

MATTHEWS INTERNATIONAL CORP  
Form 10-Q  
August 03, 2012

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

Form 10-Q

☒ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934  
For The Quarterly Period Ended June 30, 2012

Commission File No. 0-9115

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

PENNSYLVANIA  
(State or other jurisdiction of  
Incorporation or organization)

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

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

15212-5851  
(Zip Code)

Registrant's telephone number, including area  
code

(412) 442-8200

NOT APPLICABLE

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

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

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

Yes ☐ No ☒

As of July 31, 2012, shares of common stock outstanding were:

Class A Common Stock 27,943,495 shares

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

|                                          | June 30, 2012 | September 30, 2011 |
|------------------------------------------|---------------|--------------------|
| <b>ASSETS</b>                            |               |                    |
| Current assets:                          |               |                    |
| Cash and cash equivalents                | \$54,692      | \$61,662           |
| Accounts receivable, net                 | 172,247       | 164,738            |
| Inventories                              | 133,171       | 125,567            |
| Deferred income taxes                    | 1,709         | 1,722              |
| Other current assets                     | 22,253        | 16,157             |
| Total current assets                     | 384,072       | 369,846            |
| Investments                              | 18,393        | 15,105             |
| Property, plant and equipment: Cost      | \$342,679     | \$330,895          |
| Less accumulated depreciation            | (201,883 )    | (196,391 )         |
|                                          | 140,796       | 134,504            |
| Deferred income taxes                    | 34,451        | 33,818             |
| Other assets                             | 12,953        | 16,354             |
| Goodwill                                 | 471,306       | 465,003            |
| Other intangible assets, net             | 59,604        | 62,825             |
| Total assets                             | \$1,121,575   | \$1,097,455        |
| <b>LIABILITIES</b>                       |               |                    |
| Current liabilities:                     |               |                    |
| Long-term debt, current maturities       | \$23,785      | \$18,014           |
| Accounts payable                         | 43,381        | 46,655             |
| Accrued compensation                     | 28,491        | 31,339             |
| Accrued income taxes                     | 18,350        | 10,272             |
| Other current liabilities                | 61,251        | 55,461             |
| Total current liabilities                | 175,258       | 161,741            |
| Long-term debt                           | 296,498       | 299,170            |
| Accrued pension                          | 70,097        | 66,714             |
| Postretirement benefits                  | 27,484        | 26,417             |
| Deferred income taxes                    | 15,875        | 17,007             |
| Environmental reserve                    | 5,033         | 5,406              |
| Other liabilities                        | 38,471        | 42,745             |
| Total liabilities                        | 628,716       | 619,200            |
| Arrangement with noncontrolling interest | 10,406        | 10,162             |

SHAREHOLDERS' EQUITY

Shareholders' equity-Matthews:

|                                                |            |                 |                 |
|------------------------------------------------|------------|-----------------|-----------------|
| Common stock                                   | \$36,334   | \$36,334        |                 |
| Additional paid-in capital                     | 46,502     | 48,554          |                 |
| Retained earnings                              | 716,929    | 681,658         |                 |
| Accumulated other comprehensive loss           | (64,489 )  | (58,658 )       |                 |
| Treasury stock, at cost                        | (256,132 ) | (243,246 )      |                 |
| Total shareholders' equity-Matthews            |            | 479,144         | 464,642         |
| Noncontrolling interests                       |            | 3,309           | 3,451           |
| Total shareholders' equity                     |            | 482,453         | 468,093         |
| <br>Total liabilities and shareholders' equity |            | <br>\$1,121,575 | <br>\$1,097,455 |

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

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

|                                                           | Three Months Ended<br>June 30, |            | Nine Months Ended<br>June 30, |            |
|-----------------------------------------------------------|--------------------------------|------------|-------------------------------|------------|
|                                                           | 2012                           | 2011       | 2012                          | 2011       |
| Sales                                                     | \$227,478                      | \$231,511  | \$670,236                     | \$659,006  |
| Cost of sales                                             | (139,769 )                     | (139,567 ) | (419,825 )                    | (399,204 ) |
| Gross profit                                              | 87,709                         | 91,944     | 250,411                       | 259,802    |
| Selling and administrative expenses                       | (60,196 )                      | (56,863 )  | (178,686 )                    | (174,270 ) |
| Operating profit                                          | 27,513                         | 35,081     | 71,725                        | 85,532     |
| Investment income                                         | 176                            | 595        | 3,020                         | 2,244      |
| Interest expense                                          | (2,881 )                       | (2,166 )   | (8,165 )                      | (6,005 )   |
| Other income (deductions), net                            | (602 )                         | (559 )     | (1,755 )                      | (1,525 )   |
| Income before income taxes                                | 24,206                         | 32,951     | 64,825                        | 80,246     |
| Income taxes                                              | (7,821 )                       | (10,780 )  | (21,828 )                     | (27,433 )  |
| Net income                                                | 16,385                         | 22,171     | 42,997                        | 52,813     |
| Less: net income attributable to noncontrolling interests | (60 )                          | (296 )     | (129 )                        | (1,137 )   |
| Net income attributable to Matthews shareholders          | \$16,325                       | \$21,875   | \$42,868                      | \$51,676   |
| Earnings per share attributable to Matthews shareholders: |                                |            |                               |            |
| Basic                                                     | \$0.58                         | \$0.74     | \$1.51                        | \$1.75     |
| Diluted                                                   | \$0.58                         | \$0.74     | \$1.51                        | \$1.75     |

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



MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
for the nine months ended June 30, 2012 and 2011 (Unaudited)  
(Dollar amounts in thousands, except per share data)

|                                              | Shareholders' Equity |            |           |               |              |             |           |
|----------------------------------------------|----------------------|------------|-----------|---------------|--------------|-------------|-----------|
|                                              | Accumulated          |            |           |               |              |             |           |
|                                              | Common               | Additional | Retained  | Other         | Treasury     | Non-        |           |
|                                              | Stock                | Paid-in    | Earnings  | Comprehensive | Stock        | controlling | Total     |
|                                              |                      | Capital    |           | Income        |              | interests   |           |
|                                              |                      |            |           | (Loss)        |              |             |           |
| Balance, September 30, 2010                  | \$36,334             | \$48,294   | \$621,923 | \$ (37,136 )  | \$(207,470 ) | \$31,783    | \$493,728 |
| Net income                                   | -                    | -          | 51,676    | -             | -            | 1,137       | 52,813    |
| Minimum pension liability                    | -                    | -          | -         | 2,409         | -            | -           | 2,409     |
| Translation adjustment                       | -                    | -          | -         | 14,497        | -            | 2,209       | 16,706    |
| Fair value of derivatives                    | -                    | -          | -         | (81 )         | -            | -           | (81 )     |
| Total comprehensive income                   |                      |            |           |               |              |             | 71,847    |
| Stock-based compensation                     | -                    | 5,301      | -         | -             | -            | -           | 5,301     |
| Purchase of 394,208 shares of treasury stock | -                    | -          | -         | -             | (14,343 )    | -           | (14,343 ) |
| Issuance of 283,897 shares of treasury stock | -                    | (6,816 )   | -         | -             | 8,606        | -           | 1,790     |
| Dividends, \$.24 per share                   | -                    | -          | (7,078 )  | -             | -            | -           | (7,078 )  |
| Distributions to noncontrolling interests    | -                    | -          | -         | -             | -            | (34,244 )   | (34,244 ) |
| Arrangement-noncontrolling interest          | -                    | -          | (3,005 )  | -             | -            | 2,728       | (277 )    |
| Balance, June 30, 2011                       | \$36,334             | \$46,779   | \$663,516 | \$ (20,311 )  | \$(213,207 ) | \$3,613     | \$516,724 |

