

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 March 31, 2006

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 NORTSHORECENTER, 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of April 30, 2006, shares of common stock outstanding were:

Class A Common Stock 32,120,370 shares

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

	March 31, 2006	September 30, 2005*
	(unaudited)	(restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36,640	\$ 39,555
Short-term investments	68	67
Accounts receivable, net	108,562	115,362
Inventories	81,624	71,333
Other current assets	7,590	5,816
Total current assets	234,484	232,133
Investments	11,076	11,072
Property, plant and equipment: Cost	192,956	186,232
Less accumulated depreciation	(104,389)	(97,365)
	88,567	88,867
Deferred income taxes and other assets	27,709	26,314
Goodwill	280,125	260,672
Other intangible assets, net	45,153	46,397
 Total assets	\$ 687,114	\$ 665,455
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current maturities	\$ 30,084	\$ 28,721
Accounts payable	20,821	43,524
Accrued compensation	28,520	32,858
Accrued income taxes	10,244	11,640
Other current liabilities	29,958	28,834
Total current liabilities	119,627	145,577
Long-term debt	136,757	118,952
Postretirement benefits	28,084	25,508
Deferred income taxes	7,621	7,589
Environmental reserve	9,437	9,607
Other liabilities and deferred revenue	17,405	20,473
Shareholders' equity:		
Common stock	36,334	36,334
Additional paid-in capital	32,382	29,524
Retained earnings	376,860	350,311
Accumulated other comprehensive income	(1,812)	(1,359)
Treasury stock, at cost	(75,581)	(77,061)
	368,183	337,749
 Total liabilities and shareholders' equity	\$ 687,114	\$ 665,455

*See Note 3 for discussion of the retrospective adoption of SFAS No. 123(R).



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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2006	2005* (restated)	2006	2005* (restated)
Sales	\$ 181,068	\$ 156,243	\$ 351,177	\$ 304,949
Cost of sales	<u>(114,121)</u>	<u>(101,857)</u>	<u>(223,033)</u>	<u>(202,144)</u>
Gross profit	66,947	54,386	128,144	102,805
Selling and administrative expenses	<u>(37,886)</u>	<u>(28,875)</u>	<u>(76,665)</u>	<u>(57,804)</u>
Operating profit	29,061	25,511	51,479	45,001
Investment income	244	316	571	639
Interest expense	(1,576)	(538)	(3,016)	(1,021)
Other income (deductions), net	(18)	(335)	(51)	1,591
Minority interest	<u>(704)</u>	<u>(1,212)</u>	<u>(1,292)</u>	<u>(2,572)</u>
Income before income taxes	27,007	23,742	47,691	43,638
Income taxes	<u>(10,155)</u>	<u>(9,021)</u>	<u>(17,932)</u>	<u>(16,582)</u>
Net income	<u>\$ 16,852</u>	<u>\$ 14,721</u>	<u>\$ 29,759</u>	<u>\$ 27,056</u>
Earnings per share:				
Basic	<u>\$.53</u>	<u>\$.46</u>	<u>\$.93</u>	<u>\$.84</u>
Diluted	<u>\$.52</u>	<u>\$.45</u>	<u>\$.92</u>	<u>\$.83</u>

*See Note 3 for discussion of the retrospective adoption of SFAS No. 123(R).

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

	Six Months Ended	
	March 31,	
	<u>2006</u>	<u>2005*</u>
		(restated)
Cash flows from operating activities:		
Net income	\$ 29,759	\$ 27,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,706	9,832
Minority interest	1,292	2,572
Stock-based compensation expense	2,448	1,503
Change in deferred taxes	(899)	(618)
Changes in working capital items	(22,342)	(13,904)
Increase (decrease) in other assets	(271)	906
Increase (decrease) in other liabilities	(400)	190
Increase in postretirement benefits	2,576	1,940
Net (gain) loss on sale of assets	<u>67</u>	<u>(320)</u>
Net cash provided by operating activities	<u>22,936</u>	<u>29,157</u>
Cash flows from investing activities:		
Capital expenditures	(7,488)	(7,909)
Proceeds from sale of assets	90	735
Acquisitions, net of cash acquired	(29,900)	(6,693)
Purchases of investments	(104)	(467)
Proceeds from disposition of investments	<u>7</u>	<u>1,514</u>
Net cash used in investing activities	<u>(37,395)</u>	<u>(12,820)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	38,299	1,622
Payments on long-term debt	(21,019)	(10,474)
Proceeds from the sale of treasury stock	1,421	4,477
Purchases of treasury stock	(36)	(27,078)
Tax benefit of exercised stock options	710	2,295
Dividends	(3,210)	(2,886)
Distributions to minority interests	<u>(3,910)</u>	<u>(3,926)</u>
Net cash (used in) provided by financing activities	<u>12,255</u>	<u>(35,970)</u>
Effect of exchange rate changes on cash	<u>(711)</u>	<u>(50)</u>
Net decrease in cash and cash equivalents	<u>\$ (2,915)</u>	<u>\$ (19,683)</u>

*See Note 3 for discussion of the retrospective adoption of SFAS No. 123(R).

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze memorials and other memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, marking products, and merchandising solutions. The Company's products and operations are comprised of six business segments: Bronze, Casket, Cremation, Graphics Imaging, Marking Products and Merchandising Solutions. The Bronze segment is a leading manufacturer of cast bronze memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Casket segment is a leading casket manufacturer in 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 and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

The Company has manufacturing and marketing facilities in the United States, Canada, Mexico, Australia, 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 and six months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006. 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, 2005. Certain amounts derived from the Annual Report on Form 10-K for the year ended September 30, 2005 have been restated for the retrospective adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), "Stock-Based Payment", ("SFAS No. 123(R)") (See Note 3). The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. All intercompany accounts and transactions have been eliminated.

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

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 was adopted by the Company in the second quarter of fiscal 2006 as required and had no material impact on the Company's consolidated financial position and results of operations.

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

Reclassifications and restatements:

Prior period amounts have been adjusted to reflect the modified retrospective adoption method of SFAS No. 123(R) (See Note 3). In addition, certain reclassifications have been made in the Consolidated Statements of Cash Flows and Consolidated Balance Sheets for prior periods to conform to the current period presentation.

Note 3. Stock-Based Compensation

The Company has a stock incentive plan that provides for grants of incentive stock options, non-statutory stock options and restricted share awards in an aggregate number not to exceed 15% of the outstanding shares of the Company's common stock. The plan is administered by the Compensation Committee of the Board of Directors. The option price for each stock option that may be granted under the plan may not be less than the fair market value of the Company's common stock on the date of grant. The aggregate number of shares of the Company's common stock that may be issued upon exercise of stock options was 4,817,765 shares at March 31, 2006.

Outstanding stock options are exercisable in various share amounts based on the attainment of certain market value levels of Class A Common Stock. In addition, options generally vest in one-third increments after three, four and five years, respectively, from the grant date (but, in any event, not until the attainment of the certain market value levels). The options expire on the earlier of ten years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company generally settles employee stock option exercises with treasury shares.

Prior to October 1, 2005, the Company accounted for its stock-based compensation plan in accordance with the intrinsic value provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", ("APB No. 25") and provided the required pro-forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation", ("SFAS No. 123"). Effective October 1, 2005, the Company adopted SFAS No. 123(R) using the modified retrospective method. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period. In accordance with SFAS No. 123(R), financial statements for all periods prior to October 1, 2005 have been adjusted to give effect to the fair-value based method of accounting for all awards granted in fiscal years beginning after December 15, 1994. Amounts previously disclosed as pro-forma adjustments have been reflected in earnings for all prior periods.

The following table details the impact of retrospective application of SFAS No. 123(R) on previously reported amounts:

	<u>Restated</u>	<u>As previously reported</u>
For the quarter ended March 31, 2005:		
Operating profit	\$ 25,511	\$ 26,385
Income before income taxes	\$ 23,742	\$ 24,616
Net income	\$ 14,721	\$ 15,263
Earnings per share of common stock:		
Basic	\$.46	\$.47
Diluted	\$.45	\$.47
For the six months ended March 31, 2005:		
Operating profit	\$ 45,001	\$ 46,504
Income before income taxes	\$ 43,638	\$ 45,141
Net income	\$ 27,056	\$ 27,988
Earnings per share of common stock:		
Basic	\$.84	\$.87
Diluted	\$.83	\$.86
Net cash provided by operating activities	\$ 29,157	\$ 27,526
Net cash used in financing activities	\$ 35,970	\$ 34,339

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

	Restated	As previously reported
At September 30, 2005:		
Deferred income taxes and other assets	\$ 26,314	\$ 22,926
Total assets	\$ 665,455	\$ 662,067
Additional paid-in capital	\$ 29,524	\$ 14,113
Retained earnings	\$ 350,311	\$ 362,334
Total shareholders' equity	\$ 337,749	\$ 334,361

For the three month periods ended March 31, 2006 and 2005, stock-based compensation cost totaled \$1,087 and \$874, respectively. For the six month periods ended March 31, 2006 and 2005, stock-based compensation cost totaled \$2,448 and \$1,503, respectively. The associated future income tax benefit recognized was \$424 and \$332 for the three month periods ended March 31, 2006 and 2005, respectively, and was \$955 and \$571 for the six month periods ended March 31, 2006 and 2005, respectively.

The amount of cash received from the exercise of stock options was \$1,095 and \$1,275, for the three month periods ended March 31, 2006 and 2005, respectively, and \$1,421 and \$4,477, for the six month periods ended March 31, 2006 and 2005, respectively. In connection with these exercises, the tax benefits realized by the Company were \$429 and \$405 for the three month periods ended March 31, 2006 and 2005, respectively, and \$710 and \$2,295 for the six month periods ended March 31, 2006 and 2005, respectively.

The transactions for shares under options for the six months ended March 31, 2006 were as follows:

	Shares	Weighted- average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value
Outstanding, September 30, 2005	2,090,607	\$ 25.50		
Granted	610,500	37.31		
Exercised	87,116	16.66		
Expired or forfeited	24,390	24.03		
Outstanding, March 31, 2006	2,589,601	\$ 28.59	7.7	\$ 25,034
Exercisable, March 31, 2006	856,759	\$ 20.40	5.9	\$ 15,299
Shares reserved for future options	2,228,164			

The weighted-average grant date fair value of options granted for the six month periods ended March 31, 2006 and 2005 was \$9.47 and \$11.61, respectively. The fair value of shares earned was \$915 and \$1,148, during the three month periods ended March 31, 2006 and 2005, respectively, and \$3,594 and \$1,723 during the six month periods ended March 31, 2006 and 2005, respectively. The intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the six month periods ended March 31, 2006 and 2005 was \$1,887 and \$6,681, respectively.

The transactions for non-vested shares for the six months ended March 31, 2006 were as follows:

	Shares	Weighted-average grant-date fair value
Non-vested at October 1, 2005	1,621,874	\$9.58
Granted	610,500	9.47
Vested	(515,976)	6.97
Expired or forfeited	(23,556)	7.97
Non-vested at March 31, 2006	1,692,842	\$9.66

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

As of March 31, 2006 the total unrecognized compensation cost related to non-vested stock options was approximately \$6,358. This cost is expected to be recognized over a weighted-average period of 3.8 years in accordance with the vesting periods of the options.

As of October 1, 2005, the fair value of each option grant is estimated on the date of grant using a binomial lattice valuation model. Prior to October 1, 2005, the fair value of each option award was estimated on the grant date using a Black-Scholes valuation model. The following table indicates the assumptions used in estimating fair value for the six month periods ended March 31, 2006 and 2005.

	Six Months Ended March 31,	
	2006 (Binomial Lattice)	2005 (Black-Scholes)
Expected volatility	24.0 %	24.2 %
Dividend yield	.6 %	1.0 %
Average risk free interest rate	4.4 %	3.9 %
Average expected term (years)	5.5	7.9

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

Under the Company's Director Fee Plan, directors who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$30. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. Directors may also elect to receive the common stock equivalent of meeting fees credited to a deferred stock account. The value of deferred shares is recorded in other liabilities. A total of 51,313 shares had been deferred under the Director Fee Plan at March 31, 2006. Additionally, beginning in fiscal 2005, directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of \$40. A total of 22,300 stock options have been granted under the plan, all of which were outstanding and unvested at March 31, 2006. Additionally, 4,800 shares of restricted stock were granted in March 2006 under the plan. The restricted shares generally vest two years after the date of issuance. A total of 500,000 shares have been authorized to be issued under the Director Fee Plan.

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 2006 of 37.6% and the Federal statutory rate of 35.0% primarily reflects the impact of state and foreign income taxes.

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

Note 5. Earnings Per Share

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2006	2005	2006	2005
Net income	\$ 16,852	\$ 14,721	\$ 29,759	\$ 27,056
Weighted-average common shares outstanding	32,087,041	32,141,437	32,063,349	32,219,152
Dilutive securities, primarily stock options	206,038	203,639	263,975	209,471
Diluted weighted-average common shares outstanding	32,293,079	32,345,076	32,327,324	32,428,623
Basic earnings per share	\$.53	\$.46	\$.93	\$.84
Diluted earnings per share	\$.52	\$.45	\$.92	\$.83

Net income and earnings per share for 2005 have been restated to reflect the adoption of SFAS No. 123(R) (see Note 3).

Note 6. Segment Information

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

The Company adopted SFAS No. 123(R), effective October 1, 2005 (see Note 3). Accordingly, the impact of stock options granted has been included in the operating results noted below, with prior periods restated to include the pro-forma amounts previously reported under SFAS No. 123 using a Black-Scholes valuation model.

Information about the Company's segments follows:

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2006	2005	2006	2005
Sales to external customers:				
<u>Memorialization:</u>				
Bronze	\$ 53,138	\$ 50,584	\$ 101,822	\$ 94,563
Casket	55,204	33,176	103,398	62,875
Cremation	6,672	5,552	12,382	10,699
	<u>115,014</u>	<u>89,312</u>	<u>217,602</u>	<u>168,137</u>
<u>Brand Solutions:</u>				
Graphics Imaging	34,258	35,496	67,548	70,403
Marking Products	13,027	10,459	25,288	20,883
Merchandising Solutions	18,769	20,976	40,739	45,526
	<u>66,054</u>	<u>66,931</u>	<u>133,575</u>	<u>136,812</u>
	<u>\$ 181,068</u>	<u>\$ 156,243</u>	<u>\$ 351,177</u>	<u>\$ 304,949</u>

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
Operating profit:				
<u>Memorialization:</u>				
Bronze	\$ 15,025	\$ 14,601	\$ 26,951	\$ 24,742
Casket	6,909	5,193	10,497	8,559
Cremation	1,115	180	1,688	(15)
	<u>23,049</u>	<u>19,974</u>	<u>39,136</u>	<u>33,286</u>
<u>Brand Solutions:</u>				
Graphics Imaging	4,064	3,511	7,618	6,668
Marking Products	2,421	1,525	4,356	3,117
Merchandising Solutions	(473)	501	369	1,930
	<u>6,012</u>	<u>5,537</u>	<u>12,343</u>	<u>11,715</u>
	<u>\$ 29,061</u>	<u>\$ 25,511</u>	<u>\$ 51,479</u>	<u>\$ 45,001</u>

Note 7. Comprehensive Income

Comprehensive income consists of net income adjusted for changes, net of the related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and minimum pension liability. For the three months ended March 31, 2006 and 2005, comprehensive income was \$18,717 and \$11,008, respectively. For the six months ended March 31, 2006 and 2005, comprehensive income was \$29,306 and \$31,574, respectively. Comprehensive income for the three and six month periods ended March 31, 2005 has been restated to reflect the adoption of SFAS No. 123(R) (see Note 3).

