

MATTHEWS INTERNATIONAL CORP

Form 10-Q

August 04, 2010

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, 2010

Commission File No. 0-9115

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

PENNSYLVANIA
(State or other jurisdiction of
Incorporation or organization)

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

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

15212-5851
(Zip Code)

Registrant's telephone number, including area
code

(412) 442-8200

NOT APPLICABLE

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

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

Yes No

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

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, 2010, shares of common stock outstanding were:

Class A Common Stock 29,778,189 shares

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

	June 30, 2010 (unaudited)	September 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$55,974	\$57,732
Short-term investments	1,396	62
Accounts receivable, net	142,633	138,927
Inventories	99,462	94,455
Deferred income taxes	1,183	1,816
Other current assets	14,070	12,430
 Total current assets	 314,718	 305,422
Investments	13,062	13,389
Property, plant and equipment: Cost	292,485	305,098
Less accumulated depreciation	(168,574)	(167,038)
	123,911	138,060
Deferred income taxes	35,518	32,563
Other assets	23,618	19,999
Goodwill	380,848	385,219
Other intangible assets, net	55,911	55,001
 Total assets	 \$947,586	 \$949,653
 LIABILITIES		
Current liabilities:		
Long-term debt, current maturities	\$12,379	\$14,188
Accounts payable	38,110	28,604
Accrued compensation	34,797	35,592
Accrued income taxes	15,211	8,120
Other current liabilities	46,149	45,836
 Total current liabilities	 146,646	 132,340
Long-term debt	219,951	237,530
Accrued pension	56,884	53,734
Postretirement benefits	25,364	24,599
Deferred income taxes	11,267	13,464
Environmental reserve	6,067	6,482
Other liabilities	20,842	15,489
 Total liabilities	 487,021	 483,638
Arrangement with noncontrolling interest	-	27,121

SHAREHOLDERS' EQUITY

Shareholders' equity-Matthews:

Common stock	36,334	36,334	
Additional paid-in capital	46,509	47,436	
Retained earnings	604,557	559,786	
Accumulated other comprehensive loss	(60,595)	(29,884)	
Treasury stock, at cost	(193,724)	(179,454)	
Total shareholders' equity-Matthews		433,081	434,218
Noncontrolling interests		27,484	4,676
Total shareholders' equity		460,565	438,894
Total liabilities and shareholders' equity		\$947,586	\$949,653

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Sales	\$ 213,329	\$ 192,047	\$ 607,168	\$ 580,695
Cost of sales	(128,360)	(116,581)	(371,028)	(364,260)
Gross profit	84,969	75,466	236,140	216,435
Selling and administrative expenses	(50,455)	(45,656)	(152,332)	(143,107)
Operating profit	34,514	29,810	83,808	73,328
Investment income (loss)	(96)	1,324	1,908	629
Interest expense	(1,869)	(2,759)	(5,620)	(9,053)
Other income (deductions), net	(329)	80	(1,060)	83
Income before income taxes	32,220	28,455	79,036	64,987
Income taxes	(11,011)	(9,645)	(27,876)	(22,069)
Net income	21,209	18,810	51,160	42,918
Less: net income attributable to noncontrolling interests	(798)	(742)	(1,822)	(819)
Net income attributable to Matthews' shareholders	\$ 20,411	\$ 18,068	\$ 49,338	\$ 42,099
Earnings per share attributable to Matthews' shareholders:				
Basic	\$.68	\$.60	\$1.65	\$1.39
Diluted	\$.68	\$.60	\$1.64	\$1.38

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, 2010 and 2009
(Dollar amounts in thousands, except per share data)

	Shareholders' Equity – Matthews						
		Additional		Accumulated Other Comprehensive Income (Loss) (net of tax)	Treasury Stock	Non- controlling interests	Total
	Common Stock	Paid-in Capital	Retained Earnings				
Balance, September 30, 2009	\$36,334	\$47,436	\$559,786	\$ (29,884)	\$(179,454)	\$4,676	\$438,894
Net income	-	-	49,338	-	-	1,822	51,160
Minimum pension liability	-	-	-	2,367	-	-	2,367
Translation adjustment	-	-	-	(33,653)	-	(58)	(33,711)
Fair value of derivatives	-	-	-	575	-	-	575
Total comprehensive income							20,391
Stock-based compensation	-	4,926	-	-	-	-	4,926
Purchase of 634,300 shares treasury stock	-	-	-	-	(20,942)	-	(20,942)
Issuance of 32,090 shares treasury stock under stock plans	-	(5,853)	-	-	6,672	-	819
Dividends, \$.14 per share	-	-	(6,336)	-	-	-	(6,336)
Distributions to noncontrolling interests						(234)	(234)
Adjustment for arrangement with noncontrolling interest			1,769			21,278	23,047
Balance, June 30, 2010	\$36,334	\$46,509	\$604,557	\$ (60,595)	\$(193,724)	\$27,484	\$460,565

	Shareholders' Equity - Matthews						
		Additional	Retained	Accumulated Other Comprehensive Income (Loss) (net of tax)	Treasury	Non-	Total
	Common Stock	Paid-in Capital	Earnings		Stock	controlling interests	
Balance, September 30, 2008	\$36,334	\$47,250	\$511,130	\$ (2,979)	\$(157,780)	\$4,963	\$438,918
Net income	-	-	42,099	-	-	819	42,918
Minimum pension liability	-	-	-	388	-	-	388
Translation adjustment	-	-	-	(5,873)	-	(282)	(6,155)
Fair value of derivatives	-	-	-	(2,558)	-	-	(2,558)
Total comprehensive income							34,593
Stock-based compensation	-	4,358	-	-	-	-	4,358
Pension liability adjustment	-	-	(702)	-	-	-	(702)
Arrangement with noncontrolling interest	-	-	(175)	-	-	-	(175)
Purchase of 756,896 shares treasury stock	-	-	-	-	(27,348)	-	(27,348)
Issuance of 59,611 shares treasury stock under stock plans	-	(5,621)	-	-	6,997	-	1,376
Dividends, \$.13 per share	-	-	(6,078)	-	-	-	(6,078)
Distributions to noncontrolling interests						(2,291)	(2,291)
Balance, June 30, 2009	\$36,334	\$45,987	\$546,274	\$ (11,022)	\$(178,131)	\$3,209	\$442,651