Shareholders' Equity  
Accumulated

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|                                                       | Common   | Additional<br>Paid-in | Retained  | Other<br>Comprehensive | Treasury     | Non-<br>controlling | Total     |
|-------------------------------------------------------|----------|-----------------------|-----------|------------------------|--------------|---------------------|-----------|
|                                                       | Stock    | Capital               | Earnings  | Income<br>(Loss)       | Stock        | interests           |           |
| Balance,<br>September 30,<br>2011                     | \$36,334 | \$48,554              | \$681,658 | \$ (58,658 )           | \$(243,246 ) | \$3,451             | \$468,093 |
| Net income                                            | -        | -                     | 42,868    | -                      | -            | 129                 | 42,997    |
| Minimum<br>pension liability                          | -        | -                     | -         | 3,068                  | -            | -                   | 3,068     |
| Translation<br>adjustment                             | -        | -                     | -         | (8,239 )               | -            | (101 )              | (8,340 )  |
| Fair value of<br>derivatives                          | -        | -                     | -         | (660 )                 | -            | -                   | (660 )    |
| Total<br>comprehensive<br>income                      |          |                       |           |                        |              |                     | 37,065    |
| Stock-based<br>compensation                           | -        | 4,097                 | -         | -                      | -            | -                   | 4,097     |
| Purchase of<br>618,366<br>shares of<br>treasury stock | -        | -                     | -         | -                      | (18,908 )    | -                   | (18,908 ) |
| Issuance<br>of 184,806<br>shares of<br>treasury stock | -        | (6,149 )              | -         | -                      | 6,022        | -                   | (127 )    |
| Dividends, \$.27<br>per share                         | -        | -                     | (7,597 )  | -                      | -            | -                   | (7,597 )  |
| Distributions to<br>noncontrolling<br>interests       | -        | -                     | -         | -                      | -            | (170 )              | (170 )    |
| Balance, June 30,<br>2012                             | \$36,334 | \$46,502              | \$716,929 | \$ (64,489 )           | \$(256,132 ) | \$3,309             | \$482,453 |

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<br>June 30, |            |
|--------------------------------------------------------------------------------------|-------------------------------|------------|
|                                                                                      | 2012                          | 2011       |
| Cash flows from operating activities:                                                |                               |            |
| Net income                                                                           | \$42,997                      | \$52,813   |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |                               |            |
| Depreciation and amortization                                                        | 21,858                        | 20,447     |
| Gain on sale of assets                                                               | (4,633 )                      | (3,298 )   |
| Stock-based compensation expense                                                     | 4,097                         | 5,301      |
| Change in deferred taxes                                                             | (2,711 )                      | (618 )     |
| Changes in working capital items                                                     | (15,749 )                     | (23,418 )  |
| Decrease in other assets                                                             | 3,586                         | 4,727      |
| Decrease in other liabilities                                                        | (2,575 )                      | (1,524 )   |
| Increase in pension and postretirement benefits                                      | 9,479                         | 7,579      |
| Net cash provided by operating activities                                            | 56,349                        | 62,009     |
| Cash flows from investing activities:                                                |                               |            |
| Capital expenditures                                                                 | (24,641 )                     | (15,850 )  |
| Acquisitions, net of cash acquired                                                   | (12,541 )                     | (31,458 )  |
| Proceeds from sale of assets                                                         | 1,229                         | 1,175      |
| Purchases of investments                                                             | (950 )                        | (1,639 )   |
| Net cash used in investing activities                                                | (36,903 )                     | (47,772 )  |
| Cash flows from financing activities:                                                |                               |            |
| Proceeds from long-term debt                                                         | 21,000                        | 63,031     |
| Payments on long-term debt                                                           | (19,051 )                     | (37,529 )  |
| Proceeds from the sale of treasury stock                                             | 264                           | 1,570      |
| Purchases of treasury stock                                                          | (18,908 )                     | (14,343 )  |
| Excess tax benefit of share-based compensation arrangements                          | 3                             | 73         |
| Dividends                                                                            | (7,597 )                      | (7,078 )   |
| Distributions to noncontrolling interests                                            | (170 )                        | (34,244 )  |
| Net cash used in financing activities                                                | (24,459 )                     | (28,520 )  |
| Effect of exchange rate changes on cash                                              | (1,957 )                      | 9,288      |
| Net change in cash and cash equivalents                                              | \$(6,970 )                    | \$(4,995 ) |
| Non-cash investing and financing activities:                                         |                               |            |

|                                              |       |         |
|----------------------------------------------|-------|---------|
| Acquisition of equipment under capital lease | \$420 | \$2,764 |
|----------------------------------------------|-------|---------|

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

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

June 30, 2012

(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze and granite memorials 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. Effective October 1, 2011, the Company changed the name of its Bronze and Casket segments to the Cemetery Products segment and the Funeral Home Products segment, respectively. Also effective October 1, 2011, the Company's cremation casket operations, previously included in the Cremation segment, are included in the Funeral Home Products segment. The Company's products and operations are comprised of six business segments: Cemetery Products, Funeral Home Products, Cremation, Graphics Imaging, Marking Products and Merchandising Solutions. The Cemetery Products segment is a leading manufacturer of cast bronze and granite memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Funeral Home Products segment is a leading casket manufacturer and distributor in North America and produces a wide variety of wood, metal and cremation caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment in North America and Europe. 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 Asia.

Note 2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2012. 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, 2011. The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. All intercompany accounts and transactions have been eliminated.

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

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

Note 2. Basis of Presentation (continued)

Reclassifications:

Effective October 1, 2011, the Company's cremation casket operations are included in the Funeral Home Products segment. Prior period financial information has been reclassified to reflect the current presentation.

Note 3. Fair Value Measurements

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

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

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

Level 3: Unobservable inputs for the asset or liability.

The fair values of the Company's assets and liabilities measured on a recurring basis are categorized as follows:

|                                 | June 30, 2012 |         |         |          | September 30, 2011 |         |         |          |
|---------------------------------|---------------|---------|---------|----------|--------------------|---------|---------|----------|
|                                 | Level 1       | Level 2 | Level 3 | Total    | Level 1            | Level 2 | Level 3 | Total    |
| Assets:                         |               |         |         |          |                    |         |         |          |
| Trading securities              | \$15,676      | -       | -       | \$15,676 | \$13,426           | -       | -       | \$13,426 |
| Total assets at fair value      | \$15,676      | -       | -       | \$15,676 | \$13,426           | -       | -       | \$13,426 |
| Liabilities:                    |               |         |         |          |                    |         |         |          |
| Derivatives (1)                 | -             | \$8,244 | -       | \$8,244  | -                  | \$7,161 | -       | \$7,161  |
| Total liabilities at fair value | -             | \$8,244 | -       | \$8,244  | -                  | \$7,161 | -       | \$7,161  |

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

Note 4. Inventories

Inventories consisted of the following:

|               | June 30, 2012 | September 30, 2011 |
|---------------|---------------|--------------------|
| Raw materials | \$ 42,452     | \$ 35,692          |

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|                 |            |            |
|-----------------|------------|------------|
| Work in process | 22,076     | 21,461     |
| Finished goods  | 68,643     | 68,414     |
|                 | \$ 133,171 | \$ 125,567 |

7

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

Note 5. Debt

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. In March 2012, the maximum amount of borrowings available under the facility was increased from \$300,000 to \$400,000 and the facility's maturity was extended to March 2017. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from 1.00% to 1.50% 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 .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility.