Note 8. Goodwill and Other Intangible Assets

Goodwill related to business combinations is not amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment the Company uses a combination of valuation techniques, including discounted cash flows. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets. The Company performs its annual impairment review in the second fiscal quarter.

Changes to goodwill, net of accumulated amortization, for the six months ended March 31, 2006, were as follows.

	Bronze	Casket	Cremation	Graphics Imaging	Marking Products	Merchandising Solutions	Consolidated
Balance at September 30, 2005	\$ 73,029	\$ 91,977	\$ 6,536	\$ 73,970	\$ 5,213	\$ 9,947	\$ 260,672
Additions during period	-	13,019	-	6,302	-	-	19,321
Translation and other adjustments	66	-	-	66	-	-	132
Balance at March 31, 2006	<u>\$ 73,095</u>	<u>\$ 104,996</u>	<u>\$ 6,536</u>	<u>\$ 80,338</u>	<u>\$ 5,213</u>	<u>\$ 9,947</u>	<u>\$ 280,125</u>

The additions to Graphics Imaging goodwill relate primarily to the purchase of the Doyle Group. The additions to Casket goodwill relate to the acquisition of Royal Casket and a smaller domestic casket distributor.

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

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of March 31, 2006 and September 30, 2005, respectively.

	Carrying Amount	Accumulated Amortization	Net
<u>March 31, 2006</u>			
Trade names	\$ 23,480	\$ -*	\$ 23,480
Customer relationships	20,748	(2,104)	18,644
Copyrights/patents/other	4,921	(1,892)	3,029
	<u>\$ 49,149</u>	<u>\$ (3,996)</u>	<u>\$ 45,153</u>
<u>September 30, 2005</u>			
Trade names	\$ 23,585	\$ -*	\$ 23,585
Customer relationships	20,778	(1,517)	19,261
Copyrights/patents/other	4,952	(1,401)	3,551
	<u>\$ 49,315</u>	<u>\$ (2,918)</u>	<u>\$ 46,397</u>

*Not subject to amortization

Note 9. Debt

The Company has a Revolving Credit Facility with a syndicate of financial institutions which allows for borrowings up to \$150,000. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, 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 requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at March 31, 2006 were \$137,833. The weighted-average interest rate on outstanding borrowings at March 31, 2006 and 2005 was 4.45% and 3.16%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of \$50,000. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2006). The interest rate swap was 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 matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered highly effective. Equal quarterly principal payments of \$2,500 plus interest are due on this \$50,000 borrowing until its maturity in April 2009.

Effective September 30, 2005, the Company entered into an interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on additional borrowings in an initial amount of \$50,000. The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2006). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the

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

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 highly effective. Equal quarterly principal payments of \$3,333 plus interest are due on this \$50,000 portion of the borrowing until its maturity in April 2009.

The fair value of the interest rate swaps reflected an unrealized gain of \$2,028 (\$1,237 after tax) at March 31, 2006 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2006, approximately \$401 of the \$1,237 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.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with a bank for borrowings up to 10.0 million Euros. At March 31, 2006, outstanding borrowings under the credit facility totaled 10.0 million Euros (\$12,121). The weighted-average interest rate on outstanding borrowings of MIGmbH was 3.07% at March 31, 2006.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 8.5 million Euros (\$10,344) at March 31, 2006. Caggiati S.p.A. also has three lines of credit totaling 8.4 million Euros (\$10,145) with the same Italian banks. Outstanding borrowings on these lines were 3.7 million Euros (\$4,456) at March 31, 2006. The weighted-average interest rate on outstanding borrowings of Caggiati S.p.A. at March 31, 2006 and 2005 was 3.12% and 3.20%, respectively.

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 for the plans:

Three months ended March 31,	Pension		Other Postretirement	
	2006	2005	2006	2005
Service cost	\$ 1,037	\$ 927	\$ 158	\$ 127
Interest cost	1,487	1,404	307	293
Expected return on plan assets	(1,708)	(1,585)	-	-
Amortization:				
Prior service cost	(4)	21	(322)	(322)
Net actuarial loss	373	344	161	124
Net benefit cost	\$ 1,185	\$ 1,111	\$ 304	\$ 222

Six months ended March 31,	Pension		Other Postretirement	
	2006	2005	2006	2005
Service cost	\$ 2,164	\$ 1,854	\$ 316	\$ 253
Interest cost	2,962	2,808	614	586
Expected return on plan assets	(3,416)	(3,168)	-	-
Amortization:				
Prior service cost	(8)	42	(644)	(644)
Net actuarial loss	872	689	322	247
Net benefit cost	\$ 2,574	\$ 2,225	\$ 608	\$ 442

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 funded from the Company's operating funds. The Company does not currently expect to make any significant contributions to its principal retirement plan in fiscal 2006. As of March 31, 2006, contributions of \$148 and \$790 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$197 and \$171 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2006.

Note 11. Acquisitions

Acquisition spending, net of cash acquired, during the six months ended March 31, 2006 totaled \$29,900, and primarily included the following:

On March 1, 2006, the Company acquired Royal Casket Company ("Royal"), a distributor of primarily York brand caskets in the Southwest region of the United States. The transaction was structured as an asset purchase, with potential additional consideration payable contingent upon the operating performance of the acquired operations during the next five years. The Company expects to account for this consideration as additional purchase price. The acquisition was intended to expand Matthews' casket distribution capabilities in the Southwestern United States.

On February 23, 2006, the Company acquired the Doyle Group ("Doyle"), a provider of reprographic services to the packaging industry, located in Oakland, California. The transaction was structured as an asset purchase, with potential additional consideration payable contingent upon the operating performance of the acquired operations during the next three years. The acquisition was intended to expand the Company's graphics business in the Western United States.

On September 30, 2005, the Company acquired an additional 30% interest in S+T, which was paid in October 2005. The Company had acquired a 50% interest in S+T in 1998.

In July 2005, the Company acquired Milso, a leading manufacturer and distributor of caskets in the United States. Milso, headquartered in Brooklyn, New York, has manufacturing operations in Richmond, Indiana and maintains distribution centers throughout the Northeast, Mid-Atlantic, Midwest and Southwest regions of the United States. The transaction was structured as an asset purchase, at an initial purchase price of approximately \$95,000. The transaction was also structured to include potential additional consideration of \$7,500 contingent on the fiscal 2006 performance of the acquired operations. The Company expects to account for this consideration as additional purchase price. The acquisition was intended to expand Matthews' products and services in the United States casket market.

Acquired intangible assets of Milso include trade names with an assigned value of \$5,800, which are not subject to amortization. Intangible assets also include customer relationships with an assigned value of \$10,400 to be amortized over their estimated useful lives of 20 years.

The following unaudited pro-forma information presents a summary of the consolidated results of Matthews combined with Milso as if the acquisition had occurred on October 1, 2004:

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2006	2005	2006	2005
Sales	\$ 181,068	\$ 181,914	\$ 351,177	\$ 348,556
Income before taxes	27,007	28,797	47,691	48,367
Net income	16,852	17,392	29,759	29,988
Earnings per share	\$.52	\$.53	\$.92	\$.92

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

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 June 2005, the Company paid additional consideration to the minority owner of Rudolf Reproflex GmbH (“Rudolf”) under the terms of the original acquisition agreement. The Company had acquired a 75% interest in Rudolf in 2001.

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, 2005. 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 or as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control. In addition, although the Company does not have any single customer that would be considered individually significant to consolidated sales, the potential loss of one or more of the Company's larger customers could be considered a risk factor.

Results of Operations:

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

	Six months ended				Years ended			
	March 31,				September 30,			
	2006	2005	2005	2004				
Sales	100.0	100.0	100.0	100.0	%	%	%	%
Gross profit	36.5	33.7	34.9	38.1	%	%	%	%
Operating profit	14.7	14.8	15.4	18.7	%	%	%	%
Income before taxes	13.6	14.3	14.5	17.5	%	%	%	%
Net income	8.5	8.9	9.1	10.7	%	%	%	%

Results of Operations:

Sales for the six months ended March 31, 2006 were \$351.2 million, or 15.2%, higher than sales of \$304.9 million for the six months ended March 31, 2005. The increase resulted principally from the acquisition of Milso Industries ("Milso") in the fourth quarter of fiscal 2005 and higher sales in the Bronze, Cremation and Marking Products segments. These increases were offset partially by the effect of lower foreign currency values against the U.S. dollar and lower sales in the Merchandising Solutions segment. For the six months ended March 31, 2006, changes in foreign currency values against the U.S. dollar had an unfavorable impact of approximately \$5.7 million on the Company's consolidated sales compared to the six months ended March 31, 2005.

Bronze segment sales for the first six months of fiscal 2006 were \$101.8 million compared to \$94.6 million for the first six months of fiscal 2005. The increase of 7.7% in Bronze sales primarily reflected higher prices for memorial products and higher mausoleum sales. These increases were partially offset by the effects of changes in the values of foreign currencies against the U.S. dollar. Sales for the Casket segment were \$103.4 million for the first six months of fiscal 2006 compared to \$62.9 million for the same period in fiscal 2005. The increase reflected the acquisition of Milso. Excluding Milso, fiscal 2006 sales volume was lower than fiscal 2005, partially attributable to a lower death rate and partially related to the transition to Company-owned distribution in certain territories. Sales for the Cremation segment were \$12.4 million for the first half of fiscal 2006 compared to \$10.7 million for the same period a year ago. The increase primarily reflected higher sales and improved pricing of cremation equipment and cremation caskets. Sales for the Graphics Imaging segment in the first half of fiscal 2006 were \$67.5 million, compared to \$70.4 million for the same period a year ago. The decline primarily reflected a decrease in the value of foreign currencies against the U.S. dollar, offset by higher sales in domestic markets. Marking Products segment sales for the six months ended March 31, 2006 were \$25.3 million, compared to \$20.9 million for the first six months of fiscal 2005. The increase of \$4.4 million, or 21.1%, was principally due to higher sales volume, particularly in the segment's industrial automation business. Sales for the Merchandising Solutions segment were \$40.7 million for the first half of fiscal 2006, compared to \$45.5 million for the same period a year ago. The decline is attributable to lower volume of merchandising systems and displays. In addition, the first half of fiscal 2005 included sales for several large customer promotional programs that did not repeat in this fiscal year.

Gross profit for the six months ended March 31, 2006 was \$128.1 million, compared to \$102.8 million for the six months ended March 31, 2005. The increase in consolidated gross profit primarily reflected the acquisition of Milso during the fourth quarter of fiscal 2005, higher sales in the Bronze, Cremation and Marking Products segments and the effects of manufacturing improvements and cost reduction initiatives. These gains were partially offset by operating costs at the Company's new casket manufacturing facility in Mexico, lower sales in the Merchandising Solutions segment and lower foreign currency values against the U.S. dollar. Consolidated gross profit as a percent of sales increased from 33.7% for the first half of fiscal 2005 to 36.5% for the first six months of fiscal 2006. The increase primarily reflected the Milso acquisition and improved margins in the Graphics Imaging and Cremation segments. These increases were partially offset by a decline in Bronze gross margin reflecting the significant rise in bronze ingot cost.

Selling and administrative expenses for the six months ended March 31, 2006 were \$76.7 million, compared to \$57.8 million for the first half of fiscal 2005. Consolidated selling and administrative expenses as a percent of sales were 21.8% for the six months ended March 31, 2006, compared to 19.0% for the same period last year. The increases primarily reflected the acquisition of Milso during the fourth quarter of fiscal 2005 and the expansion of the Casket segment's casket distribution capabilities. Bronze segment selling and administrative expenses decreased in fiscal 2006 compared to fiscal 2005 due to cost containment efforts intended to mitigate some of the increase in bronze metal costs.

Operating profit for the six months ended March 31, 2006 was \$51.5 million, representing an increase of \$6.5 million over operating profit of \$45.0 million for the six months ended March 31, 2005. The increase of 14.4% reflected higher operating income in five of the Company's six operating segments. Bronze segment operating profit for the first half of fiscal 2006 was \$26.9 million, compared to \$24.7 million for the same period in fiscal 2005. However, for the second quarter of fiscal 2006, the increase in Bronze segment operating profit over the fiscal 2005 quarter was less than 3%, and operating profit as a percentage of sales declined from the second quarter a year ago. The reduction in margin is directly attributable to the significant increase in bronze metal costs. Operating profit for the Casket segment for the first six months of fiscal 2006 was \$10.5 million, compared to \$8.6 million for the first half of fiscal 2005. The increase reflected the Milso acquisition, offset by lower sales in several territories, operating costs in excess of revenues at the Company's new casket manufacturing facility in Mexico and costs incurred in connection with the shut-down of the segment's Lynn, Indiana manufacturing facility during the second quarter of fiscal 2006. Cremation segment operating profit for the six months ended March 31, 2006 was \$1.7 million, compared to an operating loss of \$15,000 for the same period a year ago. The increase reflected higher sales, improved pricing and cost reduction initiatives. The Graphics Imaging segment operating profit for the six months ended March 31, 2006 was \$7.6 million, compared to \$6.7 million for the six months ended March 31, 2005. The increase reflected cost structure changes implemented within the segment's U.S. and U.K. operations in the fiscal 2005 fourth quarter, offset partially by lower foreign currency values against the U.S. dollar. Operating profit for the Marking Products segment for the first six months of fiscal 2006 was \$4.4 million, compared to \$3.1 million for the same period a year ago. The increase primarily resulted from higher sales. The Merchandising Solutions segment operating profit was \$369,000 for the six months ended March 31, 2006, compared to \$1.9 million for the same period in fiscal 2005. The decrease primarily reflected lower sales in fiscal 2006 compared to fiscal 2005. For the six months ended March 31, 2006, changes in foreign currency values against the U.S. dollar had an unfavorable impact of approximately \$1.0 million on the Company's consolidated operating profit compared to the six months ended March 31, 2005.

Investment income for the six months ended March 31, 2006 was \$571,000, compared to \$639,000 for the six months ended March 31, 2005. Interest expense for the first half of fiscal 2006 was \$3.0 million, compared to \$1.0 million for the same period last year. The increase in interest expense primarily reflected a higher average level of debt and higher average interest rates during the fiscal 2006 six-month period compared to the same period in fiscal 2005. The increased debt level in fiscal 2006 primarily resulted from additional borrowings under the Company's domestic Revolving Credit Facility in connection with recent acquisitions.

Other income (deductions), net, for the six months ended March 31, 2006 represented a reduction in pre-tax income of \$51,000, compared to an increase in pre-tax income of \$1.6 million for the same period last year. Other income in the first six months of fiscal 2005 primarily reflected foreign currency exchange gains on intercompany advances to foreign affiliates.