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

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

	Nine Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$51,160	\$42,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,021	23,118
(Gain) loss on investments	(226)	354
Loss on sale of assets	131	39
Stock-based compensation expense	4,926	4,358
Change in deferred taxes	(4,473)	(1,757)
Changes in working capital items	7,618	(837)
Increase in other assets	(2,543)	(1,426)
Decrease in other liabilities	(871)	(833)
Increase in pension and postretirement benefits	7,795	3,561
Net cash provided by operating activities	83,538	69,495
Cash flows from investing activities:		
Capital expenditures	(11,050)	(11,556)
Proceeds from sale of assets	172	311
Acquisitions, net of cash acquired	(28,249)	(4,843)
Proceeds from sale of investments	756	-
Purchases of investments	(1,616)	(2,615)
Net cash used in investing activities	(39,987)	(18,703)
Cash flows from financing activities:		
Proceeds from long-term debt	38,465	45,156
Payments on long-term debt	(46,790)	(56,309)
Proceeds from the sale of treasury stock	749	1,143
Purchases of treasury stock	(20,942)	(27,348)
Tax benefit of exercised stock options	70	98
Dividends	(6,336)	(6,078)
Distributions to noncontrolling interests	(234)	(2,291)
Net cash used in financing activities	(35,018)	(45,629)
Effect of exchange rate changes on cash	(10,291)	(3,937)
Net (decrease) increase in cash and cash equivalents	\$(1,758)	\$1,226

Non-cash investing and financing activities:

Acquisition of equipment under capital lease	\$-	\$5,130
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The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze memorials and other memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, marking products and merchandising solutions. The Company's products and operations are comprised of six business segments: Bronze, Casket, Cremation, Graphics Imaging, Marking Products and Merchandising Solutions. The Bronze segment is a leading manufacturer of cast bronze memorials and other memorialization products, cast and etched architectural products, granite memorials and is a leading builder of mausoleums in the United States. The Casket segment is a leading casket manufacturer and distributor in North America and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment (primarily in North America and Europe) and cremation caskets (primarily in North America). 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 ("GAAP") for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010. 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, 2009. 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, Continued

(Dollar amounts in thousands, except per share data)

Note 3. Fair Value Measurements

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

	Level 1	Level 2	Level 3	Total
Assets:				
Short term investments	\$1,396	-	-	\$1,396
Trading securities	11,280	-	-	11,280
Total assets at fair value	\$12,676	-	-	\$12,676
Liabilities:				
Derivatives (1)	-	\$4,765	-	\$4,765
Total liabilities at fair value	-	\$4,765	-	\$4,765

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

Note 4. Inventories

Inventories consisted of the following:

	June 30, 2010	September 30, 2009
Materials and finished goods	\$85,992	\$80,692
Labor and overhead in process	13,470	13,763
	\$99,462	\$94,455

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 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. The maximum amount of borrowings available under the facility is \$225,000 and the facility's maturity is September 2012. Borrowings under the facility bear interest at LIBOR plus a factor ranging from .40% to .80% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$20,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility as of June 30, 2010 and September 30, 2009 were \$183,000 and \$177,500, respectively. The weighted-average interest rate on outstanding borrowings at June 30, 2010 and 2009 was 2.94% and 3.95%, respectively.

The Company has entered into the following interest rate swaps:

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

The 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 \$4,765 (\$2,907 after tax) at June 30, 2010 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2010, approximately \$1,566 of the \$2,907 loss included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

On January 1, 2009, the Company adopted guidance issued by the FASB regarding disclosures about derivative instruments and hedging activities. This guidance amends and expands the disclosure requirements of previous guidance to require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements.

At June 30, 2010 and September 30, 2009, the interest rate swap contracts were reflected as a liability on the balance sheets. The following derivatives are designated as hedging instruments:

	June 30, 2010	September 30, 2009
Balance Sheet Location:		
Current liabilities:		
Other current liabilities	\$ 2,567	\$ 2,441
Long-term liabilities:		
Other liabilities	2,198	3,267
Total derivatives	\$ 4,765	\$ 5,708

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

Note 5. Debt (continued)

The loss recognized on derivatives was as follows:

Derivatives in Cash Flow Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivatives Three Months ended June 30,		Amount of Loss Recognized in Income on Derivatives Nine Months ended June 30,	
		2010	2009	2010	2009
		Interest rate swaps	Interest expense	\$(926)	\$(1,110)

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

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCL on Derivatives		Location of Loss Reclassified from Accumulated OCL into Income (Effective Portion*)	Amount of Loss Reclassified from Accumulated OCL into Income (Effective Portion*)	
	June 30, 2010	September 30, 2009		June 30, 2010	September 30, 2009
	Interest rate swaps	\$(2,907)		\$(3,482)	Interest expense

*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 (\$30,573). Outstanding borrowings under the credit facility totaled 12.5 million Euros (\$15,286) and 18.0 million Euros (\$26,341) at June 30, 2010 and September 30, 2009, respectively. The weighted-average interest rate on outstanding borrowings under this facility at June 30, 2010 and 2009 was 1.58% and 2.74%, respectively.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 8.7 million Euros (\$10,674) and 10.0 million Euros (\$14,717) at June 30, 2010 and September 30, 2009, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at June 30, 2010 and 2009 was 6.05% and 5.84%, 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 10.0 million Euros (\$12,251) and 12.2 million Euros (\$17,962) at June 30, 2010 and September 30, 2009, respectively. Matthews International S.p.A. also has three lines of credit totaling 8.4 million Euros (\$10,236) with the same Italian banks. Outstanding borrowings on these lines were 3.2 million Euros (\$3,879) and 2.0 million Euros (\$2,855) at June 30, 2010 and September 30, 2009, respectively.

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

Note 5. Debt (continued)

The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at June 30, 2010 and 2009 was 3.61% and 3.80%, respectively.

As of June 30, 2010 and September 30, 2009, the fair value of the Company's long-term debt, including current maturities, was as follows:

	Carrying Value included in the Balance Sheet		Fair Value	
	June 30, 2010	September 30, 2009	June 30, 2010	September 30, 2009
Long-term debt, including current maturities	\$232,331	\$251,718	\$217,944	\$230,482

Note 6. Share-Based Payments

The Company maintains a stock incentive plan (the "1992 Incentive Stock Plan") that provided for grants of stock options, restricted shares and certain other types of stock-based awards. In February 2008, the Company's shareholders approved the adoption of a new plan, the 2007 Equity Incentive Plan (the "2007 Plan"), that provides for the grants of stock options, restricted shares, stock-based performance units and certain other types of stock-based awards. Under the 2007 Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 2,200,000. There will be no further grants under the 1992 Incentive Stock Plan. At June 30, 2010, there were 1,534,764 shares reserved for future issuance under the 2007 Plan. Both plans are administered by the Compensation Committee of the Board of Directors.

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

For the three-month periods ended June 30, 2010 and 2009, total stock-based compensation cost totaled \$1,633 and \$1,500, respectively. For the nine-month periods ended June 30, 2010 and 2009, total stock-based compensation cost

totaled \$4,926 and \$4,358, respectively. The associated future income tax benefit recognized was \$636 and \$585 for the three-month periods ended June 30, 2010 and 2009, respectively, and \$1,921 and \$1,700 for the nine-month periods ended June 30, 2010 and 2009, respectively.

