 2008, respectively, and was $1,700 and $1,490 for the nine-month periods ended June 30, 2009 and 2008, respectively.

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

Note 7. Share-Based Payments (continued)

No stock options were exercised during the three months ended June 30, 2009. For the three months ended June 30, 2008, the amount of cash received from the exercise of stock options was $1,233. For the nine-month periods ended June 30, 2009 and 2008, the amount of cash received from the exercise of stock options was $1,143 and $6,631, respectively. In connection with these exercises, the tax benefit realized by the Company for the three-month period ended June 30, 2008 was $123 and the tax benefits realized by the Company for the nine-month periods ended June 30, 2009 and 2008 were $242 and $1,792, respectively.

Changes to restricted stock for the nine months ended June 30, 2009 were as follows:

| | Shares | Weighted-average grant-date fair value |
|---|---|---|
| Non-vested at September 30, 2008 | 113,121 | $ 39.05 |
| Granted | 160,995 | 36.63 |
| Vested | (1,200) | 43.72 |
| Expired or forfeited | (480) | 36.41 |
| Non-vested at June 30, 2009 | 272,436 | 37.61 |

As of June 30, 2009, the total unrecognized compensation cost related to unvested restricted stock was $4,973 and is expected to be recognized over a weighted-average period of 1.8 years.

The transactions for shares under options for the nine months ended June 30, 2009 were as follows:

| | Shares | Weighted-average exercise price | Weighted-average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding, September 30, 2008 | 1,366,342 | $ 35.56 | | |
| Granted | - | - | | |
| Exercised | (44,768) | 25.53 | | |
| Expired or forfeited | (91,865) | 36.57 | | |
| Outstanding, June 30, 2009 | 1,229,709 | 35.85 | 5.9 | $ - |
| Exercisable, June 30, 2009 | 556,674 | 32.34 | 5.0 | $ - |

The fair value of shares earned during the three-month periods ended June 30, 2009 and 2008 was $77 and $1,312, respectively, and $2,722 and $4,906 during the nine-month periods ended June 30, 2009 and 2008, 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 nine-month periods ended June 30, 2009 and 2008 was $657 and $4,895, respectively.

The transactions for non-vested options for the nine months ended June 30, 2009 were as follows:

| Non-vested shares | Shares | Weighted-average grant-date fair value |
|---|---|---|
| Non-vested at September 30, 2008 | 1,034,868 | $ 11.46 |
| Granted | - | - |
| Vested | (270,818) | 10.05 |
| Expired or forfeited | (91,015) | 10.40 |
| Non-vested at June 30, 2009 | 673,035 | 12.17 |

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

Note 7. Share-Based Payments (continued)

As of June 30, 2009, the total unrecognized compensation cost related to non-vested stock options was approximately $1,625. This cost is expected to be recognized over a weighted-average period of 2.0 years in accordance with the vesting periods of the options.

The fair value of each restricted stock grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value of restricted stock for the nine months ended June 30, 2009 and 2008.

| | June 30, | |
|---|---|---|
| | 2009 | 2008 |
| Expected volatility | 27.0% | 24.0% |
| Dividend yield | .6% | .6% |
| Average risk free interest rate | 2.4% | 3.6% |
| Average expected term (years) | 2.3 | 2.3 |

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 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 who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to $60. An additional annual retainer fee of $70 is paid to a non-employee Chairman of the Board. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. The value of deferred shares is recorded in other liabilities. A total of 25,014 shares had been deferred under the Director Fee Plan at June 30, 2009. Additionally, prior to fiscal 2009 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. In fiscal 2009 the value of the stock-based grant is $70. A total of 22,300 stock options have been granted under the plan. At June 30, 2009, 17,800 options were outstanding and vested. Additionally, 37,210 shares of restricted stock have been granted under the plan, 22,810 of which were unvested at June 30, 2009. A total of 300,000 shares have been authorized to be issued under the Director Fee Plan.

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

Note 8. Earnings Per Share

| | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 | Nine Months Ended June 30, 2009 | Nine Months Ended June 30, 2008 |
|---|---|---|---|---|
| Net income | $ 18,068 | $ 21,378 | $ 42,099 | $ 59,092 |
| Weighted-average common shares outstanding | 30,117,360 | 30,917,136 | 30,311,529 | 30,956,850 |
| Dilutive securities, stock options and restricted shares | 104,750 | 123,977 | 192,229 | 128,284 |
| Diluted weighted-average common shares outstanding | 30,222,110 | 31,041,113 | 30,503,758 | 31,085,134 |
| Basic earnings per share | $0.60 | $0.69 | $1.39 | $1.91 |
| Diluted earnings per share | $0.60 | $0.69 | $1.38 | $1.90 |

Options to purchase 1,009,421 of shares of common stock were not included in the computation of diluted earnings per share for the three-month period ended June 30, 2009 because the inclusion of these options would be anti-dilutive. Options to purchase 764,650 shares of common stock were not included in the computation of diluted earnings per share for the nine-month period ended June 30, 2009 because the inclusion of these options would be anti-dilutive. There were no anti-dilutive securities in the three or nine month periods ended June 30, 2008.