The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$25,000) is available for the issuance of commercial and standby letters of credit. Outstanding borrowings on the Revolving Credit Facilities were \$250,000 as of June 30, 2012 and September 30, 2011. The weighted-average interest rate on outstanding borrowings on these facilities at June 30, 2012 and 2011 was 3.15% and 2.98%, respectively.

The Company has entered into the following interest rate swaps:

| Effective Date | Amount   | Fixed Interest Rate | Interest Rate Spread at June 30, 2012 | Maturity Date  |
|----------------|----------|---------------------|---------------------------------------|----------------|
| September 2007 | \$25,000 | 4.77%               | 1.25%                                 | September 2012 |
| May 2008       | 20,000   | 3.72%               | 1.25%                                 | September 2012 |
| May 2011       | 25,000   | 1.37%               | 1.25%                                 | May 2014       |
| October 2011   | 25,000   | 1.67%               | 1.25%                                 | October 2015   |
| November 2011  | 25,000   | 2.13%               | 1.25%                                 | November 2014  |
| March 2012     | 25,000   | 2.44%               | 1.25%                                 | March 2015     |
| June 2012      | 40,000   | 1.88%               | 1.25%                                 | June 2022      |
| September 2012 | 25,000   | 3.03%               | 1.25%                                 | December 2015  |
| September 2012 | 25,000   | 1.24%               | 1.25%                                 | March 2017     |
| November 2012  | 25,000   | 1.33%               | 1.25%                                 | November 2015  |

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 \$8,244 (\$5,029 after tax) at June 30, 2012 that is included in shareholders' equity as part of accumulated other comprehensive loss ("AOCL"). Assuming market rates remain constant with the rates at June 30, 2012, approximately \$1,684 of the \$5,029 loss included in accumulated

other comprehensive loss is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

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

## Note 5. Debt (continued)

At June 30, 2012 and September 30, 2011, the interest rate swap contracts were reflected as a liability on the balance sheets. The following derivatives are designated as hedging instruments:

## Liability Derivatives

| Balance Sheet Location:   | June 30, 2012 | September 30, 2011 |
|---------------------------|---------------|--------------------|
| Current liabilities:      |               |                    |
| Other current liabilities | \$ 2,761      | \$ 2,061           |
| Long-term liabilities     |               |                    |
| Other liabilities         | 5,483         | 5,100              |
| Total derivatives         | \$ 8,244      | \$ 7,161           |

The loss recognized on derivatives was as follows:

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Location of<br>Loss<br>Recognized in<br>Income on<br>Derivative | Amount of<br>Loss Recognized<br>in Income<br>on Derivatives |         | Amount of<br>Loss Recognized<br>in Income<br>on Derivatives |           |
|---------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------|---------|-------------------------------------------------------------|-----------|
|                                                         |                                                                 | Three Months ended June 30,<br>2012                         | 2011    | Nine Months ended June 30,<br>2012                          | 2011      |
| Interest rate swaps                                     | Interest expense                                                | \$(888)                                                     | \$(719) | \$(2,308)                                                   | \$(2,178) |

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

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Amount of<br>Loss Recognized in<br>AOCL on Derivatives |                  | Location of<br>Gain or<br>(Loss)<br>Reclassified<br>From<br>AOCL into<br>Income<br>(Effective<br>Portion*) | Amount of Loss<br>Reclassified from<br>AOCL into<br>Income<br>(Effective Portion*) |                  |
|---------------------------------------------------------|--------------------------------------------------------|------------------|------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------|
|                                                         | June 30,<br>2012                                       | June 30,<br>2011 |                                                                                                            | June 30,<br>2012                                                                   | June 30,<br>2011 |
| Interest rate swaps                                     | \$(2,068)                                              | \$(1,410)        | Interest expense                                                                                           | \$(1,408)                                                                          | \$(1,329)        |

\*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 (\$31,653). Outstanding borrowings under

the credit facility totaled 23.6 million Euros (\$29,880) at June 30, 2012 and 23.6 million Euros (\$31,593) at September 30, 2011. The weighted-average interest rate on outstanding borrowings under this facility at June 30, 2012 and 2011 was 2.45% and 2.27%, respectively.

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

Note 5. Debt (continued)

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 8.1 million Euros (\$10,243) and 8.3 million Euros (\$11,159) at June 30, 2012 and September 30, 2011, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at June 30, 2012 and 2011 was 6.11% and 6.02%, 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 6.7 million Euros (\$8,436) and 8.7 million Euros (\$11,611) at June 30, 2012 and September 30, 2011, respectively. Matthews International S.p.A. also has four lines of credit totaling 11.4 million Euros (\$14,396) with the same Italian banks. Outstanding borrowings on these lines were 2.5 million Euros (\$3,115) and 493,000 Euros (\$661) at June 30, 2012 and September 30, 2011, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at June 30, 2012 and 2011 was 3.09%.

As of June 30, 2012 and September 30, 2011 the fair value of the Company's long-term debt, including current maturities, which is classified as level 2 in the fair value hierarchy, approximated the carrying value included in the Condensed Consolidated Balance Sheet.

Note 6. Share-Based Payments

The Company maintains an equity incentive plan (the "2007 Equity Incentive Plan") that provides for the grants of stock options, restricted shares, stock-based performance units and certain other types of stock-based awards. Under the 2007 Equity Incentive Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 2,200,000. The Company also maintains a stock incentive plan (the "1992 Incentive Stock Plan") that previously provided for grants of stock options, restricted shares and certain other types of stock-based awards. There will be no further grants under the 1992 Incentive Stock Plan. At June 30, 2012, there were 793,152 shares reserved for future issuance under the 2007 Equity Incentive Plan. Both plans are administered by the Compensation Committee of the Board of Directors.

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

restricted shares from treasury shares.

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

Note 6. Share-Based Payments (continued)

For the three-month periods ended June 30, 2012 and 2011, total stock-based compensation cost totaled \$1,366 and \$1,693, respectively. For the nine-month periods ended June 30, 2012 and 2011, total stock-based compensation cost totaled \$4,097 and \$5,301, respectively. The associated future income tax benefit recognized was \$533 and \$660 for the three-month periods ended June 30, 2012 and 2011, respectively, and \$1,598 and \$2,067 for the nine-month periods ended June 30, 2012 and 2011, respectively.

For the three-month period ended June 30, 2012, no stock options were exercised. For the three-month period ended June 30, 2011, the amount of cash received from the exercise of stock options was \$1,079. For the nine-month periods ended June 30, 2012 and 2011, the amount of cash received from the exercise of stock options was \$265 and \$1,570, respectively. In connection with these exercises, the tax benefits realized by the Company were \$421 for the three-month period ended June 30, 2011, and \$19 and \$612 for the nine-month periods ended June 30, 2012 and 2011, respectively.

The transactions for restricted stock for the nine months ended June 30, 2012 were as follows:

|                                  | Shares     | Weighted-average<br>grant-date<br>fair value |
|----------------------------------|------------|----------------------------------------------|
| Non-vested at September 30, 2011 | 541,613    | \$33.62                                      |
| Granted                          | 165,710    | 31.79                                        |
| Vested                           | (148,003 ) | 35.52                                        |
| Expired or forfeited             | (938 )     | 34.16                                        |
| Non-vested at June 30, 2012      | 558,382    | 32.58                                        |

As of June 30, 2012, the total unrecognized compensation cost related to unvested restricted stock was \$5,698 and is expected to be recognized over a weighted average period of 1.7 years.