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

Note 6. Share-Based Payments (continued)

For the three-month period ended June 30, 2010, the amount of cash received from the exercise of stock options was \$23. There was no cash received from the exercise of stock options for the three months ended June 30, 2009. For the nine-month periods ended June 30, 2010 and 2009, the amount of cash received from the exercise of stock options was \$749 and \$1,143, respectively. In connection with these exercises, the tax benefits realized by the Company were \$8 for the three-month period ended June 30, 2010, and \$159 and \$242 for the nine-month periods ended June 30, 2010 and 2009, respectively.

Changes to restricted stock for the nine months ended June 30, 2010 were as follows:

	Shares	Weighted- average grant-date fair value
Non-vested at September 30, 2009	271,656	\$37.61
Granted	178,009	33.65
Vested	-	-
Expired or forfeited	(1,110)	34.28
Non-vested at June 30, 2010	448,555	36.05

As of June 30, 2010, the total unrecognized compensation cost related to unvested restricted stock was \$5,516 and is expected to be recognized over a weighted average period of 1.6 years.

The transactions for shares under options for the nine months ended June 30, 2010 were as follows:

	Shares	Weighted- average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value
Outstanding, September 30, 2009	1,224,909	\$35.94		
Granted	-	-		
Exercised	(32,900)	22.76		
Expired or forfeited	(205,484)	37.79		
Outstanding, June 30, 2010	986,525	35.99	5.0	\$-
Exercisable, June 30, 2010	683,524	34.48	4.6	\$-

The fair value of shares earned during the three-month period ended June 30, 2009 was \$77. There were no shares earned during the three-month period ended June 30, 2010. During the nine-month periods ended June 30, 2010 and 2009, the fair value of shares earned was \$3,120 and \$2,722, 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, 2010 and 2009 was \$479 and \$657, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 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, 2010 were as follows:

Non-vested shares	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2009	673,035	\$ 12.17
Granted	-	-
Vested	(283,018)	11.03
Expired or forfeited	(87,016)	9.79
Non-vested at June 30, 2010	303,001	13.92

As of June 30, 2010, the total unrecognized compensation cost related to non-vested stock options was approximately \$522. This cost is expected to be recognized over a weighted-average period of 1.2 years in accordance with the vesting periods of the options.

The fair value of each restricted stock grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value of restricted stock for the periods ended June 30, 2010 and 2009.

	Nine Months Ended June			
	2010		2009	
Expected volatility	30.0	%	27.0	%
Dividend yield	.8	%	.6	%
Average risk free interest rate	2.3	%	2.4	%
Average expected term (years)	2.2		2.3	

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

Under the Company's Director Fee Plan, directors who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$60. An additional annual retainer fee of \$70 is paid to a non-employee Chairman of the Board. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. The value of deferred shares is recorded in other liabilities. A total of 25,013 shares had been deferred under the Director Fee Plan at June 30, 2010. 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 \$70. A total of 22,300 stock options have been granted under the plan. At June 30, 2010, 17,800 options were

outstanding and vested. Additionally, 51,525 shares of restricted stock have been granted under the plan, 27,695 of which were unvested at June 30, 2010. A total of 300,000 shares have been authorized to be issued under the Director Fee Plan.

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

Note 7. Earnings Per Share Attributable to Matthews' Shareholders

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income attributable to Matthews' shareholders	\$ 20,411	\$ 18,068	\$ 49,338	\$ 42,099
Weighted-average common shares outstanding	29,640,501	30,117,360	29,816,009	30,311,529
Dilutive securities, stock options and restricted shares	196,960	104,750	231,048	192,229
Diluted weighted-average common shares outstanding	29,837,461	30,222,110	30,047,057	30,503,758
Basic earnings per share	\$.68	\$.60	\$1.65	\$1.39
Diluted earnings per share	\$.68	\$.60	\$1.64	\$1.38

Options to purchase 616,783 and 805,671 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, 2010, respectively, because the inclusion of these options would be anti-dilutive. Options to purchase 1,009,421 and 764,650 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, 2009, 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 benefit 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	
	2010	2009	2010	2009
Service cost	\$1,078	\$856	\$173	\$143
Interest cost	1,853	1,868	346	386
Expected return on plan assets	(1,717)	(1,900)	-	-
Amortization:				
Prior service cost	(10)	(9)	(181)	(322)
Net actuarial loss	1,338	456	130	71
Net benefit cost	\$2,542	\$1,271	\$468	\$278

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 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	
	2010	2009	2010	2009
Service cost	\$3,234	\$2,568	\$519	\$429
Interest cost	5,559	5,604	1,038	1,158
Expected return on plan assets	(5,151)	(5,700)	-	-
Amortization:				
Prior service cost	(30)	(27)	(543)	(966)
Net actuarial loss	4,014	1,368	390	213
Net benefit cost	\$7,626	\$3,813	\$1,404	\$834

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and 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 2010. During the nine months ended June 30, 2010, contributions of \$579 and \$672 were made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$193 and \$379 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2010.

On October 1, 2008, the Company adopted the FASB guidance on accounting for defined benefit pension and other postretirement benefit plans. The measurement date for the Company's pension and postretirement plans was changed from July 31 to September 30. Accordingly, an additional pension liability of \$577 and postretirement liability of \$125, net of tax, was recorded as of December 31, 2008 to recognize the additional expense through September 30, 2008, with a corresponding adjustment to retained earnings.

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, 2010 was 35.3%, compared to 34.0% for the first nine months of fiscal 2009. The tax rate for the first nine months of fiscal 2010 reflected the favorable impact of adjustments totaling \$656 in income tax expense related to changes in the estimated tax accruals for the closure of open tax periods. The nine-month period ended June 30, 2009 included the favorable impact of adjustments totaling \$1.2 million in income tax expense related to the Company's ability to utilize a tax loss carryover in Europe and changes in the estimated tax accrual for open tax periods. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state and foreign income taxes.

The Company had unrecognized tax benefits (excluding penalties and interest) of \$3,335 and \$3,575 at June 30, 2010 and September 30, 2009, respectively, all of which, if recorded, would impact the fiscal 2010 annual effective tax rate. It is reasonably possible that the amount of unrecognized tax benefits could change by approximately \$438 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 a credit of \$475 in interest and penalties in the provision for income taxes for the first nine months of fiscal 2010. Total penalties and interest accrued were \$2,363 and \$2,838 at June 30, 2010 and September 30, 2009, respectively. These accruals may potentially be applicable in the event of an unfavorable outcome of uncertain tax positions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

(Dollar amounts in thousands, except per share data)

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, 2010, the tax years that remain subject to examination by major jurisdiction generally are:

United States – Federal	2007 and forward
United States – State	2006 and forward
Canada	2004 and forward
Europe	2002 and forward
United Kingdom	2008 and forward
Australia	2005 and forward
Asia	2004 and forward

Note 10. Segment Information

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

Information about the Company's segments follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Sales to external customers:				
Memorialization:				
Bronze	\$62,001	\$56,678	\$164,979	\$159,123
Casket	52,358	48,159	158,270	155,730
Cremation	10,906	7,698	28,397	21,992
	125,265	112,535	351,646	336,845
Brand Solutions:				
Graphics Imaging	57,993	57,768	178,134	170,589
Marking Products	13,223	9,870	36,656	30,972
Merchandising Solutions	16,848	11,874	40,732	42,289
	88,064	79,512	255,522	243,850
	\$213,329	\$192,047	\$607,168	\$580,695