Minority interest deduction was \$1.3 million for the first half of fiscal 2006, compared to \$2.6 million for the same period in fiscal 2005. The reduction in minority interest reflects the Company's acquisition of an additional 30% interest in S+T Gesellschaft für Reprotechnik GmbH ("S+T") on September 30, 2005, and lower earnings from the Company's other less than wholly-owned subsidiaries.

The Company's effective tax rate for the six months ended March 31, 2006 was 37.6% which is the same as the effective tax rate for the fiscal year ended September 30, 2005. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state and foreign income taxes.

Goodwill:

Goodwill related to business combinations is not amortized, but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a combination of valuation techniques, including discounted cash flows. The Company performed its annual impairment review in the second quarter of fiscal 2006 and determined that no additional adjustments to the carrying values of goodwill were necessary at March 31, 2006.

Liquidity and Capital Resources:

Net cash provided by operating activities was \$22.9 million for the six months ended March 31, 2006, compared to \$29.2 million for the first six months of fiscal 2005. Operating cash flow for both periods primarily reflected net income adjusted for depreciation, amortization, stock-based compensation expense and an increase in minority interest, partially offset by an increase in working capital. The year-over-year decline in cash provided by operating activities is attributable to an increase in working capital primarily resulting from the Casket segment's investment in casket distribution capabilities.

Cash used in investing activities was \$37.4 million for the six months ended March 31, 2006, compared to \$12.8 million for the six months ended March 31, 2005. Investing activities for the first six months of fiscal 2006 primarily included capital expenditures of \$7.5 million and acquisition related payments of \$29.9 million. Investing activities for the first six months of fiscal 2005 primarily included capital expenditures of \$7.9 million, acquisition related payments of \$6.7 million and proceeds from the net disposition of assets 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 \$15.9 million for the last three fiscal years. The capital budget for fiscal 2006 is \$27.7 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash provided by financing activities for the six months ended March 31, 2006 was \$12.3 million, primarily reflecting net borrowings of long-term debt of \$17.3 million, proceeds of \$1.4 million from the sale of treasury stock (stock option exercises), a tax benefit of \$710,000 from exercised stock options, payment of dividends of \$3.2 million to the Company's shareholders and distributions of \$3.9 million to minority interests. Cash used in financing activities for the six months ended March 31, 2005 was \$36.0 million, primarily reflecting net payments on long-term debt of \$8.9 million, purchases of treasury stock of \$27.1 million, payment of dividends of \$2.9 million to the Company's shareholders and distributions of \$3.9 million to minority interests, partially offset by proceeds of \$4.5 million from the sale of treasury stock (stock option exercises) and a tax benefit of \$2.3 million from exercised stock options.

The Company has a Revolving Credit Facility with a syndicate of financial institutions, which allows for borrowings up to \$150.0 million. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, 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 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. Outstanding borrowings on the Revolving Credit Facility at March 31, 2006 were \$137.8 million. The weighted-average interest rate on outstanding borrowings at March 31, 2006 and 2005 was 4.45% and 3.16%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of \$50.0 million. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2006). The interest rate swap was 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 matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered highly effective. Equal quarterly principal payments of \$2.5 million plus interest are due on this \$50.0 million borrowing until its maturity in April 2009.

Effective September 30, 2005, the Company entered into an additional interest rate swap that fixed, for the period through maturity of the Revolving Credit Facility, the interest rate on additional borrowings in an initial amount of \$50.0 million. The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2006). The interest rate swap was 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 were considered highly effective. Equal quarterly principal payments of \$3.3 million plus interest are due on this \$50.0 million borrowing until its maturity in April 2009.

The fair value of the interest rate swaps reflected an unrealized gain of \$2.0 million (\$1.2 million after tax) at March 31, 2006 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2006, approximately \$401,000 of the \$1.2 million 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.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with a bank for borrowings up to 10.0 million Euros. At March 31, 2006, outstanding borrowings under the credit facility totaled 10.0 million Euros (\$12.1 million). The weighted-average interest rate on outstanding MIGmbH related borrowings was 3.07% at March 31, 2006.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 8.5 million Euros (\$10.3 million) at March 31, 2006. Caggiati S.p.A. also has three lines of credit totaling approximately 8.4 million Euros (\$10.1 million) with the same Italian banks. Outstanding borrowings on these lines were 3.7 million Euros (\$4.5 million) at March 31, 2006. The weighted-average interest rate on outstanding borrowings of Caggiati S.p.A. at March 31, 2006 and 2005 was 3.12% and 3.20%, respectively.

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 8,622,396 shares have been repurchased as of March 31, 2006. 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 \$114.9 million at March 31, 2006, compared to \$86.6 million at September 30, 2005. Cash and cash equivalents were \$36.6 million at March 31, 2006, compared to \$39.6 million at September 30, 2005. The Company's current ratio was 2.0 at March 31, 2006, compared to 1.6 at September 30, 2005.

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, The York Group, Inc. ("York") was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a landfill site in York, Pennsylvania. At this time, the Company has not been joined in any lawsuit or administrative order related to the site or its clean-up.

At March 31, 2006, an accrual of \$10.2 million was recorded for environmental remediation (of which \$769,000 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 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:

Acquisition spending, net of cash acquired, during the six months ended March 31, 2006 totaled \$29.9 million, and primarily included the following:

On March 1, 2006, the Company acquired Royal Casket Company ("Royal"), a distributor of primarily York brand caskets in the Southwest region of the United States. The transaction was structured as an asset purchase with potential additional consideration payable contingent upon the operating performance of the acquired operations during the next five years. The Company expects to account for this consideration as additional purchase price. The acquisition was intended to expand Matthews' casket distribution capabilities in the Southwestern United States.

On February 23, 2006, the Company acquired the Doyle Group ("Doyle"), a provider of reprographic services to the packaging industry, located in Oakland, California. The transaction was structured as an asset purchase, with potential additional consideration payable contingent upon the operating performance of the acquired operations during the next three years. The acquisition was intended to expand the Company's graphics business in the Western United States.

On September 30, 2005, the Company acquired an additional 30% interest in S+T, which was paid in October 2005. The Company had acquired a 50% interest in S+T in 1998.

In July 2005, the Company acquired Milso, a leading manufacturer and distributor of caskets in the United States. Milso, headquartered in Brooklyn, New York, has manufacturing operations in Richmond, Indiana and maintains distribution centers throughout the Northeast, Mid-Atlantic, Midwest and Southwest regions of the United States. The transaction was structured as an asset purchase, at an initial purchase price of approximately \$95.0 million. The transaction was also structured to include potential additional consideration of \$7.5 million contingent on the fiscal 2006 performance of the acquired operations. The Company expects to account for this consideration as additional purchase price. The acquisition was intended to expand Matthews' products and services in the United States casket market.

In June 2005, the Company paid additional consideration to the minority owner of Rudolf Reproflex GmbH ("Rudolf") under the terms of the original acquisition agreement. The Company had acquired a 75% interest in Rudolf in 2001.

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 eleven fiscal years, the Company has achieved an average annual increase in earnings per share of 15.7%. 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 results for the first six months of fiscal 2006 were the continued increase in the cost of bronze ingot, the recent acquisition of Milso, operating costs for the Company's new casket facility in Mexico and the low profitability rate of the Merchandising Solutions segment. While cost structure initiatives, productivity improvements and facility consolidation efforts are intended to address some of this impact, these factors are expected to continue to be a challenge for the remainder of the fiscal year, particularly in the competitive markets served by the Company.

Additionally, the Company's Casket segment is undergoing a transition in strategy for the distribution of its casket products. With the recent acquisitions by this segment, the Company's casket sales are now made through a combination of independent distributors and Company-owned distribution facilities under both the Milso and York brand names. The Company intends to continue to evaluate its casket distribution strategies for each of its sales territories to determine the appropriate combination of sales through independent distributors and Company-owned operations that will provide the highest opportunity for growth in the casket market. Although it is possible any actions taken as a result of this evaluation may result in near-term volatility in the operating results of this segment, our strategies will be designed toward the long-term growth of this business.

Earlier in the fiscal year the Company was cautiously optimistic that diluted earnings per share growth in fiscal 2006 would exceed our annual long-term target. However, based on current anticipated internal growth, the impact of the Company's recent acquisitions and the factors discussed above, the Company's current projections for diluted earnings per share are more in line with our traditional 12 percent to 15 percent growth target and are expected to be in the range of \$2.00 to \$2.10 per share.

Critical Accounting Policies:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Therefore, the determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, economic conditions, and in some cases, actuarial techniques. Actual results may differ from those estimates. A discussion of market risks affecting the Company can be found in "Quantitative and Qualitative Disclosures about Market Risk" in this Quarterly Report on Form 10-Q.

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2005. 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.

Share-Based Payment:

Prior to October 1, 2005, the Company accounted for its stock-based compensation plan in accordance with the intrinsic value provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and provided the required pro-forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation". Effective October 1, 2005, the Company adopted SFAS No. 123(R) using the modified retrospective method. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period. In accordance with SFAS No. 123(R), financial statements for all periods prior to October 1, 2005 have been adjusted to give effect to the fair-value method of accounting for all awards granted in fiscal years beginning after December 15, 1994. Amounts previously disclosed as pro-forma adjustments have been reflected in earnings for all prior periods.

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 March 31, 2006, the Company held 351,267 memorials and 246,748 vases in its storage facilities under the “pre-need” sales program.

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 March 31, 2006, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

	Payments due in fiscal year:				
	Total	2006 Remainder	2007 to 2008	2009 to 2010	After 2011
Contractual Cash Obligations:	(Dollar amounts in thousands)				
Revolving credit facilities	\$ 149,955	\$ 11,667	\$ 46,667	\$ 91,621	\$ -
Notes payable to banks	10,265	621	2,486	2,486	4,672
Short-term borrowings	4,456	4,456	-	-	-
Capital lease obligations	2,265	603	1,626	36	-
Non-cancelable operating leases	32,379	4,250	12,198	7,705	8,226
Total contractual cash obligations	\$ 199,320	\$ 21,597	\$ 62,977	\$ 101,848	\$ 12,898

A significant portion of the loans included in the table above bear interest at variable rates. At March 31, 2006, the weighted-average interest rate was 4.45% on the Company’s domestic Revolving Credit Facility, 3.07% on the credit facility through the Company’s wholly-owned German subsidiary, and 3.12% on bank loans to the Company’s wholly-owned subsidiary, Caggiati S.p.A.

Benefit payments under the Company’s principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company’s operating cash. The Company does not currently expect to make any significant contributions to its principal retirement plan in fiscal 2006. As of March 31, 2006, contributions of \$148,000 and \$790,000 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$197,000 and \$171,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2006.

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 November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 was adopted by the Company in the second quarter of fiscal 2006 as required and had no material impact on the Company's consolidated financial position and results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rates - The Company's most significant long-term debt instrument is the domestic Revolving Credit Facility which bears interest at variable rates based on LIBOR. In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of \$50.0 million (\$32.5 million outstanding at March 31, 2006). The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2006). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Effective September 30, 2005, the Company entered into an additional interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on the additional borrowings in an initial amount of \$50.0 million (\$43.3 million outstanding at March 31, 2006). The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2006). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. The fair value of the interest rate swaps reflected an unrealized gain of \$2.0 million (\$1.2 million after tax) at March 31, 2006, 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 \$732,000 in the fair value of the interest rate swaps.

Commodity Price Risks - In the normal course of business, the Company is exposed to commodity price fluctuations related to the purchases of certain materials and supplies (such as bronze ingot, steel 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 \$7.7 million and a decrease in operating income of \$1.4 million for the six months ended March 31, 2006.

Item 4. Controls and Procedures

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

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In August 2005, The York Group, Inc. (“York”), a wholly-owned subsidiary of the Company, was served with Civil Investigative Demands (“CIDs”) from the Attorneys General in Maryland and Florida. Thereafter, in October 2005, York was also served with a CID from the Attorney General in Connecticut. The pending CIDs are part of a multi-state investigation in which the Attorneys General from Maryland, Florida and Connecticut have requested information from various sources, including several national owners and operators of funeral homes, as well as several manufacturers of caskets, regarding alleged anti-competitive practices in the funeral service industry. As one of many potential sources of information, York has already timely responded to the document production request communicated through the CIDs. Presently, the investigation continues to remain in the preliminary stages and the scope of the investigation has been limited to evaluating the sale of caskets in the funeral service industry.

In October 2005, York filed a complaint and a motion for special and/or preliminary injunction in the Court of Common Pleas of Allegheny County, Pennsylvania against Yorktowne Caskets, Inc. (“Yorktowne”), the shareholders of Yorktowne, Batesville Casket Company, Inc. and Batesville Services. This action was taken in response to the announcement that Batesville Casket Company, Inc. and/or Batesville Services (collectively “Batesville”) had entered into a definitive agreement to acquire the outstanding stock of Yorktowne, York’s largest independent distributor of wood and metal caskets. The causes of action alleged by York involve the distributor agreement between York and Yorktowne which is in effect through April 14, 2007.

The Court issued a Decision and Order on November 9, 2005 concluding that York had demonstrated its entitlement to a preliminary injunction and ordered: (1) Yorktowne, its shareholders and Batesville to refrain from further pursuit or consummation of the proposed sale of Yorktowne to Batesville; (2) Yorktowne and its shareholders to provide York with the right of first refusal as required under the enforceable distributor agreement; (3) Yorktowne and its shareholders to refrain from violating the non-assignment provisions of the distributor agreement; (4) Yorktowne to use its best efforts to promote York products and to refrain from selling, marketing or promoting products in competition with York; and (5) Yorktowne’s shareholders and Batesville from interfering with the distributor agreement between York and Yorktowne.

The lawsuit against Yorktowne, its shareholders and Batesville remains pending and the defendants have filed appeals of the Court’s injunction ruling to the Superior Court of Pennsylvania. The Superior Court has not, as of yet, set a date to address the merits of the defendants’ appeals and, accordingly, the preliminary injunction issued on November 9, 2005 remains in force.

In February 2006, Yorktowne and its shareholders filed a complaint in the Court of Common Pleas of Allegheny County, Pennsylvania against the Company, York and Milso Industries, Inc. (“Milso”) alleging, in part, that the Company, York and Milso breached York’s distributor agreement with Yorktowne dated April 15, 2005, as well as tortuously interfered with Yorktowne’s contractual and prospective contractual relations. Yorktowne alleges entitlement to various monetary damages, including a specific claim for \$58.0 million.

It is possible that resolution of the foregoing matter could be unfavorable to the Company; however, the Company intends to vigorously defend against the allegations set forth in the complaint and the Company does not presently believe that the ultimate resolution will have a material adverse impact on the Company’s financial position or results of operations.

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 8,622,396 shares have been repurchased as of March 31, 2006. The Company purchased 1,000 shares of Matthews common stock in January 2006 at an average price of \$36.44 per share under the program in fiscal 2006.

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

The Annual Meeting of the Shareholders of Matthews International Corporation was held on February 16, 2006. A total of 32,056,128 shares of Class A Common Stock were eligible to vote at such meeting.

