

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 December 31, 2004

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 NORTSHORE 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of January 31, 2005, shares of common stock outstanding were:

Class A Common Stock 32,211,710 shares

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

	December 31, 2004	September 30, 2004
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 64,463	\$ 65,830
Short-term investments	866	858
Accounts receivable, net	83,492	87,490
Inventories: Materials and finished goods	\$ 39,491	\$ 38,395
Labor and overhead in process	<u>3,770</u>	<u>4,141</u>
	43,261	42,536
Other current assets	<u>5,285</u>	<u>5,764</u>
Total current assets	197,367	202,478
Investments	7,748	7,694
Property, plant and equipment: Cost	164,632	157,936
Less accumulated depreciation	<u>(91,102)</u>	<u>(85,222)</u>
	73,530	72,714
Deferred income taxes and other assets	26,472	26,360
Goodwill	198,912	189,016
Other intangible assets, net	<u>32,525</u>	<u>32,280</u>
 Total assets	 <u>\$ 536,554</u>	 <u>\$ 530,542</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Long-term debt, current maturities	\$ 16,258	\$ 17,003
Accounts payable	21,795	26,130
Accrued compensation	22,571	31,274
Accrued income taxes	16,703	13,018
Other current liabilities	<u>27,231</u>	<u>24,147</u>
Total current liabilities	104,558	111,572
 Long-term debt	 52,723	 54,389
Estimated finishing costs	4,815	4,730
Postretirement benefits	17,418	17,407
Deferred income taxes	4,629	4,225
Environmental reserve	10,498	10,604
Other liabilities and deferred revenue	17,048	15,365
 Shareholders' equity:		
Common stock	36,334	36,334
Additional paid in capital	13,198	11,699
Retained earnings	319,711	308,435
Accumulated other comprehensive income	19,768	11,538
Treasury stock, at cost	<u>(64,146)</u>	<u>(55,756)</u>
	<u>324,865</u>	<u>312,250</u>
 Total liabilities and shareholders' equity	 <u>\$ 536,554</u>	 <u>\$ 530,542</u>

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

	Three Months Ended	
	December 31,	
	<u>2004</u>	<u>2003</u>
Sales	\$ 148,706	\$ 116,902
Cost of sales	<u>(100,287)</u>	<u>(74,279)</u>
Gross profit	48,419	42,623
Selling and administrative expenses	<u>(28,300)</u>	<u>(22,770)</u>
Operating profit	20,119	19,853
Investment income	323	351
Interest expense	(483)	(451)
Other income (deductions), net	1,926	(86)
Minority interest	<u>(1,360)</u>	<u>(1,067)</u>
Income before income taxes	20,525	18,600
Income taxes	<u>(7,800)</u>	<u>(7,217)</u>
Net income	<u>\$ 12,725</u>	<u>\$ 11,383</u>
Earnings per share:		
Basic	<u>\$ .39</u>	<u>\$ .35</u>
Diluted	<u>\$ .39</u>	<u>\$ .35</u>

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

	Three Months Ended	
	December 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 12,725	\$ 11,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,928	3,782
Change in deferred taxes	413	280
Changes in working capital items	(5,589)	(2,302)
Decrease in other assets	1,185	1,342
Increase in estimated finishing costs	84	69
Increase (decrease) in other liabilities	996	(573)
Increase (decrease) in postretirement benefits	11	(128)
Tax benefit of exercised stock options	1,890	870
Net (gain) loss on sale of assets	(65)	2
	16,578	14,725
Net cash provided by operating activities		
Cash flows from investing activities:		
Capital expenditures	(3,163)	(1,762)
Proceeds from sale of assets	33	-
Acquisitions	(1,212)	-
Purchases of investment securities	(44)	(83)
Proceeds from disposition of investment securities	11	6
	(4,375)	(1,839)
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from long-term debt	779	303
Payments on long-term debt	(4,853)	(10,946)
Proceeds from the sale of treasury stock	3,202	2,352
Purchases of treasury stock	(11,983)	(6,113)
Dividends	(1,449)	(1,280)
	(14,304)	(15,684)
Net cash used in financing activities		
Effect of exchange rate changes on cash	734	3,286
	(1,367)	488
Net increase in cash and cash equivalents	\$	\$

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004  
(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews"), 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 memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions includes graphics imaging products and services, merchandising solutions, and marking products. The Company's products and operations are comprised of six business segments: Bronze, York Casket, Cremation, Graphics Imaging, Marking Products and, as of July 19, 2004, Merchandising Solutions. The Bronze segment is a leading manufacturer of cast bronze memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The York Casket segment is a leading casket manufacturer in the United States and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets primarily in North America. The Graphics Imaging segment manufactures and provides printing plates, pre-press services and imaging services for the corrugated and primary packaging industries. The Marking Products segment designs, manufactures and distributes a wide range of marking equipment and consumables for identifying 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, Australia, Canada and Europe.

Note 2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended December 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2005. 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, 2004.

The consolidated financial statements include all majority-owned foreign and domestic subsidiaries. The consolidated financial statements also include the accounts of the Company's 50%-owned affiliate, S+T GmbH & Co. KG. All intercompany accounts and transactions have been eliminated.

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

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.

Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

Note 3. Stock-Based Compensation

The Company has accounted for its stock-based compensation plans in accordance with the intrinsic value provisions of Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees” (“APB Opinion No. 25”). Accordingly, the Company did not record any compensation expense in the consolidated financial statements for its stock-based compensation plans. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure”, the following table illustrates the effect on net income and earnings per share had compensation expense been recognized consistent with the fair value provisions of SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”).

	Three Months Ended	
	December 31,	
	2004	2003
Net income, as reported	\$ 12,725	\$ 11,383
Net income, pro forma	12,335	11,061
Basic earnings per share, as reported	\$ 0.39	\$ 0.35
Diluted earnings per share, as reported	0.39	0.35
Basic earnings per share, pro forma	\$ 0.38	\$ 0.34
Diluted earnings per share, pro forma	0.38	0.34

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), which replaces SFAS No. 123 and supercedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period beginning after June 15, 2005. The pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R beginning July 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption alternatives. The Company is evaluating the requirements of SFAS 123R and has not yet determined the method of adoption. The Company expects the effect of adopting SFAS 123R will result in amounts that do not differ materially from the current pro forma disclosures under SFAS 123.

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

Note 4. 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 difference between the estimated effective tax rate for fiscal 2005 of 38.0% and the Federal statutory rate of 35.0% primarily reflects the impact of state and foreign income taxes.

In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). FSP 109-2 provides guidance under SFAS No. 109, "Accounting for Income Taxes," for recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act"), on a company's income tax expense and deferred tax liabilities. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment, which was October 22, 2004, to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. Matthews has not yet completed evaluating the impact of the repatriation provisions as provided for in FSP 109-2.

Note 5. Earnings Per Share

	Three Months Ended	
	December 31,	
	2004	2003
Net income	\$ 12,725	\$ 11,383
Weighted-average common shares outstanding	32,318,551	32,088,646
Dilutive securities, primarily stock options	423,431	513,509
Diluted weighted-average	32,741,982	32,602,155
Basic earnings per share	\$ .39	\$ .35
Diluted earnings per share	\$ .39	\$ .35

Note 6. Segment Information

The Company is organized into six business segments based on products and services. The segments, which are Bronze, York Casket, Cremation, Graphics Imaging, Marking Products and, as of July 19, 2004, Merchandising Solutions, are described under Nature of Operations (Note 1). Management evaluates segment performance based on operating profit (before income taxes) and does not allocate non-operating items such as investment income, interest expense, other income (deductions), net and minority interest.

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

Information about the Company's segments follows:

	Three Months Ended	
	December 31,	
	2004	2003
Sales to external customers:		
Memorialization:		
Bronze	\$ 43,979	\$ 45,434
York Casket	29,699	30,175
Cremation	5,147	5,862
	78,825	81,471
Brand Solutions:		
Graphics Imaging	34,907	26,182
Marking Products	10,424	9,249
Merchandising Solutions	24,550	-
	69,881	35,431
	\$ 148,706	\$ 116,902
Operating profit:		
Memorialization:		
Bronze	\$ 10,331	\$ 9,736
York Casket	3,485	3,963
Cremation	(166)	446
	13,650	14,145
Brand Solutions:		
Graphics Imaging	3,328	3,928
Marking Products	1,628	1,780
Merchandising Solutions	1,513	-
	6,469	5,708
	\$ 20,119	\$ 19,853

Note 7. Comprehensive Income

Comprehensive income consists of net income adjusted for changes, net of related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and minimum pension liability. For the three-month periods ended December 31, 2004 and 2003, comprehensive income was \$20,955 and \$18,069, respectively.

Note 8. Goodwill and Other Intangible Assets

Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment the Company uses a combination of valuation techniques, including discounted cash flows. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. The Company performs its annual impairment review in its second fiscal quarter.



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

Changes to goodwill, net of accumulated amortization, for the three months ended December 31, 2004, are as follows.

	York		Cremation	Graphics	Merchandising	Marking	Consolidated
	Bronze	Casket		Imaging	Solutions	Products	
Balance at September 30, 2004	\$ 73,641	\$ 40,706	\$ 6,536	\$ 58,618	\$ 8,019	\$ 1,496	\$ 189,016
Additions during period	-	-	-	-	640	3,101	3,741
Translation and other adjustments	2,159	-	-	3,996	-	-	6,155
Balance at December 31, 2004	<u>\$ 75,800</u>	<u>\$ 40,706</u>	<u>\$ 6,536</u>	<u>\$ 62,614</u>	<u>\$ 8,659</u>	<u>\$ 4,597</u>	<u>\$ 198,912</u>

The additions to Marking Products goodwill relate to contingent payouts in accordance with the Holjeron Corporation purchase agreement. The additions to Merchandising Solutions goodwill relate to purchase accounting adjustments associated with the acquisition of The Cloverleaf Group, Inc. See Note 11 for a discussion concerning these acquisitions.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of December 31, 2004 and September 30, 2004, respectively.

	Carrying Amount	Accumulated Amortization	Net
<u>December 31, 2004:</u>			
Trade names	\$ 18,373	\$ - *	\$ 18,373
Customer relationships	10,547	(911)	9,636
Copyrights/patents/other	5,182	(666)	4,516
	<u>\$ 34,102</u>	<u>\$ (1,577)</u>	<u>\$ 32,525</u>
<u>September 30, 2004:</u>			
Trade names	\$ 17,964	\$ - *	\$ 17,964
Customer relationships	10,427	(742)	9,685
Copyrights/patents/other	5,024	(393)	4,631
	<u>\$ 33,415</u>	<u>\$ (1,135)</u>	<u>\$ 32,280</u>

\* Not subject to amortization

The increase in intangible assets during fiscal 2005 was due to the impact of fluctuations in foreign currency exchange rates on intangible assets denominated in foreign currencies.

Amortization expense on intangible assets was \$437 and \$87 for the three month periods ended December 31, 2004 and 2003, respectively. Amortization expense is estimated to be \$1,700 in 2005, \$1,700 in 2006, \$1,300 in 2007, \$1,300 in 2008 and \$1,250 in 2009.

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

Note 9. Debt

On December 3, 2001, the Company entered into a Revolving Credit Facility for \$125,000 with a syndicate of financial institutions. The facility was scheduled to mature on November 30, 2004. On April 21, 2004, the Company signed an amendment to the facility which extended its maturity to April 30, 2009. On February 8, 2005, the facility was further amended to increase the borrowing capacity to \$150,000. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility, as amended, requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10,000) is available for the issuance of trade and standby letters of credit.