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

Note 10. Segment Information (continued)

	Three Months Ended		Nine Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
Operating profit:				
Memorialization:				
Bronze	\$18,464	\$18,531	\$41,024	\$40,066
Casket	5,472	3,848	20,020	15,663
Cremation	1,265	1,464	3,348	3,574
	25,201	23,843	64,392	59,303
Brand Solutions:				
Graphics Imaging	5,533	5,336	14,099	11,073
Marking Products	2,118	445	3,997	1,490
Merchandising Solutions	1,662	186	1,320	1,462
	9,313	5,967	19,416	14,025
	\$34,514	\$29,810	\$83,808	\$73,328

Note 11. Acquisitions

Acquisition spending, net of cash acquired, during the nine months ended June 30, 2010 totaled \$28,249, and primarily included the following:

In April 2010, the Company acquired Reynoldsville Casket Company (“Reynoldsville”), a manufacturer and distributor of caskets primarily in the Northeast region of the United States. The acquisition was structured as an asset purchase and was intended to expand the Company’s casket distribution capabilities in the Northeastern United States. The purchase price for the acquisition was \$13,600, plus additional consideration up to \$3,500 contingent on operating performance over the next three years. Reynoldsville reported sales of approximately \$13,000 in calendar 2009.

In March 2010, the Company acquired an 80% interest in Furnace Construction Cremators Limited (“FCC”), a manufacturer of cremation equipment located in the United Kingdom. The acquisition was designed to expand the Company’s global presence in the European cremation markets.

In February 2010, the Company acquired A.J. Distribution, Inc. (“A.J. Distribution”), a distributor of primarily York brand caskets in the Northwest region of the United States. The transaction was structured as an asset purchase and was intended to expand the Company’s casket distribution capabilities in the Northwestern United States.

In December 2009, the Company acquired United Memorial Products, Inc. (“UMP”), primarily a supplier of granite memorial products and caskets in the West region of the United States. UMP reported sales of approximately \$11,000 in calendar 2009. The transaction was structured as an asset purchase and was designed to extend Matthews’ presence in the broad granite market. The purchase price for the acquisition was \$10,000, plus additional consideration of up to \$3,500 payable over five years.

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

Note 11. Acquisitions (continued)

In connection with its May 2008 acquisition of a 78% interest in Saueressig, the Company entered into an option agreement related to the remaining 22% interest in Saueressig. The option agreement contained certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. During the third fiscal quarter of 2010, the Company reached an agreement to purchase the remaining 22% interest in Saueressig for 17.4 million Euros in October 2011. The Company has included the purchase price of 17.4 million Euros (\$21,300) as a part of noncontrolling interests in the shareholders' equity section of the Condensed Consolidated Balance Sheet as of June 30, 2010.

Note 12. Goodwill and Other Intangible Assets

Goodwill related to business combinations is not amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a discounted cash flow technique. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets. The Company performed its annual impairment review in the second fiscal quarter of 2010 and determined that no additional adjustments to the carrying values of goodwill or indefinite-lived intangible assets were necessary.

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

	Bronze	Casket	Cremation	Graphics Imaging	Marking Products	Merchandising Solutions	Consolidated
Goodwill	\$79,707	\$122,896	\$13,887	\$158,863	\$9,980	\$ 9,138	\$ 394,471
Accumulated impairment losses	(412)	-	(5,000)	(3,840)	-	-	(9,252)
Balance at September 30, 2009	79,295	122,896	8,887	155,023	9,980	9,138	385,219
Additions during period	7,399	12,275	2,968	(1,449)	36	-	21,229
Translation and other adjustments	(4,583)		(431)	(20,548)	(38)	-	(25,600)
Goodwill	82,523	135,171	16,424	136,866	9,978	9,138	390,100
Accumulated impairment losses	(412)	-	(5,000)	(3,840)	-	-	(9,252)
Balance at June 30, 2010	\$82,111	\$135,171	\$11,424	\$133,026	\$9,978	\$ 9,138	\$ 380,848

The addition to Bronze goodwill represents the acquisition of UMP; the addition to Casket goodwill primarily represents the acquisition of A.J. Distribution and Reynoldsville; the addition to Cremation goodwill represents the acquisition of FCC; and the change in Graphics goodwill represents the effect of an adjustment to the purchase price for the Saueressig acquisition.

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

Note 12. Goodwill and Other Intangible Assets (continued)

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of June 30, 2010 and September 30, 2009, respectively.

	Carrying Amount	Accumulated Amortization	Net
June 30, 2010:			
Trade names	\$24,017	\$ -	* \$24,017
Trade names	1,535	(621)	914
Customer relationships	38,069	(9,743)	28,326
Copyrights/patents/other	8,526	(5,872)	2,654
	\$72,147	\$ (16,236)	\$55,911
September 30, 2009:			
Trade names	\$24,418	\$ -	* \$24,418
Trade names	1,598	(458)	1,140
Customer relationships	35,568	(8,232)	27,336
Copyrights/patents/other	7,777	(5,670)	2,107
	\$69,361	\$ (14,360)	\$55,001

* Not subject to amortization

The net change in intangible assets during fiscal 2010 included an increase for the acquisition of UMP, A.J. Distribution, and Reynoldsville offset by the impact of changes in foreign currency exchange rates and additional amortization.

Amortization expense on intangible assets was \$954 and \$1,067 for the three-month periods ended June 30, 2010 and 2009, respectively. For the nine-month periods ended June 30, 2010 and 2009, amortization expense was \$2,741 and \$3,178, respectively. Amortization expense is estimated to be \$926 for the remainder of 2010, \$3,429 in 2011, \$2,977 in 2012, \$2,644 in 2013 and \$2,464 in 2014.

Note 13. Accounting Pronouncements

On September 30, 2009, the Company adopted changes issued by the FASB to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification™ (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the U.S. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption had no material impact on the Company’s consolidated results of operations or financial condition.

In December 2007, the FASB issued new guidance regarding business combinations. This guidance requires recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in a business combination, goodwill acquired or a gain from a bargain purchase. It is effective for fiscal years

beginning on or after December 15, 2008. The Company adopted the new guidance effective October 1, 2009. See Note 12.

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

Note 13. Accounting Pronouncements (continued)

In December 2007, the FASB issued new guidance regarding noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. It requires that consolidated net income reflect the amounts attributable to both the parent and the noncontrolling interest, and also includes additional disclosure requirements. It was effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the guidance is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. The Company adopted the new guidance effective October 1, 2009, as reflected in the Condensed Consolidated Balance Sheets, the Consolidated Statements of Income and the Consolidated Statements of Changes in Shareholders' Equity.