The transactions for shares under options for the nine months ended June 30, 2012 were as follows:

|                                 | Shares    | Weighted-average<br>exercise<br>price | Weighted-average<br>remaining<br>contractual<br>term | Aggregate<br>intrinsic<br>value |
|---------------------------------|-----------|---------------------------------------|------------------------------------------------------|---------------------------------|
| Outstanding, September 30, 2011 | 872,514   | \$37.02                               |                                                      |                                 |
| Granted                         | -         | -                                     |                                                      |                                 |
| Exercised                       | (10,332 ) | 25.64                                 |                                                      |                                 |
| Expired or forfeited            | (11,700 ) | 39.68                                 |                                                      |                                 |
| Outstanding, June 30, 2012      | 850,482   | 37.12                                 | 3.3                                                  | -                               |
| Exercisable, June 30, 2012      | 491,595   | 35.96                                 | 3.0                                                  | -                               |

No shares were earned during the nine-month periods ended June 30, 2012 and 2011, 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, 2012 and 2011 was \$57 and \$721, respectively.

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

Note 6. Share-Based Payments (continued)

The transactions for non-vested options for the nine months ended June 30, 2012 were as follows:

|                                  | Shares   | Weighted-average<br>grant-date<br>fair value |
|----------------------------------|----------|----------------------------------------------|
| Non-vested at September 30, 2011 | 367,586  | \$ 11.38                                     |
| Granted                          | -        | -                                            |
| Vested                           | -        | -                                            |
| Expired or forfeited             | (8,699 ) | 12.28                                        |
| Non-vested at June 30, 2012      | 358,887  | 11.36                                        |

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, 2012 and 2011.

|                                 | Nine Months Ended June<br>30, |   |      |   |
|---------------------------------|-------------------------------|---|------|---|
|                                 | 2012                          |   | 2011 |   |
| Expected volatility             | 30.4                          | % | 30.0 | % |
| Dividend yield                  | 1.0                           | % | 1.0  | % |
| Average risk free interest rate | 0.9                           | % | 1.2  | % |
| Average expected term (years)   | 2.0                           |   | 2.0  |   |

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

Under the Company's Director Fee Plan, directors (except for the Chairman of the Board) who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$60. The equivalent amount paid to a non-employee Chairman of the Board is \$130. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. The value of deferred shares is recorded in other liabilities. A total of 15,067 shares had been deferred under the Director Fee Plan at June 30, 2012. Additionally, directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of \$80. A total of 22,300 stock options have been granted under the plan. At June 30, 2012, 11,800 options were outstanding and vested. Additionally, 83,046 shares of restricted stock have been granted under the plan, 29,288 of which were unvested at June 30, 2012. A total of 300,000 shares have been authorized to be issued under the Director Fee Plan.



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

Note 7. Earnings Per Share Attributable to Matthews' Shareholders

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

|                                                                                     | Three Months Ended<br>June 30, |           | Nine Months Ended<br>June 30, |           |
|-------------------------------------------------------------------------------------|--------------------------------|-----------|-------------------------------|-----------|
|                                                                                     | 2012                           | 2011      | 2012                          | 2011      |
| Net income attributable to Matthews shareholders                                    | \$ 16,325                      | \$ 21,875 | \$ 42,868                     | \$ 51,676 |
| Less: dividends and undistributed earnings<br>allocated to participating securities | 235                            | 447       | 677                           | 1,000     |
| Net income available to Matthews shareholders                                       | \$ 16,090                      | \$ 21,428 | \$ 42,191                     | \$ 50,676 |
| Weighted-average shares outstanding (in thousands):                                 |                                |           |                               |           |
| Basic shares                                                                        | 27,749                         | 28,849    | 27,865                        | 28,945    |
| Effect of dilutive securities:                                                      |                                |           |                               |           |
| Stock options                                                                       | 6                              | 17        | 8                             | 18        |
| Restricted Shares                                                                   | 16                             | -         | 60                            | -         |
| Phantom stock units                                                                 | 15                             | 15        | 15                            | 18        |
| Diluted shares                                                                      | 27,786                         | 28,881    | 27,948                        | 28,981    |

Options to purchase 783,092 and 785,475 shares of common stock were not included in the computation of diluted earnings per share for the three months and nine months ended June 30, 2012, respectively, because the inclusion of these options would be anti-dilutive. Options to purchase 287,535 and 292,968 shares of common stock were not included in the computation of diluted earnings per share for the three months and nine months ended June 30, 2011, respectively, because the inclusion of these options would be anti-dilutive.

Note 8. Pension and Other Postretirement Benefit Plans

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

|                                | Three months ended June 30, |          |                      |        |
|--------------------------------|-----------------------------|----------|----------------------|--------|
|                                | Pension                     |          | Other Postretirement |        |
|                                | 2012                        | 2011     | 2012                 | 2011   |
| Service cost                   | \$ 1,424                    | \$ 1,237 | \$ 182               | \$ 158 |
| Interest cost                  | 1,950                       | 1,867    | 321                  | 313    |
| Expected return on plan assets | (1,953)                     | (1,843)  | -                    | -      |
| Amortization:                  |                             |          |                      |        |
| Prior service cost             | (11)                        | 6        | (113)                | (119)  |
| Net actuarial loss             | 1,680                       | 1,338    | 134                  | 102    |
| Net benefit cost               | \$ 3,090                    | \$ 2,605 | \$ 524               | \$ 454 |



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

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

|                                | Nine months ended June 30, |          |                      |         |
|--------------------------------|----------------------------|----------|----------------------|---------|
|                                | Pension                    |          | Other Postretirement |         |
|                                | 2012                       | 2011     | 2012                 | 2011    |
| Service cost                   | \$4,272                    | \$3,711  | \$546                | \$474   |
| Interest cost                  | 5,850                      | 5,601    | 963                  | 939     |
| Expected return on plan assets | (5,859 )                   | (5,529 ) | -                    | -       |
| Amortization:                  |                            |          |                      |         |
| Prior service cost             | (33 )                      | 18       | (339 )               | (357 )  |
| Net actuarial loss             | 5,040                      | 4,014    | 402                  | 306     |
| Net benefit cost               | \$9,270                    | \$7,815  | \$1,572              | \$1,362 |

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the postretirement benefit plan are made from the Company's operating funds. Under IRS regulations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal year 2012.

Contributions made and anticipated for fiscal year 2012 are as follows:

| Contributions                                             | Pension | Other Postretirement |
|-----------------------------------------------------------|---------|----------------------|
| Contributions during the nine months ended June 30, 2012: |         |                      |
| Supplemental retirement plan                              | \$547   | \$ -                 |
| Other postretirement plan                                 | -       | 730                  |
| Additional contributions expected in fiscal 2012:         |         |                      |
| Supplemental retirement plan                              | 181     | -                    |
| Other postretirement plan                                 | -       | 400                  |

Note 9. Income Taxes

Income tax provisions for the Company's interim periods are based on the effective income tax rate expected to be applicable for the full year. The Company's effective tax rate for the nine months ended June 30, 2012 was 33.7%, compared to 34.2% for the same period last year. 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 \$2,956 and \$2,928 on June 30, 2012 and September 30, 2011, respectively, all of which, if recorded, would impact the 2012 annual effective tax rate. It is reasonably possible that \$222 of the unrecognized tax benefits could be recognized in the next 12 months primarily due to tax examinations and the expiration of statutes related to specific tax positions.