Effective April 30, 2004, the Company increased its outstanding borrowings under the facility to \$50,000 and simultaneously entered into an interest rate swap that fixed the interest rate on such borrowings at 3.16% for a five-year period. The interest rate swap has been designated as a cash flow hedge 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 the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges are considered effective.

The fair value of the interest rate swap reflected an unrealized gain of \$795 (\$485 after tax) at December 31, 2004 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at December 31, 2004, approximately \$106 of the \$485 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

Outstanding borrowings on the Revolving Credit Facility at December 31, 2004 were \$50,000. The weighted-average interest rate on outstanding borrowings at December 31, 2004 was 3.13%. Equal quarterly payments of \$2,500 plus interest are due on the facility until its maturity in April 2009.

The Company has financed the acquisition of Caggiati S.p.A and several acquisitions by Caggiati S.p.A. through loans with various Italian banks. Outstanding borrowings on these loans totaled \$14,786 at December 31, 2004. Caggiati also has four lines of credit totaling approximately \$14,690 with the same Italian banks. Outstanding borrowings on these lines were \$3,341 at December 31, 2004. The weighted-average interest rate on outstanding Caggiati related borrowings was 2.71%.

Note 10. Pension and Other Postretirement Benefit Plans

The Company provides defined benefit pension and other postretirement plans to certain employees. The following represents the net periodic pension and other postretirement benefit cost (income) for the plans in accordance with the revised version of SFAS No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits."

	Pension		Other Postretirement	
	2004	2003	2004	2003
Three months ended December 31,				
Service cost	\$ 804	\$ 906	\$ 126	\$ 99
Interest cost	1,310	1,266	293	262
Expected return on plan assets	(1,521)	(1,484)	-	-
Amortization:				
Prior service cost	20	28	(322)	(322)
Net actuarial loss	350	293	123	112
Net benefit cost	<u>\$ 963</u>	<u>\$ 1,009</u>	<u>\$ 220</u>	<u>\$ 151</u>

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

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 made from the Company's operating funds. Due to the IRS full funding limitations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal 2005. As of December 31, 2004, contributions of \$97 and \$302 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$269 and \$748 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2005.

Note 11. Acquisitions

In August 2004, the Company acquired The InTouch Group Limited ("InTouch"), a leading provider of reprographic services to the packaging industry in the United Kingdom. InTouch is headquartered in Leeds, England and has operations in London, Portsmouth, Manchester and Boston, Massachusetts. The transaction was structured as a stock purchase, at a cost of approximately \$39,000. The acquisition is intended to further the Company's position as a provider of reprographic services to the European packaging industry.

In July 2004, the Company acquired The Cloverleaf Group, Inc. ("Cloverleaf"), a provider of merchandising solutions. Cloverleaf was formed by the merger of iDL, Inc., which is a merchandising solutions company headquartered near Pittsburgh, PA, and Big Red Rooster, which is a marketing and design services organization located in Columbus, OH. The transaction was structured as an asset purchase, at a cost of approximately \$34,000. The transaction was structured to include potential additional consideration during the next six years contingent on the future growth in value of the acquired operations. The Company expects to account for this additional consideration as additional purchase price. The acquisition is designed to expand the Company's products and services into the merchandising solutions market.

The following unaudited pro forma information presents a summary of the consolidated results of Matthews combined with Cloverleaf and InTouch as if the acquisitions had occurred on October 1, 2003:

	Three Months Ended	
	December 31,	
	2004	2003
Sales	\$ 148,706	\$ 141,873
Income before taxes	20,525	19,715
Net income	12,725	12,065
Earnings per share	\$ .39	\$ .37

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

In July 2004, the Company acquired Holjeron Corporation, an industrial controls manufacturer located in Wilsonville, OR. The acquisition was structured as a stock purchase, at a cost of approximately \$1,700, plus potential additional consideration based upon calendar 2004 financial performance. Effective December 31, 2004, Holjeron met the calendar 2004 financial performance criteria required under the terms of the purchase agreement. Accordingly, a current liability of \$3,070 was recorded in the December 31, 2004 financial statements for the additional consideration due. The acquisition is a part of Matthews' strategy to increase its presence in the marking products industry.

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 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, 2004. 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.

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.

	Three months ended December 31,		Years ended September 30,	
	2004	2003	2004	2003(1)
Sales	100.0%	100.0%	100.0%	100.0%
Gross profit	32.6%	36.5%	38.1%	37.1%
Operating profit	13.5%	17.0%	19.2%	17.5%
Income before taxes	13.8%	15.9%	18.0%	16.0%
Net income	8.6%	9.7%	11.0%	9.8%

(1) The fourth quarter of fiscal 2003 included a net pre-tax charge of approximately \$1.0 million from special items which consisted of a pre-tax gain of \$2.6 million on the sale of a facility and a goodwill impairment charge of \$3.6 million.

#### Results of Operations, continued:

Sales for the quarter ended December 31, 2004 were \$148.7 million and were \$31.8 million, or 27.2%, higher than sales of \$116.9 million for the three months ended December 31, 2003. The increase resulted principally from the acquisitions of The Cloverleaf Group, Inc. ("Cloverleaf"), which is reported as the Company's Merchandising Solutions segment, The InTouch Group Limited ("InTouch") and Holjeron Corporation ("Holjeron") during the fourth quarter of fiscal 2004, and higher foreign currency exchange rates. Cloverleaf sales were \$24.6 million for the fiscal 2005 first quarter. Sales for InTouch and Holjeron were \$8.1 million and \$943,000, respectively. For the first quarter of fiscal 2005, higher foreign currency values against the U.S. dollar had a favorable impact of approximately \$2.5 million on the Company's consolidated sales compared to the quarter ended December 31, 2003.

Bronze segment sales for the fiscal 2005 first quarter were \$44.0 million compared to \$45.4 million for the fiscal 2004 first quarter. The decrease of 3.2% in Bronze sales primarily reflected lower sales of mausoleums. Sales volume for memorialization products in the domestic market were slightly lower than a year ago. Bronze sales for the quarter were favorably impacted by an increase in the values of foreign currencies against the U.S. dollar and the effect of a temporary price surcharge instituted in April 2004 in response to increases in the cost of bronze ingot. Sales for the York Casket segment were \$29.7 million for the quarter ended December 31, 2004 compared to fiscal 2004 first quarter sales of \$30.2 million. The decrease primarily reflected lower unit volume. According to data published by the Centers for Disease Control, the North American death rate was approximately 2.4% lower in the first quarter of fiscal 2005 than in the same quarter a year ago. Sales for the Cremation segment were \$5.1 million for the first quarter of fiscal 2005 compared to \$5.9 million for the same period a year ago. The decrease reflected lower sales of both cremation equipment and cremation caskets. Sales for the Graphics Imaging segment in the first quarter of fiscal 2005 were \$34.9 million, an increase of \$8.7 million, or 33.3%, from the same period a year ago. The increase primarily resulted from the acquisition of InTouch in August 2004, increased sales at other European Graphics businesses and the increase in the value of the Euro against the U.S. dollar. These increases were partially offset by lower sales in the segment's domestic operations, which primarily reflected a decline in volume in the corrugated packaging market. Marking Products segment sales for the quarter ended December 31, 2004 were \$10.4 million, compared to \$9.2 million for the fiscal 2004 first quarter. The increase of \$1.2 million, or 12.7%, was principally due to the acquisition of Holjeron in July 2004 and an increase in the value of the Swedish Krona against the U.S. dollar.

Gross profit for the quarter ended December 31, 2004 was \$48.4 million compared to \$42.6 million for the same period a year ago, representing an increase of \$5.8 million, or 13.6%. Consolidated gross profit as a percent of sales decreased from 36.5% for the first quarter of fiscal 2004 to 32.6% for the fiscal 2005 first quarter. The increase in consolidated gross profit primarily reflected the acquisitions of Cloverleaf, InTouch and Holjeron during the fourth quarter of fiscal 2004, the effects of recent manufacturing improvements and cost reduction initiatives and higher foreign currency exchange values against the U.S. dollar. These gains were partially offset by lower sales in the Cremation segment and domestic graphics businesses, higher costs for bronze ingot and cold-rolled steel, and costs incurred in connection with the establishment of a lower cost casket manufacturing facility in Mexico. The gross margin percentage decline principally related to the factors discussed above, as well as the acquisition of Cloverleaf which generally has lower gross margins than other Matthews' businesses.

Selling and administrative expenses for the three months ended December 31, 2004 were \$28.3 million, compared to \$22.8 million for the first quarter of fiscal 2004. The increase of \$5.5 million, or 24.3%, primarily resulted from the acquisitions of Cloverleaf, InTouch and Holjeron during the fourth quarter of fiscal 2004 and the impact of the increase in the value of foreign currencies against the U.S. dollar. Consolidated selling and administrative expenses as a percent of sales were 19.0% for the quarter ended December 31, 2004, compared to 19.5% for the same period last year. The decrease primarily reflected the acquisition of Cloverleaf, which generally has lower selling and administrative expenses as a percentage of sales than other Matthews' businesses.

Operating profit for the quarter ended December 31, 2004 was \$20.1 million compared to \$19.8 million for the three months ended December 31, 2003. The Cloverleaf acquisition, reported as the Merchandising Solutions segment, contributed \$1.5 million of operating profit during the first quarter of fiscal 2005. In addition, higher foreign currency values against the U.S. dollar had a favorable impact of approximately \$500,000 on the Company's consolidated operating profit for the quarter ended December 31, 2004 compared to the quarter ended December 31, 2003.

#### Results of Operations, continued:

Bronze segment operating profit for the fiscal 2005 first quarter was \$10.3 million, compared to \$9.7 million for the first quarter of fiscal 2004. The increase of 6.1% reflected the continuing effects of prior year cost reduction initiatives and the favorable impact of an increase in the value of foreign currencies against the U.S. dollar. Operating profit for the York Casket segment for the first quarter of fiscal 2005 was \$3.5 million, a decrease of \$478,000 from the same period a year ago. The decrease reflected lower sales, the higher cost of cold-rolled steel and costs incurred in connection with the establishment of a lower cost casket manufacturing facility in Mexico. The Cremation segment incurred an operating loss of \$166,000 for the first quarter of fiscal 2005 compared to operating profit of \$445,000 for the quarter ended December 31, 2003. The current period reflected lower sales volume and higher steel and other raw material costs. The Company estimates that the aggregate impact on consolidated operating profit of increases in the cost of steel and bronze, net of the temporary surcharge, approximated \$1.2 million compared to the same quarter a year ago. The Graphics Imaging segment operating profit for the quarter ended December 31, 2004 was \$3.3 million compared to \$3.9 million for the three months ended December 31, 2003. The segment's operating profit was favorably impacted by sales growth in the Company's European operations combined with an increase in the

value of the Euro against the U.S. dollar, but the improvements were more than offset by the effects of lower sales from the domestic graphics businesses. Operating profit for the Marking Products segment for the fiscal 2005 first quarter was \$1.6 million compared to \$1.8 million for the same period a year ago. An increase in new product development costs was the principal factor in the decline from last year.