Note 9. 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 June 30, | Pension 2009 | Pension 2008 | Other Postretirement 2009 | Other Postretirement 2008 |
|---|---|---|---|---|
| Service cost | $ 856 | $ 1,016 | $ 143 | $ 146 |
| Interest cost | 1,868 | 1,744 | 386 | 348 |
| Expected return on plan assets | (1,900) | (1,836) | - | - |
| Amortization: | | | | |
| Prior service cost | (9) | 4 | (322) | (322) |
| Net actuarial loss | 456 | 317 | 71 | 122 |
| Net benefit cost | $ 1,271 | $ 1,245 | $ 278 | $ 294 |

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

Note 9. Pension and Other Postretirement Benefit Plans (continued)

| | Pension | | Other Postretirement | |
|---|---|---|---|---|
| Nine months ended June 30, | 2009 | 2008 | 2009 | 2008 |
| Service cost | $ 2,568 | $ 3,048 | $ 429 | $ 438 |
| Interest cost | 5,604 | 5,232 | 1,158 | 1,044 |
| Expected return on plan assets | (5,700) | (5,508) | - | - |
| Amortization: | | | | |
| Prior service cost | (27) | 12 | (966) | (966) |
| Net actuarial loss | 1,368 | 951 | 213 | 366 |
| Net benefit cost | $ 3,813 | $ 3,735 | $ 834 | $ 882 |

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. Based on the valuation performed at the plan's year end in 2008, the Company is not required to make any significant contributions to its principal retirement plan in the 2009 plan year. However, with the recent unfavorable impact of current market conditions on the plan's assets, the Company may make a discretionary contribution to its principal retirement plan before September 30, 2009. As of June 30, 2009, contributions of $640 and $507 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional $267 and $299 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2009.

On October 1, 2008, the Company adopted the measurement provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"). The measurement date for the Company's pension and postretirement plans was changed from July 31 to September 30. Accordingly, an additional pension liability of $577 and postretirement liability of $125, net of tax, was recorded to recognize the additional expense through September 30, with a corresponding adjustment to retained earnings.

Note 10. Income Taxes

The Company's effective tax rate for the first nine months of fiscal 2009 was 34.2%, compared to 34.9% for the same period last year. The nine-month period ended June 30, 2009 included the favorable impact of adjustments totaling $1.2 million in income tax expense related to the Company's ability to utilize a tax loss carryover in Europe and changes in the estimated tax accruals for open tax periods. The tax rate for the first nine months of fiscal 2008 reflected the favorable impact of a $1.9 million reduction in net deferred tax liabilities to reflect the enactment of the lower statutory income tax rates in Europe. Excluding these adjustments in fiscal 2009 and 2008, the effective tax rate for the first nine months of fiscal 2009 was 36.1%, compared to 36.2% for the fiscal year ended September 30, 2008. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state and foreign income taxes.

The Company had unrecognized tax benefits (excluding penalties and interest) of $3,800 and $4,370 on June 30, 2009 and September 30, 2008, respectively, all of which, if recorded, would impact the 2009 annual effective tax rate. It is reasonably possible that the amount of unrecognized tax benefits could decrease by approximately $450 in the next 12 months primarily due to tax examinations and the expiration of statutes related to specific tax positions.

The Company classifies interest and penalties on tax uncertainties as a component of the provision for income taxes. The Company included $196 in interest and penalties in the provision for income taxes for the nine months ended June 30, 2009. Total penalties and interest accrued were $2,970 and $2,774 at June 30, 2009 and September 30, 2008, respectively. These accruals may potentially be applicable in the event of an unfavorable outcome of uncertain tax positions.

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

Note 10. Income Taxes (continued)

The Company is currently under examination in several tax jurisdictions and remains subject to examination until the statute of limitations expires for those tax jurisdictions. As of June 30, 2009, the tax years that remain subject to examination by major jurisdiction generally are:

| | |
|---|---|
| United States – Federal | 2007 and forward |
| United States – State | 2005 and forward |
| Canada | 2004 and forward |
| Europe | 2002 and forward |
| United Kingdom | 2007 and forward |
| Australia | 2004 and forward |

Note 11. 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 June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Sales to external customers: | | | | |
| Memorialization: | | | | |
| Bronze | $ 56,678 | $ 66,949 | $ 159,123 | $ 182,063 |
| Casket | 48,159 | 53,754 | 155,730 | 170,927 |
| Cremation | 7,698 | 6,752 | 21,992 | 19,561 |
| | 112,535 | 127,455 | 336,845 | 372,551 |
| Brand Solutions: | | | | |
| Graphics Imaging | 57,768 | 58,309 | 170,589 | 131,815 |
| Marking Products | 9,870 | 15,701 | 30,972 | 45,319 |
| Merchandising Solutions | 11,874 | 17,805 | 42,289 | 49,760 |
| | 79,512 | 91,815 | 243,850 | 226,894 |
| | $ 192,047 | $ 219,270 | $ 580,695 | $ 599,445 |