The Company classifies interest and penalties on tax uncertainties as a component of the provision for income taxes. The Company included \$134 in interest and penalties in the provision for income taxes for the first nine months of fiscal 2012. Total penalties and interest accrued were \$1,976 and \$1,842 at June 30, 2012 and September 30, 2011, respectively. These accruals may potentially be applicable in the event of an unfavorable outcome of uncertain tax positions.

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

Note 9. Income Taxes (continued)

The Company is currently under examination in several tax jurisdictions and remains subject to examination until the statute of limitations expires for those tax jurisdictions. As of June 30, 2012, the tax years that remain subject to examination by major jurisdiction generally are:

|                         |                  |
|-------------------------|------------------|
| United States – Federal | 2010 and forward |
| United States – State   | 2008 and forward |
| Canada                  | 2007 and forward |
| Europe                  | 2003 and forward |
| United Kingdom          | 2009 and forward |
| Australia               | 2007 and forward |
| Asia                    | 2005 and forward |

Note 10. Segment Information

The Company's products and operations consist of two principal businesses that are comprised of three operating segments each, as described under Nature of Operations (Note 1): Memorialization (Cemetery Products, Funeral Home Products, Cremation) and Brand Solutions (Graphics Imaging, Marking Products, Merchandising Solutions). Effective October 1, 2011, the Company's cremation casket manufacturing operations are included in the Funeral Home Products segment. Prior period financial information has been reclassified to reflect the current presentation. 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 noncontrolling interests.

Information about the Company's segments follows:

|                              | Three Months Ended<br>June 30, |           | Nine Months Ended<br>June 30, |           |
|------------------------------|--------------------------------|-----------|-------------------------------|-----------|
|                              | 2012                           | 2011      | 2012                          | 2011      |
| Sales to external customers: |                                |           |                               |           |
| Memorialization:             |                                |           |                               |           |
| Cemetery Products            | \$58,423                       | \$62,777  | \$157,148                     | \$166,147 |
| Funeral Home Products        | 56,115                         | 59,713    | 176,453                       | 188,762   |
| Cremation                    | 12,342                         | 9,736     | 32,874                        | 26,270    |
|                              | 126,880                        | 132,226   | 366,475                       | 381,179   |
| Brand Solutions:             |                                |           |                               |           |
| Graphics Imaging             | 62,429                         | 68,481    | 197,711                       | 193,342   |
| Marking Products             | 19,310                         | 15,746    | 53,449                        | 43,187    |
| Merchandising Solutions      | 18,859                         | 15,058    | 52,601                        | 41,298    |
|                              | 100,598                        | 99,285    | 303,761                       | 277,827   |
|                              | \$227,478                      | \$231,511 | \$670,236                     | \$659,006 |



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

## Note 10. Segment Information (continued)

|                         | Three Months Ended<br>June 30, |          | Nine Months Ended<br>June 30, |          |
|-------------------------|--------------------------------|----------|-------------------------------|----------|
|                         | 2012                           | 2011     | 2012                          | 2011     |
| Operating profit:       |                                |          |                               |          |
| Memorialization:        |                                |          |                               |          |
| Cemetery Products       | \$12,591                       | \$17,972 | \$27,291                      | \$38,910 |
| Funeral Home Products   | 6,936                          | 6,970    | 20,751                        | 22,888   |
| Cremation               | 1,314                          | 1,145    | 3,303                         | 2,188    |
|                         | 20,841                         | 26,087   | 51,345                        | 63,986   |
| Brand Solutions:        |                                |          |                               |          |
| Graphics Imaging        | 2,588                          | 6,120    | 11,300                        | 15,745   |
| Marking Products        | 2,862                          | 1,780    | 6,275                         | 4,693    |
| Merchandising Solutions | 1,222                          | 1,094    | 2,805                         | 1,108    |
|                         | 6,672                          | 8,994    | 20,380                        | 21,546   |
|                         | \$27,513                       | \$35,081 | \$71,725                      | \$85,532 |

## Note 11. Acquisitions

In May 2012, the Company acquired Everlasting Granite Memorial Co., Inc., (“Everlasting”) a supplier of granite memorials, columbariums and private mausoleum estates. The transaction was structured as an asset purchase and was designed to extend Matthews’ presence in the broad granite market.

## Note 12. Goodwill and Other Intangible Assets

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

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

Note 12. Goodwill and Other Intangible Assets (continued)

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

|                                      | Cemetery<br>Products | Funeral<br>Home<br>Products | Cremation | Graphics<br>Imaging | Marking<br>Products | Merchandising<br>Solutions | Consolidated |
|--------------------------------------|----------------------|-----------------------------|-----------|---------------------|---------------------|----------------------------|--------------|
| Goodwill                             | \$88,142             | \$162,819                   | \$16,735  | \$167,828           | \$29,593            | \$ 9,138                   | \$ 474,255   |
| Accumulated<br>Impairment losses     | (412 )               | -                           | (5,000 )  | (3,840 )            | -                   | -                          | (9,252 )     |
| Balance at<br>September 30,<br>2011  | 87,730               | 162,819                     | 11,735    | 163,988             | 29,593              | 9,138                      | 465,003      |
| Additions during<br>period           | 10,454               | 57                          | 770       | 794                 | 1,151               | -                          | 13,226       |
| Translation and<br>other adjustments | (1,201 )             | -                           | (91 )     | (5,645 )            | 14                  | -                          | (6,923 )     |
| Goodwill                             | 97,395               | 162,876                     | 17,414    | 162,977             | 30,758              | 9,138                      | 480,558      |
| Accumulated<br>impairment losses     | (412 )               | -                           | (5,000 )  | (3,840 )            | -                   | -                          | (9,252 )     |
| Balance at June<br>30, 2012          | \$96,983             | \$162,876                   | \$12,414  | \$159,137           | \$30,758            | \$ 9,138                   | \$ 471,306   |

The addition to Cemetery Products reflects the acquisition of Everlasting in May 2012. The additions to Funeral Home Products and Marking Products goodwill primarily represents the effect of adjustments to purchase price; the addition to Cremation goodwill reflects the acquisition of a small cremation equipment manufacturer in Europe; and the addition to Graphics Imaging goodwill related primarily to additional consideration paid in accordance with the purchase agreement with Tact Group Limited.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of June 30, 2012 and September 30, 2011, respectively.

|                          | Carrying<br>Amount | Accumulated<br>Amortization | Net        |
|--------------------------|--------------------|-----------------------------|------------|
| June 30, 2012:           |                    |                             |            |
| Trade names              | \$24,312           | \$ -                        | * \$24,312 |
| Trade names              | 2,157              | (1,437 )                    | 720        |
| Customer relationships   | 47,434             | (14,969 )                   | 32,465     |
| Copyrights/patents/other | 9,834              | (7,727 )                    | 2,107      |
|                          | \$83,737           | \$ (24,133 )                | \$59,604   |

September 30, 2011:

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|                          |          |              |            |
|--------------------------|----------|--------------|------------|
| Trade names              | \$24,266 | \$ -         | * \$24,266 |
| Trade names              | 2,227    | (1,147 )     | 1,080      |
| Customer relationships   | 47,876   | (13,228 )    | 34,648     |
| Copyrights/patents/other | 9,870    | (7,039 )     | 2,831      |
|                          | \$84,239 | \$ (21,414 ) | \$62,825   |

\* Not subject to amortization

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

Note 12. Goodwill and Other Intangible Assets (continued)

The net change in intangible assets during the nine months ended June 30, 2012 included the impact of foreign currency fluctuations during the period and additional amortization.