The matters voted upon at such meeting were as follows:

1. Election of Directors:

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

<u>Nominee</u>	<u>Term Expiration</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Joseph C. Bartolacci	2009	21,632,636	7,374,995
Glenn R. Mahone	2009	19,770,425	9,237,206
William J. Stallkamp	2009	28,210,899	796,732

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

The terms of the following additional directors continued after the meeting: D.M. Kelly, D.J. DeCarlo, R.J. Kavanaugh, J.P. O'Leary, Jr. and J.D. Turner.

3. Selection of Auditors:

The shareholders voted to ratify the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as independent registered public accountants to audit the records of the Company for the fiscal year ending September 30, 2006.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
28,450,439	545,093	12,098

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit

<u>No.</u>	<u>Description</u>
10.1	1992 Stock Incentive Plan (as amended through April 25, 2006).
10.2	1994 Director Fee Plan (as amended through April 25, 2006).
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 January 19, 2006, Matthews filed a Current Report on Form 8-K under Item 2.02 in connection with a press release announcing its earnings for the first fiscal quarter of 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MATTHEWS INTERNATIONAL CORPORATION
(Registrant)

Date: May 9, 2006

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

Date: May 9, 2006

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

MATTHEWS INTERNATIONAL CORPORATION

**1992 STOCK INCENTIVE PLAN
(as amended through April 25, 2006)**

The purposes of the 1992 Stock Incentive Plan (as amended, the "Plan") are to encourage eligible employees of Matthews International Corporation (the "Corporation") and its Subsidiaries to increase their efforts to make the Corporation and each Subsidiary more successful, to provide an additional inducement for such employees to remain with the Corporation or a Subsidiary, to reward such employees by providing an opportunity to acquire shares of the Class A Common Stock, par value \$1.00 per share, of the Corporation (the "Class A Common Stock") and the Class B Common Stock, par value \$1.00 per share, of the Corporation (the "Class B Common Stock") on favorable terms and to provide a means through which the Corporation may attract able persons to enter the employ of the Corporation or one of its Subsidiaries. As used herein, except where the context otherwise so requires, the term "Common Stock" shall mean both the Class A Common Stock and the Class B Common Stock. For the purposes of the Plan, the term "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Corporation if each of the corporations other than the last corporation in the unbroken chain owns stock possessing at least fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

SECTION 1

Administration

The Plan shall be administered by a Committee (the "Committee") appointed by the Board of Directors of the Corporation (the "Board") and consisting of not less than two members of the Board, who, at the time of their appointment to the Committee and at all times during their service as members of the Committee, are (i) "Non-Employee Directors" as then defined under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), or any successor rule, and (ii) "outside directors" under Section 162(m)(4)(C) of the Internal Revenue Code of 1986 (the "Code"), or any successor provision.

The Committee shall interpret the Plan and prescribe such rules, regulations and procedures in connection with the operations of the Plan as it shall deem to be necessary and advisable for the administration of the Plan consistent with the purposes of the Plan.

The Committee shall keep records of action taken at its meetings. A majority of the Committee shall constitute a quorum at any meeting and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee, shall be the acts of the Committee.

SECTION 2

Eligibility

Those employees of the Corporation or any Subsidiary (including, but not limited to, covered employees as defined in Section 162(m)(3) of the Code, or any successor provision) who share responsibility for the management, growth or protection of the business of the Corporation or any Subsidiary shall be eligible to be granted stock options (with or without cash payment rights) and to receive restricted share awards as described herein.

Subject to the provisions of the Plan, the Committee shall have full and final authority, in its discretion, to grant stock options (with or without cash payment rights) and to award restricted shares as described herein, to determine whether Class A Common Stock or Class B Common Stock shall be issued, and to determine the employees to whom any such grant or award shall be made and the number of shares to be covered thereby. In determining the eligibility of any employee, as well as in determining the number of shares covered by each grant of a stock option or award of restricted shares and whether cash payment rights shall be granted in conjunction with a stock option, the Committee shall consider the position and the responsibilities of the employee being considered, the nature and value to the Corporation or a Subsidiary of his or her services, his or her present and/or potential contribution to the success of the Corporation or a Subsidiary and such other factors as the Committee may deem relevant.

SECTION 3

Shares Available under the Plan

The maximum aggregate number of shares of the Common Stock for which grants of stock options or awards of restricted shares may be made under the Plan on any given date shall be equal to 15% of the then aggregate issued and outstanding shares of the Common Stock (not including treasury shares, but including outstanding restricted shares), less the aggregate number of (i) all outstanding stock options granted at any time under the Plan since the initial date of adoption of the Plan, which remain unexercised and outstanding (and which have not expired) as of such date and (ii) all restricted shares granted at any time under the Plan which have not yet vested or been forfeited to the Corporation pursuant to their terms as of such date, subject to adjustment and substitution as set forth in Section 8, and shares of the Common Stock may be issued with respect to any such grants or awards, provided that the Corporation has authorized but unissued shares which are reserved at the time of any such grant or award and are available and unissued at the time of any such issuance equal to or greater than the number of shares to be so issued. Stated differently, as any outstanding stock options granted under the Plan are either exercised, cancelled, terminated or expire for any reason without being exercised, or any restricted shares granted under the Plan are either vested (all restrictions lapse) or forfeited for any reason, the number of shares subject or related to such stock options or restricted shares shall again be available for grant or award under the Plan.

Notwithstanding the immediately prior paragraph, the maximum aggregate number of shares of the Common Stock which may be issued and as to which grants of incentive stock options or awards of restricted shares may be made under the Plan is 2,400,000 shares and 500,000 shares, respectively, subject to adjustment and substitution as set forth in Section 8. If any such incentive stock option granted under the Plan and counted against such sub-limit is cancelled by mutual consent or terminates or expires for any reason without having been exercised, the number of shares subject thereto shall again be available for purposes of granting incentive stock options under the Plan. If any shares of the Common Stock are forfeited to the Corporation pursuant to the restrictions applicable to restricted shares awarded under the Plan and counted against such sub-limit, the number of shares so forfeited shall again be available for purposes of awarding restricted shares under the Plan.

To the extent that the Corporation has such shares available to it and can issue such shares without violating any law or regulation, including without limitation the By-laws of the National Association of Securities Dealers, Inc. concerning disenfranchisement of shareholders, the Corporation will reserve for issuance upon the grant of any option and issue when such option is exercised and will issue upon the award of restricted shares Class B Common Stock of the Corporation. To the extent Class B Common Stock is not available for reservation at the time of grant or issuance at the time of award, the Corporation retains the right to reserve for issuance and to issue Class A Common Stock and not Class B Common Stock. The shares which may be issued under the Plan may be either authorized but unissued shares or shares previously issued and thereafter acquired by the Corporation or partly each, as shall be determined from time to time by the Board.

SECTION 4

Grant of Stock Options and Cash Payment Rights and Awards of Restricted Shares

The Committee shall have authority, in its discretion, (a) to grant "incentive stock options" pursuant to Section 422 of the Code, to grant "nonstatutory stock options" (i.e., stock options which do not qualify under Sections 422 or 423 of the Code) or to grant both types of stock options (but not in tandem) and (b) to award restricted shares. The Committee also shall have the authority, in its discretion, to grant cash payment rights in conjunction with nonstatutory stock options with the effect provided in Section 5(D). Cash payment rights may not be granted in conjunction with incentive stock options. Cash payment rights granted in conjunction with a nonstatutory stock option may be granted either at the time the stock option is granted or at any time thereafter during the term of the stock option.

The maximum number of shares as to which stock options may be granted and as to which shares may be awarded under the Plan to any one employee in any one calendar year is 250,000 shares, subject to adjustment and substitution as set forth in Section 8. For the purposes of this limitation, any adjustment or substitution made pursuant to Section 8 in a calendar year with respect to the maximum number of shares set forth in the preceding sentence shall also be made with respect to any shares subject to stock options or share awards previously granted under the Plan to such employee in the same calendar year.

Notwithstanding any other provision contained in the Plan or in any stock option agreement or an amendment thereto, but subject to the possible exercise of the Committee's discretion contemplated in the last sentence of this Section 4, the aggregate fair market value, determined as provided in Section 5(H) on the date of grant of incentive stock options, of the shares with respect to which such incentive stock options are exercisable for the first time by an employee during any calendar year under all plans of the corporation employing such employee, any parent or subsidiary corporation of such corporation and any predecessor corporation of any such corporation shall not exceed \$100,000. If the date on which one or more incentive stock options could first be exercised would be accelerated pursuant to any provision of the Plan or any stock option agreement or an amendment thereto, and the acceleration of such exercise date would result in a violation of the \$100,000 restriction set forth in the preceding sentence, then, notwithstanding any such provision, but subject to the provisions of the next succeeding sentence, the exercise dates of such incentive stock options shall be accelerated only to the extent, if any, that does not result in a violation of such restriction and, in such event, the exercise dates of the incentive stock options with the lowest option prices shall be accelerated to the earliest such dates. The Committee may, in its discretion, authorize the acceleration of the exercise date of one or more incentive stock options even if such acceleration would violate the \$100,000 restriction set forth in the first sentence of this paragraph and even if one or more such incentive stock options are thereby converted in whole or in part to nonstatutory stock options.

SECTION 5

Terms and Conditions of Stock Options and Cash Payment Rights

Stock options and cash payment rights granted under the Plan shall be subject to the following terms and conditions:

(A) The purchase price at which each stock option may be exercised (the "option price") shall be such price as the Committee, in its discretion, shall determine but shall not be less than one hundred percent (100%) of the fair market value per share of the Common Stock covered by the stock option on the date of grant, except that in the case of an incentive stock option granted to an employee who, immediately prior to such grant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any Subsidiary (a "Ten Percent Employee"), the option price shall not be less than one hundred ten percent (110%) of such fair market value on the date of grant. For purposes of this Section 5(A), the fair market value of the Common Stock shall be determined as provided in Section 5(H). For purposes of this Section 5(A), an individual (i) shall be considered as owning not only shares of stock owned individually but also all shares of stock that are at the time owned, directly or indirectly, by or for the spouse, ancestors, lineal descendants and brothers and sisters (whether by the whole or half blood) of such individual and (ii) shall be considered as owning proportionately any shares owned, directly or indirectly, by or for any corporation, partnership, estate or trust in which such individual is a stockholder, partner or beneficiary.

(B) The option price for each stock option shall be paid in full upon exercise and shall be payable in cash in United States dollars (including check, bank draft or money order), which may include cash forwarded through a broker or other agent-sponsored exercise or financing program; provided, however, that in lieu of such cash the person exercising the stock option may (if authorized by the Committee at the time of grant in the case of an incentive stock option, or at any time in the case of a nonstatutory stock option) pay the option price in whole or in part by delivering to the Corporation shares of the Common Stock having a fair market value on the date of exercise of the stock option, determined as provided in Section 5(H), equal to the option price for the shares being purchased; except that (i) any portion of the option price representing a fraction of a share shall in any event be paid in cash and (ii) no shares of the Common Stock which have been held for less than one year may be delivered in payment of the option price of a stock option. If the person exercising a stock option participates in a broker or other agent-sponsored exercise or financing program, the Corporation will cooperate with all reasonable procedures of the broker or other agent to permit participation by the person exercising the stock option in the exercise or financing program. Notwithstanding any procedure of the broker or other agent-sponsored exercise or financing program, if the option price is paid in cash, the exercise of the stock option shall not be deemed to occur and no shares of the Common Stock will be issued until the Corporation has received full payment in cash (including check, bank draft or money order) for the option price from the broker or other agent. The date of exercise of a stock option shall be determined under procedures established by the Committee, and as of the date of exercise the person exercising the stock option shall be considered for all purposes to be the owner of the shares with respect to which the stock option has been exercised. Payment of the option price with shares shall not increase the number of shares of the Common Stock which may be issued under the Plan as provided in Section 3.

(C) Unless the Committee, in its discretion, shall otherwise determine, stock options shall be exercisable by a grantee during employment commencing on the date of grant. Subject to the terms of Section 5(F) providing for earlier termination of a stock option, no stock option shall be exercisable after the expiration of ten years (five years in the case of an incentive stock option granted to a Ten Percent Employee) from the date of grant. Unless the Committee, in its discretion, shall otherwise determine, a stock option to the extent exercisable at any time may be exercised in whole or in part.

(D) Cash payment rights granted in conjunction with a nonstatutory stock option shall entitle the person who is entitled to exercise the stock option, upon exercise of the stock option or any portion thereof, to receive cash from the Corporation (in addition to the shares to be received upon exercise of the stock option) equal to such percentage as the Committee, in its discretion, shall determine not greater than one hundred percent (100%) of the excess of the fair market value of a share of the Common Stock covered by the stock option on the date of exercise of the stock option over the option price per share of the stock option times the number of shares covered by the stock option, or portion thereof, which is exercised. Payment of the cash provided for in this Section 5(D) shall be made by the Corporation as soon as practicable after the time the amount payable is determined. For purposes of this Section 5(D), the fair market value of the Common Stock shall be determined as provided in Section 5(H).

(E) Unless the Committee, in its discretion, shall otherwise determine in the case of nonstatutory stock options, (i) no stock option shall be transferable by the grantee otherwise than by Will, or if the grantee dies intestate, by the laws of descent and distribution of the state of domicile of the grantee at the time of death, and (ii) all stock options shall be exercisable during the lifetime of the grantee only by the grantee.

(F) Unless the Committee, in its discretion, shall otherwise determine but subject to the provisions of Section 4 in the case of incentive stock options:

(i) If the employment of a grantee who is not disabled within the meaning of Section 422(c)(6) of the Code (a "Disabled Grantee") is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding incentive stock option held by such grantee shall be exercisable by the grantee (but only to the extent exercisable by the grantee immediately prior to the termination of employment) at any time prior to the expiration date of such incentive stock option or within three months after the date of termination of employment, whichever is the shorter period;

(ii) If the employment of a grantee who is not a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding nonstatutory stock option held by such grantee shall be exercisable by the grantee (but only to the extent exercisable by the grantee immediately prior to the termination of employment) at any time prior to the expiration date of such nonstatutory stock option or within one year after the date of termination of employment, whichever is the shorter period;

(iii) If the employment of a grantee who is a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary, any then outstanding stock option held by such grantee shall be exercisable in full (whether or not so exercisable by the grantee immediately prior to the termination of employment) by the grantee at any time prior to the expiration date of such stock option or within one year after the date of termination of employment, whichever is the shorter period;

(iv) Following the death of a grantee during employment, any outstanding stock option held by the grantee at the time of death shall be exercisable in full (whether or not so exercisable by the grantee immediately prior to the death of the grantee) by the person entitled to do so under the Will of the grantee, or, if the grantee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the grantee at any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the shorter period;

(v) Following the death of a grantee after termination of employment during a period when a stock option is exercisable, any outstanding stock option held by the grantee at the time of death shall be exercisable by such person entitled to do so under the Will of the grantee or by such legal representative (but only to the extent the stock option was exercisable by the grantee immediately prior to the death of the grantee) at any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the shorter period; and

(vi) Unless the exercise period of a stock option following termination of employment has been extended as provided in Section 9(C), if the employment of a grantee terminates for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death, all outstanding stock options held by the grantee at the time of such termination of employment shall automatically terminate.