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

Note 11. Segment Information (continued)

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Operating profit: | | | | |
| Memorialization: | | | | |
| Bronze | $ 18,531 | $ 20,716 | $ 40,066 | $ 50,603 |
| Casket | 3,848 | 5,541 | 15,663 | 20,308 |
| Cremation | 1,464 | 1,240 | 3,574 | 3,611 |
| | 23,843 | 27,497 | 59,303 | 74,522 |
| Brand Solutions: | | | | |
| Graphics Imaging | 5,336 | 5,392 | 11,073 | 12,851 |
| Marking Products | 445 | 2,329 | 1,490 | 6,037 |
| Merchandising Solutions | 186 | 1,516 | 1,462 | 4,494 |
| | 5,967 | 9,237 | 14,025 | 23,382 |
| | $ 29,810 | $ 36,734 | $ 73,328 | $ 97,904 |

Note 12. Acquisitions

In September 2008, the Company acquired the remaining 20% interest in S+T Gesellschaft fur Reprotechnik GmbH ("S+T GmbH"). The Company had acquired a 50% interest in S+T GmbH in 1998 and a 30% interest in 2005.

In May 2008, the Company acquired a 78% interest in Saueressig. Saueressig is headquartered in Vreden, Germany and has its principal manufacturing operations in Germany, Poland and the United Kingdom. The transaction was structured as an asset purchase with a purchase price of approximately 58.4 million Euros ($91,248), subject to settlement of final working capital adjustments. The cash portion of the transaction was funded principally through borrowings under the Company's existing credit facilities. The acquisition is designed to expand Matthews' products and services in the global graphics imaging market.

In addition, the Company entered into an option agreement related to the remaining 22% interest in Saueressig. The option agreement contains certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. The Company has accounted for this agreement under Emerging Issues Task Force Abstract Topic No. D-98 ("EITF D-98"). In accordance with EITF D-98, the initial carrying value of minority interest was adjusted to the estimated future purchase
price ("Redemption Value") of the minority interest, with a corresponding charge to retained earnings. For subsequent periods, the carrying value of minority interest reflected on the Company's balance sheet will be adjusted for changes in Redemption Value, with a corresponding adjustment to retained earnings. Under EITF D-98, to the extent Redemption Value in future periods is less than or greater than the estimated fair value of the minority interest, income available to common shareholders in the determination of earnings per share will increase or decrease, respectively, by such amount. However, income available to common shareholders will only increase to the extent

that a decrease was previously recognized. In any case, net income will not be affected by such amounts. At June 30, 2009, Redemption Value was equal to fair value, and there was no impact on income available to common shareholders.

The Company has established the fair value of the assets acquired and liabilities assumed in the Saueressig acquisition. Operating results of the acquired business have been included in the consolidated statement of income from the acquisition date forward.

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

Note 12. Acquisitions (continued)

The following table summarizes the fair value of major assets and liabilities of Saueressig at the date of acquisition.

| | |
|---|---|
| Cash | $ 504 |
| Trade receivables | 22,324 |
| Inventory | 11,500 |
| Other current assets | 1,013 |
| Property, plant and equipment | 68,493 |
| Goodwill | 56,254 |
| Intangible assets | 14,287 |
| Other assets | 3,581 |
| Total assets acquired | 177,956 |
| | |
| Trade accounts payable | 5,016 |
| Debt | 53,714 |
| Other liabilities | 25,458 |
| Minority interest | 2,520 |
| Total liabilities assumed | 86,708 |
| | |
| Net assets acquired | $ 91,248 |

The fair value of the acquired intangible assets of Saueressig include trade names with an assigned value of $1,705, customer relationships with an assigned value of $11,582, and technology and non-compete values of approximately $1,000. The intangible assets will be amortized between 2 and 19 years.

The following unaudited pro-forma information presents a summary of the consolidated results of Matthews combined with Saueressig as if the acquisition had occurred on October 1, 2007:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Sales | $ 192,047 | $ 233,026 | $ 580,695 | $ 682,219 |
| Income before income taxes | 27,554 | 32,797 | 63,988 | 89,394 |
| Net income | 18,068 | 20,852 | 42,099 | 57,955 |
| Earnings per share | $0.60 | $0.67 | $1.38 | $1.86 |

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as interest expense on acquisition debt. The pro forma information does not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

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

Note 13. Goodwill and Other Intangible Assets

Goodwill related to business combinations is not amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment the Company uses a discounted cash flows valuation technique. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets. The Company performed its annual impairment review in the second quarter of fiscal 2009 and determined that no additional adjustments to the carrying values of goodwill were necessary.