In December 2008, the FASB issued changes to employers' disclosures about postretirement benefit plan assets. These changes require enhanced disclosures regarding assets in defined benefit pension or other postretirement plans. It is effective for fiscal years ending after December 31, 2009. Earlier application is permitted. The Company is currently evaluating the impact of adopting these changes, which is effective for the Company's Annual Report on Form 10-K for fiscal 2010.

In April 2009, the FASB issued changes to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It also requires those disclosures in summarized financial information at interim reporting periods. These changes are effective for interim reporting periods ending after June 15, 2009 and were adopted by the Company as of June 30, 2009. See Notes 3 and 5.

Effective September 30, 2007, the Company adopted the recognition and related disclosure provisions of guidance on employers' accounting for defined benefit pension and other postretirement plans which amended earlier guidance. In the first quarter of fiscal 2009, the Company adopted the provision requiring the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. Adoption of this provision did not have a material effect on the Company's consolidated results of operations or financial condition. See Note 8.

In May 2009, the FASB issued new guidance regarding subsequent events, which was subsequently revised in February 2010. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this guidance had no material impact on the Company's consolidated results of operations or financial condition. See Note 14.

In June 2008, the FASB issued guidance regarding instruments granted in share-based payments. The guidance requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be considered participating securities and therefore included in the computation of earnings per share pursuant to the two-class method. This guidance is effective for years beginning after December 31, 2008. The Company adopted the provisions of this guidance effective October 1, 2009, which did not have a material effect on the Company's financial statements.

Note 14. Subsequent Events:

Management has evaluated subsequent events and has concluded that all events that would require recognition or disclosure are appropriately reflected in the consolidated financial statements.

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

Cautionary Statement:

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation ("Matthews" or the "Company") and related notes thereto included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended September 30, 2009. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered individually significant to consolidated sales, changes in the distribution of the Company's products or the potential loss of one or more of the Company's larger customers are also considered risk factors.

Results of Operations:

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

	Nine months ended				Years ended			
	June 30,		2009		September 30,		2008	
	2010	%	2009	%	2009	%	2008	%
Sales	100.0	%	100.0	%	100.0	%	100.0	%
Gross profit	38.9	%	37.3	%	37.7	%	39.5	%
Operating profit	13.8	%	12.6	%	12.9	%	16.2	%
Net income attributable to Matthews' shareholders	8.1	%	7.3	%	7.4	%	9.7	%

Sales for the nine months ended June 30, 2010 were \$607.2 million, compared to \$580.7 million for the nine months ended June 30, 2009. The increase principally reflected higher sales in five of the Company's six segments. The increase mainly reflected higher unit volume in several segments, the impact of recent acquisitions, and a favorable impact of changes in foreign currency values against the U.S. dollar. These increases were partially offset by the effects of a decline in the estimated number of U.S. casketed deaths on bronze memorial and casket unit volume. For the nine months ended June 30, 2010, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately \$8.3 million on the Company's consolidated sales compared to the nine months ended June 30, 2009.

In the Memorialization businesses, Bronze segment sales for the first nine months of fiscal 2010 were \$165.0 million compared to \$159.1 million for the first nine months of fiscal 2009. The increase primarily reflected the acquisition of United Memorial Products, Inc. (“UMP”), primarily a supplier of granite memorial products and caskets in the West region of the United States, and increases in the value of foreign currencies against the U.S. dollar, partially offset by a decline in bronze memorial unit volume on a year-to-date basis. For the fiscal 2010 third quarter, bronze memorial unit volume was higher than a year ago. Sales for the Casket segment were \$158.3 million for the first nine months of fiscal 2010 compared to \$155.7 million for the same period in fiscal 2009. The increase resulted principally from the acquisition of several casket businesses, partially offset by lower unit volume and an unfavorable change in product mix. The decline in unit sales for both the Bronze and Casket segments (excluding acquisitions) reflects a decline in the

estimated number of U. S. casketed deaths compared to the prior year. Based on available published data, U.S. deaths for the nine months ended June 30, 2010 were estimated to have declined approximately 2%. “Casketed deaths” (non-cremation) were estimated to have declined over 4% from the same period last year. Sales for the Cremation segment were \$28.4 million for the nine months ended June 30, 2010, compared to \$22.0 million for the same period a year ago. The increase principally reflected the acquisition of a small manufacturer of cremation equipment in the U.K. and higher sales in the U.S. and European markets. In the Company’s Brand Solutions businesses, sales for the Graphics Imaging segment in the first nine months of fiscal 2010 were \$178.1 million, compared to \$170.6 million for the same period a year ago. The increase resulted principally from higher sales by Saueressig GmbH KG & Co (“Saueressig”), the impact of the acquisition of a small graphics operation headquartered in Hong Kong in the fiscal 2009 fourth quarter and an increase of the value of foreign currencies against the U.S. dollar. These increases were partially offset by lower sales in the U.S. and U.K. markets. Marking Products segment sales for the nine months ended June 30, 2010 were \$36.7 million, compared to \$31.0 million for the first nine months of fiscal 2009. The increase was principally due to higher unit sales of consumables, the acquisition of a small European distributor and the favorable impact of an increase in the value of foreign currencies against the U.S. dollar. Sales for the Merchandising Solutions segment were \$40.7 million for the first nine months of fiscal 2010, compared to \$42.3 million for the same period a year ago. The decrease is attributable to lower project volume in the first and second quarters of fiscal 2010, including a large project in the second fiscal quarter of 2009 that did not repeat in fiscal 2010. However, sales for the three months ended June 30, 2010 were higher than in the same period last year as a result of increased project volume compared to the fiscal 2009 third quarter.

Gross profit for the nine months ended June 30, 2010 was \$236.1 million, compared to \$216.4 million for the nine months ended June 30, 2009. Consolidated gross profit as a percent of sales increased from 37.3% for the first nine months of fiscal 2009 to 38.9% for the first nine months of fiscal 2010. Gross profit for the first nine months of fiscal 2009 included the impact of unusual charges totaling approximately \$7.1 million. The unusual charges related to the consolidation of certain Bronze segment production facilities and cost structure initiatives in several of the Company’s other segments. The increase in fiscal 2010 consolidated gross profit and gross profit percentage compared to fiscal 2009 also reflected the current year benefits of the fiscal 2009 cost structure changes, particularly in the Saueressig operation and the Casket and Marking Products segments.

Selling and administrative expenses for the nine months ended June 30, 2010 were \$152.3 million, compared to \$143.1 million for the first nine months of fiscal 2009. Consolidated selling and administrative expenses as a percent of sales were 25.1% for the nine months ended June 30, 2010, compared to 24.7% for the same period last year. The increase in selling and administrative expenses primarily resulted from higher pension expense and the impact of recent acquisitions. Unusual charges included in selling and administrative expenses totaled \$5.7 million of the first nine months of fiscal 2009, and consisted primarily of Saueressig integration costs, increased bad debt expense, termination-related expenses and costs related to operational and systems improvements. These unusual charges included consulting fees incurred for assistance in the operational and financial integration of Saueressig into Matthews. Bad debt expense, particularly in the Casket segment, was significantly higher in fiscal 2009, reflecting economic conditions. The increase resulted from the deterioration in the aging of outstanding accounts receivable. Employee termination-related and the other costs in connection with operational and systems improvements primarily reflected the Company’s initiatives as a result of the recession. The principal objectives of these initiatives were to better align the cost structures of the Company’s businesses with their respective revenue run rates.