Whether termination of employment is a voluntary termination with the consent of the Corporation or a Subsidiary and whether a grantee is a Disabled Grantee shall be determined in each case, in its discretion, by the Committee and any such determination by the Committee shall be final and binding.

If a grantee of a stock option engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Corporation or any of its Subsidiaries, the Committee may immediately terminate all outstanding stock options held by the grantee; provided, however, that this sentence shall not apply if the exercise period of a stock option following termination of employment has been extended as provided in Section 9(C). Whether a grantee has engaged in the operation or management of a business which is in competition with the Corporation or any of its Subsidiaries shall also be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

(G) All stock options shall be confirmed by a written agreement or an amendment thereto in a form prescribed by the Committee, in its discretion. Each agreement or amendment thereto shall be executed on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President and by the grantee. The agreement confirming a stock option shall specify whether the stock option is an incentive stock option or a nonstatutory stock option. The provisions of such agreements need not be identical.

(H) Fair market value of the Common Stock shall be the fair mean between the following prices, as applicable, for the date as of which fair market value is to be determined as quoted in The Wall Street Journal (or in such other reliable publication as the Committee, in its discretion, may determine to rely upon): (a) if the Common Stock is listed on the New York Stock Exchange, the highest and lowest sales prices per share of the Common Stock as quoted in the NYSE-Composite Transactions listing for such date, (b) if the Common Stock is not listed on such exchange, the highest and lowest sales prices per share of Common Stock for such date on (or on any composite index including) the principal United States securities exchange registered under the 1934 Act on which the Common Stock is listed or (c) if the Common Stock is not listed on any such exchange, the highest and lowest sales prices per share of the Common Stock for such date on the National Association of Securities Dealers Automated Quotations System or any successor system then in use ("NASDAQ"). If there are no such sale price quotations for the date as of which fair market value is to be determined but there are such sale price quotations within a reasonable period both before and after such date, then fair market value shall be determined by taking a weighted average of the means between the highest and lowest sales prices per share of the Common Stock as so quoted on the nearest date before and the nearest date after the date as of which fair market value is to be determined. The average should be weighted inversely by the respective numbers of trading days between the selling dates and the date as of which fair market value is to be determined. If there are no such sale price quotations on or within a reasonable period both before and after the date as of which fair market value is to be determined, then fair market value of the Common Stock shall be the mean between the bona fide bid and asked prices per share of Common Stock as so quoted for such date on NASDAQ, or if none, the weighted average of the means between such bona fide bid and asked prices on the nearest trading date

before and the nearest trading date after the date as of which fair market value is to be determined, if both such dates are within a reasonable period. The average is to be determined in the manner described above in this Section 5(H). If the fair market value of the Common Stock cannot be determined on the basis previously set forth in this Section 5(H) on the date as of which fair market value is to be determined, the Committee shall in good faith determine the fair market value of the Common Stock on such date. Fair market value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

Subject to the foregoing provisions of this Section and the other provisions of the Plan, any stock option granted under the Plan may be exercised at such times and in such amounts and be subject to such restrictions and other terms and conditions, if any, as shall be determined, in its discretion, by the Committee and set forth in the agreement referred to in Section 5(G) or an amendment thereto.

SECTION 6

Terms and Conditions of Restricted Share Awards

Restricted share awards shall be evidenced by a written agreement in a form prescribed by the Committee, in its discretion, which shall set forth the number of shares of the Common Stock awarded, the restrictions imposed thereon (including, without limitation, restrictions on the right of the grantee to sell, assign, transfer or encumber such shares while such shares are subject to other restrictions imposed under this Section 6), the duration of such restrictions, events (which may, in the discretion of the Committee, include performance-based events) the occurrence of which would cause a forfeiture of the restricted shares and such other terms and conditions as the Committee in its discretion deems appropriate. Restricted share awards shall be effective only upon execution of the applicable restricted share agreement on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President, and by the awardee. The provisions of such agreements need not be identical. Awards of restricted shares shall be effective on the date determined, in its discretion, by the Committee.

Following a restricted share award and prior to the lapse or termination of the applicable restrictions, the share certificates representing the restricted shares shall be held by the Corporation in escrow together with related stock powers in blank signed by the grantee. Except as provided in Section 8, the Committee, in its discretion, may determine that dividends and other distributions on the shares held in escrow shall not be paid to the awardee until the lapse or termination of the applicable restrictions. Unless otherwise provided, in its discretion, by the Committee, any such dividends or other distributions shall not bear interest. Upon the lapse or termination of the applicable restrictions (and not before such time), the share certificates representing the restricted shares and unpaid dividends, if any, shall be delivered to the awardee. From the date a restricted share award is effective, the grantee shall be a shareholder with respect to all the shares represented by the share certificates for the restricted shares and shall have all the rights of a shareholder with respect to the restricted shares, including the right to vote the restricted shares and to receive all dividends and other distributions paid with respect to the restricted shares, subject only to the preceding provisions of this paragraph and the other restrictions imposed by the Committee.

If an awardee of restricted shares engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Corporation or any of its Subsidiaries, the Committee may immediately declare forfeited all restricted shares held by the awardee as to which the restrictions have not yet lapsed. Whether an awardee has engaged in the operation or management of a business which is in competition with the Corporation or any of its Subsidiaries shall also be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

Neither this Section 6 nor any other provision of the Plan shall preclude an awardee from transferring or assigning restricted shares to (i) the trustee of a trust that is revocable by such awardee alone, both at the time of the transfer or assignment and at all times thereafter prior to such awardee's death or (ii) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of restricted shares from such trustee to any person other than such awardee shall be permitted only to the extent approved in advance by the Committee in writing, and restricted shares held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable agreement as if such trustee were a party to such agreement.

SECTION 7

Issuance of Shares

The obligation of the Corporation to issue shares of the Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Corporation, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the shares of Common Stock may then be listed and (iii) all other applicable laws, regulations, rules and orders which may then be in effect.

SECTION 8

Adjustment and Substitution of Shares

If a dividend or other distribution shall be declared upon the Common Stock payable in shares of the Common Stock, the number of shares of the Common Stock then subject to any outstanding stock options, the maximum aggregate number of shares as to which incentive stock options may be granted and as to which restricted shares may be awarded under Section 3 of the Plan, and the maximum number of shares as to which stock options may be granted and as to which shares may be awarded to any employee under Section 4 of the Plan on the date fixed for determining the stockholders entitled to receive such stock dividend or distribution shall be adjusted by adding thereto the number of shares of the Common Stock which would have been distributable thereon if such shares had been outstanding on such date. Shares of Common Stock so distributed with respect to any restricted shares held in escrow, shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares on which they were distributed.

If the outstanding shares of the Common Stock shall be changed into or exchangeable for a different number or kind of shares of stock or other securities of the Corporation or another corporation, whether through reorganization, reclassification, recapitalization, stock split-up, combination of shares, merger or consolidation or otherwise, then there shall be substituted for each share of the Common Stock subject to any then outstanding stock option, for each share of the Common Stock set forth in the first sentence of Section 3 of the Plan, for the maximum aggregate number of shares as to which incentive stock options may be granted and as to which restricted shares may be awarded under Section 3 of the Plan, and for the maximum number of shares as to which stock options may be granted and as to which shares may be awarded to any employee under Section 4 of the Plan the number and kind of shares of stock or other securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchangeable. Unless otherwise determined by the Committee, in its discretion, any such stock or securities, as well as any cash or other property, into or for which any restricted shares held in escrow shall be changed or exchangeable in any such transaction, shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was issued or distributed.

In case of any adjustment or substitution as provided for in this Section 8, the aggregate option price for all shares subject to each then outstanding stock option prior to such adjustment or substitution shall be the aggregate option price for all shares of stock or other securities (including any fraction) to which such shares shall have been adjusted or which shall have been substituted for such shares. Any new option price per share shall be carried to at least three decimal places with the last decimal place rounded upwards to the nearest whole number.

If the outstanding shares of the Common Stock shall be changed in value by reason of any spin-off, split-off or split-up, or dividend in partial liquidation, dividend in property other than cash or extraordinary distribution to holders of the Common Stock, (i) the Committee shall make any adjustments to any then outstanding stock option which it determines are equitably required to prevent dilution or enlargement of the rights of grantees which would otherwise result from any such transaction, and (ii) unless otherwise determined by the Committee, in its discretion, any stock, securities, cash or other property distributed with respect to any restricted shares held in escrow or for which any restricted shares held in escrow shall be exchanged in any such transaction shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was distributed or exchanged.

No adjustment or substitution provided for in this Section 8 shall require the Corporation to issue or sell a fraction of a share or other security. Accordingly, all fractional shares or other securities which result from any such adjustment or substitution shall be eliminated and not carried forward to any subsequent adjustment or substitution. Owners of restricted shares held in escrow shall be treated in the same manner as owners of Common Stock not held in escrow with respect to fractional shares created by an adjustment or substitution of shares, except that, unless otherwise determined by the Committee, in its discretion, any cash or other property paid in lieu of a fractional share shall be subject to restrictions similar to those applicable to the restricted shares exchanged therefor.

If any such adjustment or substitution provided for in this Section 8 requires the approval of shareholders in order to enable the Corporation to grant incentive stock options or to comply with Section 162(m) of the Code, then no such adjustment or substitution shall be made without the required shareholder approval. Notwithstanding the foregoing, in the case of incentive stock options, if the effect of any such adjustment or substitution would be to cause the stock option to fail to continue to qualify as an incentive stock option or to cause a modification, extension or renewal of such stock option within the meaning of Section 424 of the Code, the Committee may determine that such adjustment or substitution not be made but rather shall use reasonable efforts to effect such other adjustment of each then outstanding stock option as the Committee, in its discretion, shall deem equitable and which will not result in any disqualification, modification, extension or renewal (within the meaning of Section 424 of the Code) of such incentive stock option.

Except as provided in this Section 8, a grantee shall have no rights by reason of any issue by the Corporation of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

SECTION 9

Additional Rights in Certain Events

(A) Definitions.

For purposes of this Section 9, the following terms shall have the following meaning:

(1) The term "Person" shall be used as that term is used in Section 13(d) and 14(d) of the 1934 Act.

(2) "Beneficial Ownership" shall be determined as provided in Rule 13d-3 under the 1934 Act as in effect on the effective date of the Plan.

(3) "Voting Shares" shall mean all securities of a company entitling the holders thereof to vote in an annual election of Directors (without consideration of the rights of any class of stock other than the Common Stock to elect Directors by a separate class vote); and a specified percentage of "Voting Power" of a company shall mean such number of the Voting Shares as shall enable the holders thereof to cast such percentage of all the votes which could be cast in an annual election of directors (without consideration of the rights of any class of stock other than the Common Stock to elect Directors by a separate class vote).

(4) "Tender Offer" shall mean a tender offer or exchange offer to acquire securities of the Corporation (other than such an offer made by the Corporation or any Subsidiary), whether or not such offer is approved or opposed by the Board.

(5) "Section 9 Event" shall mean the date upon which any of the following events occurs:

(a) The Corporation acquires actual knowledge that any Person other than the Corporation, a Subsidiary or any employee benefit plan(s) sponsored by the Corporation has acquired the Beneficial Ownership, directly or indirectly, of securities of the Corporation entitling such Person to 20% or more of the Voting Power of the Corporation;

(b)(i) A Tender Offer is made to acquire securities of the Corporation entitling the holders thereof to 20% or more of the Voting Power of the Corporation; or (ii) Voting Shares are first purchased pursuant to any other Tender Offer;

(c) At any time less than 60% of the members of the Board of Directors shall be individuals who were either (i) Directors on the effective date of the Plan or (ii) individuals whose election, or nomination for election, was approved by a vote (including a vote approving a merger or other agreement providing the membership of such individuals on the Board of Directors) of at least two-thirds of the Directors then still in office who were Directors on the effective date of the Plan or who were so approved;

(d) The shareholders of the Corporation shall approve an agreement or plan providing for the Corporation to be merged, consolidated or otherwise combined with, or for all or substantially all its assets or stock to be acquired by, another corporation, as a consequence of which the former shareholders of the Corporation will own, immediately after such merger, consolidation, combination or acquisition, less than a majority of the Voting Power of such surviving or acquiring corporation or the parent thereof; or

(e) The shareholders of the Corporation shall approve any liquidation of all or substantially all of the assets of the Corporation or any distribution to security holders of assets of the Corporation having a value equal to 10% or more of the total value of all the assets of the Corporation;

provided, however, that (i) if securities beneficially owned by a grantee are included in determining the Beneficial Ownership of a Person referred to in paragraph 5(a) or (ii) a grantee is required to be named pursuant Item 2 of the Schedule 14D-1 (or any similar successor filing requirement) required to be filed by the bidder making a Tender Offer referred to in paragraph 5(b), then no Section 9 Event with respect to such grantee shall be deemed to have occurred by reason of such event.

(B) Acceleration of the Exercise Date of Stock Options.

Subject to the provisions of Section 4 in the case of incentive stock options, unless the agreement referred to in Section 5(G), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, in case any Section 9 Event occurs all outstanding stock options shall become immediately and fully exercisable whether or not otherwise exercisable by their terms.

(C) Extension of the Expiration Date of Stock Options.

Subject to the provisions of Section 4 in the case of incentive stock options, unless the agreement referred to in Section 5(G), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, all stock options held by a grantee whose employment with the Corporation or a Subsidiary terminates within one year of any Section 9 Event for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death shall be exercisable for a period of three months from the date of such termination of employment, but in no event after the expiration date of the stock option.

(D) Lapse of Restrictions on Restricted Share Awards.

Unless the agreement referred to in Section 6, or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, if any Section 9 Event occurs prior to the scheduled lapse of all restrictions applicable to

restricted share awards under the Plan, all such restrictions shall lapse upon the occurrence of any such Section 9 Event regardless of the scheduled lapse of such restrictions.

SECTION 10

Effect of the Plan on the Rights of Employees and Employer

Neither the adoption of the Plan nor any action of the Board or the Committee pursuant to the Plan shall be deemed to give any employee any right to be granted a stock option (with or without cash payment rights) or to be awarded restricted shares under the Plan. Nothing in the Plan, in any stock option or cash payment rights granted under the Plan, in any restricted share award under the Plan or in any agreement providing for any of the foregoing or amendment thereto shall confer any right to any employee to continue in the employ of the Corporation or any Subsidiary or interfere in any way with the rights of the Corporation or any Subsidiary to terminate the employment of any employee at any time or adjust the compensation of any employee at any time.