Investment income for the three months ended December 31, 2004 was \$323,000 compared to \$351,000 for the quarter ended December 31, 2003, primarily resulting from lower average cash and investment balances. Interest expense for the fiscal 2005 first quarter was \$483,000, compared to \$451,000 for the same period last year. The increase in interest expense primarily reflected higher debt levels during the quarter ended December 31, 2004 compared to the comparable quarter in fiscal 2004.

Other income (deductions), net, for the quarter ended December 31, 2004 represented an increase in pre-tax income of \$1.9 million, compared to a reduction in pre-tax income of \$86,000 for the same quarter last year. Other income in the first quarter of fiscal 2005 primarily reflected foreign currency exchange gains on intercompany advances to foreign affiliates.

Minority interest deduction for fiscal 2005 first quarter was \$1.4 million, compared to \$1.1 million for the first quarter of fiscal 2004. The higher minority interest deduction for the fiscal 2005 first quarter resulted from operating income growth in the Company's less than wholly-owned European graphics businesses.

The Company's effective tax rate for the three months ended December 31, 2004 was 38.0% compared to an effective rate of 38.8% for the fiscal year ended September 30, 2004. The reduction reflected a lower effective tax rate on foreign income and a reduction in state income taxes. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state and foreign income taxes.

#### Goodwill:

Under Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill related to business combinations is no longer amortized, but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment the Company uses a combination of valuation techniques, including discounted cash flows. The Company performs its annual impairment review in its second fiscal quarter.

## Liquidity and Capital Resources:

Net cash provided by operating activities was \$16.6 million for the three months ended December 31, 2004, compared to \$14.7 million for the first quarter of fiscal 2004. Operating cash flow for the fiscal 2005 first quarter primarily reflected net income adjusted for depreciation and amortization (non-cash charges). Operating cash flow for first quarter of fiscal 2005 also included a tax benefit of \$1.9 million from exercised stock options. For the quarter ended December 31, 2003, operating cash flow primarily reflected net income adjusted for depreciation, amortization, higher collections on accounts receivable and a tax benefit of \$870,000 million from exercised stock options.

Cash used in investing activities was \$4.4 million for the three months ended December 31, 2004 compared to \$1.8 million for the three months ended December 31, 2003. Investing activities for the first quarter of fiscal 2005 primarily consisted of capital expenditures of \$3.2 million and an acquisition totaling \$1.2 million in the Company's Merchandising Solutions segment. Investing activities for the first quarter of fiscal 2004 primarily consisted of capital expenditures of \$1.8 million.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged \$9.9 million for the last three fiscal years. The capital budget for fiscal 2005 is \$23.9 million, which reflects projected capital spending in connection with establishing a lower cost casket manufacturing facility in Monterey, Mexico. The total cost of establishing this facility is projected to be in the range of \$10.0 to \$12.0 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash used in financing activities for the quarter ended December 31, 2004 was \$14.3 million, primarily reflecting net payments on long-term debt of \$4.1 million, purchases of treasury stock of \$12.0 million, dividends of \$1.4 million to the Company's shareholders and proceeds of \$3.2 million from the sale of treasury stock (stock option exercises). Cash used in financing activities for the quarter ended December 31, 2003 was \$15.7 million, primarily reflecting net payments on long-term debt of \$10.7 million, proceeds of \$2.4 million from the sale of treasury stock (stock option exercises), purchases of treasury stock of \$6.1 million and dividends of \$1.3 million to the Company's shareholders.

On December 3, 2001, the Company entered into a Revolving Credit Facility for \$125.0 million with a syndicate of financial institutions. The facility was scheduled to mature on November 30, 2004. On April 21, 2004, the Company signed an amendment to the facility which extended its maturity to April 30, 2009. On February 8, 2005, the facility was further amended to increase the borrowing capacity to \$150.0 million. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility, as amended, requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10.0 million) is available for the issuance of trade and standby letters of credit.

Effective April 30, 2004, the Company increased its outstanding borrowings under the facility to \$50.0 million and simultaneously entered into an interest rate swap that fixed the interest rate on such borrowings at 3.16% for a five-year period. The interest rate swap has been designated as a cash flow hedge 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 the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges are considered effective.

The fair value of the interest rate swap reflected an unrealized gain of \$795,000 (\$485,000 after tax) at December 31, 2004 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at December 31, 2004, approximately \$106,000 of the \$485,000 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

Liquidity and Capital Resources, continued:

Outstanding borrowings on the Revolving Credit Facility at December 31, 2004 were \$50.0 million. The weighted-average interest rate on outstanding borrowings at December 31, 2004 was 3.13%. Equal quarterly payments of \$2.5 million plus interest are due on the facility until its maturity in April 2009.

The Company has financed the acquisition of Caggiati S.p.A and several acquisitions by Caggiati S.p.A. through loans with various Italian banks. Outstanding borrowings on these loans totaled \$14.8 million at December 31, 2004. Caggiati also has four lines of credit totaling approximately \$14.7 million with the same Italian banks. Outstanding borrowings on these lines were \$3.4 million at December 31, 2004. The weighted-average interest rate on outstanding Caggiati related borrowings was 2.71%.

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors has authorized the repurchase of a total of 10,000,000 shares (adjusted for stock splits) of Matthews common stock, of which 8,168,687 shares have been repurchased as of December 31, 2004. 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 \$92.8 million at December 31, 2004, compared to \$90.9 million at September 30, 2004. Cash and cash equivalents were \$64.5 million at December 31, 2004, compared to \$65.8 million at September 30, 2004. The Company's current ratio was 1.9 at December 31, 2004 compared to 1.8 at September 30, 2004.

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 policies and procedures with respect to environmental, safety and health, including 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, York Casket was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a landfill site in York, PA. At this time, the Company has not been joined in any lawsuit or administrative order related to the site or its clean-up.

At December 31, 2004, an accrual of \$11.4 million was recorded for environmental remediation (of which \$906,000 has been 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 Casket 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. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

Acquisitions:

In August 2004, the Company acquired InTouch, a leading provider of reprographic services to the packaging industry in the United Kingdom. InTouch is headquartered in Leeds, England and has operations in London, Portsmouth, Manchester and Boston, Massachusetts. The transaction was structured as a stock purchase, at a cost of approximately \$39.0 million. The acquisition is intended to further the Company's position as a provider of reprographic services to the European packaging industry.



#### Acquisitions, continued:

In July 2004, the Company acquired Cloverleaf, a provider of merchandising solutions. Cloverleaf was formed by the recent merger of iDL, Inc., a provider of merchandising systems and displays, headquartered near Pittsburgh, PA, and Big Red Rooster, a marketing and design services organization located in Columbus, OH. The transaction was structured as an asset purchase, at a cost of approximately \$34.0 million. The transaction was also structured to include potential additional consideration during the next six years contingent on the future growth in value of the acquired operations. The acquisition is designed to expand the Company's products and services into the merchandising solutions market.

In July 2004, the Company acquired Holjeron Corporation, an industrial controls manufacturer located in Wilsonville, OR. The acquisition was structured as a stock purchase, at a cost of approximately \$1.7 million, plus potential additional consideration based upon calendar 2004 financial performance. Effective December 31, 2004, Holjeron met the calendar 2004 financial performance criteria required under the terms of the purchase agreement. Accordingly, a current liability of \$3.1 million was recorded in the December 31, 2004 financial statements for the additional consideration due. The acquisition is a part of Matthews' strategy to increase its presence in the marking products industry.

#### Forward-Looking Information:

The Company's objective with respect to operating performance is to increase annual earnings per share in the range of 12% to 15% annually. For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of 16.1%. Matthews has a three-pronged strategy to attain the annual growth rate objective, which has remained unchanged from the prior year. This strategy consists of the following: internal growth (which includes productivity improvements, new product development and the expansion into new markets with existing products), acquisitions and share repurchases under the Company's stock repurchase program.

The significant factors impacting the Company's fiscal 2005 first quarter were the recent acquisitions of Cloverleaf, InTouch and Holjeron and the favorable impact of foreign currency exchange rate changes. The Company remains concerned with the continued high cost of bronze and steel. While fiscal 2004 cost initiatives and productivity improvements have mitigated some of this impact, the significantly higher costs affected the first quarter and will be a challenge for the remainder of the fiscal year, particularly in the competitive markets served by the Company. Additionally, the Company has initiated a restructuring and facility consolidation program within the Merchandising Solutions segment. This program involves the consolidation of several manufacturing and distribution operations, and is expected to result in long-term manufacturing and distribution cost savings. Finally, costs associated with the Company's project to establish a new lower cost casket manufacturing plant in Mexico in fiscal 2005 have negatively affected, and will continue to negatively affect, fiscal 2005 operating results until project completion.

Based on anticipated internal growth, the impact of the Company's recent acquisitions and the factors discussed above, the Company expects to achieve diluted earnings per share in the range of \$1.80 to \$1.85 for the fiscal year ending September 30, 2005.

#### 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.

## Critical Accounting Policies, continued:

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2004. 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. The following accounting policies involve significant estimates, which are considered critical to the preparation of the Company's consolidated financial statements.

### Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on an evaluation of specific customer accounts in which available facts and circumstances indicate collectibility may be a problem. In addition, the allowance includes a general reserve for all customers based on historical collection experience.

### Long-Lived Assets

Property, plant and equipment, goodwill and other intangible assets are carried at cost. Depreciation on property, plant and equipment is computed primarily on the straight-line method over the estimated useful lives of the assets. Goodwill is no longer amortized, but is subject to periodic review for impairment. 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.

### Pension Costs

Pension assets and liabilities are determined on an actuarial basis and are affected by the market value of plan assets, estimates of the expected return on plan assets and the discount rate used to determine the present value of benefit obligations. Actual changes in the fair market value of plan assets and differences between the actual return on plan assets, the expected return on plan assets and changes in the selected discount rate will affect the amount of pension cost.

### Environmental Reserve

Environmental liabilities are recorded when the Company's obligation is probable and reasonably estimable. Accruals for losses from environmental remediation obligations do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value.

### Revenue Recognition

Revenues are generally recognized when title and risk of loss pass to the customer, which is typically at the time of product shipment. For pre-need sales of memorials and vases, revenue is recognized when the memorial has been manufactured to the customer's specifications (e.g., name and birth date), title has been transferred to the customer and the memorial and vase are placed in storage for future delivery. A liability has been recorded in Estimated Finishing Costs for the estimated costs of finishing pre-need bronze memorials and vases that have been manufactured and placed in storage prior to July 1, 2003 for future delivery.

In July 2003, the Emerging Issues Task Force ("EITF") issued Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables." Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. The provisions of Issue No. 00-21 were effective July 1, 2003 and have been applied prospectively by the Company to the finishing and storage elements of its pre-need sales. Beginning July 1, 2003, revenue is deferred by the Company on the portion of pre-need sales attributable to the final finishing and storage of the pre-need merchandise. Deferred revenue for final finishing is recognized at the time the pre-need merchandise is finished and shipped to the customer. Deferred revenue related to storage is recognized on a straight-line basis over the estimated average time that pre-need merchandise is held in storage.

At December 31, 2004, the Company held 353,893 memorials and 232,921 vases in its storage facilities under the "pre-need" sales program.

Critical Accounting Policies, continued:

Construction revenues are recognized under the percentage-of-completion method of accounting using the cost-to-cost method. The Company offers rebates to certain customers participating in volume purchase programs. Rebates are estimated and recorded as a reduction in sales at the time the Company's products are sold.