Changes to goodwill, net of accumulated amortization, for the nine months ended June 30, 2009, were as follows:

| | Bronze | Casket | Cremation | Graphics Imaging | Marking Products | Merchandising Solutions | Consolidated |
|---|---|---|---|---|---|---|---|
| Balance at September 30, 2008 | $ 76,787 | $ 121,437 | $ 6,536 | $ 136,154 | $ 9,589 | $ 9,138 | $ 359,641 |
| Additions during period | - | 1,360 | 2,185 | 14,719 | - | - | 18,264 |
| Dispositions | - | - | - | - | - | - | - |
| Translation and other adjustments | (87) | - | 229 | (3,614) | 10 | - | (3,462) |
| Balance at June 30, 2009 | $ 76,700 | $ 122,797 | $ 8,950 | $ 147,259 | $ 9,599 | $ 9,138 | $ 374,443 |

The addition to Graphics goodwill during the first nine months of fiscal 2009 represents the effect of final adjustments to the allocation of purchase price for the Saueressig acquisition. The addition to Cremation goodwill reflects the acquisition of a small cremation equipment manufacturer in Europe. The addition to Casket reflects the acquisition of a small casket distributor in the United States.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of June 30, 2009 and September 30, 2008, respectively.

| | Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| June 30, 2009: | | | |
| Trade names | $ 24,600 | $ -* | $ 24,600 |
| Trade names | 1,532 | (376) | 1,156 |
| Customer relationships | 35,173 | (7,545) | 27,628 |
| Copyrights/patents/other | 7,685 | (5,395) | 2,290 |
| | $ 68,990 | $ (13,316) | $ 55,674 |
| September 30, 2008: | | | |
| Trade names | $ 25,109 | $ -* | $ 25,109 |

| | | | | |
|---|---|---|---|---|
| Trade names | 2,822 | | (145) | 2,677 |
| Customer relationships | 34,477 | | (5,720) | 28,757 |
| Copyrights/patents/other | 7,885 | | (4,518) | 3,367 |
| | $ 70,293 | $ | (10,383) | $ 59,910 |

* Not subject to amortization

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

Note 13. Goodwill and Other Intangible Assets (continued)

The change in intangible assets during the quarter ended June 30, 2009 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 $1,067 and $1,072 for the three-month periods ended June 30, 2009 and 2008, respectively. For the nine-month periods ended June 30, 2009 and 2008, amortization expense was $3,178 and $2,555, respectively. The remaining amortization expense is estimated to be $959 in 2009, $3,271 in 2010, $2,938 in 2011, $2,530 in 2012 and $2,285 in 2013.

Note 14. Accounting Pronouncements

The Company adopted Emerging Issues Task Force (EITF) Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards” (EITF 06-11) on October 1, 2008. EITF 06-11 requires that tax benefits generated by dividends on equity classified non-vested equity shares, non-vested equity share units, and outstanding equity share options be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. The adoption had no material impact on the Company’s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS No. 141R”). SFAS No. 141R 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. 141R.

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 December 2008, the FASB issued FASB Staff Position (“FSP”) Statement No. 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets”, (“FSP FAS 132(R)-1”). FSP FAS 132(R)-1 enhances disclosures regarding assets in defined benefit pension or other postretirement plans. The Statement is effective for fiscal years ending after December 31, 2009. Earlier application of this statement is permitted. The Company is currently evaluating the impact of the adoption of FSP FAS 132(R)-1.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board ("APB") 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim

reporting periods of publicly traded companies as well as in annual financial statements. It also amends APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. The Statement is effective for interim reporting periods ending after June 15, 2009. See Note 5 for disclosures required by FSP FAS 107-1 and APB 28-1.

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

Note 14. Accounting Pronouncements (continued)

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Statement is effective for interim or annual financial periods ending after June 15, 2009. Accordingly, the Company adopted SFAS No. 165 as of June 30, 2009. The adoption had no material impact on the Company's financial position or results of operations.

In May 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS 168"). SFAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the U.S. (the GAAP hierarchy). SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company currently adheres to the GAAP hierarchy as presented in SFAS 168, and does not expect its adoption will have a material impact on its consolidated results of operations and financial condition.

Note 15. Subsequent Events

In accordance with SFAS No.165, "Subsequent Events", the Company evaluated subsequent events for recognition and disclosure through August 5, 2009. The evaluation resulted in no impact to the interim consolidated financial statements.

## 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, 2008. 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.

| | Nine Months Ended June 30, | | Years Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2008 | 2007 |
| Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 37.3% | 39.9% | 39.5% | 37.4% |
| Operating profit | 12.6% | 16.3% | 16.2% | 14.9% |
| Income before taxes | 11.0% | 15.2% | 14.9% | 13.8% |
| Net income | 7.3% | 9.9% | 9.7% | 8.6% |

Sales for the nine months ended June 30, 2009 were $580.7 million, compared to $599.4 million for the nine months ended June 30, 2008. The decrease principally reflected lower sales in the Company's Bronze, Casket, Marking Products and Merchandising Solutions segments. The impact of the global recession, a lower estimated domestic death rate compared to a year ago and changes in foreign currency values against the U.S. dollar were the principal factors in the reduction in the Company's consolidated sales. The declines were partially offset by the acquisitions of Saueressig GmbH & Co. KG ("Saueressig") in May 2008 and the acquisition of a small European cremation equipment manufacturer in December 2008. For the nine months ended June 30, 2009, changes in foreign currency values against the U.S. dollar had an unfavorable impact of approximately $28.4 million on the Company's consolidated sales compared to the nine months ended June 30, 2008.