Amortization expense on intangible assets was \$970 and \$1,030 for the three-month periods ended June 30, 2012 and 2011, respectively. For the nine-month periods ended June 30, 2012 and 2011, amortization expense was \$2,953 and \$3,091, respectively. The remaining amortization expense is estimated to be \$928 in 2012, \$3,549 in 2013, \$3,337 in 2014, \$3,077 in 2015 and \$2,783 in 2016.

# 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, 2011. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered individually significant to consolidated sales, changes in the distribution of the Company's products or the potential loss of one or more of the Company's larger customers are also considered risk factors.

## Results of Operations:

The following table sets forth sales and operating profit for the Company's Memorialization and Brand Solutions businesses for the periods indicated.

|                   | Three Months Ended<br>June 30, |           | Nine Months Ended<br>June 30, |           |
|-------------------|--------------------------------|-----------|-------------------------------|-----------|
|                   | 2012                           | 2011      | 2012                          | 2011      |
| Sales:            |                                |           |                               |           |
| Memorialization   | \$126,880                      | \$132,226 | \$366,475                     | \$381,179 |
| Brand Solutions   | 100,598                        | 99,285    | 303,761                       | 277,827   |
|                   | \$227,478                      | \$231,511 | \$670,236                     | \$659,006 |
| Operating Profit: |                                |           |                               |           |
| Memorialization   | \$20,841                       | \$26,087  | \$51,345                      | \$63,986  |
| Brand Solutions   | 6,672                          | 8,994     | 20,380                        | 21,546    |
|                   | \$27,513                       | \$35,081  | \$71,725                      | \$85,532  |

Effective October 1, 2011, the Company changed the name of its Bronze and Casket segments to the Cemetery Products segment and the Funeral Home Products segment, respectively. Also effective October 1, 2011, the Company's cremation casket operations, previously included in the Cremation segment, are included in the Funeral Home Products segment. Prior period financial information has been reclassified to reflect the current presentation.

Sales for the nine months ended June 30, 2012 were \$670.2 million, compared to \$659.0 million for the nine months ended June 30, 2011. Higher sales were reported in each of the Company's Brand Solutions businesses and the Cremation segment. These increases were partially offset by lower sales in the Cemetery Products and Funeral Home Products segments, which were unfavorably impacted by a decline in the estimated number of casketed and in-ground burial (non-cremation) deaths. Consolidated sales were also affected by an unfavorable impact of approximately \$11.1 million from changes in foreign currency values against the U.S. dollar.

In the Memorialization businesses, Cemetery Products segment sales for the first nine months of fiscal 2012 were \$157.1 million, compared to \$166.1 million for the first nine months of fiscal 2011. The decrease resulted primarily from a decline in sales volume of bronze memorials and lower mausoleum sales. The decline in sales of bronze memorials principally reflected the impact of lower estimated U.S. in-ground burial deaths in fiscal 2012 compared to the prior year. Sales for the Funeral Home Products segment were \$176.5 million for the first nine months of fiscal 2012 compared to \$188.8 million for the same period in fiscal 2011. The decrease resulted principally from the impact of lower year-over-year casketed deaths in the U.S. and a decline in sales to independent distributors. Sales for the Cremation segment were \$32.9 million for the first nine months of fiscal 2012 compared to \$26.3 million for the same period a year ago. The increase principally reflected higher sales of cremation equipment in the U.S., U.K. and Europe.

In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in the first nine months of fiscal 2012 were \$197.7 million, compared to \$193.3 million for the same period a year ago. The increase resulted principally from higher year-to-date sales volume and the acquisition of Kroma Pre-Press Preparation Systems Industry & Trade, Inc. ("Kroma") in July 2011, partially offset by an unfavorable impact of approximately \$8.5 million from changes in the value of foreign currencies against the U.S. dollar. Graphics Imaging segment sales for the fiscal 2012 third quarter were lower than a year ago, primarily resulting from a decrease in sales in Europe. Marking Products segment sales for the nine months ended June 30, 2012 were \$53.4 million, compared to \$43.2 million for the first nine months of fiscal 2011. The increase resulted principally from an increase in print equipment and material handling components and acquisitions completed in fiscal 2011. Sales for the Merchandising Solutions segment were \$52.6 million for the first nine months of fiscal 2012, compared to \$41.3 million for the same period a year ago. The increase principally reflected higher volume for several global customers.

Gross profit for the nine months ended June 30, 2012 was \$250.4 million, compared to \$259.8 million for the nine months ended June 30, 2011. Consolidated gross profit as a percent of sales for the first nine months of fiscal 2012 decreased to 37.4% from 39.4% for the first nine months of fiscal 2011. The decrease in consolidated gross profit and gross profit percentage primarily reflected the impact of lower sales in the Cemetery Products and Funeral Home Products segments and higher commodity costs, partially offset by the impact of higher sales in the Brand Solutions businesses and Cremation segment.

Selling and administrative expenses for the nine months ended June 30, 2012 were \$178.7 million, compared to \$174.3 million for the first nine months of fiscal 2011. Consolidated selling and administrative expenses as a percent of sales were 26.7% for the nine months ended June 30, 2012, compared to 26.4% for the same period last year. The increase in selling and administrative expenses was primarily attributable to higher sales in the Graphics Imaging and Cremation segments and recent acquisitions in the Marking Products segment. These increases were partially offset by the benefit of selling and casket distribution cost structure initiatives in the Funeral Home Products segment, which favorably impacted selling and administrative expense as a percent of sales.

Operating profit for the nine months ended June 30, 2012 was \$71.7 million, compared to \$85.5 million for the nine months ended June 30, 2011. Cemetery Products segment operating profit for the nine months ended June 30, 2012 was \$27.3 million, compared to \$38.9 million a year ago. The decrease primarily reflected lower sales, higher bronze ingot costs, ERP system implementation costs and severance costs. These declines were partially offset by a favorable settlement on a claim related to the Company's granite business. Funeral Home Products segment operating profit was \$20.8 million for the first nine months of fiscal 2012, compared to \$22.9 million for the same period in fiscal 2011. The decline primarily reflected the impact of lower sales and higher transportation costs (primarily fuel). These declines were partially offset by the benefit of manufacturing and distribution cost structure initiatives. Cremation segment operating profit for the first nine months of fiscal 2012 was \$3.3 million, compared to \$2.2 million for the same period in the prior year, principally reflecting sales improvement. Graphics Imaging segment operating profit for the nine months ended June 30, 2012 was \$11.3 million, compared to \$15.7 million for the same period in fiscal

2011. The decrease resulted mainly from the net unfavorable impact of unusual items. These items primarily included charges related to acquisition related activities and severance costs. In addition, the segment's operating profit for the current period reflected the impact of lower third quarter sales in Europe and an unfavorable impact of

approximately \$1.1 million from changes in foreign currency values against the U.S. dollar. These decreases were offset partially by the impact of the Kroma acquisition. Operating profit for the Marking Products segment for the first nine months of fiscal 2012 was \$6.3 million, compared to \$4.7 million for the same period a year ago. The increase primarily resulted from higher sales and the impact of acquisitions. Merchandising Solutions segment operating profit was \$2.8 million for the first nine months of fiscal 2012, compared to \$1.1 million for the same period in fiscal 2011. The increase primarily reflected higher sales in fiscal 2012.

Investment income was \$3.0 million for the nine months ended June 30, 2012, compared to \$2.2 million for the nine months ended June 30, 2011. The increase primarily resulted from higher appreciation in the values of invested securities during the current year. Interest expense was approximately \$8.2 million for the first nine months of fiscal 2012, compared to \$6.0 million for the same period a year ago. The increase primarily reflected higher debt levels compared to a year ago.