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company's contractual obligations at December 31, 2004, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

	Payments due in fiscal year:				
	Total	2005			After
		Remainder	2006 to 2007	2008 to 2009	2009
(Dollar amounts in thousands)					
Contractual Cash Obligations:					
Revolving credit facility	\$ 50,000	\$ 7,500	\$ 20,000	\$ 22,500	\$ --
Notes payable to banks	14,786	2,508	3,355	2,733	6,190
Short-term borrowings	3,341	3,341	-	-	-
Capital lease obligations	854	607	247	-	-
Non-cancelable operating leases	24,122	3,882	8,329	5,996	5,915
Total contractual cash obligations	<u>\$ 93,103</u>	<u>\$ 17,838</u>	<u>\$ 31,931</u>	<u>\$ 31,229</u>	<u>\$ 12,105</u>

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 made from the Company's operating funds. Due to the IRS full funding limitations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal 2005. As of December 31, 2004, contributions of \$97,000 and \$302,000 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$269,000 and \$748,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2005.

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

Accounting Pronouncements:

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supercedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period beginning after June 15, 2005. The Company is required to adopt SFAS 123R beginning July 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. The Company is evaluating the requirements of SFAS 123R and has not yet determined the method of adoption. The Company expects the effect of adopting SFAS 123R will result in amounts that do not differ materially from the current pro forma disclosures under SFAS 123.

In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). FSP 109-2 provides guidance under SFAS No. 109, "Accounting for Income Taxes," for recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act"), on a company's income tax expense and deferred tax liabilities. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment, which was October 22, 2004, to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. Matthews has not yet completed evaluating the impact of the repatriation provisions as provided for in FSP 109-2.

### Item 3. Quantitative And Qualitative Disclosures About Market Risk

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

**Interest Rates** - The Company's most significant long-term debt instrument is the Revolving Credit Facility, as amended, which bears interest at variable rates based on LIBOR. Effective April 30, 2004, the Company increased its outstanding borrowings under the facility to \$50.0 million and simultaneously entered into an interest rate swap that fixed the interest rate on such borrowings at 3.16% for a five-year period. The interest rate swap has been designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility. The fair value of the interest rate swap reflected an unrealized gain of \$795,000 (\$485,000 after tax) at December 31, 2004 that is included in equity as part of accumulated other comprehensive income. A decrease of 10% in market interest rates (i.e. a decrease from 3.5% to 3.15%) would result in a decrease of approximately \$755,000 in the fair value of the interest rate swap.

**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 and wood) used in its manufacturing operations. The Company obtains competitive prices for materials and supplies when available.

**Foreign Currency Exchange Rates** - The Company is subject to changes in various foreign currency exchange rates, including the Euro, the British Pound, Canadian dollar, Australian dollar and Swedish Krona, in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of \$4.0 million and a decrease in operating income of \$1.1 million for the quarter ended December 31, 2004.

### Item 4. Controls and Procedures

Based on their evaluation at the end of the period covered by this Quarterly Report on Form 10-Q, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II - OTHER INFORMATION

### 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 has authorized the repurchase of a total of 10,000,000 shares (adjusted for stock splits) of Matthews common stock, of which 8,168,687 shares have been repurchased as of December 31, 2004. All purchases of the Company's common stock during the first three months of fiscal 2005 were part of this repurchase program.

The following table shows the monthly fiscal 2005 stock repurchase activity:

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of a publicly announced plan</u>	<u>Maximum number of shares that may yet be purchased under the plan</u>
October 2004	112,300	\$ 32.61	112,300	2,058,032
November 2004	66,200	35.90	66,200	1,991,832
December 2004	<u>160,519</u>	<u>37.03</u>	<u>160,519</u>	1,831,313
Total	<u>339,019</u>	<u>\$ 35.35</u>	<u>339,019</u>	

### Item 5. Other Information

On February 8, 2005, the Company amended its Revolving Credit Facility to change the amount available under the Facility to \$150 million (see Note 9 to the Consolidated Financial Statements and "Management's Discussion and Analysis-Liquidity and Capital Resources" included in this Quarterly Report on Form 10-Q). A copy of the amendment is filed herewith as Exhibit 10.1.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
10.1	Second Amendment to Loan Agreement
31.1	Certification of Principal Executive Officer for David M. Kelly
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 David M. Kelly.
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 November 17, 2004, Matthews filed a Current Report on Form 8-K under Item 12 in connection with a press release announcing its earnings for fiscal 2004.

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 2/8/05

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D.M. Kelly

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D.M. Kelly, Chairman of the Board,  
President and Chief Executive Officer

Date 2/8/05

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S.F. Nicola

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S.F. Nicola, Chief Financial Officer,  
Secretary and Treasurer



## SECOND AMENDMENT TO LOAN AGREEMENT

Second Amendment to Loan Agreement, dated the 8th day of February, 2005, by and among Matthews International Corporation, a Pennsylvania corporation (the "Borrower"), the Banks (as defined in the Loan Agreement (as hereinafter defined)), Citizens Bank of Pennsylvania, a Pennsylvania banking institution, in its capacity as lead arranger and administrative agent for the Banks (in such capacity, the "Agent"), PNC Bank, National Association, a national banking association, in its capacity as lead arranger and syndication agent for the Banks (in such capacity, the "Syndication Agent") and National City Bank of Pennsylvania, in its capacity as documentation agent for the Banks (in such capacity, the "Documentation Agent") (the "Second Amendment").

### W I T N E S S E T H:

WHEREAS, the Borrower, the Banks, the Agent and the Documentation Agent entered into that certain Loan Agreement, dated December 3, 2001, as amended by that certain First Amendment to Loan Agreement, dated April 21, 2004, by and among the Borrower, the Banks, the Agent, the Syndication Agent and the Documentation Agents (as amended, the "Loan Agreement"), pursuant to which, among other things, the Banks agreed to extend a revolving credit facility to the Borrower in an aggregate principal amount not to exceed One Hundred Twenty-Five Million and 00/100 Dollars (\$125,000,000.00); and

WHEREAS, the Borrower desires to amend certain provisions of the Loan Agreement and the Banks and the Agent desire to permit such amendments pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. All capitalized terms used herein which are defined in the Loan Agreement shall have the same meaning herein as in the Loan Agreement unless the context clearly indicates otherwise.

2. The reference to "One Hundred Twenty Five Million and 00/100 Dollars (\$125,000,000.00)" in the first "WHEREAS" clause of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following: "One Hundred Fifty Million and 00/100 Dollars (\$150,000,000.00)".

3. Section 1.01 of the Loan Agreement is hereby amended by inserting the following definitions:

"British Pounds Sterling" shall mean the official currency of the United Kingdom of Great Britain and Northern Ireland.

"Computation Date" shall mean that as set forth in Section 2.17.

"Dollar, Dollars, U.S. Dollars, United States Dollars" and the symbol "\$" shall mean the official currency of the United States of America.

"Dollar Equivalent" shall mean, with respect to any amount of any currency, the Equivalent Amount of such currency expressed in Dollars.

"Equivalent Amount" shall mean, at any time, as determined in good faith by the Agent in accordance with its customary practices (which determination shall be conclusive absent manifest error), with respect to an amount of any currency (the "Reference Currency") which is to be computed as an equivalent amount of another currency (the "Equivalent Currency"): (i) if the Reference Currency and the Equivalent Currency are the same, the amount of such Reference Currency, or (ii) if the Reference Currency and the Equivalent Currency are not the same, the amount of such Equivalent Currency converted from such Reference Currency at the Agent's spot selling rate (based on the market rates then prevailing and available to the Agent) for the sale of such Equivalent Currency for such Reference Currency at a time determined by the Agent on the second (2nd) Business Day immediately preceding the event for which such calculation is made.



"Equivalent Currency" shall mean that as set forth in the definition of Equivalent Amount.

"Euro" shall mean the European common currency pursuant to the European Monetary Union.

"Eurocurrency Liabilities" shall mean that as set forth in the definition of Libor Reserve Requirements.

"Existing Restrictive Agreement" shall mean that as set forth in Section 6.02.

"Optional Currency" shall mean any of the following currencies: (i) British Pounds Sterling, (ii) Euros, and (iii) any other currency approved by Agent and all of the Banks pursuant to Section 2.17(d).

"Original Currency" shall mean that as set forth in Section 9.20(a).

"Other Currency" shall mean that as set forth in Section 9.20(a).

"Overnight Rate" shall mean for any day with respect to any Revolving Credit Loans in an Optional Currency, the rate of interest per annum as determined in good faith by the Agent in accordance with its customary practices at which overnight deposits in such currency, in an amount approximately equal to the amount with respect to which such rate is being determined, would be offered for such day in the applicable offshore interbank market.

"Reference Currency" shall mean that as set forth in the definition of Equivalent Amount.

4. Section 1.01 of the Loan Agreement is hereby amended by deleting the following definitions in their entirety and in their stead inserting the following:

"Business Day" shall mean a day of the year on which banks are not required or authorized to close in Pittsburgh, Pennsylvania and (i) if the applicable Business Day relates to a Libor Rate Loan, on which dealings are carried on in the London interbank eurodollar market, and (ii) with respect to advances or payments of Revolving Credit Loans or any other matters relating to Revolving Credit Loans denominated in an Optional Currency, such day also shall be a day on which (a) dealings in deposits in the relevant Optional Currency are carried on in the applicable interbank market, and (b) all applicable banks into which Loan proceeds may be deposited are open for business and foreign exchange markets are open for business in the principal financial center of the country of such currency.

"GAAP" shall mean generally accepted accounting principles as are in effect in the United States of America (as such principles may change from time to time), which shall include the official interpretations thereof by the Financial Accounting Standards Board, applied on a consistent basis.

"Guarantor" or "Guarantors" shall mean, singularly or collectively, as the context may require, York Group and any other person that executes and delivers a Guaranty Agreement to the Agent for the ratable benefit of the Banks on or after February 8, 2005.

"Guaranty Agreement" or "Guaranty Agreements" shall mean, singularly or collectively, as the context may require, the York Group Guaranty, and any other Guaranty and Suretyship Agreement executed and delivered to the Agent for the ratable benefit of the Banks on or after the date hereof substantially in the form of Exhibit "E" attached hereto and made a part hereof.

"Libor Rate" shall mean, for any Interest Period, a fixed rate per annum (rounded upwards to the next higher whole multiple of 1/100% if such rate is not such a multiple)

equal at all times during such Interest Period to the quotient of (a) the rate per annum determined in good faith by the Agent in accordance with its customary procedures (which determination shall be conclusive absent manifest error) to be the average of the rates per annum (rounded upwards to the next higher whole multiple of 1/100% if such rate is not such a multiple) at which deposits in immediately available United States Dollars or an Optional Currency, as applicable, are offered at 11:00 a.m. (London, England time) (or as soon thereafter as is reasonably practicable) to major money center banks by prime banks in the London interbank eurodollar market three (3) Business Days prior to the first day of such Interest Period in an amount and maturity equal to the amount and maturity of such Libor Rate Loan, divided by (b) a number equal to 1.00 minus the aggregate (without duplication) of the rates (expressed as a decimal fraction) of the Libor Reserve Requirements.