In the Memorialization businesses, Bronze segment sales for the first nine months of fiscal 2009 were $159.1 million compared to $182.1 million for the first nine months of fiscal 2008. The decrease primarily reflected a decline in unit volume and decreases in the value of foreign currencies against the U.S. dollar. Sales for the Casket segment were $155.7 million for the first nine months of fiscal 2009 compared to $170.9 million for the same period in fiscal 2008. The decrease resulted principally from lower unit volume and an unfavorable change in product mix. The decline in sales for both the Bronze and Casket segments reflected the impact of the current recession on consumer spending, and a decline in the estimated number of casketed deaths compared to the prior year. Sales for the Cremation segment

were $22.0 million for the nine months ended June 30, 2009, compared to $19.6 million for the same period a year ago. The increase reflected the acquisition of a small European cremation equipment manufacturer, partially offset by lower sales of cremation caskets. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in the first nine months of fiscal 2009 were $170.6 million, compared to $131.8 million for the same period a year ago. The increase resulted from the inclusion of Saueressig in fiscal 2009, compared to two months through June 30, 2008 (acquired in May 2008). Excluding this acquisition, sales were lower in this segment as a result of weak economic conditions and a decrease in the value of foreign currencies against the U.S. dollar. Marking Products segment sales for the nine months ended June 30, 2009 were $31.0 million, compared to $45.3 million for the first nine months of fiscal 2008. The decrease was principally due to lower product demand in the U.S. and foreign markets, reflecting a decline in industrial capital spending and lower sales of consumables. In addition, Marking Products sales were unfavorably affected by a decrease in the value of foreign currencies against the U.S. dollar. Sales for the Merchandising Solutions segment were $42.3 million for the first nine months of fiscal 2009, compared to $49.8 million for the same period a year ago. The decrease is attributable to a decline in volume due to project delays or cancellations by customers, also resulting from the downturn in the U.S. economy.

Gross profit for the nine months ended June 30, 2009 was $216.4 million, compared to $239.1 million for the nine months ended June 30, 2008. Consolidated gross profit as a percent of sales decreased from 39.9% for the first nine months of fiscal 2008 to 37.3% for the first nine months of fiscal 2009. The decrease in consolidated gross profit primarily reflected the impact of lower sales, decreases in the values of foreign currency values against the U.S. dollar, and unusual charges in several of the Company's segments totaling approximately $7.1 million. The unusual charges included severance and other expenses related to the consolidation of certain Bronze segment production facilities, and costs related to operational and systems improvements in several of the Company's other segments.

Selling and administrative expenses for the nine months ended June 30, 2009 were $143.1 million, compared to $141.2 million for the first nine months of fiscal 2008. Consolidated selling and administrative expenses as a percent of sales were 24.6% for the nine months ended June 30, 2009, compared to 23.6% for the same period last year. The increases in costs and percentage of sales primarily resulted from the Saueressig acquisition and unusual charges. Unusual charges included in selling and administrative expenses totaled $5.7 million for the nine months ended June 30, 2009, and consisted principally of Saueressig integration costs, bad debt expense, termination related expenses and costs related to operational and system improvements.

Operating profit for the nine months ended June 30, 2009 was $73.3 million, compared to $97.9 million for the nine months ended June 30, 2008. Operating profit for the nine months ended June 30, 2009 included unusual charges of approximately $12.8 million, and changes in the values of foreign currencies against the U.S. dollar had an unfavorable impact of approximately $3.6 million on consolidated operating profit for the current period, compared to a year ago. In addition, incentive compensation costs for the nine months ended June 30, 2009 were significantly less than in the prior year as a result of lower profitability in the current year. Bronze segment operating profit for the first nine months of fiscal 2009 was $40.1 million, compared to $50.6 million for the same period in fiscal 2008. The decrease primarily reflected the impact of lower sales and decreases in the value of changes in foreign currencies against the U.S. dollar. Additionally, Bronze segment operating profit included unusual charges of approximately $6.7 million, principally related to facilities consolidations. Operating profit for the Casket segment for the first nine months of fiscal 2009 was $15.7 million, compared to $20.3 million for the first nine months of fiscal 2008. The decrease resulted mainly from lower sales and unusual charges of approximately $2.6 million, which were principally related to bad debt expense and severance and other employment termination-related expenses. Cremation segment operating profit was $3.6 million for the nine months ended June 30, 2009, which was relatively unchanged from a year ago. Fiscal 2009 operating profit reflected a favorable change in product mix and the impact of the acquisition of a small European cremation equipment manufacturer, offset by lower domestic sales volume and unusual charges of approximately $235,000. Graphics Imaging segment operating profit for the nine months ended June 30, 2009 was $11.1 million, compared to $12.9 million for the nine months ended June 30, 2008. The decrease primarily resulted

from lower sales (excluding the Saueressig acquisition) and unusual charges of approximately $2.3 million, which principally reflected severance charges and Saueressig integration costs. These declines were partially offset by an operating profit reported by Saueressig. Operating profit for the Marking Products segment for the first nine months of fiscal 2009 was $1.5 million, compared to $6.0 million for the same period a year ago. The decrease primarily reflected the impact of lower sales, decreases in the value of foreign currencies against the U.S. dollar, and unusual charges of approximately $665,000. The Merchandising Solutions segment operating profit was $1.5 million for the nine months ended June 30, 2009, compared to $4.5 million for the same period in fiscal 2008. The decrease principally reflected lower sales and unusual charges of approximately $297,000.