Other income (deductions), net for the nine months ended June 30, 2012 was a reduction of income of \$1.8 million, compared to a reduction of income of \$1.5 million for the same period last year. Other income and deductions generally include banking-related fees and the impact of currency gains or losses on intercompany debt.

The Company's effective tax rate for the nine months ended June 30, 2012 was 33.7%, compared to 34.2% for the first nine months of fiscal 2011 and 34.4% for the fiscal 2011 full year. The effective tax rate for first nine months of fiscal 2012 reflects the favorable impact of adjustments totaling \$528,000 in income tax expense related to changes in estimated tax accruals and the closure of open tax periods. The fiscal 2011 first nine months and full year effective tax rates included the favorable impact of adjustments totaling \$606,000 in income tax expense primarily related to changes in the estimated tax accruals for open tax periods. Excluding those adjustments, the Company's effective tax rates for the first nine months of fiscal 2012 and 2011 and fiscal 2011 full year were 34.5%, 34.9% and 35.0%, respectively. The decrease in the effective tax rate from the fiscal 2011 first nine months and full year, excluding adjustments, primarily reflected the impact of the Company's European operating structure initiatives. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes, offset by lower foreign income taxes.

Net income attributable to noncontrolling interests in the first nine months of fiscal 2012 was \$129,000, compared to \$1.1 million in the first nine months of fiscal 2011. The decrease related principally to the Company's acquisition of the remaining 22% interest in Saueressig in April 2011.

#### Goodwill:

Goodwill related to business combinations is not amortized, but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a discounted cash flow technique. The Company performed its annual impairment review in the second quarter of fiscal 2012 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 \$56.3 million for the nine months ended June 30, 2012, compared to \$62.0 million for the first nine months of fiscal 2011. Operating cash flow for both periods reflected net income adjusted for depreciation, amortization, stock-based compensation expense and pension expense, partially offset by decreases in deferred taxes. The decline in operating cash flows primarily reflected lower net income, partially offset by a reduction of cash used to fund working capital items.

Cash used in investing activities was \$36.9 million for the nine months ended June 30, 2012, compared to \$47.8 million for the nine months ended June 30, 2011. Investing activities for the first nine months of fiscal 2012 primarily reflected capital expenditures of \$24.6 million and payments (net of cash acquired) of \$12.5 million for acquisitions. Investing activities for the first nine months of fiscal 2011 reflected capital expenditures of \$15.9 million and payments (net of cash acquired) of \$31.5 million for acquisitions.

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. The increase in capital expenditures for fiscal 2012 primarily resulted from several projects in the Graphics Imaging segment. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged \$21.1 million for the last three fiscal years. Capital spending for fiscal 2012 is expected to approximate \$30.0 million. 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, 2012 was \$24.5 million, primarily reflecting long-term debt proceeds, net of repayments, of \$1.9 million, treasury stock purchases of \$18.9 million and dividends of \$7.6 million to the Company's shareholders. Cash used in financing activities for the first nine months of 2011 was \$28.5 million, reflecting long-term debt proceeds, net of repayments, of \$25.5 million, proceeds of \$1.6 million from the sale of treasury stock (stock option exercises), treasury stock purchases of \$14.3 million, dividends of \$7.1 million to the Company's shareholders and distributions to noncontrolling interests of \$34.2 million.

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. In March 2012, the maximum amount of borrowings available under the facility was increased from \$300.0 million to \$400.0 million and the facility's maturity was extended to March 2017. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from 1.00% to 1.50% 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 .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility.

The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$25.0 million) is available for the issuance of commercial and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility were \$250.0 million as of June 30, 2012 and September 30, 2011. The weighted-average interest rate on outstanding borrowings under the credit facilities was 3.15% and 2.98% at June 30, 2012 and 2011, respectively.

The Company has entered into the following interest rate swaps:

| Effective Date | Amount       | Fixed Interest Rate | Interest Rate Spread at June 30, 2011 | Maturity Date  |
|----------------|--------------|---------------------|---------------------------------------|----------------|
| September 2007 | \$25 million | 4.770%              | 1.25%                                 | September 2012 |
| May 2008       | 20 million   | 3.720%              | 1.25%                                 | September 2012 |
| May 2011       | 25 million   | 1.370%              | 1.25%                                 | May 2014       |
| October 2011   | 25 million   | 1.670%              | 1.25%                                 | October 2015   |
| November 2011  | 25 million   | 2.130%              | 1.25%                                 | November 2014  |
| March 2012     | 25 million   | 2.440%              | 1.25%                                 | March 2015     |
| June 2012      | 40 million   | 1.875%              | 1.25%                                 | June 2022      |
| September 2012 | 25 million   | 3.030%              | 1.25%                                 | December 2015  |
| September 2012 | 25 million   | 1.240%              | 1.25%                                 | March 2017     |
|                | 25 million   | 1.330%              | 1.25%                                 |                |

N o v e m b e r  
2012

November  
2015

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

The fair value of the interest rate swaps reflected an unrealized loss of \$8.2 million (\$5.0 million after tax) at June 30, 2012 that is included in shareholders' equity as part of accumulated other comprehensive loss. Assuming market rates remain constant with the rates at June 30, 2012, approximately \$1.7 million of the \$5.0 million loss included in

accumulated other comprehensive loss is expected to be recognized in earnings as interest expense over the next twelve months.

The Company, through certain of its German subsidiaries, has a credit facility with a European bank. The maximum amount of borrowings available under this facility was 25.0 million Euros (\$31.7 million). Outstanding borrowings under the credit facility totaled 23.6 million Euros (\$29.9 million) and 23.6 million Euros (\$31.6 million) at June 30, 2012 and September 30, 2011, respectively. The weighted-average interest rate on outstanding borrowings under this facility at June 30, 2012 and 2011 was 2.45% and 2.27%, respectively.

The Company, through its German subsidiary, Saueressig, has several loans with various European banks. Outstanding borrowings under these loans totaled 8.1 million Euros (\$10.2 million) and 8.3 million Euros (\$11.2 million) at June 30, 2012 and September 30, 2011, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at June 30, 2012 and 2011 was 6.11% and 6.02%, 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 6.7 million Euros (\$8.4 million) and 8.7 million Euros (\$11.6 million) at June 30, 2012 and September 30, 2011, respectively. Matthews International S.p.A. also has four lines of credit totaling 11.4 million Euros (\$14.4 million) with the same Italian banks. Outstanding borrowings on these lines totaled 2.5 million Euros (\$3.1 million) and 493,000 Euros (\$661,000) at June 30, 2012 and September 30, 2011, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at June 30, 2012 and 2011 was 3.09%.

The Company has a stock repurchase program. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation. As of June 30, 2012, the Company had a total available repurchase authorization of 2,222,496 shares.

Consolidated working capital of the Company was \$208.8 million at June 30, 2012, compared to \$208.1 million at September 30, 2011. Cash and cash equivalents were \$54.7 million at June 30, 2012, compared to \$61.7 million at September 30, 2011. The Company's current ratio was 2.2 at June 30, 2012, compared to 2.3 at September 30, 2011.

#### 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, 2012, an accrual of approximately \$5.8 million had been recorded for environmental remediation (of which \$788,000 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 May 2012, the Company announced that it had acquired Everlasting Granite Memorial Co., Inc., a supplier of granite memorials, columbariums and private mausoleum estates. The transaction is intended to expand the Company's presence and product breadth in the granite memorial business.