"Libor Reserve Requirements" shall mean, for any day of any Interest Period for a Libor Rate Loan, the percentage (rounded upward to the next higher whole multiple of 1/100% if such rate is not such a multiple) as determined in good faith by the Agent in accordance with its customary procedures (which determination shall be conclusive absent manifest error) as representing the maximum reserves (whether basic, supplemental, marginal, emergency or otherwise) (i) prescribed by the Board of Governors of the Federal Reserve System (or any successor) with respect to liabilities or assets consisting of or including "Eurocurrency Liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve System) in an amount and for a maturity equal to such Libor Rate Loan and such Interest Period; and (ii) to be maintained by a Bank as required for reserve liquidity, special deposit, or a similar purpose by any governmental or monetary authority of any country or political subdivision thereof (including any central bank), against (A) any category of liabilities that includes deposits by reference to which a Libor Rate is to be determined, or (B) any category of extension of credit or other assets that includes Loans to which a Libor Rate applies. The Libor Rate shall be adjusted automatically as of the effective date of each change in the Libor Reserve Requirements.

"Prime Rate Loan" shall mean any Loan that bears interest with reference to the Prime Rate and which shall only be denominated in Dollars.

"Total Commitment Amount" shall mean the obligation of the Banks hereunder to make Revolving Credit Loans and to issue Letters of Credit up to the maximum aggregate principal amount of One Hundred Fifty Million and 00/100 Dollars (\$150,000,000.00) or such greater amount as may be applicable in accordance with the provisions of Section 2.21 hereof.

5. Section 1.01 of the Loan Agreement is hereby amended by deleting the following definitions:

"MIAC"

"MIAC Guaranty"

6. The first sentence of Section 2.01(a) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

Subject to the terms and conditions and relying upon the representations and warranties set forth in this Agreement, the Notes and the other Loan Documents, the Banks severally (but not jointly) agree to make loans in either Dollars or one or more Optional Currencies (the "Revolving Credit Loans") to the Borrower at any time or from time to time on or after the Closing Date and to and including the Business Day immediately preceding the Expiry Date in an aggregate Dollar Equivalent principal amount which, when combined with the amount of aggregate Letters of Credit Outstanding, shall not exceed at any one time outstanding One Hundred Fifty Million and 00/100 Dollars (\$150,000,000.00) or such greater amount as may be applicable in accordance with the provisions of Section 2.21 hereof (the "Revolving Credit Facility Commitment"); provided, however, that (i) no Bank shall be required to make Revolving Credit Loans (or participate in the issuance of Letters of Credit) in an aggregate Dollar

Equivalent principal amount outstanding at any one time exceeding such Bank's Commitment, (ii) no Prime Rate Loan shall be made in an Optional Currency, and (iii) after giving effect to any Revolving Credit Loan denominated in Optional Currencies the Dollar Equivalent amount of all such Revolving Credit Loans shall not exceed Fifty Million and 00/100 Dollars (\$50,000,000.00).

7. Section 2.01(c) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(c) Making, Renewing or Converting of Revolving Credit Loans.

Subject to the terms and conditions set forth in this Agreement and the other Loan Documents, and provided that the Borrower has satisfied all applicable conditions specified in Article IV hereof, the Banks shall make Revolving Credit Loans to the Borrower which, as selected by the Borrower pursuant to this Section 2.01(c), shall be Prime Rate Loans or Libor Rate Loans and, with respect to Libor Rate Loans, shall be denominated in Dollars or an Optional Currency. In addition, subject to the terms and conditions set forth below, the Borrower shall have the opportunity (i) convert Prime Rate Loans into Libor Rate Loans, (ii) convert Libor Rate Loans into Prime Rate Loans or (iii) renew Libor Rate Loans as Libor Rate Loans for additional Interest Periods.

(i) Each Revolving Credit Loan that is made as or converted (from a Libor Rate Loan) into a Prime Rate Loan shall be made or converted on such Business Day and in such amount as an Authorized Representative of the Borrower shall request by written or telephonic notice (confirmed promptly, but in no event later than one Business Day thereafter, in writing) received by the Agent no later than 10:00 a.m. (Pittsburgh, Pennsylvania time) on the date of requested disbursement of or conversion into the requested Prime Rate Loan. Subject to the terms and conditions of this Agreement, on each borrowing date, the Agent shall make the proceeds of the Prime Rate Loan available to the Borrower at the Agent's Office in immediately available funds not later than 2:00 p.m. (Pittsburgh, Pennsylvania time). Unless an Authorized Representative of the Borrower shall provide the Agent with the required written notice to convert a Prime Rate Loan into a Libor Rate Loan on or prior to the third (3<sup>rd</sup>) Business Day prior to the date of requested conversion, such Prime Rate Loan shall automatically continue as a Prime Rate Loan.

(ii) Each Revolving Credit Loan that is made as, renewed as or converted (from a Prime Rate Loan) into a Libor Rate Loan shall be made, renewed or converted, on such Business Day, in such Dollar Equivalent amount (expressed in the currency in which such Loan shall be funded and also as a Dollar Equivalent amount if such Loan shall be funded in an Optional Currency) (greater than or equal to One Million and 00/100 Dollars (\$1,000,000.00)); provided, however, that any Dollar Equivalent amount in excess of One Million and 00/100 Dollars (\$1,000,000.00) may only be in Dollar Equivalent increments of Five Hundred Thousand and 00/100 Dollars (\$500,000.00), with such an Interest Period and in such currency as an Authorized Representative of the Borrower shall request by written or telephonic notice (confirmed promptly, but in no event later than one Business Day thereafter, in writing) received by the Agent no later than 10:00 a.m. (Pittsburgh, Pennsylvania time) on the (a) third (3<sup>rd</sup>) Business Day prior to the requested date of disbursement of, renewal of or conversion into the requested Libor Rate Loan denominated in Dollars, and (b) fourth (4<sup>th</sup>) Business Day prior to the requested date of disbursement of, renewal of or conversion into the requested Libor Rate Loan denominated in an Optional Currency. Subject to the terms and conditions of this Agreement, on each borrowing date, the Agent shall make the proceeds of the Libor Rate Loan available to the Borrower at the Agent's Office in immediately available funds, no later than 10:00 a.m. (Pittsburgh, Pennsylvania time). In addition, in the event that the Borrower desires to renew a Libor Rate Loan for an additional Interest Period, an Authorized Representative of the Borrower shall provide the Agent with written notice thereof on or prior to (a) with respect to Libor Rate Loans denominated in Dollars, the third (3<sup>rd</sup>) Business Day prior to the expiration of the applicable Interest Period, and (b) with respect to Libor Rate Loans denominated in an Optional Currency, the fourth (4<sup>th</sup>) Business Day prior to the expiration of the

applicable Interest Period. In the event that an Authorized Representative of the Borrower fails to provide the Agent with the required written or telephonic notice (confirming promptly, but in no event later than one Business Day thereafter, in writing) on or prior to the third (3<sup>rd</sup>) Business Day prior to the expiration of the applicable Interest Period for a Libor Rate Loan denominated in Dollars, the Borrower shall be deemed to have given written notice that such Loan shall be converted into a Prime Rate Loan on the last day of the applicable Interest Period. In the event that an Authorized Representative of the Borrower fails to provide the Agent with the required written or telephonic notice (confirming promptly, but in no event later than one Business Day thereafter, in writing) on or prior to the fourth (4<sup>th</sup>) Business Day prior to the expiration of the applicable Interest Period for a Libor Rate Loan denominated in an Optional Currency, the Borrower shall be deemed to have given written notice that such Loan shall be renewed for an Interest Period of one (1) Month. Each written notice of any Libor Rate Loan shall be irrevocable and binding on the Borrower and the Borrower shall indemnify the Agent and the Banks against any loss or expense incurred by the Banks as a result of any failure by the Borrower to consummate such transaction calculated as set forth in Section 2.12(c) hereof.

(iii) Each Bank hereby authorizes the Agent to make all Loans that are requested by the Borrower on the proposed date of disbursement as described above. Upon receipt of a request to make, renew or convert a Revolving Credit Loan hereunder, the Agent shall promptly advise each of the Banks of the proposed date of disbursement, renewal or conversion, the amount and type of each such Revolving Credit Loan, the applicable Interest Period, the applicable currency and the Bank's Commitment amount thereof. Each Bank shall remit its Commitment Percentage of the principal amount of each Revolving Credit Loan to the Agent at the Office of the Agent in the applicable currency and immediately available funds no later than 2:00 p.m. (Pittsburgh, Pennsylvania time) on the applicable date of disbursement. If the amount of such Bank's Commitment Percentage is not made available to the Agent by such Bank on the applicable borrowing date, the Agent shall not be required to fund such Bank's Commitment Percentage of the Revolving Credit Loans on the applicable borrowing date; provided, however, the Agent may elect in its sole discretion to fund such Bank's Commitment Percentage on the applicable borrowing date, and such Bank shall be subject to the repayment obligations set forth below.

(iv) The Agent may assume that each Bank has made or will make the proceeds of a Loan available to the Agent in the applicable currency unless the Agent shall have been notified by such Bank on or before the later of (a) the close of business on the Business Day preceding the applicable borrowing date with respect to the Loan, or (b) one (1) hour before the time on which the Agent actually funds the proceeds of such Loan to the Borrower (whether using its own funds pursuant to this subsection or using proceeds deposited with the Agent by the Banks and whether such funding occurs before or after the time on which the Banks are required to deposit the proceeds of such Loan with the Agent). The Agent may, in reliance upon such assumption (but shall not be required to), make available to the Borrower a corresponding amount in the applicable currency. If such corresponding amount is not in fact made available to the Agent by such Bank in the applicable currency, the Agent shall be entitled to recover such amount on demand from such Bank (or, if such Bank fails to pay such amount, forthwith upon such demand from the Borrower) together with interest thereon, in respect of each day during the period commencing on the date such amount was made available to the Borrower and ending on the date the Agent recovers such amount, at a rate per annum equal to (y) with respect to Loans denominated in Dollars, (A) the Federal Funds Rate during the first three (3) days after such interest shall begin to accrue and (B) the Applicable Rate in respect of such Loan after the end of such three (3) day period, and (z) with respect to Loans denominated in an Optional Currency, the Overnight Rate.

8. Section 2.01(d) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(d) Maximum Principal Balance of Revolving Credit Loans and Letters of Credit Outstanding. The sum of the aggregate Dollar Equivalent principal amount of all Revolving Credit Loans outstanding and the aggregate Letters of Credit Outstanding shall not exceed the amount of the Revolving Credit Facility Commitment subject to Section 2.20. The Borrower agrees that if at any time the sum of the aggregate Dollar Equivalent principal amount of all Revolving Credit Loans outstanding and the aggregate Letters of Credit Outstanding exceeds the amount of the Revolving Credit Facility Commitment (the "Excess Amount"), the Borrower shall promptly, but in no event later than one Business Day thereafter, pay to the Agent (for the ratable benefit of the Banks) such Excess Amount. If not sooner paid, the entire principal balance of all outstanding Revolving Credit Loans, together with all unpaid accrued interest thereon, and all other sums and costs owed to the Agent and the Banks by the Borrower pursuant to this Agreement, shall be immediately due and payable on the Expiry Date, without notice, presentment or demand of any kind.