Operating profit for the nine months ended June 30, 2010 was \$83.8 million, compared to \$73.3 million for the nine months ended June 30, 2009. Operating profit for the first nine months of fiscal 2010 included an increase of approximately \$3.9 million in pension cost. Operating profit for the nine months ended June 30, 2009 included unusual charges of approximately \$12.8 million. In addition, changes in the values of foreign currencies against the

U.S. dollar had a favorable impact of approximately \$891,000 on consolidated operating profit for the current year-to-date period, compared to a year ago.

Bronze segment operating profit for the first nine months of fiscal 2010 was \$41.0 million, compared to \$40.1 million for the same period in fiscal 2009. Bronze segment operating profit for the first nine months of fiscal 2009 included unusual charges of \$6.7 million, principally related to facilities consolidations. Excluding these unusual charges, operating profit was lower in the first nine months of fiscal 2010 than the same period in fiscal 2009, primarily reflecting

the impact of lower sales volume and higher pension cost. Operating profit for the Casket segment for the first nine months of fiscal 2010 was \$20.0 million, compared to \$15.7 million for the first nine months of fiscal 2009. The first nine months of fiscal 2009 included unusual charges of approximately \$2.6 million which were principally related to an increase in bad debt expense and severance expenses. Excluding the impact of the unusual charges in fiscal 2009, Casket segment operating profit in the first nine months of fiscal 2010 increased by \$1.7 million. The increase reflected the benefit of cost structure changes initiated in fiscal 2009 and the impact of recent acquisitions. Cremation segment operating profit was \$3.3 million for the nine months ended June 30, 2010, compared to \$3.6 million for the same period in fiscal 2009. Fiscal 2010 operating profit reflected higher sales and the impact of the recent acquisition of a small cremation equipment manufacturer in the U.K., offset by the impact of an unfavorable change in product mix and higher pension cost. Graphics Imaging segment operating profit for the nine months ended June 30, 2010 was \$14.1 million, compared to \$11.1 million for the nine months ended June 30, 2009. Operating profit in the first nine months of fiscal 2009 included unusual charges of approximately \$2.3 million. Excluding the effect of the unusual charges, operating profit increased approximately \$700,000 in the first nine months of fiscal 2010 compared to the same period in fiscal 2009. The increase resulted primarily from higher operating profit from Saueressig, the favorable effect of foreign currency exchange rate changes and the acquisition of a small graphics business headquartered in Hong Kong. These increases were partially offset by a decline in operating profit for the U.S. operations. Operating profit for the Marking Products segment for the first nine months of fiscal 2010 was \$4.0 million, compared to \$1.5 million for the same period a year ago. Operating profit for the first nine months of fiscal 2009 included unusual charges of approximately \$665,000. The increase in year-over-year operating profit, excluding unusual charges, primarily reflected higher sales and the favorable impact of fiscal 2009 cost structure initiatives. The Merchandising Solutions segment operating profit was \$1.3 million for the nine months ended June 30, 2010, compared to \$1.5 million for the same period in fiscal 2009. The decrease principally reflected lower sales. In addition, unusual charges for this segment approximated \$300,000 for the first nine months of fiscal 2009.

Investment income for the nine months ended June 30, 2010 was \$1.9 million, compared to \$629,000 for the nine months ended June 30, 2009. The increase primarily reflected improved investment performance. Interest expense for the first nine months of fiscal 2010 was \$5.6 million, compared to \$9.1 million for the same period last year. The decrease in interest expense primarily reflected declines in average borrowing rates during the first nine months of fiscal 2010, compared to the same period a year ago.

Other income (deductions), net for the nine months ended June 30, 2010 was a reduction of income of \$1.1 million, compared to an increase in income of \$83,000 for the same period last year. The fiscal 2010 reduction in income primarily reflected foreign currency exchange losses on intercompany loans.

The Company's effective tax rate for the first nine months of fiscal 2010 was 35.3%, compared to 34.0% for the same period last year. The tax rate for the first nine months of fiscal 2010 reflected the favorable impact of adjustments totaling \$656,000 in income tax expense related to changes in the estimated tax accruals for the closure of open tax periods. The nine-month period ended June 30, 2009 included the favorable impact of a \$1.2 million reduction in income tax expense related to the Company's ability to utilize a tax loss carryover in Europe and changes in the estimated tax accruals for open tax periods. Excluding these adjustments in fiscal 2010 and 2009, the effective tax rate for the first nine months of fiscal 2010 was 36.1%, compared to 35.9% for the fiscal year ended September 30, 2009. 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.

Net income attributable to noncontrolling interests in the first nine months of fiscal 2010 was \$1.8 million, compared to \$819,000 for the same period in fiscal 2009. The increase primarily related to the improvement in operating results for Saueressig.

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 2010 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 \$83.5 million for the nine months ended June 30, 2010, compared to \$69.5 million for the first nine months of fiscal 2009. Operating cash flow for both periods primarily reflected net income adjusted for depreciation, amortization and stock-based compensation expense, partially offset by decreases in deferred taxes.

Cash used in investing activities was \$40.0 million for the nine months ended June 30, 2010, compared to \$18.7 million for the nine months ended June 30, 2009. Investing activities for the first nine months of fiscal 2010 primarily included capital expenditures of \$11.1 million, payments (net of cash acquired) of \$28.2 million for acquisitions and net purchases of investments of \$860,000. Investing activities for the first nine months of fiscal 2009 primarily included capital expenditures of \$11.6 million, acquisition-related payments of \$4.8 million, purchases of investments of \$2.6 million and proceeds from the disposal of assets of \$311,000.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged \$17.4 million for the last three fiscal years. The capital budget for fiscal 2010 is \$25.8 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, 2010 was \$35.0 million, primarily reflecting net repayments of long-term debt of \$8.3 million, purchases of treasury stock of \$20.9 million, proceeds of \$749,000 from the sale of treasury stock (stock option exercises), payment of dividends of \$6.3 million to the Company's shareholders and distributions of \$234,000 to noncontrolling interests. Cash used in financing activities for the nine months ended June 30, 2009 was \$45.6 million, reflecting net repayments of long-term debt of \$11.2 million, purchases of treasury stock of \$27.3 million, proceeds of \$1.1 million from the sale of treasury stock (stock option exercises), payment of dividends of \$6.1 million to the Company's shareholders and distributions of \$2.3 million to minority interests.