SECTION 11

Amendment or Termination

The right to amend the Plan at any time and from time to time and the right to terminate the Plan are hereby specifically reserved to the Board; provided that no such amendment of the Plan shall, without shareholder approval (a) increase the maximum aggregate number of shares for which grants of stock options or awards of restricted shares may be made under the first sentence of Section 3 of the Plan, (b) increase the maximum aggregate number of shares as to which incentive stock options may be granted or as to which restricted shares may be awarded under Section 3 of the Plan, (c) make any changes in the class of employees eligible to receive options or awards under the Plan, (d) change the maximum number of shares as to which stock options may be granted and as to which shares may be awarded to any employee under Section 4 of the Plan, (e) change the option price permitted under Section 5(A) of the Plan, or (f) be made if shareholder approval of the amendment is at the time required for stock options or restricted shares under the Plan to qualify for the exemption from Section 16(b) of the 1934 Act provided by Rule 16b-3 or by the rules of the NASDAQ National Market System or any stock exchange on which the Common Stock may then be listed. No amendment or termination of the Plan shall, without the written consent of the holder of a stock option, cash payment rights or restricted shares theretofore granted or awarded under the Plan, adversely affect the rights of such holder with respect thereto.

SECTION 12

Effective Date and Duration of Plan

The effective date and date of adoption of the Plan shall be May 8, 1992, the date of adoption of the Plan by the Board, and the effective date of the amendments to the Plan adopted by the Board on December 23, 1998 shall be December 23, 1998, provided that such amendments are approved by a majority of the votes cast at a meeting of shareholders duly called, convened and held on or prior to December 22, 1999, at which a quorum representing a majority of the outstanding voting stock of the Corporation is, either in person or by proxy, present and voting on the Plan. No stock option granted under the Plan on or after December 23, 1998 may be exercised until after such approval and any restricted shares awarded under the Plan shall be forfeited to the Corporation on December 22, 1999 if such approval has not been obtained on or prior to that date; provided, that the foregoing shall not apply to stock options granted or restricted shares awarded with shares which were available under the Plan prior to the amendment of the Plan on December 23, 1998. No stock option or cash payment rights may be granted and no restricted shares may be awarded under the Plan subsequent to December 22, 2008.

MATTHEWS INTERNATIONAL CORPORATION

**1994 DIRECTOR FEE PLAN,
as amended through April 25, 2006**

SECTION 1

Purposes; Reservation of Shares

- (a) Purposes. The purposes of the 1994 Director Fee Plan, as amended through April 25, 2006 (the "Plan") are:
- (1) to provide for each Director of Matthews International Corporation (the "Corporation") who is not also an employee of the Corporation or any of its Subsidiaries ("Director") the payment of retainer fees for future services to be performed by such Director ("Director Fees") as a member of the Board of Directors of the Corporation (the "Board") in cash or in shares of Class A Common Stock, par value \$1.00 per share, of the Corporation ("Common Stock") and, in the case of payment to the Directors of the Director Fees in shares of Common Stock, to increase the identification of interests between such Directors and the shareholders of the Corporation;
 - (2) to provide current payment in cash (or if a Director shall elect to defer receipt, future payment in shares of Common Stock) to each Director for:
 - (a) fees paid for attendance at meetings of the Board ("Board Meeting Fees");
 - (b) fees paid to Directors for attendance at meetings of Committees of the Board ("Committee Meeting Fees");
 - (c) annual retainer fees paid to the Chairperson of a Committee ("Committee Chairperson Retainer Fees");
 - (d) annual retainer fees paid to the Lead Director of the Board of Directors ("Lead Director Fee"); and
 - (e) fees paid to a Director for attendance at the annual shareholders' meeting of the Corporation ("Shareholders' Meeting Fees") (subsections (a)-(e) are collectively referred to herein as "Meeting Fees"); and
 - (3) to increase the identification of interests between the Directors and the shareholders of the Corporation by permitting the Nominating and Corporate Governance Committee of the Board (the "Committee") or a Stock Compensation Subcommittee of the Committee (the "Subcommittee") to award restricted stock, nonstatutory stock options and/or stock appreciation rights to each Director on the fifteenth (15th) business day after the annual shareholders' meeting of the Corporation.

For purposes of the Plan, the term "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Corporation, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

As used hereinafter, the term "Committee" shall mean either the Nominating and Corporate Governance Committee or the Subcommittee, if the Subcommittee is authorized by the Board to act under this Plan.

(b) Reservation of Shares. Except as otherwise provided in this Section 1(b), the aggregate number of shares of Common Stock which may be issued under the Plan or credited to Deferred Stock Compensation Accounts for subsequent issuance under the Plan is limited to 500,000 shares, subject to adjustment and substitution as set forth in Section 12 hereof. Shares issued under the Plan may be authorized but unissued shares or shares previously issued and thereafter acquired by the Corporation or partly each, as shall be determined from time to time by the Board. If any stock option or stock appreciation right granted under the Plan is cancelled by mutual consent, forfeited, or terminates or expires for any reason without having been exercised in full, or if any restricted shares awarded under the Plan are forfeited, the number of shares subject thereto, in the case of stock options or stock appreciation rights, or the number of shares forfeited, in the case of restricted shares, shall again be available for all purposes of the Plan. In addition to the number of shares of

Common Stock authorized for issuance or crediting by the first sentence of this Section 1(b), the number of shares of Common Stock which are surrendered (or to which ownership has been certified) in full or partial payment to the Corporation of the option price of a stock option granted under the Plan shall be available for all purposes of the Plan.

SECTION 2

Eligibility

Any non-employee Director of the Corporation who is separately compensated in the form of Director Fees or Meeting Fees for services on the Board shall be eligible to participate in the Plan.

SECTION 3

Payment of Director Fees in Cash or Common Stock

(a) **Current Payment.** Subject to the provisions of Section 3(b) hereof, on the fifteenth (15th) business day following the annual meeting of the shareholders of the Corporation (each such date of payment referred to as a "Payment Date"), each Director as of that date shall receive payment of Director Fees by:

- (i) the payment to the Director of cash of thirty thousand dollars (\$30,000) (eighteen thousand dollars (\$18,000) for Payment Dates before January 1, 2005) (or such other amount determined by the Board or by any committee of the Board which the Board authorizes to determine such amount) (the "Retainer Fee Amount"); or
- (ii) the issuance to the Director of a number of whole shares of Common Stock equal to the Retainer Fee Amount divided by the Fair Market Value of one share of the Common Stock, as defined in Section 15 hereof, on such Payment Date (rounded upward to the next whole share).

The Committee shall determine by November 30 of each year whether Director Fees will be paid in cash or in shares of Common Stock to the Directors in the following calendar year. Unless the Committee otherwise determines and communicates such determination to the Directors by November 30 of the year immediately preceding the year of payment, the Directors Fees shall be paid in shares of Common Stock. Notwithstanding the foregoing, if the Director Fees are to be paid in cash, a Director may elect to receive payment of the Director Fees in shares and shall receive a number of shares of Common Stock equal to the Retainer Fee Amount divided by the Fair Market Value of one share of the Common Stock, as defined in Section 15 hereof, on the Payment Date (rounded upward to the next whole share) (a "Current Stock Election"). Such election shall be made by filing a Notice of Election with the Secretary of the Corporation in the form prescribed by the Corporation.

(b) **Stock Deferral Election.** Regardless of whether Director Fees are to be paid in either cash or shares of Common Stock, each Director may elect to defer the receipt of Director Fees in shares of Common Stock for a calendar year (a "Stock Deferral Election") by filing a Notice of Election with the Secretary of the Corporation in the form prescribed by the Corporation.

(c) **Election Procedures.** Both a Current Stock Election and a Stock Deferral Election (collectively, "Director Fee Elections") shall be effective on January 1 of the year following the date on which the Notice of Election is filed. Director Fee Elections shall be effective on the date on which the Notice of Election is filed with respect to Director Fees payable after the time of a person's initial election to the office of Director, or any subsequent re-election if immediately prior thereto such person was not serving as a Director, provided the Director files such Notice of Election within ten (10) business days subsequent to being elected or re-elected as a Director. Director Fee Elections shall apply to all Director Fees otherwise payable while such Director Fee Election is effective. Each Director may terminate a Current Stock Election and receive current payment of Director Fees in cash (where the Committee has elected to pay Director Fees in cash) and may terminate a Stock Deferral Election and receive current shares of Common Stock or cash (where the Committee has elected to pay Director Fees in cash) by filing a Notice of Termination with the Secretary of the Corporation in the form prescribed by the Corporation, which shall be effective on January 1 of the year following the date on which a Notice of Termination is filed. A Director Fee Election shall continue in effect until the effective date of any Notice of Termination. Director Fee Elections may be made by a Director even if such Director has not made a Meeting Fee Deferral Election (as defined below).

(d) **Share Certificates.** As of the date on which the Director Fees are payable in shares of Common Stock pursuant to Section 3(a) hereof or, if a Stock Deferral Election was made, Sections 5 and 6 hereof, the Corporation shall issue share certificates to the Director for the shares of Common Stock received under the Plan and the Director shall be a shareholder of the Corporation with respect to any such shares.

SECTION 4

Payment of Meeting Fees

(a) **Current Cash Payment.** Subject to the provisions of Sections 4(b) and 4(c) hereof, except as set forth below effective on and after the date of the 2005 annual meeting of the shareholders of the Corporation (the "2005 Annual Meeting Date"), each Director

shall receive payment of Meeting Fees in cash in the following amounts (or such other amounts determined by the Board or by any committee of the Board which the Board authorizes to determine such amounts):

Board Meeting Fees:	\$1,500 for attendance at each meeting
Committee Meeting Fees:	\$1,000 for attendance at each meeting
Committee Chairperson Retainer Fees:	\$2,000 (or \$3,500 in the case of the Audit Committee Chairperson) for a year of service as a Committee Chairperson
Lead Director Fees (effective after 2006 Annual meeting):	\$5,000 for a year of service as the Lead Director.
Shareholders' Meeting Fees:	\$1,500 for attendance at each meeting

(The amount and payment of Meeting Fees for meetings prior to the 2005 Annual Meeting Date shall be governed by the provisions of this Section 4(a) as in effect prior to the amendment of this Plan in November, 2004.) Except as set forth in Sections 4(b) and 4(c) hereof, each Director shall receive payment of Meeting Fees (other than Committee Chairperson Retainer Fees and Lead Director Fee) within ten (10) business days following the meeting with respect to which such fees are payable. Except as set forth in Sections 4(b) and 4(c) hereof, each Committee Chairperson shall receive payment of Committee Chairperson Retainer Fees and the Lead Director shall receive payment of the Lead Director Fees on the fifteenth (15th) business day following the person's annual election or re-election to such position. The amount and time of payment of Meeting Fees may be changed from time to time by the Board in its sole discretion.

(b) Deferred Payment of Meeting Fees. Each Director may elect to receive all Meeting Fees for a calendar year in shares of Common Stock rather than cash, as set forth in Section 4(c) hereof, provided the Director elects to defer the receipt of such shares of Common Stock (a "Meeting Fee Deferral Election"). A Meeting Fee Deferral Election may be made only by filing a Notice of Election with the Secretary of the Corporation in the form prescribed by the Corporation, and shall be effective for meetings, and, if applicable, Committee Chairperson Retainer Fees or Lead Director Fees payable, on and after January 1 of the year following the date on which the Notice of Election is filed; provided, however, that (i) a Meeting Fee Deferral Election made by a Notice of Election filed on or before the close of business on May 14, 1999 shall be effective with regard to meetings on or after May 15, 1999, and (ii) a Meeting Fee Deferral Election shall be effective on the date on which the Notice of Election is filed with respect to meetings and, if applicable, Committee Chairperson Retainer Fees or Lead Director Fees payable after the time of a person's initial election, or any subsequent re-election, to the office of Director if (A) immediately prior thereto such person was not serving as a Director, and (B) such Notice of Election is filed within ten (10) business days subsequent to such person being elected or re-elected as a Director. A Meeting Fee Deferral Election shall apply to all Meeting Fees which would otherwise be payable for meetings held while such Meeting Fee Deferral Election is effective. A Director may terminate a Meeting Fee Deferral Election only by filing a Notice of Termination with the Secretary of the Corporation in the form prescribed by the Corporation, which Notice of Termination shall be effective for meetings and, if applicable, Committee Chairperson Retainer Fees or Lead Director Fees payable on and after January 1 of the year following the date on which a Notice of Termination is filed. A Meeting Fee Deferral Election shall continue in effect until the effective date of any Notice of Termination, after which the Meeting Fees shall be payable in accordance with Section 4(a) hereof. A Meeting Fee Deferral Election may be made by a Director even if such Director has not made a Current Stock Election or a Stock Deferral Election. A Meeting Fee Deferral Election shall apply to all but not less than all Meeting Fees.

(c) Deferred Meeting Fees Credited in Shares of Common Stock. Each Director who has made a Meeting Fee Deferral Election effective for Meeting Fees otherwise payable in cash for a calendar year shall receive a credit to a Deferred Stock Compensation Account (as defined in Section 5(a) hereof) in the name of such Director on the first Payment Date following such calendar year. Such credit shall be a number of shares of Common Stock (including fractional shares to at least two decimal places) equal to (i) the aggregate amount of all Meeting Fees subject to such Meeting Fee Deferral Election otherwise payable during such calendar year to such Director in cash under Section 4(a) hereof if no Meeting Fee Deferral Election had been made, divided by (ii) the Fair Market Value of one share of the Common Stock, as defined in Section 15 hereof, on such Payment Date. No interest or other amount shall be paid or credited to a Director notwithstanding that Meeting Fees which otherwise would have been payable under Section 4(a) hereof in cash are not reflected as a credit to such Deferred Stock Compensation Account until the Payment Date.

(d) Share Certificates. If a Meeting Fee Deferral Election was made, then as of the date on which the Meeting Fees are payable in shares of Common Stock pursuant to Sections 5 and 6 hereof, the Corporation shall issue share certificates to the Director for the shares of Common Stock received under the Plan and the Director shall be a shareholder of the Corporation with respect to any such shares.

SECTION 5

Deferred Stock Compensation Account

(a) General. The amount of any Director Fees or Meeting Fees deferred in accordance with a Stock Deferral Election or a Meeting Fee Deferral Election shall be credited to a deferred stock compensation account maintained by the Corporation in the name of the Director (a "Deferred Stock Compensation Account"). A separate Deferred Stock Compensation Account shall be maintained for each amount of deferred Director Fees or Meeting Fees for which a Director has elected a different number of payment installments or as otherwise determined by the Committee. On each Payment Date that a Stock Deferral Election is effective for a Director or on which a credit to a Deferred Stock Compensation Account is to be made under Section 4(c) hereof pursuant to a Meeting Fee Deferral Election, the Director's Deferred Stock Compensation Account(s) shall be credited on the Payment Date with the number of shares of Common Stock (including fractional shares to at least two decimal places) which (i) otherwise would have been payable to the Director under Section 3(a) hereof on such Payment Date if the Director Fees had been payable to the Director in shares of Common Stock, whether the Director Fees

were payable in cash or in shares of Common Stock, and/or (ii) are to be so credited in accordance with Section 4(c) hereof. If a dividend or distribution is paid on the Common Stock in cash or property other than Common Stock, on the date of payment of the dividend or distribution to holders of the Common Stock, each Deferred Stock Compensation Account shall be credited with a number of shares of Common Stock (including fractional shares) equal to the number of shares of Common Stock that had been credited to such Account on the date fixed for determining the shareholders entitled to receive such dividend or distribution multiplied by the amount of the dividend or distribution paid per share of Common Stock divided by the Fair Market Value of one share of the Common Stock, as defined in Section 15 hereof, on the date on which the dividend or distribution is paid. If the dividend or distribution is paid in property other than Common Stock, the amount of the dividend or distribution shall equal the fair market value of the property on the date on which the dividend or distribution is paid. Except as provided in Section 12 hereof, the immediately preceding two sentences shall not apply to dividends or distributions paid on the Common Stock in cash or property other than Common Stock on or after March 14, 1997 with respect to Directors on such date or Directors elected thereafter. Such dividends or distributions shall neither be credited to the Director's Deferred Stock Compensation Account nor paid to the Director. The Deferred Stock Compensation Account of a Director shall be charged on the date of distribution with any distribution of shares of Common Stock made to the Director from such Account pursuant to Section 5(b) hereof.