#### Forward-Looking Information:

Matthews has a three-pronged strategy to attain annual growth in earnings per share. This strategy, which has remained unchanged from prior years, consists of the following: internal growth (which includes organic growth, productivity improvements, new product development and the expansion into new markets with existing products), acquisitions and share repurchases under the Company's stock repurchase program (see "Liquidity and Capital Resources"). For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of 10.9%.

In assessing the outlook for the fourth fiscal quarter, the Company continues to focus on the three significant factors that have affected year-to-date earnings:

- The impact of the decline in U.S. deaths on bronze memorial and casket products;
- A slow-down of the European economy (including a recent further decline in the value of the Euro); and
- The ERP implementation in the Cemetery Products segment.

In the near-term, these challenges are expected to continue. In response, the Company is planning more aggressive cost reduction programs and plans to accelerate initiatives to resolve the remaining ERP implementation issues. As a result, based on the fiscal 2012 year-to-date operating results and current forecasts, the Company is projecting (non-GAAP) earnings per share for the fiscal 2012 fourth quarter to be lower than the same quarter a year ago.

With respect to the long-term outlook, the Company expects to return to its traditional levels of consolidated performance as it comes through these short-term challenges.

#### 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, 2011. 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, 2012, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

|                                    |            | Payments due in fiscal year: |                 |                 |            |
|------------------------------------|------------|------------------------------|-----------------|-----------------|------------|
|                                    |            | Remainder                    |                 |                 | After      |
|                                    | Total      | 2012                         | 2013 to<br>2014 | 2015 to<br>2016 | 2016       |
| (Dollar amounts in thousands)      |            |                              |                 |                 |            |
| Contractual Cash Obligations:      |            |                              |                 |                 |            |
| Revolving credit facilities        | \$ 279,880 | \$ -                         | \$ -            | \$ -            | \$ 279,880 |
| Notes payable to banks             | 29,987     | 15,606                       | 9,838           | 1,118           | 3,425      |
| Short-term borrowings              | 3,115      | 3,115                        | -               | -               | -          |
| Capital lease obligations          | 9,306      | 632                          | 2,455           | 1,332           | 4,887      |
| Non-cancelable operating leases    | 26,551     | 3,071                        | 15,476          | 6,549           | 1,455      |
|                                    |            |                              |                 |                 |            |
| Total contractual cash obligations | \$ 348,839 | \$ 22,424                    | \$ 27,769       | \$ 8,999        | \$ 289,647 |

A significant portion of the loans included in the table above bear interest at variable rates. At June 30, 2012, the weighted-average interest rate was 3.15% on the Company's domestic Revolving Credit Facility, 2.45% on the credit facility through the Company's German subsidiaries, 6.11% on bank loans to its wholly-owned subsidiary, Saueressig, and 3.09% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company is not required to make any significant contributions to its principal retirement plan in fiscal 2012. During the nine months ended June 30, 2012, contributions of \$547,000 and \$730,000 were made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$181,000 and \$400,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2012.

Unrecognized tax benefits are positions taken, or expected to be taken, on an income tax return that may result in additional payments to tax authorities. If a tax authority agrees with the tax position taken, or expected to be taken, or the applicable statute of limitations expires, then additional payments will not be necessary. As of June 30, 2012, the Company had unrecognized tax benefits, excluding penalties and interest, of approximately \$3.0 million. The timing of potential future payments related to the unrecognized tax benefits is not presently determinable. The Company believes that its current liquidity sources, combined with its operating cash flow and borrowing capacity, will be sufficient to meet its capital needs for the foreseeable future.

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

The following discussion about the Company's market risk involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements.

The Company has market risk related to changes in interest rates, commodity prices and foreign currency exchange rates. The Company does not generally use derivative financial instruments in connection with these market risks,

except as noted below.

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

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

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

The fair value of the interest rate swaps reflected an unrealized loss of \$8.2 million (\$5.0 million after tax) at June 30, 2012 that is included in shareholders' equity as part of accumulated other comprehensive loss. A decrease of 10% in market interest rates (e.g. a decrease from 5.0% to 4.5%) would result in an increase of approximately \$937,000 in the fair value liability of the interest rate swaps.

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

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

**Foreign Currency Exchange Rates** - The Company is subject to changes in foreign currency exchange rates, primarily the Euro, in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. A strengthening of the U. S. dollar of 10% would have resulted in a decrease in reported sales of \$22.4 million and a decrease in reported operating income of \$2.4 million for the nine months ended June 30, 2012.

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

The following table summarizes the impact on the September 30, 2011 actuarial valuations of changes in the primary assumptions affecting the Company's principal retirement plan and supplemental retirement plan.

|                                         | Impact of Changes in Actuarial Assumptions |          |                           |       |                                  |        |
|-----------------------------------------|--------------------------------------------|----------|---------------------------|-------|----------------------------------|--------|
|                                         | Change in Discount Rate                    |          | Change in Expected Return |       | Change in Market Value of Assets |        |
|                                         | +1%                                        | -1%      | +1%                       | -1%   | +5%                              | -5%    |
|                                         | (Dollar amounts in thousands)              |          |                           |       |                                  |        |
| Increase (decrease) in net benefit cost | \$ (2,259)                                 | \$ 2,729 | \$(915)                   | \$915 | \$ (833)                         | \$ 833 |
|                                         | (20,183)                                   |          | -                         | -     | -                                | -      |

|                                                     |        |          |   |   |       |         |
|-----------------------------------------------------|--------|----------|---|---|-------|---------|
| Increase (decrease) in projected benefit obligation |        | 24,973   |   |   |       |         |
| Increase (decrease) in funded status                | 20,183 | (24,973) | - | - | 4,711 | (4,711) |

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, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2012, 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, 2012 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. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation. As of September 30, 2011, the Company's Board of Directors had authorized the repurchase of a total of 2,500,000 shares of Matthews' common stock under the program, of which 2,169,470 shares had been repurchased. In November 2011, the Company's Board of Directors approved the continuation of its stock repurchase program and increased the total authorization for stock repurchases by an additional 2,500,000 shares. As a result, as of June 30, 2012, the Company had a total available repurchase authorization of 2,222,496 shares.

The following table shows the monthly fiscal 2012 stock repurchase activity:

| Period        | Total number of<br>shares purchased | Average<br>price<br>paid per<br>share | Total number<br>of<br>shares<br>purchased as<br>part of a<br>publicly<br>announced<br>plan | Maximum number<br>of shares that may<br>yet be purchased<br>under the plan |
|---------------|-------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| October 2011  | 10,000                              | \$ 29.58                              | 10,000                                                                                     | 320,530                                                                    |
| November 2011 | 97,570                              | 33.48                                 | 97,570                                                                                     | 2,722,960                                                                  |
| December 2011 | 118,248                             | 31.51                                 | 118,248                                                                                    | 2,604,712                                                                  |
| January 2012  | 18,222                              | 31.49                                 | 18,222                                                                                     | 2,586,490                                                                  |
| February 2012 | 30,000                              | 31.20                                 | 30,000                                                                                     | 2,556,490                                                                  |
| March 2012    | 80,000                              | 31.24                                 | 80,000                                                                                     | 2,476,490                                                                  |
| April 2012    | 83,259                              | 29.92                                 | 83,259                                                                                     | 2,393,231                                                                  |
| May 2012      | 109,594                             | 29.92                                 | 109,594                                                                                    | 2,283,637                                                                  |
| June 2012     | 61,141                              | 30.11                                 | 61,141                                                                                     | 2,222,496                                                                  |
| Total         | 608,034                             | 31.10                                 | 608,034                                                                                    |                                                                            |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On April 20, 2012, 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 quarter of 2012.

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 3, 2012

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

Date: August 3, 2012

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