9. Section 2.02(a) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(a) Conversion Option. Upon the written request (the "Term Loan Notice") by the Borrower received by the Agent at any time or times prior to April, 29, 2008, and so long as no Potential Default or Event of Default has occurred, the Borrower may convert (the "Conversion Option") all or any portion of the outstanding principal balance of the Revolving Credit Loans which are denominated in Dollars (the "Term Amount") into a term loan or term loans which will be denominated in Dollars (each such term loan is a "Term Loan" and collectively, the "Term Loans"). Each such conversion shall be effective on the first (1<sup>st</sup>) day of the first (1<sup>st</sup>) full calendar month following the Agent's receipt of such written request so long as such written request was received at least five (5) Business Days prior to the effective date of such conversion and the Borrower executes and delivers to the Agent a Term Note for each Bank in the amount of each Bank's Pro Rata Share. Upon each exercise by the Borrower of the Conversion Option, the Revolving Credit Facility Commitment shall be reduced by such Term Amount; provided, however, that upon the repayment of any principal amount of any Term Loan, the Revolving Credit Facility Commitment shall be increased by the principal amount of such repayment. Notwithstanding anything contained herein to the contrary, there shall not be more than four (4) Term Loans outstanding at any one time.

10. Section 2.02(e) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(e) Payments of Principal and Maturity. Subject to the terms and conditions of this Agreement, commencing on the last day of the first (1<sup>st</sup>) Fiscal Quarter immediately following the first (1<sup>st</sup>) day of a Term Loan, and on the last day of each successive Fiscal Quarter thereafter through and including the Expiry Date, the Borrower shall make equal quarterly principal payments in Dollars to the Agent for the ratable account of the Banks in such amount as the Agent shall advise the Borrower prior to or on the first (1<sup>st</sup>) day of a Term Loan (such amount shall be an amount which will result in a level principal payment necessary to amortize the principal balance of such Term Loan over a period selected by the Borrower; provided, however, that such amortization period shall not exceed five (5) years), plus accrued interest as set forth in Section 2.04 hereof. All remaining unpaid principal, accrued interest and all other sums and costs incurred by the Agent and the Banks pursuant to this Agreement with respect to the Term Loan(s) shall be immediately due and payable on the Expiry Date without notice, presentment or demand of any kind.

11. Section 2.03(b) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(b) Calculation of Interest and Fees; Adjustment to Prime Rate. Interest on the Loans, unpaid fees and other sums payable hereunder shall be computed on the basis of a year of three hundred sixty (360) days and paid for the actual number of

days elapsed; provided that, for Revolving Credit Loans made in an Optional Currency for which a three hundred sixty five (365) day basis is the only market practice available to the Agent, such rate shall be calculated on the basis of a year of three hundred sixty five (365) or three hundred sixty six (366) days, as the case may be, for the actual days elapsed. In the event of any change in the Prime Rate, the rate of interest applicable to each Prime Rate Loan shall be adjusted to immediately correspond with such change; provided, however, that any interest rate charged hereunder shall not exceed the Maximum Rate.

12. The first sentence of Section 2.03(c) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

Upon the occurrence and during the continuance of an Event of Default, (i) the unpaid principal amount of the Loans or any portion thereof, accrued interest thereon, any fees or any other sums payable hereunder shall thereafter until paid in full bear interest at a rate per annum equal to the Applicable Rate plus two percent (2.00%); (ii) each Libor Rate Loan denominated in Dollars shall automatically convert into a Prime Rate Loan at the end of the applicable Interest Period; (iii) each Libor Rate Loan denominated in an Optional Currency shall automatically convert into a Prime Rate Loan at the time of such Event of Default and the Borrower shall pay to the Agent for the ratable account of the Banks such additional amounts as are required pursuant to and in accordance with Sections 2.12(c) and 2.18; and (iv) no Loans may be made in an Optional Currency and no Loans may be made as, renewed as or converted into a Libor Rate Loan.

13. Section 2.04 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

2.04 Interest Payments.

The Borrower shall pay to the Agent for the ratable account of the Banks interest on the aggregate outstanding balance of the Loans which are Prime Rate Loans in arrears, on July 31, 2004 and on the last day of each October, January, April and July thereafter through and including the Expiry Date. The Borrower shall pay to the Agent for the ratable account of the Banks interest on the unpaid principal balance of the Loans that are Libor Rate Loans on the earlier of (i) the last day of the applicable Interest Period for such Loan or (ii) for such Loans with an applicable Interest Period exceeding three (3) Months, on each and every three (3) Month anniversary of each such Loan during the period from the Closing Date to and including the Expiry Date. After maturity of any part of the Loans (whether upon the occurrence of an Event of Default, by acceleration or otherwise), interest on such part of the Loans shall be immediately due and payable without notice, presentment, or demand of any kind. Interest on the principal amount of each Loan made in an Optional Currency shall be paid by the Borrower in such Optional Currency.

14. Section 2.05 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

2.05 Fees.

The Borrower shall pay to the Agent for the ratable account of the Banks:

(i) A commitment fee in Dollars on the unused portion of the amount of the Revolving Credit Facility Commitment during the period from the date of this Agreement to the Expiry Date, payable quarterly in arrears beginning on January 1, 2002 and continuing on the first (1st) day of each April, July, October and January thereafter and on the Expiry Date. Such fee shall be calculated daily, and shall equal the amount by which the amount of the Revolving Credit Facility Commitment has exceeded the closing principal balance of the sum of the outstanding Dollar Equivalent principal balance of the Revolving Credit Loans and the Letters of Credit Outstanding on

each day, multiplied by the applicable percentage with respect to commitment fees for such day determined by reference to the Borrower's Leverage Ratio as set forth in set forth in Section 2.03(a)(ii) hereof (the "Applicable Commitment Fee Percentage"); and

(ii) The Letter of Credit Commission pursuant to Section 2.07 hereof.

15. The first sentence of Section 2.07 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

The Borrower shall pay to the Agent for its own account in Dollars (a) a fronting fee for each Letter of Credit issued hereunder, such fee shall be equal to one-eighth of one percent (0.125%) of the daily average amount of Letters of Credit Outstanding during the preceding calendar quarter, payable quarterly in arrears beginning on January 1, 2002 and continuing on the first (1<sup>st</sup>) day of each April, July, October and January thereafter and on the Expiry Date, (b) the Agent's standard amendment fees for each Letter of Credit issued hereunder, such fees to be paid on the date of the amendment of such Letter of Credit and (c) any reasonable out-of-pocket expenses and costs incurred by the Agent for the issuance of any Letter of Credit issued hereunder, such fees to be paid on the day of issuance of such Letter of Credit.

16. Section 2.12(a) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(a) If, due to either (i) the introduction of, or any change in, or in the interpretation of, any Law or (ii) the compliance with any guideline or request from any central bank or other Official Body (whether or not having the force of Law), there shall be any increase in the cost to, or reduction in income receivable by, a Bank of making, funding or maintaining Loans (or commitments to make the Loans), then the Borrower shall from time to time, upon demand by such Bank made within a reasonable time after such Bank's determination thereof, pay to the Agent for the account of such Bank additional amounts sufficient to reimburse such Bank for any such additional costs or reduction in income. All such additional amounts shall be determined by such Bank in good faith using appropriate attribution and averaging methods ordinarily employed by such Bank. A certificate of such Bank submitted to the Borrower in good faith as to the amount of such additional costs shall be conclusive and binding for all purposes, absent manifest error. Within ten (10) Business Days after the Agent or such Bank notifies the Borrower in writing of any such additional costs pursuant to this Section 2.12(a), the Borrower may (A) repay in full all Loans of any types or currencies so affected then outstanding, together with interest accrued thereon to the date of such repayment, or (B) convert all Loans of any types or currencies so affected then outstanding into Loans of any other type or currency not so affected upon not less than four (4) Business Days' notice to the Agent. If any such repayment or conversion of any Libor Rate Loan occurs on any day other than the last day of the applicable Interest Period for such Loan, the Borrower also shall pay to the Agent for the ratable account of the Banks such additional amounts as set forth in Section 2.12(c).

17. Section 2.12(b) of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(b) If either (i) the introduction of, or any change in, or in the interpretation of, any Law or (ii) the compliance with any guideline or request from any central bank or other Official Body (whether or not having the force of Law), affects the amount of capital required to be maintained by any Bank or any corporation controlling any Bank and such Bank determines in good faith that the amount of such capital is increased by or based upon the existence of the Loans (or commitment to make the Loans), then, within ten (10) Business Days of demand by such Bank, the Borrower shall pay to the Agent for the account of such Bank from time to time as specified by such Bank, additional amounts sufficient to compensate such Bank in the light of such circumstances, to the extent that such Bank determines in good faith such increase in

capital to be allocable to the existence of such Bank's Loans (or commitment to make the Loans). Any such demand by a Bank must be made within a reasonable time after such Bank's determination as set forth in the immediately preceding sentence. A certificate of such Bank in good faith submitted to the Borrower as to such amounts shall be presumptive evidence of such amounts. Within ten (10) Business Days after the Agent or such Bank notifies the Borrower in writing of any such additional costs pursuant to this Section 2.12(b), the Borrower may (A) repay in full all Loans of any types or currencies so affected then outstanding, together with interest accrued thereon to the date of such prepayment, or (B) convert all Loans of any types or currencies so affected then outstanding into Loans of any other type or currency not so affected upon not less than four (4) Business Days' notice to such Bank. If any such prepayment or conversion of any Libor Rate Loan occurs on any day other than the last day of the applicable Interest Period for such Loan, the Borrower also shall pay to the Agent for the ratable account of the Banks such additional amounts as set forth in Section 2.12(c).

18. Section 2.13 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

2.13 Illegality; Impracticability.

Notwithstanding any other provision contained in this Agreement, if: (a) it is unlawful, or any central bank or other Official Body shall determine that it is unlawful, for the Agent or any Bank to perform its obligations hereunder to make, renew, or convert Loans hereunder; or (b) on any date on which a Libor Rate would otherwise be set, any Bank shall have in good faith determined (which determination shall be conclusive absent manifest error) that (i) adequate and reasonable means do not exist for ascertaining a Libor Rate, (ii) a contingency has occurred which materially and adversely affects the interbank markets, or (iii) the effective cost to such Bank of funding a proposed Libor Rate Loan exceeds the Libor Rate then (y) upon notice thereof by the Agent or such Bank to the Borrower, the obligation of such Bank to make or renew a Loan of a type or currency so affected or to convert any type of Loan or any Loan denominated in an Optional Currency into a Loan of a type or currency so affected shall terminate and the Banks shall thereafter be obligated to make Prime Rate Loans whenever any written notice requests any type of Loans or any Loan denominated in an Optional Currency so affected and (z) upon written demand therefor by such Bank to the Borrower, the Borrower shall (i) forthwith prepay in full all Loans of the type or currency so affected then outstanding, together with interest accrued thereon or (ii) request that such Bank, upon five (5) Business Days' notice, convert all Loans of the type or currency so affected then outstanding into Loans of a type or currency not so affected. If any such prepayment or conversion of any Libor Rate Loan occurs on any day other than the last day of the applicable Interest Period for such Loan, the Borrower also shall pay to the Agent for the ratable benefit of the Banks such additional amounts as set forth in Section 2.12(c).