Investment income for the nine months ended June 30, 2009 was $629,000, compared to $1.4 million for the nine months ended June 30, 2008. The decrease reflected lower investment performance, and included unusual charges of approximately $405,000, representing unrealized losses in the value of investments held in long-term trusts for certain employee benefit plans. Interest expense for the first nine months of fiscal 2009 was $9.1 million, compared to $6.7 million for the same period last year. The increase in interest expense primarily reflected higher average debt levels during fiscal 2009 compared to the same period a year ago, resulting from the acquisition of Saueressig in May 2008.

Other income, net, for the nine months ended June 30, 2009 was $83,000, compared to $246,000 for the same period last year. Minority interest deduction was $1.0 million for the first nine months of fiscal 2009, compared to $2.1 million for the same period in fiscal 2008. The decrease in the minority interest deduction primarily reflected the Company’s purchase of the remaining interest in one of its less than wholly-owned German subsidiaries in September 2008, partially offset by improved profitability at Saueressig.

The Company’s effective tax rate for the first nine months of fiscal 2009 was 34.2%, compared to 34.9% for the same period last year. The nine-month period ended June 30, 2009 included the favorable impact of adjustments totaling $1.2 million in income tax expense related to the Company’s ability to utilize a tax loss carryover in Europe and changes in the estimated tax accruals for open tax periods. The tax rate for the first nine months of fiscal 2008 reflected the favorable impact of a $1.9 million reduction in net deferred tax liabilities to reflect the enactment of the lower statutory income tax rates in Europe. Excluding these adjustments in fiscal 2009 and 2008, the effective tax rate for the first nine months of fiscal 2009 was 36.1%, compared to 36.2% for the fiscal year ended September 30, 2008. 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 2009 and determined that no additional adjustments to the carrying values of goodwill were necessary.

Liquidity and Capital Resources:

Net cash provided by operating activities was $69.5 million for the nine months ended June 30, 2009, compared to $78.5 million for the first nine months of fiscal 2008. 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). Cash flow from operating activities for the nine months ended June 30, 2008 includes a $5.0 million contribution to the Company’s principal retirement plan.

Cash used in investing activities was $18.7 million for the nine months ended June 30, 2009, compared to $96.6 million for the nine months ended June 30, 2008. Investing activities for the first nine months of fiscal 2009 primarily included capital expenditures of $11.6 million, acquisition-related payments of $4.8 million, purchases of investment of $2.6 million and proceeds from the disposal of assets of $311,000. Investing activities for the first nine months of fiscal 2008 primarily included acquisitions (principally Saueressig) of $90.9 million, capital expenditures of $7.9 million, purchases of investments of $4.2 million and proceeds from the sale of investments of $5.5 million.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged $17.4 million for the last three fiscal years. Although the approved capital budget for fiscal 2009 is $26.7 million, the Company expects capital expenditures to be less than $20 million in fiscal 2009. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash used in financing activities for the nine months ended June 30, 2009 was $45.6 million, reflecting net repayments of long-term debt of $11.2 million, purchases of treasury stock of $27.3 million, proceeds of $1.1 million from the sale of treasury stock (stock option exercises), payment of dividends of $6.1 million to the Company's shareholders and distributions of $2.3 million to minority interests. Cash provided by financing activities for the nine months ended June 30, 2008 was $20.7 million, reflecting proceeds, net of repayments, from long-term debt of $45.9 million, purchases of treasury stock of $25.9 million, proceeds of $6.6 million from the sale of treasury stock (stock option exercises), a tax benefit of $992,000 from exercised stock options, payment of dividends of $5.6 million to the Company's shareholders and distributions of $1.3 million 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 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 $20 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at June 30, 2009 and September 30, 2008 were $177.5 million and $172.5 million, respectively. The weighted-average interest rate on outstanding borrowings at June 30, 2009 and 2008 was 3.95% and 4.38%, respectively.

The Company has entered into the following interest rate swaps:

| Date | Initial Amount | Fixed Interest Rate | Interest Rate Spread at June 30, 2009 | Maturity Date |
|---|---|---|---|---|
| September 2007 | $25 million | 4.77% | .60 | September 2012 |
| May 2008 | $40 million | 3.72 | .60 | September 2012 |
| October 2008 | $20 million | 3.21 | .60 | October 2010 |
| October 2008 | $20 million | 3.46 | .60 | October 2011 |

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 $5.5 million ($3.4 million after tax) at June 30, 2009 that is included in shareholders’ equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2009, approximately $1.3 million of the $3.4 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 certain of its German subsidiaries, has a credit facility with a European bank for borrowings up to 25.0 million Euros ($35.1 million). Outstanding borrowings under the credit facility at June 30, 2009 and September 30, 2008 totaled 19.7 million Euros ($27.6 million) and 22.5 million Euros ($31.7 million), respectively. The weighted-average interest rate on outstanding borrowings under this facility at June 30, 2009 and

2008 was 2.74% and 5.88%, respectively.