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is \$225.0 million and the facility's maturity is September 2012. Borrowings under the facility bear interest at LIBOR plus a factor ranging from .40% to .80% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$20.0 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at June 30, 2010 and September 30, 2009 were \$183.0 million and \$177.5 million, respectively. The weighted-average interest rate on outstanding borrowings at June 30, 2010 and 2009 was 2.94% and 3.95%, respectively.

The Company has entered into the following interest rate swaps:

Date	Initial Amount	Interest Rate		Maturity Date
		Fixed Interest Rate	2010	
		Spread at June 30,		

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September 2007	\$25 million	4.77%	.60%	September 2012
May 2008	40 million	3.72%	.60%	September 2012
October 2008	20 million	3.21%	.60%	October 2010
October 2008	20 million	3.46%	.60%	October 2011

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

The fair value of the interest rate swaps reflected an unrealized loss of \$4.8 million (\$2.9 million after tax) at June 30, 2010 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2010, approximately \$1.6 million of the \$2.9 million loss included in accumulated other comprehensive income is expected to be recognized in earnings as interest expense over the next twelve months.

The Company, through certain of its German subsidiaries, has a credit facility with a European bank for borrowings up to 25.0 million Euros (\$30.6 million). Outstanding borrowings under the credit facility totaled 12.5 million Euros (\$15.3 million) and 18.0 million Euros (\$26.3 million) at June 30, 2010 and September 30, 2009, respectively. The weighted-average interest rate on outstanding borrowings under this facility at June 30, 2010 and 2009 was 1.58% and 2.74%, respectively.

The Company, through its German subsidiary, Saueressig, has several loans with various European banks. Outstanding borrowings under these loans totaled 8.7 million Euros (\$10.7 million) and 10.0 million Euros (\$14.7 million) at June 30, 2010 and September 30, 2009, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at June 30, 2010 and 2009 was 6.05% and 5.84%, 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 10.0 million Euros (\$12.3 million) and 12.2 million Euros (\$18.0 million) at June 30, 2010 and September 30, 2009, respectively. Matthews International S.p.A. also has three lines of credit totaling approximately 8.4 million Euros (\$10.2 million) with the same Italian banks. Outstanding borrowings on these lines were 3.2 million Euros (\$3.9 million) and 2.0 million Euros (\$2.9 million) at June 30, 2010 and September 30, 2009, respectively. The weighted-average interest rate on outstanding borrowings of Matthews International S.p.A. at June 30, 2010 and 2009 was 3.61% and 3.80%, respectively.

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors had authorized the repurchase of a total of 12,500,000 shares of Matthews common stock. On January 22, 2010, the Company announced that its Board of Directors approved an additional 2,500,000 shares to the Company's repurchase authorization, increasing the total authorization to 15,000,000 shares. As of June 30, 2010, 2,085,778 shares remained to be purchased under the current authorization. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Articles of Incorporation.

Consolidated working capital of the Company was \$168.1 million at June 30, 2010, compared to \$173.1 million at September 30, 2009. Cash and cash equivalents were \$56.0 million at June 30, 2010, compared to \$57.7 million at September 30, 2009. The Company's current ratio was 2.1 at June 30, 2010, compared to 2.3 at September 30, 2009.

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, 2010, an accrual of approximately \$6.9 million had been recorded for environmental remediation (of which \$836,000 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:

Acquisition spending, net of cash acquired, during the nine months ended June 30, 2010 totaled \$28.2 million, and primarily included the following:

In April 2010, the Company acquired Reynoldsville Casket Company, a manufacturer and distributor of caskets primarily in the Northeast region of the United States. The purchase price for the acquisition was \$13.6 million plus additional consideration up to \$3.5 million contingent on operating performance over the next three years. Reynoldsville reported sales of approximately \$13.0 million in calendar 2009.

In March 2010, the Company acquired an 80% interest in Furnace Construction Cremators Limited, ("FCC"), a manufacturer of cremation equipment located in the United Kingdom. The acquisition was designed to expand the Company's global presence in the European cremation markets.

In February 2010, the Company acquired A.J. Distribution, Inc. ("A.J. Distribution"), a distributor of primarily York brand caskets in the Northwest region of the United States. The transaction was structured as an asset purchase and was intended to expand the Company's casket distribution capabilities in the Northwestern United States.

In December 2009, the Company acquired UMP, primarily a supplier of granite memorial products and caskets in the West region of the United States. UMP reported sales of approximately \$11.0 million in calendar 2009. The transaction was structured as an asset purchase and was designed to extend Matthews' presence in the broad granite market. The purchase price for the acquisition is \$10.0 million, plus additional consideration of up to \$3.5 million payable over five years.

In connection with its acquisition of a 78% interest in Saueressig, the Company entered into an option agreement related to the remaining 22% interest. The option agreement contained certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. During the third fiscal quarter of 2010, the Company reached an agreement to purchase the remaining 22% interest in Saueressig for 17.4 million Euros in October 2011. The Company has included the purchase price of 17.4 million Euros (\$21.3 million) as a part of noncontrolling interests in the shareholders' equity section of the Consolidated Balance Sheet as of June 30, 2010.

Forward-Looking Information:

Matthews has a three-pronged strategy to attain annual growth in earnings per share. This strategy consists of the following: internal growth (which includes productivity improvements, new product development and the expansion

into new markets with existing products), acquisitions and share repurchases under the Company's stock repurchase program (see "Liquidity and Capital Resources"). For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of 11.1%.

One of the most significant factors affecting fiscal 2010 results is the condition of the domestic and global economies, including the recent volatility of foreign currency exchange rates. Additionally, pension expense will increase by approximately \$5.2 million in fiscal 2010 compared to fiscal 2009 as a result of the market's impact on plan assets and the valuation of the pension obligation as of September 30, 2009. With these challenges, each of the Company's segments continues to emphasize the importance of cost structure relative to revenue run rates.

In November 2009, the Company indicated that, despite the increase in fiscal 2010 pension expense, fiscal 2010 earnings were expected to be relatively consistent with fiscal 2009 earnings, excluding unusual items. Based on the Company's year-to-date results through June 30, 2010 and current projections for the remainder of the fiscal year, the Company is now projecting its earnings for fiscal 2010 to be slightly ahead of its original estimates. The Company continues to remain cautious given the continued decline in casketed death rates, uncertain economic conditions and the recent volatility in the value of the Euro.

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, 2009. 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, 2010, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

	Total	Payments due in fiscal year:			After 2014
		2010 Remainder	2011 to 2012	2013 to 2014	
(Dollar amounts in thousands)					
Contractual Cash Obligations:					
Revolving credit facilities	\$ 198,286	\$-	\$ 198,286	\$-	\$-
Notes payable to banks	24,863	1,214	11,149	8,260	4,240
Short-term borrowings	3,879	3,879	-	-	-
Capital lease obligations	4,478	804	3,319	355	-
Non-cancelable operating leases	18,970	2,412	11,582	4,197	779
Other	1,163	1,163	-	-	-

Total contractual cash obligations	\$251,639	\$9,472	\$224,336	\$12,812	\$5,019
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A significant portion of the loans included in the table above bear interest at variable rates. At June 30, 2010, the weighted-average interest rate was 2.94% on the Company's domestic Revolving Credit Facility, 1.58% on the credit facility through the Company's German subsidiaries, 3.61% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A, and 6.05% on bank loans to the Company's subsidiary, Saueressig.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company is not required to make any significant contributions to its principal retirement plan in fiscal 2010. During the nine months ended June 30, 2010, contributions of \$579,000 and \$672,000 were made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$193,000 and \$379,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2010.