19. Section 2.14 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

2.14 Payments.

All payments to be made with respect to principal, interest, fees or other amounts due from the Borrower under this Agreement or under the Notes are payable at 12:00 noon (Pittsburgh, Pennsylvania time), on the day when due, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, and an action for the payments will accrue immediately. All such payments must be made to the Agent at its Office in U.S. Dollars except that payments of principal or interest shall be made in the currency in which such Loan was made and in funds immediately available at such Office, without setoff, counterclaim or other deduction of any nature. The Agent may in its discretion deduct such payments from the Borrower's demand or deposit accounts with the Agent if not paid within five (5) Business Days after the due date. All such payments shall be applied at the option of the Agent and the Banks to accrued and



unpaid interest, outstanding principal and other sums due under this Agreement in such order as the Agent and the Banks, in their sole discretion, shall elect. All such payments shall be made absolutely net of, without deduction or offset, and altogether free and clear of any and all present and future taxes, levies, deductions, charges, and withholdings and all liabilities with respect thereto, excluding income and franchise taxes imposed on the Banks under the Laws of the United States or any state or political subdivision thereof. If the Borrower is compelled by Law to deduct any such taxes or to make any such other deductions, charges, or withholdings (collectively, the "Required Deductions"), the Borrower will pay to the Agent for the ratable benefit of the Banks an additional amount equal to the sum of (i) the aggregate amount of all Required Deductions and (ii) the aggregate amount of United States federal or state income taxes required to be paid by the Banks in respect of such Required Deductions.

20. Section 2.15 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

2.15 Loan Account.

The Agent will open and maintain on its books and records, including computer records, in accordance with its customary procedures, a loan account (the "Loan Account") for the Borrower in which shall be recorded the date and amount of each Loan made by the Banks and the date and amount of each payment and prepayment in respect thereof. The Agent shall record in the Loan Account the principal amount of the Loans owing to each Bank from time to time. The Loan Account shall constitute presumptive evidence of the accuracy of the information contained therein (including the Equivalent Amounts of the applicable currencies where such computations are required). Any failure by the Agent to make any such notation or record shall not affect the obligations of the Borrower to the Banks with respect to the Loans.

21. The following is hereby inserted as a new Section 2.17 of the Loan Agreement:

2.17 Utilization of Commitments in Optional Currencies.

(a) Periodic Computations of Dollar Equivalent Amounts of Revolving Credit Loans. The Agent will determine the Dollar Equivalent amount of (i) proposed Revolving Credit Loans to be denominated in an Optional Currency as of the requested borrowing date, and (ii) outstanding Revolving Credit Loans denominated in an Optional Currency as of the end of each Interest Period (each such date under clauses (i) and (ii), a "Computation Date").

(b) Notices From Banks That Optional Currencies Are Unavailable to Fund New Revolving Credit Loans. The Banks shall be under no obligation to make the Revolving Credit Loans requested by the Borrower which are denominated in an Optional Currency if any Bank notifies the Agent by 5:00 p.m. (Pittsburgh, Pennsylvania time), four (4) Business Days prior to the borrowing date for such Loans that such Bank cannot provide its share of such Loans in such Optional Currency due to the introduction of, or any change in, any applicable Law or any change in the interpretation or administration thereof by any Official Body charged with the interpretation or administration thereof, or compliance by such Bank (or any of its lending offices) with any request or directive (whether or not having the force of Law) of any such Official Body which would make it unlawful or impossible for such Bank (or any of its lending offices) to honor its obligations hereunder to make a Revolving Credit Loan in an Optional Currency. In the event the Agent timely receives a notice from a Bank pursuant to the preceding sentence, the Agent will notify the Borrower no later than 12:00 noon (Pittsburgh, Pennsylvania time), three (3) Business Days prior to the borrowing date for such Loans that the Optional Currency is not then available for such Loans, and the Agent shall promptly thereafter notify the Banks of the same. If the Borrower receives a notice described in the preceding sentence, the Borrower may, by notice to the Agent not later than 5:00 p.m. (Pittsburgh, Pennsylvania time), three (3) Business Days prior to the borrowing date for such Loans, withdraw the loan request for such Loans. If the

Borrower withdraws such loan request, the Agent will promptly notify each Bank of the same and the Banks shall not make such Loans. If the Borrower does not withdraw such loan request before such time, (i) the Borrower shall be deemed to have requested that the Loans referred to in its loan request shall be made in Dollars in an amount equal to the Dollar Equivalent amount of such Loans and shall bear interest under the Prime Rate, and (ii) the Agent shall promptly deliver a notice to each Bank stating: (A) that such Loans shall be made in Dollars and shall bear interest under the Prime Rate, (B) the aggregate amount of such Loans, and (C) such Bank's Pro Rata Share of such Loans.

(c) Notices From Banks That Optional Currencies Are Unavailable to Fund Renewals of Libor Rate Loans Denominated in an Optional Currency. If the Borrower delivers a loan request requesting that the Banks renew any Libor Rate Loan which is denominated in an Optional Currency, the Banks shall be under no obligation to renew such Libor Rate Loan if any Bank delivers to the Agent a notice by 5:00 p.m. (Pittsburgh, Pennsylvania time), four (4) Business Days prior to effective date of such renewal that such Bank cannot continue to provide Loans in such Optional Currency due to the introduction of, or any change in, any applicable Law or any change in the interpretation or administration thereof by any Official Body charged with the interpretation or administration thereof, or compliance by such Bank (or any of its lending offices) with any request or directive (whether or not having the force of Law) of any such Official Body which would make it unlawful or impossible for such Bank (or any of its lending offices) to honor its obligations hereunder to make a Loan in an Optional Currency. In the event the Agent timely receives a notice from a Bank pursuant to the preceding sentence, the Agent will notify the Borrower no later than 12:00 noon (Pittsburgh, Pennsylvania time), three (3) Business Days prior to the renewal date that the renewal of such Loans in such Optional Currency is not then available, and the Agent shall promptly thereafter notify the Banks of the same. If the Agent shall have so notified the Borrower that any such continuation of Optional Currency Loans is not then available, any notice of renewal with respect thereto shall be deemed withdrawn, and such Optional Currency Loans shall be redenominated into Prime Rate Loans with effect from the last day of the Interest Period with respect to any such Optional Currency Loans. The Agent will promptly notify the Borrower and the Banks of any such redenomination, and in such notice, the Agent will state the aggregate Dollar Equivalent amount of the redenominated Optional Currency Loans as of the Computation Date with respect thereto and such Bank's Pro Rate Share thereof.

(d) Requests for Additional Optional Currencies. The Borrower may deliver to the Agent a written request that Revolving Credit Loans hereunder also be permitted to be made in any other lawful currency (other than Dollars), in addition to the currencies specified in the definition of "Optional Currency" herein provided that such currency must be freely traded in the offshore interbank foreign exchange markets, freely transferable, freely convertible into Dollars and available to the Banks in the applicable interbank market. The Agent will promptly notify the Banks of any such request promptly after the Agent receives such request. The Agent and each Bank may grant or accept such request in its sole discretion. The Agent will promptly notify the Borrower of the acceptance or rejection by the Agent and each of the Banks of the Borrower's request. The requested currency shall be approved as an Optional Currency hereunder only if the Agent and all of the Banks approve of the Borrower's request.

22. The following is hereby inserted as a new Section 2.18 of the Loan Agreement:

2.18 Currency Repayments.

Notwithstanding anything contained herein to the contrary, the entire amount of principal of and interest on any Revolving Credit Loan made in an Optional Currency shall be repaid in the same Optional Currency in which such Loan was made, provided, however, that (a) if it is impossible or illegal for Borrower to effect payment of a Loan in the Optional Currency in which such Loan was made, (b) if Borrower defaults in its obligations to do so, or (c) if a Libor Rate Loan denominated in an Optional Currency automatically converts to a Prime Rate Loan pursuant to Section 2.03(c) hereof, the

Majority Banks may at their option (and, in the case of (a) above shall) permit such payment to be made (i) at and to a different location, subsidiary, affiliate or correspondent of Agent, or (ii) in the Equivalent Amount of Dollars or (iii) in an Equivalent Amount of such other currency (freely convertible into Dollars) as the Majority Banks may solely at their option designate. Upon any events described in (i) through (iii) of the preceding sentence, Borrower shall make such payment and Borrower agrees to hold each Bank harmless from and against any loss incurred by any Bank arising from the cost to such Bank of any premium, any costs of exchange, the cost of hedging and covering the Optional Currency in which such Loan was originally made, and from any change in the value of Dollars, or such other currency, in relation to the Optional Currency that was due and owing. Such loss shall be calculated for the period commencing with the first day of the Interest Period for such Loan and continuing through the date of payment thereof.

23. The following is hereby inserted as a new Section 2.19 of the Loan Agreement:

2.19 Optional Currency Amounts.

Notwithstanding anything contained herein to the contrary, Agent may, with respect to notices by Borrower for Revolving Credit Loans in an Optional Currency or voluntary prepayments of less than the full amount of a Loan denominated in an Optional Currency, engage in reasonable rounding (in accordance with the Agent's usual and customary Optional Currency policies) of the Optional Currency amounts requested to be loaned or repaid; and, in such event, Agent shall promptly notify Borrower and the Banks of such rounded amounts and Borrower's request or notice shall thereby be deemed to reflect such rounded amounts.

24. The following is hereby inserted as a new Section 2.20 of the Loan Agreement:

2.20 Mandatory Prepayments for Currency Fluctuations.

If on any Computation Date the sum of the aggregate Dollar Equivalent principal amount of all Revolving Credit Loans outstanding and the aggregate Letters of Credit Outstanding is equal to or greater than one hundred percent (100%) of the Revolving Credit Facility Commitment as a result of a change in exchange rates between one (1) or more Optional Currencies and Dollars, then the Agent shall notify the Borrower of the same. The Borrower shall pay or prepay Revolving Credit Loans (subject to Borrower's indemnity obligations under Section 2.12) within one (1) Business Day after receiving such notice such that the Dollar Equivalent principal amount of all Revolving Credit Loans outstanding and the aggregate Letters of Credit Outstanding shall not exceed the Revolving Credit Facility Commitment after giving effect to such payments or prepayments.

25. The following is hereby inserted as a new Section 2.21 of the Loan Agreement:

2.21 Increase of Revolving Credit Facility Commitment .

If at any time after the Closing Date, and so long as no Event of Default or Potential Default has occurred and is continuing, the Borrower desires to increase the Commitments, (each, an "Additional Increase") the Borrower shall notify the Agent in writing, who will promptly notify each Bank thereof, provided that any such Additional Increase shall be in a minimum of Ten Million and 00/100 Dollars (\$10,000,000.00) and the aggregate of all such Additional Increases shall not exceed Twenty Five Million and 00/100 Dollars (\$25,000,000.00). The existing Banks shall have the right at any time within fourteen (14) days following such notice to increase their respective Commitment by providing written notice of the same to the Agent so as to provide such additional Commitment pro-rata in accordance with such Bank's Pro Rata Share, and any portion of such Additional Increase which is not provided by any such existing Bank shall be available to the other existing Banks; provided, that if more than one existing Bank desires to increase its Commitment in respect of the portion of such Additional Increase

not provided by an existing Bank, such participating Banks shall provide such portion of the additional Commitments on a pro rata basis in accordance with the proportion that their Pro Rata Share bears to each other, and thereafter, to the extent not provided by existing Banks, to any additional lending institution or institutions proposed by the Borrower and which is approved by the Agent (which approval will not be unreasonably withheld, conditioned or delayed) and which becomes a party to this Agreement pursuant to documentation reasonably acceptable to the Agent and prepared at the Borrower's expense, which documentation may be executed by the Borrower and the Agent (as agent for the Banks) without further consent or action of the Banks, such consent hereby deemed to be irrevocably given to the Agent by the Banks; provided, however, that the Borrower shall have the right to have the entire amount of each Additional Increase provided by such approved additional lending institution or institutions if all the existing Banks decline to increase their Commitments to accommodate any such Additional Increase. In the event of any such Additional Increase in the aggregate Commitments and in the Commitment of any Bank effected pursuant to the terms of this Section 2.21, new Notes shall, to the extent deemed reasonably necessary or appropriate by the Agent, be executed and delivered by the Borrower, and the affected Banks shall promptly surrender and cancel the existing Notes; and the Borrower shall execute and deliver such additional documentation setting forth the new Commitments and Pro Rata Shares as the Agent shall reasonably request (which documentation may be executed by the Borrower and the Agent (as agent for the Banks) without further consent or action of the Banks, such consent herein is deemed to be irrevocably given to the Agent by the Banks).