(b) Manner of Payment. The balance of a Director's Deferred Stock Compensation Account will be paid in shares of Common Stock to the Director or, in the event of the Director's death, to the Director's Beneficiary as defined in Section 5(c) hereof. A Director may elect at the time of filing the Notice of Election for a Stock Deferral Election or a Meeting Fee Deferral Election to receive payment of the shares of Common Stock credited to the Director's Deferred Stock Compensation Account in annual installments rather than a lump sum, provided that (i) the payment period for installment payments shall not exceed ten (10) years following the Payment Commencement Date as described in Section 6 hereof and (ii) payment shall not be made in installments but rather in a lump sum if the Director made a Section 13 Event Election, as defined below, and Section 6(c) hereof applies. The number of shares of Common Stock distributed in each installment shall be determined by multiplying (i) the number of shares of Common Stock in the Deferred Stock Compensation Account on the date of payment of such installment, by (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining unpaid installments, and by rounding such result down to the nearest whole number of shares. The balance of the number of shares of Common Stock in the Deferred Stock Compensation Account shall be appropriately reduced in accordance with Section 5(a) hereof to reflect the installment payments made hereunder. Shares of Common Stock remaining in a Deferred Stock Compensation Account pending distribution pursuant to this Section 5(b) shall be subject to adjustment pursuant to Section 12 hereof and, for former Directors who are not Directors on March 14, 1997 but were Directors prior to that date, shall continue to be credited with respect to dividends or distributions paid on the Common Stock pursuant to Section 5(a) hereof. If a lump sum payment or the final installment payment hereunder would result in the issuance of a fractional share of Common Stock, such fractional share shall not be issued and cash in lieu of such fractional share shall be paid to the Director based on the Fair Market Value of a share of Common Stock, as defined in Section 15 hereof, on the date immediately preceding the date of such payment. The Corporation shall issue share certificates to the Director, or the Director's Beneficiary, for the shares of Common Stock distributed hereunder. As of the date on which the Director is entitled to receive payment of shares of Common Stock pursuant to this Section 5(b) hereof, a Director or the Director's Beneficiary shall be a shareholder of the Corporation with respect to such shares.

(c) Director's Beneficiary. The Director's Beneficiary means any beneficiary or beneficiaries (who may be named contingently or successively) named by a Director under the Plan to whom any benefit under the Plan is to be paid in the case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Director, shall be in a form prescribed by the Committee, and will be effective only when filed by the Director in writing with the Secretary of the Corporation during the Director's lifetime. In the absence of such a designation, Director's Beneficiary means the person designated by the Director in the Director's Will, or, if the Director fails to make a testamentary disposition of the shares or dies intestate, to the person entitled to receive the shares pursuant to the laws of descent and distribution of the state of domicile of the Director at the time of death.

SECTION 6

Payment Commencement Date

(a) General. Except as otherwise provided in Sections 6(b) and 6(c) hereof, payment of shares in a Deferred Stock Compensation Account shall commence on April 1 (or if April 1 is not a business day, on the immediately preceding business day) of the calendar year following the calendar year in which the Director ceases to be a member of the Board for any reason, including by reason of death or disability. If, in the case of a Meeting Fee Deferral Election, the first amount credited to a particular Deferred Stock Compensation Account with respect to such Director is credited after such April 1 or any amount is credited to such a Deferred Stock Compensation Account after a lump sum payment has been made pursuant to this Section 6(a) from such Deferred Stock Compensation Account, payment of shares credited to such Deferred Stock Compensation Account shall commence on the April 1 (or if April 1 is not a business day, on the immediately preceding business day) following the date on which the shares are so credited.

(b) Delay in Payment. Notwithstanding Section 6(a) hereof and except as otherwise provided in Section 6(c) hereof, a Director may irrevocably elect, by filing a Notice of Election with the Secretary of the Corporation in the form prescribed by the Corporation, to commence payment on a date later than the date specified in Section 6(a) hereof provided that:

- (i) Such election must be made at least twelve (12) months prior to the date on which payments otherwise would have commenced pursuant to Section 6(a) hereof; and
- (ii) The payment commencement date specified in such election under this Section 6(b) must be not less than five (5) years from the date on which payments otherwise would have commenced pursuant to

Section 6(a) hereof.

The provisions of this Section 6(b) are intended to comply with Section 409A(4)(C) of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor section, and shall be interpreted consistently therewith.

(c) Section 13 Event. Notwithstanding Sections 6(a) and 6(b) hereof, effective for Director Fees and Meeting Fees payable (but for any deferral elections) on and after January 1 of the year following the date on which the Notice of Election is filed (and on and after January 1, 2005), a Director may irrevocably elect, by filing a Notice of Election with the Secretary of the Corporation in a form prescribed by the Corporation, to receive payment of all shares of Common Stock credited to the Director's Deferred Stock Compensation Account with respect to such Director Fees and Meeting Fees, upon the earlier of when payment would be made pursuant to Sections 6(a) or 6(b) hereof or in a lump sum immediately following the occurrence of any Section 13 Event, as defined below (a "Section 13 Event Election"), provided, however, that such Section 13 Event Election shall be effective if and only if (i) such Section 13 Event constitutes a change in the ownership or effective control of the Corporation or in the ownership of a substantial portion of the assets of the Corporation under Section 409A of the Code or any successor section and (ii) payment at the time of such Section 13 Event otherwise satisfies all requirements of Section 409A of the Code or any successor section. If such requirements are not satisfied with respect to such Section 13 Event, such Section 13 Event Election shall be void and without effect as to such Section 13 Event and payment of shares then credited to the Director's Deferred Stock Compensation Account shall be made in accordance with Sections 6(a) or 6(b) hereof (or, if this Section 6(c) later becomes applicable, upon another Section 13 Event). A Section 13 Event Election shall be effective on the date on which it is filed with respect to Director Fees and Meeting Fees payable (but for any deferral elections) after the time of a person's initial election to the office of Director, or any subsequent re-election if immediately prior thereto such person was not serving as a Director, provided the Director files such Section 13 Event Election within ten (10) business days subsequent to being elected or re-elected as a Director. A Director may terminate a Section 13 Event Election only by filing a Notice of Termination of Section 13 Event Election with the Secretary of the Corporation in the form prescribed by the Corporation, which shall be effective for Director Fees and Meeting Fees payable (but for any deferral elections) on and after January 1 of the year following the date on which such Notice of Termination of Section 13 Event Election is filed. If payments from a Director's Deferred Stock Compensation Account have previously commenced at the time of a Section 13 Event which results in a permissible lump sum payment pursuant to this Section 6(c), for purposes of applying this Section 6(c) shares previously paid from the Director's Deferred Stock Compensation Account shall be deemed to be from Director Fees and Meeting Fees not subject to a Section 13 Event Election, to the extent thereof.

SECTION 7

Non-Alienability of Benefits

Neither the Director nor the Director's Beneficiary shall have the right to, directly or indirectly, alienate, assign, transfer, pledge, anticipate or encumber (except by reason of death) any amounts or shares of Common Stock that are or may be payable hereunder nor shall any such amounts or shares be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Director or the Director's Beneficiary or to the debts, contracts, liabilities, engagements, or torts of any Director or Director's Beneficiary, or transfer by operation of law in the event of bankruptcy or insolvency of the Director or the Director's Beneficiary, or any legal process.

SECTION 8

Nature of Deferred Stock Compensation Accounts

Any Deferred Stock Compensation Account shall be established and maintained only on the books and records of the Corporation. No assets or funds of the Corporation, a Subsidiary or the Plan shall be removed from the claims of the Corporation's or a Subsidiary's general or judgment creditors or otherwise made available, and no shares of Common Stock of the Corporation to be issued pursuant to a Deferred Stock Compensation Account shall be issued or outstanding, until such amounts and shares are actually payable to a Director or a Director's Beneficiary as provided herein. The Plan constitutes a mere promise by the Corporation to make payments in the future. Each Director and Director's Beneficiary shall have the status of, and their rights to receive a payment of shares of Common Stock under the Plan shall be no greater than the rights of, general unsecured creditors of the Corporation. No person shall be entitled to any voting rights with respect to shares credited to a Deferred Stock Compensation Account and not yet payable to a Director or the Director's Beneficiary. The Corporation shall not be obligated under any circumstances to fund any financial obligations under the Plan and the Plan is intended to constitute an unfunded plan for tax purposes. However, the Corporation may, in its discretion, set aside funds in a trust or other vehicle, subject to the claims of its creditors, in order to assist it in meeting its obligations under the Plan, if:

- (a) such arrangement will not cause the Plan to be considered a funded deferred compensation plan under the Code;
- (b) any trust created by the Corporation, and any assets held by such trust to assist the Corporation in meeting its obligations under the Plan, will conform to the terms of the model trust, as described in Rev. Proc. 92-64, 1992-2 C.B. 422 or any successor; and
- (c) such set aside of funds is not described in Section 409A(b) of the Code, or any successor provision.

SECTION 9

**Grant of Stock Options and Stock Appreciation Rights
And Award of Restricted Shares**

The Committee shall have authority, in its discretion, (a) to grant “nonstatutory stock options” (i.e., stock options which do not qualify under Sections 422 and 423 of the Code), (b) to grant stock appreciation rights, and (c) to award restricted shares. All grants and awards pursuant to this Section 9 shall be made on or to be effective on a Payment Date. On or as of each Payment Date, the Committee shall grant or award to each Director on such Payment Date nonstatutory stock options, stock appreciation rights and/or restricted shares with a total value of forty thousand dollars (\$40,000) (or such other amount determined by the Board or by any committee of the Board which the Board authorizes to determine such amount). The Committee shall determine in its discretion the portion of each grant and/or award to be comprised of nonstatutory stock options, stock appreciation rights and restricted shares and the value of each.

**SECTION 10
Terms and Conditions of
Stock Options and Stock Appreciation Rights**

Stock options and stock appreciation rights granted under the Plan shall be subject to the following terms and conditions:

- (A) The purchase price at which each stock option may be exercised (the “option price”) and the base price at which each stock appreciation right may be granted (the “Base Price”) shall be such price as the Committee, in its discretion, shall determine but shall not be less than one hundred percent (100%) of the Fair Market Value per share of the Common Stock covered by the stock option or stock appreciation right on the date of grant. For purposes of this Section 10, the Fair Market Value of the Common Stock shall be determined as provided in Section 15 hereof.
- (B) The option price for each stock option shall be paid in full upon exercise and shall be payable in cash in United States dollars (including check, bank draft or money order), which may include cash forwarded through a broker or other agent-sponsored exercise or financing program; provided, however, that in lieu of such cash the person exercising the stock option may if authorized by the Committee pay the option price in whole or in part by delivering to the Corporation shares of the Common Stock having a Fair Market Value on the date of exercise of the stock option, determined as provided in Section 15 hereof, equal to the option price for the shares being purchased; except that (i) any portion of the option price representing a fraction of a share shall in any event be paid in cash and (ii) no shares of the Common Stock which have been held for less than one year may be delivered in payment of the option price of a stock option. If the person exercising a stock option participates in a broker or other agent-sponsored exercise or financing program, the Corporation will cooperate with all reasonable procedures of the broker or other agent to permit participation by the person exercising the stock option in the exercise or financing program. Notwithstanding any procedure of the broker or other agent-sponsored exercise or financing program, if the option price is paid in cash, the exercise of the stock option shall not be deemed to occur and no shares of the Common Stock will be issued until the Corporation has received full payment in cash (including check, bank draft or money order) for the option price from the broker or other agent. The date of exercise of a stock option shall be determined under procedures established by the Committee, and as of the date of exercise the person exercising the stock option shall be considered for all purposes to be the owner of the shares with respect to which the stock option has been exercised.
- (C) Upon the exercise of stock appreciation rights the Corporation shall pay to the person exercising the stock appreciation rights a number of shares of the Common Stock with a Fair Market Value, as defined in Section 15 hereof, equal to the difference between the aggregate Fair Market Value, as defined in Section 15 hereof, of the Common Stock on the date of exercise of the stock appreciation rights and the aggregate Base Prices for the stock appreciation rights which are exercised (the “Spread”) (rounded down to the next whole number of shares). No fractional shares of the Common Stock shall be issued nor shall cash in lieu of a fraction of a share of Common Stock be paid. Notwithstanding the foregoing, at the discretion of the Committee, the Corporation may pay to the person exercising the stock appreciation rights an amount of cash, rather than shares of the Common Stock, equal to the Spread if and only if the payment of cash upon exercise of the stock appreciation rights would not cause the stock appreciation rights to provide for a deferral of compensation within the meaning of Section 409A of the Code. The date of exercise of a stock appreciation right shall be determined under procedures established by the Committee.
- (D) Unless the Committee, in its discretion, shall otherwise determine and subject to the terms of Sections 10(F) and 10(G) hereof, stock options and stock appreciation rights shall be exercisable by a Director commencing on the second anniversary of the date of grant. Subject to the terms of Sections 10(F) and 10(G) hereof providing for earlier termination of a stock option or stock appreciation right, no stock option or stock appreciation right shall be exercisable after the expiration of ten years from the date of grant. Unless the Committee, in its discretion, shall otherwise determine, a stock option or stock appreciation right to the extent exercisable at any time may be exercised in whole or in part.

(E) Unless the Committee, in its discretion, shall otherwise determine:

- (i) no stock option or stock appreciation right shall be transferable or assignable by the grantee otherwise than:
 - (a) by Will; or
 - (b) if the grantee dies intestate, by the laws of descent and distribution of the state of domicile of the grantee at the time of death; or
 - (c) to the trustee of a trust that is revocable by the grantee alone, both at the time of the transfer or assignment and at all times thereafter prior to such grantee's death; and
- (ii) all stock options and stock appreciation rights shall be exercisable during the lifetime of the grantee only by the grantee or by the trustee of a trust described in Section 10(E)(i)(c) hereof.

A transfer or assignment of a stock option or a stock appreciation right by a trustee of a trust described in Section 10(E)(i)(c) to any person other than the grantee shall be permitted only to the extent approved in advance by the Committee in writing, in its discretion. Stock options or stock appreciation rights held by such trustee also shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable agreement with the grantee as if such trustee were a party to such agreement as the grantee. In the event the grantee ceases to be a Director of the Corporation, the provisions set forth in the Plan and in the applicable agreement with the grantee shall continue to be applicable to the stock option or stock appreciation right and shall limit the ability of such trustee to exercise any such transferred stock options or stock appreciation rights to the same extent they would have limited the grantee. The Corporation shall not have any obligation to notify such trustee of any termination of a stock option or stock appreciation right due to the termination of service of the grantee as a Director of the Corporation.