In connection with its acquisition of a 78% interest in Saueressig, the Company entered into an option agreement related to the remaining 22% interest. The option agreement contained certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. During the third fiscal quarter of 2010, the Company reached an agreement to purchase the remaining 22% interest in Saueressig for 17.4 million Euros in October 2011.

Unrecognized tax benefits are positions taken, or expected to be taken, on an income tax return that may result in additional payments to tax authorities. If a tax authority agrees with the tax position taken, or expected to be taken, or the applicable statute of limitations expires, then additional payments will not be necessary. The Company had unrecognized tax benefits, excluding penalties and interest, of approximately \$3.3 million and \$3.6 million at June 30, 2010 and September 30, 2009, respectively. The timing of potential future payments related to the unrecognized tax benefits is not presently determinable.

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

Accounting Pronouncements:

On September 30, 2009, the Company adopted changes issued by the FASB to the authoritative hierarchy of generally accepted accounting principles ("GAAP"). These changes establish the FASB Accounting Standards Codification™ ("Codification") as the source of authoritative accounting principles recognized by the FASB to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the U.S. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption had no material impact on the Company's consolidated results of operations or financial condition.

In December 2007, the FASB issued new guidance regarding business combinations. This guidance requires recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in a business combination, goodwill acquired or a gain from a bargain purchase. It is effective for fiscal years beginning on or after December 15, 2008. The Company adopted the new guidance effective October 1, 2009.

In December 2007, the FASB issued new guidance regarding noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. It requires that consolidated net income reflect the amounts attributable to both the parent and the noncontrolling interest, and also includes additional disclosure requirements. It was effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the guidance is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. The Company adopted the new guidance effective October 1, 2009.

In December 2008, the FASB issued changes to employers' disclosures about postretirement benefit plan assets. These changes require enhanced disclosures regarding assets in defined benefit pension or other postretirement plans. It is effective for fiscal years ending after December 31, 2009. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of these changes, which is effective for the Company's Annual Report on Form 10-K for fiscal 2010.

In April 2009, the FASB issued changes to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It also requires those disclosures in summarized financial information at interim reporting periods. These changes are effective for interim reporting periods ending after June 15, 2009 and were adopted by the Company as of June 30, 2009.

On September 30, 2007, the Company adopted the recognition and related disclosure provisions of guidance on employers' accounting for defined benefit pension and other postretirement plans which amended earlier guidance. In the first quarter of fiscal 2009, the Company adopted the provision requiring the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. Adoption of this provision did not have a material effect on the Company's consolidated results of operations or financial condition.

In May 2009, the FASB issued new guidance regarding subsequent events, which was subsequently revised in February 2010. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this guidance had no material impact on the Company's consolidated results of operations or financial condition.

In June 2008, the FASB issued guidance regarding instruments granted in share-based payments. The guidance requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be considered participating securities and therefore included in the computation of earnings per share pursuant to the two-class method. This guidance is effective for years beginning after December 31, 2008. The Company adopted the provisions of this guidance effective October 1, 2009, which did not have a material effect on the Company's financial statements.

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, foreign currency exchange rates and actuarial assumptions for pension and other postretirement plans. The Company does not generally use derivative financial instruments in connection with these market risks, except as noted below.

Interest Rates - The Company's most significant long-term debt instrument is the domestic Revolving Credit Facility, as amended, which bears interest at variable rates based on LIBOR. The Company has entered into interest rate swaps as listed under "Liquidity and Capital Resources". The interest rate swaps have been designated as cash flow hedges of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective. The fair value of the interest rate swaps reflected an unrealized loss of \$4.8 million (\$2.9 million after tax) at June 30, 2010 that is included in equity as part of accumulated other comprehensive income. 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 \$521,000 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, wood and photopolymers) 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 contract or similar arrangements, the Company's ability to immediately increase the price of its products to offset the increased costs may be limited.

Foreign Currency Exchange Rates - The Company is subject to changes in various foreign currency exchange rates, including the Euro, British Pound, Canadian dollar, Australian dollar, Swedish Krona, Chinese Yuan, Hong Kong dollar and Polish Zloty, in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. A strengthening of the U. S. dollar of 10% would have resulted in a

decrease in reported sales of \$22.7 million and a decrease in reported operating income of \$2.7 million for the nine months ended June 30, 2010.

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, 2009 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	\$(1,909)	\$2,287	\$(766)	\$766	\$(692)	\$692
Increase (decrease) in projected benefit obligation	(16,440)	20,566	-	-	-	-
Increase (decrease) in funded status	16,440	(20,566)	-	-	3,940	(3,940)

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, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2010, 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, 2010 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Stock Repurchase Plan

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors had authorized the repurchase of a total of 12,500,000 shares of Matthews common stock. On January 22, 2010, the Company announced that its 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, increasing the total authorization to 15,000,000 shares. As of June 30, 2010, 2,085,778 shares remained to be purchased under the current authorization. All purchases of the Company's common stock during the first nine months of fiscal 2010 were part of the repurchase program.

The following table shows the monthly fiscal 2010 stock repurchase activity:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan
October 2009	-	\$ -	-	220,078
November 2009	65,000	35.50	65,000	155,078
December 2009	81,636	34.73	81,636	73,442
January 2010	6,475	34.05	6,475	2,566,967
February 2010	66,708	32.42	66,708	2,500,259
March 2010	52,056	35.73	52,056	2,448,203
April 2010	45,000	35.66	45,000	2,403,203
May 2010	97,200	33.15	97,200	2,306,003
June 2010	220,225	30.55	220,225	2,085,778
Total	634,300	\$33.01	634,300	

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit

- 10.1 Sale and Purchase and Transfer Agreement Regarding the Sale and Purchase and Transfer of a Partnership Interest in Saueressig GMBH + Co. KG
- 31.1 Certification of Principal Executive Officer for Joseph C. Bartolacci
- 31.2 Certification of Principal Financial Officer for Steven F. Nicola
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Joseph C. Bartolacci
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Steven F. Nicola

(b) Reports on Form 8-K

On April 23, 2010, Matthews filed a Current Report on Form 8-K under Item 2.02 in connection with a press release announcing its earnings for the second fiscal quarter of 2010.

On April 12, 2010, Matthews filed a Current Report on Form 8-K under Item 7.01 in connection with a press release announcing its acquisition of Reynoldsville Casket Company.

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 4, 2010

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

Date: August 4, 2010

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