The Company, through its German subsidiary, Saueressig, has several loans with various European banks. Outstanding borrowings under these loans at June 30, 2009 and September 30, 2008 totaled 10.6 million Euros ($14.9 million) and 11.6 million Euros ($16.3 million), respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at June 30, 2009 and 2008 was 5.84% and 5.76%, 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 13.0 million Euros ($18.3 million) at June 30, 2009. Matthews International S.p.A. also has three lines of credit totaling approximately 8.4 million Euros ($11.8 million) with the same Italian banks. Outstanding borrowings on these lines at June 30, 2009 and September 30, 2008 were 2.3 million Euros ($3.3 million) and 2.3 million Euros ($3.3 million), respectively. The weighted-average interest

rate on outstanding borrowings of Matthews International S.p.A. at June 30, 2009 and 2008 was 3.80% and 3.92%, respectively.

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 12,240,102 shares have been repurchased as of June 30, 2009. 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 $164.5 million at June 30, 2009, compared to $141.4 million at September 30, 2008. Cash and cash equivalents were $52.0 million at June 30, 2009, compared to $50.7 million at September 30, 2008. The Company's current ratio was 2.2 at June 30, 2009, compared to 1.9 at September 30, 2008.

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 June 30, 2009, an accrual of approximately $7.4 million had been recorded for environmental remediation (of which $844,000 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 September 2008, the Company acquired the remaining 20% interest in S+T Gesellschaft fur Reprotechnik GmbH ("S+T GmbH"). The Company had acquired a 50% interest in S+T GmbH in 1998 and a 30% interest in 2005.

In May 2008, the Company acquired a 78% interest in Saueressig. The transaction was structured as an asset purchase with a preliminary purchase price of approximately 58.4 million Euros ($91.2 million). In addition, the Company entered into an option agreement related to the remaining 22% interest in Saueressig. The acquisition was designed to

expand Matthews' products and services in the global graphics imaging market.

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 14.7%.



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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.

The most significant factors impacting fiscal 2009 are the severity of the slowdown in the U.S. and global economies, and an estimated decline in the casketed death rate compared to fiscal 2008. Additionally, the strengthening of the U.S. dollar unfavorably impacted fiscal 2009 reported results for the Company's overseas operations, when compared to fiscal 2008.

The decline in global economies is expected to continue to impact the Company's operating results, especially in the near term. Buying patterns of customers in both the Memorialization and Brand Solutions businesses have been affected by the current recession, impacting unit volume, net pricing and product mix in all of the Company's operating segments. As a result, the predictability of results in the near-term is difficult and, as such, the Company remains very cautious.

All of the Company's businesses are continuing efforts to adjust cost structures, to the degree practical, to better align with current revenue run rates to mitigate some of the economy's impact. For this reason, further unusual charges are expected in the coming quarters. Although the unusual charges associated with these actions have adversely impacted profitability in the short term, these steps are designed to provide long-term benefits to the Company when the economy recovers.

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, 2008. 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 June 30, 2009, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

| | Payments due in fiscal year: | | | | |
|---|---|---|---|---|---|
| | | 2009 | | | |
| | | | 2010 to | 2012 to | |
| | Total | Remainder | 2011 | 2013 | After 2013 |
| Contractual Cash Obligations: | (Dollar amounts in thousands) | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Revolving credit facilities | $ 205,067 | $ - | $ - | $ 205,067 | $ - |
| Notes payable to banks | 35,889 | 2,705 | 13,864 | 13,692 | 5,628 |
| Short-term borrowings | 3,258 | 3,258 | - | - | - |
| Capital lease obligations | 8,255 | 846 | 5,892 | 1,517 | - |
| Other | 1,322 | 1,322 | - | - | - |
| Non-cancelable operating leases | 22,804 | 2,261 | 13,124 | 5,915 | 1,504 |
| Total contractual cash obligations | $ 276,595 | $ 10,392 | $ 32,880 | $ 226,191 | $ 7,132 |

A significant portion of the loans included in the table above bear interest at variable rates. At June 30, 2009, the weighted-average interest rate was 3.95% on the Company's domestic Revolving Credit Facility, 2.74% on the credit facility through the Company's wholly-owned German subsidiaries, 3.80% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A, and 5.84% on bank loans to the Company's subsidiary, Saueressig.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. Based on the valuation performed at the plan's year end in 2008, the Company is not required to make any significant contributions to its principal retirement plan in the 2009 plan year. However, with the recent unfavorable impact of current market conditions on the plan's assets, the Company may make a discretionary contribution to its principal retirement plan before September 30, 2009. As of June 30, 2009, contributions of $640,000 and $507,000 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional $267,000 and $299,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2009.