26. Section 5.16 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

5.16 Subsidiary Guaranty Agreements.

Each Domestic Subsidiary of a Loan Party created or acquired subsequent to the Closing Date shall immediately execute and deliver to the Agent a Guaranty Agreement, along with such corporate governance and authorization documents as may be deemed reasonably necessary or advisable by the Agent and the Banks; provided, however, that a Domestic Subsidiary shall not be required to execute such Guaranty Agreement so long as (i) the total assets (excluding all loans and advances made to such Subsidiary from a Loan Party or a Subsidiary of a Loan Party) of such Domestic Subsidiary are less than Fifty Million and 00/100 Dollars (\$50,000,000.00), and (ii) the aggregate of the total assets (excluding all loans and advances made to such Subsidiary from a Loan Party or a Subsidiary of a Loan Party) of all such Domestic Subsidiaries with total asset values (excluding all loans and advances made to such Subsidiary from a Loan Party or a Subsidiary of a Loan Party) of less than Fifty Million and 00/100 Dollars (\$50,000,000.00) does not exceed the aggregate amount of One Hundred Twenty-Five Million and 00/100 Dollars (\$125,000,000.00). In the event that the total assets of any Subsidiary which is not a Domestic Subsidiary or a Guarantor are at any time equal to or greater than Twenty Million and 00/100 Dollars (\$20,000,000.00), the Borrower shall provide the Agent and the Banks with prompt written notice of such asset value.

27. Section 6.02 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

6.02 Restrictions on Non-Loan Party Subsidiaries.

No Loan Party shall permit any of its Subsidiaries that are not Loan Parties to enter into or otherwise be bound by any agreement prohibiting or restricting (i) the payment of dividends or distributions to any Loan Party, (ii) the making of loans or advances to any Loan Party, or (iii) the making of investments in any Loan Party; provided, however, that with respect to Subsidiaries of Loan Parties acquired after the date hereof, existing agreements of such Subsidiaries with Persons not an Affiliate of such Subsidiary or any Loan Party that may prohibit or restrict those activities described in (i) through (iii) above shall be permitted hereunder (each such agreement an "Existing

Restrictive Agreement"). In addition, the Borrower shall provide written notice to the Agent of any such Existing Restrictive Agreement within thirty (30) days after the acquisition of a Subsidiary which has previously entered into any such Existing Restrictive Agreement.

28. Clause (a) of Section 9.02 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted the following:

(a) any increase in the Commitments hereunder (other than pursuant to Section 2.21 hereof),

29. The following is hereby inserted as a new Section 9.20 of the Loan Agreement:

9.20 Judgment Currency.

(a) Currency Conversion Procedures for Judgments. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due hereunder or under a Revolving Credit Note in any currency (the "Original Currency") into another currency (the "Other Currency"), the parties hereby agree, to the fullest extent permitted by Law, that the rate of exchange used shall be that at which in accordance with normal banking procedures each Bank could purchase the Original Currency with the Other Currency after any premium and costs of exchange on the Business Day preceding that on which final judgment is given.

(b) Indemnity in Certain Events.

The obligation of Borrower in respect of any sum due from Borrower to any Bank hereunder shall, notwithstanding any judgment in an Other Currency, whether pursuant to a judgment or otherwise, be discharged only to the extent that, on the Business Day following receipt by any Bank of any sum adjudged to be so due in such Other Currency, such Bank may in accordance with normal banking procedures purchase the Original Currency with such Other Currency. If the amount of the Original Currency so purchased is less than the sum originally due to such Bank in the Original Currency, Borrower agrees, as a separate obligation and notwithstanding any such judgment or payment, to indemnify such Bank against such loss.

30. Schedule 1 to the Loan Agreement is hereby deleted in its entirety and replaced by Schedule 1 attached hereto.

31. Schedule 3.21 to the Loan Agreement is hereby deleted in its entirety and replaced by Schedule 3.21 attached hereto.

32. The provisions of Section 2 through 31 and Section 37 of this Second Amendment shall not become effective until the Agent has received the following, each in form and substance acceptable to the Agent:

- (a) this Second Amendment, duly executed by the Borrower and the Banks;
- (b) the documents listed in the Preliminary Closing Checklist set forth on Exhibit A attached hereto and made a part hereof; and
- (c) such other documents as may be reasonably requested by the Agent.

33. The Borrower hereby reconfirms and reaffirms all representations and warranties, agreements and covenants made by and pursuant to the terms and conditions of the Loan Agreement, except as such representations and warranties, agreements and covenants may have heretofore been amended, modified or waived in writing in accordance with the Loan Agreement, and except any such representations or warranties made as of a specific date or time, which shall have been true and correct in all material respects as of such date or time.

34. The Borrower acknowledges and agrees that each and every document, instrument or agreement which at any time has secured payment of the Borrower's Indebtedness under the Loan Agreement

including, but not limited to, (i) the Loan Agreement and (ii) the Guaranty Agreements continue to secure prompt payment when due of the Borrower's Indebtedness under the Loan Agreement.

35. The Borrower hereby represents and warrants to the Banks and the Agent that (i) the Borrower has the legal power and authority to execute and deliver this Second Amendment; (ii) the officers of the Borrowers executing this Second Amendment have been duly authorized to execute and deliver the same and bind the Borrower with respect to the provisions hereof; (iii) the execution and delivery hereof by the Borrower and the performance and observance by the Borrower of the provisions hereof and of the Loan Agreement and all documents executed or to be executed therewith, do not violate or conflict with the organizational documents of the Borrower or any Law applicable to the Borrower or result in a breach of any provision of or constitute a default which would have a Material Adverse Effect under any other agreement, instrument or document binding upon or enforceable against the Borrower and (iv) this Second Amendment, the Loan Agreement and the documents executed or to be executed by the Borrower in connection herewith or therewith constitute valid and binding obligations of the Borrower in every respect, enforceable in accordance with their respective terms.

36. The Borrower represents and warrants that (i) no Event of Default exists under the Loan Agreement, nor will any occur as a result of the execution and delivery of this Second Amendment or the performance or observance of any provision hereof; (ii) the Schedules attached to and made part of the Loan Agreement are true and correct as of the date hereof in all material respects and there are no material modifications or supplements thereto; and (iii) it presently has no claims or actions of any kind at law or in equity against the Banks or the Agent arising out of or in any way relating to the Loan Agreement or the other Loan Documents.

37. The Agent and the Banks hereby waive the requirement that Cloverleaf Group, Inc., a Pennsylvania corporation which was acquired by the Borrower, execute and deliver a Guaranty Agreement to the Agent in accordance with the provisions of Sections 5.16 of the Loan Agreement.

38. Each reference to the Loan Agreement that is made in the Loan Agreement or any other document executed or to be executed in connection therewith shall hereafter be construed as a reference to the Loan Agreement as amended hereby.

39. The agreements contained in this Second Amendment are limited to the specific agreements made herein. Except as amended hereby, all of the terms and conditions of the Loan Agreement shall remain in full force and effect. This Second Amendment amends the Loan Agreement and is not a novation thereof.

40. This Second Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument.

41. This Second Amendment shall be governed by, and shall be construed and enforced in accordance with, the Laws of the Commonwealth of Pennsylvania without regard to the principles or the conflicts thereof. The Borrower hereby consents to the jurisdiction and venue of the Court of Common Pleas of Allegheny County, Pennsylvania and the United States District Court for the Western District of Pennsylvania with respect to any suit arising out of or mentioning this Second Amendment.

[INTENTIONALLY LEFT BLANK]

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IN WITNESS WHEREOF, and intending to be legally bound, the parties hereto, have caused this Second Amendment to be duly executed by their duly authorized officers on the day and year first above written.

Borrower:

Matthews International Corporation

ATTEST

By: David F. Beck

By: Steven F. Nicola

Name: David F. Beck

Name: Steven F. Nicola

Title: Chief Financial Officer, Secretary and Treasurer

Title: Controller

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Citizens Bank of Pennsylvania, as Agent and for itself as a Bank

By: Dwayne R. Finney

Name: Dwayne R. Finney

Title: Senior Vice President

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PNC Bank, National Association, as Syndication Agent and for itself as a Bank

By: Brett R. Schweike

Name: Brett R. Schweike

Title: Vice President

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National City Bank of Pennsylvania, as Documentation Agent and for itself as a Bank

By: J. Barrett Donovan

Name: J. Barrett Donovan

Title: Assistant Vice President

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EXHIBIT A

Preliminary Closing Checklist

See Attached Schedule 1

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Schedule of Banks and Commitments

Bank	Commitment	Commitment Percentage
Citizens Bank of Pennsylvania 525 William Penn Place Pittsburgh, PA 15219 Attn: Dwayne Finney	\$60,000,000.00	40%
PNC Bank, National Association One PNC Plaza 249 Fifth Avenue Pittsburgh, PA 15222 Attn: Brett R. Schweikle	\$60,000,000.00	40%
National City Bank of Pennsylvania National City Center 20 Stanwix Street Pittsburgh, PA 15222 Attn: Barrett Donovan	\$30,000,000.00	20%
Total Commitment Amount	<u>\$150,000,000.00</u>	<u>100%</u>

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Schedule 3.21

Subsidiaries

*See Attached*

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ACKNOWLEDGMENT

COMMONWEALTH OF PENNSYLVANIA

)

) SS:

COUNTY OF ALLEGHENY

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On this, the \_\_\_\_ day of February, 2005, before me, a Notary Public, the undersigned officer, personally appeared \_\_\_\_\_, who acknowledged himself/herself to be the \_\_\_\_\_ of Matthews International Corporation, a Pennsylvania corporation (the "Company"), and that he/she as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the Company as such officer.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

\_\_\_\_\_  
Notary Public

My Commission Expires:

\_\_\_\_\_

CERTIFICATION  
PRINCIPAL EXECUTIVE OFFICER

I, David M. Kelly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Matthews International Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2005

David M. Kelly

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David M. Kelly  
Chairman of the Board, President  
and Chief Executive Officer

CERTIFICATION  
PRINCIPAL FINANCIAL OFFICER

I, Steven F. Nicola, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Matthews International Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2005

Steven F. Nicola

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Steven F. Nicola  
Chief Financial Officer,  
Secretary and Treasurer

Certification Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to

Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Matthews International Corporation (the "Company") on Form 10-Q for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Kelly, President and Chief Executive Officer, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

David M. Kelly

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David M. Kelly,  
President and Chief Executive Officer

February 8, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Matthews International Corporation and will be retained by Matthews International Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Certification Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to

Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Matthews International Corporation (the "Company") on Form 10-Q for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven F. Nicola, Chief Financial Officer, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Steven F. Nicola

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Steven F. Nicola,  
Chief Financial Officer

February 8, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Matthews International Corporation and will be retained by Matthews International Corporation and furnished to the Securities and Exchange Commission or its staff upon request.