In connection with its acquisition of a 78% interest in Saueressig, the Company entered into an option agreement related to the remaining 22% interest. The option agreement contains certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. The Company has recorded an estimate of $27.8 million in "Minority interest and minority interest arrangement" in the Consolidated Balance Sheets as of June 30, 2009 and September 30, 2008 representing the current estimate of the future purchase price. The timing of the exercise of the put and call provisions is not presently determinable.

Unrecognized tax benefits are positions taken, or expected to be taken, on an income tax return that may result in additional payments to tax authorities. If a tax authority agrees with the tax position taken, or expected to be taken, or the applicable statute of limitations expires, then additional payments will not be necessary. The Company had unrecognized tax benefits, excluding penalties and interest, of approximately $3.8 million and $4.4 million at June 30, 2009 and September 30, 2008, respectively. The timing of potential future payments related to the unrecognized tax benefits is not presently determinable.

The Company believes that its current liquidity sources, combined with its operating cash flow and borrowing capacity, will be sufficient to meet its capital needs for the foreseeable future.

Accounting Pronouncements:

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. Previously, the Company measured plan assets and benefit obligations as of July 31 of each year. Effective October 1, 2008, the Company adopted the measurement provision of SFAS No. 158, therefore the measurement date for plan assets and benefit obligations will be September 30 of each year. The adoption of this provision had no 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 was implemented by the Company effective October 1, 2008 for financial assets and liabilities. As a result of the adoption of this provision, additional disclosures were included in the financial statements. 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 the remainder of SFAS No. 157.

The Company adopted Emerging Issues Task Force (EITF) Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards” (EITF 06-11) on October 1, 2008. EITF 06-11 requires that tax benefits

generated by dividends on equity classified non-vested equity shares, non-vested equity share units, and outstanding equity share options be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. The adoption had no material effect on the financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R 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. 141R.

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. See Note 5 to the Consolidated Financial Statements for disclosures required by SFAS No. 161.

In December 2008, the FASB issued FASB Staff Position ("FSP") Statement No. 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," ("FSP FAS 132(R)-1"). FSP FAS 132(R)-1 enhances disclosures regarding assets in defined benefit pension or other postretirement plans. The Statement is effective for fiscal years ending after December 31, 2009. Earlier application of this statement is permitted. The Company is currently evaluating the impact of the adoption of FSP FAS 132(R)-1.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board ("APB") 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It also amends APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. The Statement is effective for interim reporting periods ending after June 15, 2009. See Note 5 to the Consolidated Financial Statements for disclosures required by FSP FAS 107-1 and APB 28-1.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Statement is effective for interim or annual financial periods ending after June 15, 2009. Accordingly, the Company adopted SFAS No. 165 as of June 30, 2009. The adoption had no material impact on the Company's financial position or results of operations.

In May 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles” (“SFAS 168”). SFAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the U.S. (the GAAP hierarchy). SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company currently adheres to the GAAP hierarchy as presented in SFAS 168, and does not expect its adoption will have a material impact on its consolidated results of operations and financial condition.



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

The fair value of the interest rate swaps reflected an unrealized loss of $5.5 million ($3.4 million after tax) at June 30, 2009 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 an increase of approximately $1.3 million in the fair value liability of the interest rate swaps.

Commodity Price Risks - In the normal course of business, the Company is exposed to commodity price fluctuations related to the purchases of certain materials and supplies (such as bronze ingot, steel, 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. A strengthening of the U. S. dollar of 10% would have resulted in a decrease in sales of $12.9 million and a decrease in operating income of $1.1 million for the nine months ended June 30, 2009.

Item 4. Controls and Procedures

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

Management, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures in effect as of June 30, 2009. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2009, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material

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

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Stock Repurchase Plan

The Company has a stock repurchase program, 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 12,240,102 shares have been repurchased as of June 30, 2009. All purchases of the Company's common stock during the first nine months of fiscal 2009 were part of the repurchase program.

The following table shows the monthly fiscal 2009 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 |
|---|---|---|---|---|
| October 2008 | 295,000 | $ 43.14 | 295,000 | 721,994 |
| November 2008 | 40,266 | 35.45 | 40,266 | 681,728 |
| December 2008 | 45,000 | 37.64 | 45,000 | 636,728 |
| January 2009 | 10,000 | 33.66 | 10,000 | 626,728 |
| February 2009 | 52,500 | 35.43 | 52,500 | 574,228 |
| March 2009 | 172,500 | 29.49 | 172,500 | 401,728 |
| April 2009 | 47,500 | 27.96 | 47,500 | 354,228 |
| May 2009 | 800 | 29.60 | 800 | 353,428 |
| June 2009 | 93,530 | 30.68 | 93,530 | 259,898 |
| Total | 757,096 | $ 36.12 | 757,096 | |

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

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On April 24, 2009, Matthews filed a Current Report on Form 8-K under Item 2.02 in connection with a press release announcing its earnings for the second fiscal quarter of 2009.

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: August 5, 2009

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

Date: August 5, 2009

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