(F) Unless the Committee, in its discretion, shall otherwise determine, if a grantee ceases to be a Director of the Corporation, any outstanding stock options and stock appreciation rights held by the grantee shall vest and be exercisable and shall terminate, according to the following provisions:

- (i) Notwithstanding Section 10(D) hereof, if a grantee ceases to be a Director of the Corporation for any reason other than those set forth in Section 10(F)(ii) or (iii) hereof, any then outstanding stock option and stock appreciation right held by such grantee (whether or not vested and exercisable by the grantee immediately prior to such time) shall vest and be exercisable by the grantee (or, in the event of the grantee's death, by the person entitled to do so under the Will of the grantee, or, if the grantee shall fail to make testamentary disposition of the stock option or stock appreciation right or shall die intestate, by the legal representative of the grantee (the "Grantee's Heir or Representative")), at any time prior to the second anniversary of the date on which the grantee ceases to be a Director of the Corporation or the expiration date of the stock option or stock appreciation right, whichever is the shorter period;
- (ii) Unless the exercise period of a stock option or stock appreciation right following termination of service as Director has been extended as provided in Section 13(c) hereof, if during his or her term of office as a non-employee Director a grantee is removed from office for cause or resigns without the consent of the Board, any then outstanding stock option and stock appreciation right held by such grantee shall terminate as of the close of business on the last day on which the grantee is a Director of the Corporation; and
- (iii) Notwithstanding Section 10(D) hereof, following the death of a grantee during service as a Director of the Corporation, or upon the disability of a Director which requires his or her termination as a Director of the Corporation, any outstanding stock option and stock appreciation right held by the grantee at the time of death or termination as a Director due to disability (whether or not vested and exercisable by the grantee immediately prior to such time) shall vest and be exercisable, in the case of death of the grantee, by the Grantee's Heir or Representative, or, in the case of disability of the grantee, by the grantee at any time prior to the second anniversary of the date on which the grantee ceases to be a Director of the Corporation or the expiration date of the stock option or stock appreciation right, whichever is the shorter period.

Whether a resignation of a Director is with or without the consent of the Board and whether a grantee is disabled shall be determined in each case, in its discretion, by the Committee and such determination by the Committee shall be final and binding.

(G) If a grantee of a stock option or stock appreciation right engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after service as a Director of the Corporation) which is in competition with the Corporation or any of its Subsidiaries, or solicits any of the Corporation's customers or employees other than for the benefit of the Corporation, the Committee may immediately terminate all outstanding stock options and stock appreciation rights held by the grantee; provided,

however, that this sentence shall not apply if the exercise period of a stock option or stock appreciation right following termination of service as a Director of the Corporation has been extended as provided in Section 13(c) hereof. Whether a grantee has engaged in the operation or management of a business which is in competition with the Corporation or any of its Subsidiaries, or solicits any of the Corporation's customers or employees other than for the benefit of the Corporation, shall be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

- (H) All stock options and stock appreciation rights shall be confirmed by a written agreement or an amendment thereto in a form prescribed by the Committee, in its discretion. Each agreement or amendment thereto shall be executed on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President and by the grantee. The provisions of such agreements need not be identical
- (I) In the event of a Section 13 Event (as defined in Section 13 hereof) in which the Corporation's stockholders receive consideration in exchange for their shares of Common Stock, the Committee shall have the authority to require any outstanding stock option and stock appreciation right to be surrendered for cancellation by the holder thereof in exchange for a cash payment equal to the difference between the Fair Market Value, as defined in Section 15 hereof, of the shares of Common Stock subject to the stock option or stock appreciation rights on the date of the Section 13 Event and their option prices and Base Prices, respectively, provided, however, that this Section 10(I) shall not apply to the extent its application would cause the stock options or stock appreciation rights to provide for a deferral of compensation within the meaning of Section 409A of the Code.

Subject to the foregoing provisions of this Section 10 and the other provisions of the Plan, any stock option or stock appreciation right granted under the Plan may be exercised at such times and in such amounts and be subject to such restrictions and other terms and conditions, if any, as shall be determined, in its discretion, by the Committee and set forth in the agreement referred to in Section 10(H) hereof or an amendment thereto.

SECTION 11

Terms and Conditions of Restricted Share Awards

(a) Restricted Share Awards. Restricted share awards shall be evidenced by a written agreement in a form prescribed by the Committee, in its discretion, which shall set forth the number of shares of the Common Stock awarded, the restrictions imposed thereon (including, without limitation, restrictions on the right of the awardee to sell, assign, transfer or encumber such shares while such shares are subject to the other restrictions imposed under this Section 11), the duration of such restrictions, events (which may, in the discretion of the Committee, include performance-based events) the occurrence of which would cause a forfeiture of the restricted shares and such other terms and conditions as the Committee in its discretion deems appropriate. Restricted share awards shall be effective only upon execution of the applicable restricted share agreement on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President, and by the awardee. The provisions of such agreements need not be identical.

(b) Transfers to Trusts. Neither this Section 11 nor any other provision of the Plan shall preclude an awardee from transferring or assigning restricted shares to (i) the trustee of a trust that is revocable by such awardee alone, both at the time of the transfer or assignment and at all times thereafter prior to such awardee's death or (ii) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of restricted shares from such trustee to any person other than such awardee shall be permitted only to the extent approved in advance by the Committee in writing, and restricted shares held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable agreement as if such trustee were a party to such agreement.

(c) Default Vesting Restrictions. Unless otherwise determined by the Committee, restricted shares awarded to a Director shall be forfeited if the awardee terminates as a Director of the Corporation within two (2) years following the grant of such restricted shares due to the voluntary resignation of the Director without the consent of the Board or the removal of the Director with cause. Any restricted shares which have not previously vested shall vest and the restrictions related to service as a Director shall lapse upon the death of a Director or the disability of a Director which requires his or her termination as a Director of the Corporation.

(d) Share Certificates; Dividends. Following a restricted share award and prior to the lapse or termination of the applicable restrictions, the share certificates representing the restricted shares shall be held by the Corporation in escrow together with related stock powers in blank signed by the awardee. Except as provided in Section 12 hereof, the Committee, in its discretion, may determine that dividends and other distributions on the shares held in escrow shall not be paid to the awardee until the lapse or termination of the applicable restrictions. Unless otherwise provided, in its discretion, by the Committee, any such dividends or other distributions shall not bear interest. Upon the lapse or termination of the applicable restrictions (and not before such time), the share certificates representing the restricted shares and unpaid dividends, if any, shall be delivered to the awardee. From the date a restricted share award is effective, the awardee shall be a shareholder with respect to all of the shares represented by the share certificates for the restricted shares and shall have all the rights of a shareholder with respect to the restricted shares, including the right to vote the restricted shares and to receive all dividends, and other distributions paid with respect to the restricted shares, subject only to the preceding provisions of this Section 11(d) and the other restrictions imposed by the Committee

(e) Competition. If an awardee of restricted shares engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise) which is in competition with the Corporation or any of its Subsidiaries or solicits

any of the Corporation's customers or employees other than for the benefit of the Corporation, the Committee may immediately declare forfeited all restricted shares held by the awardee as to which the restrictions have not yet lapsed. Whether an awardee has engaged in the operation or management of a business which is in competition with the Corporation or any of its Subsidiaries or has solicited any of the Corporation's customers or employees other than for the benefit of Corporation, shall also be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

SECTION 12

Adjustment and Substitution of Shares

(a) Dividends or Distributions in Common Stock. If a dividend or other distribution payable in shares of Common Stock shall be declared upon the Common Stock, the number of shares of Common Stock (i) credited to any Deferred Stock Compensation Account, (ii) then subject to any outstanding stock options and stock appreciation rights and (iii) which may be issued or credited under Section 1 hereof, on the date fixed for determining the stockholders entitled to receive such stock dividend or distribution, shall be adjusted by adding thereto the number of shares of the Common Stock which would have been distributable thereon if such shares had been outstanding on such date. Shares of Common Stock so distributed with respect to any restricted shares held in escrow shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares on which they were distributed.

(b) Exchanges. If the outstanding shares of the Common Stock shall, in whole or in part, be changed into or exchangeable for a different number, or different kind(s) or class(es) of shares of stock or other securities of the Corporation or another corporation, or cash or other property, whether through reorganization, reclassification, recapitalization, stock split-up, combination of shares, merger, consolidation or otherwise, then (i) there shall be substituted for each share of the Common Stock credited to any Deferred Stock Compensation Account, subject to any then outstanding stock option and stock appreciation right, and which may be issued or credited under Section 1 hereof, the number and kind of shares of stock or other securities or the cash or property into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchangeable, and (ii) the Board shall adopt such amendments to the Plan as it deems necessary or desirable to carry out the purposes of the Plan, including without limitation the continuing deferral of any shares, securities, cash or other property then credited to any Deferred Stock Compensation Accounts. Unless otherwise determined by the Committee, in its discretion, any such stock or securities, as well as any cash or other property, into or for which any restricted shares held in escrow shall be changed or exchangeable in any such transaction, shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was issued or distributed.

(c) Option Price and Base Price. In case of any adjustment or substitution as provided for in this Section 12, the aggregate option price and Base Price for all shares subject to each then outstanding stock option and stock appreciation right, respectively, prior to such adjustment and substitution shall be the aggregate option price and Base Price, respectively, for all shares of stock or other securities (including any fraction) to which such shares have been adjusted or which shall have been substituted for such shares. Any new option price or Base Price per share shall be carried to at least three decimal places with the last decimal place rounded upwards to the nearest whole number.

(d) Other Events. If the outstanding shares of Common Stock shall be changed in value by reason of any spin-off, split-off, or dividend in partial liquidation, dividend in property other than cash or extraordinary distribution to holders of the Common Stock, (i) the Committee shall make any adjustments to the number of shares of Common Stock credited to any Deferred Stock Compensation Account, and any outstanding stock option or stock appreciation right, which it determines are equitably required to prevent dilution or enlargement of the rights of grantees or the value of those shares of Common Stock credited to such Deferred Stock Compensation Account which would otherwise result from any such transaction, and (ii) unless otherwise determined by the Committee, in its discretion, any stock, securities, cash or other property distributed with respect to any restricted shares held in escrow or for which any restricted shares held in escrow shall be exchanged in any such transaction shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was distributed or exchanged.

(e) Fractional Shares. No adjustment or substitution provided for in this Section 12 shall require the Corporation to issue or sell a fraction of a share or other security. Accordingly, all fractional shares or other securities which result from any such adjustment or substitution shall be eliminated and not carried forward to any subsequent adjustment or substitution. Owners of restricted shares held in escrow shall be treated in the same manner as owners of Common Stock not held in escrow with respect to fractional shares created by an adjustment or substitution of shares, except that, unless otherwise determined by the Committee, in its discretion, any cash or other property paid in lieu of a fractional share shall be subject to restrictions similar to those applicable to the restricted shares exchanged therefor.

(f) Limited Rights. Except as provided in this Section 12, a Director shall have no rights by reason of any issue by the Corporation of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

SECTION 13

Additional Rights in Certain Events

(a) Definitions. For purposes of this Section 13, the following terms shall have the following meaning:

- (1) The term “Person” shall be used as that term is used in Sections 13(d) and 14(d) of the 1934 Act.
- (2) “Beneficial Ownership” shall be determined as provided in Rule 13d-3 under the 1934 Act as in effect on the effective date of the Plan.
- (3) “Voting Shares” shall mean all securities of a company entitling the holders thereof to vote in an annual election of directors (without consideration of the rights of any class of stock other than the Common Stock to elect directors by a separate class vote); and a specified percentage of “Voting Power” of a company shall mean such number of the Voting Shares as shall enable the holders thereof to cast such percentage of all the votes which could be cast in an annual election of directors (without consideration of the rights of any class of stock other than the Common Stock to elect Directors by a separate class vote).
- (4) “Tender Offer” shall mean a tender offer or exchange offer to acquire securities of the Corporation (other than such an offer made by the Corporation or any Subsidiary), whether or not such offer is approved or opposed by the Board.
- (5) “Section 13 Event” shall mean the date upon which any of the following events occurs:
 - (i) The Corporation acquires actual knowledge that any Person other than the Corporation, a Subsidiary or any employee benefit plan(s) sponsored by the Corporation has acquired the Beneficial Ownership, directly or indirectly, of securities of the Corporation entitling such Person to 20% or more of the Voting Power of the Corporation;
 - (ii) (a) A Tender Offer is made to acquire securities of the Corporation entitling the holders thereof to 20% or more of the Voting Power of the Corporation; or (b) Voting Shares are first purchased pursuant to any other Tender Offer;
 - (iii) At any time less than 60% of the members of the Board shall be individuals who were either (a) directors on the effective date of the Plan or (b) individuals whose election, or nomination for election, was approved by a vote (including a vote approving a merger or other agreement providing the membership of such individuals on the Board) of at least two-thirds of the directors then still in office who were directors on the effective date of the Plan or who were so approved;
 - (iv) The shareholders of the Corporation shall approve an agreement or plan providing for the Corporation to be merged, consolidated or otherwise combined with, or for all or substantially all its assets or stock to be acquired by, another corporation, as a consequence of which the former shareholders of the Corporation will own, immediately after such merger, consolidation, combination or acquisition, less than a majority of the Voting Power of such surviving or acquiring corporation or the parent thereof; or
 - (v) The shareholders of the Corporation shall approve any liquidation of all or substantially all of the assets of the Corporation or any distribution to security holders of assets of the Corporation having a value equal to 10% or more of the total value of all the assets of the Corporation;

provided, however, that (A) if securities beneficially owned by a grantee are included in determining the Beneficial Ownership of a Person referred to in paragraph 5(i) hereof or (B) a grantee is required to be named pursuant to Item 2 of the Schedule 14D-1 (or any similar successor filing requirement) required to be filed by the bidder making a Tender Offer referred to in paragraph 5(ii), then no Section 13 Event with respect to such grantee shall be deemed to have occurred by reason of such event.

(b) Acceleration of the Exercise Date of Stock Options and Stock Appreciation Rights. Unless the agreement referred to in Section 10(H) hereof, or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, in case any Section 13 Event occurs all outstanding stock options and stock appreciation rights shall become immediately and fully exercisable whether or not otherwise exercisable by their terms.

(c) Extension of the Expiration Date of Stock Options and Stock Appreciation Rights. Unless the agreement referred to in Section 10(H) hereof, or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, all stock options and stock appreciation rights held by a grantee whose service with the Corporation as a Director terminates within one year of any Section 13 Event for any reason shall be exercisable for the longer of (i) a period of three months from the date of such termination of service or (ii) the period specified in Section 10(F) hereof, but in no event after the expiration date of the stock option or stock appreciation right.

(d) Lapse of Restrictions on Restricted Share Awards. Unless the agreement referred to in Section 11 hereof, or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, if any Section 13 Event occurs prior to the scheduled lapse of all restrictions applicable to restricted share awards under the Plan, all such restrictions shall lapse upon the occurrence of any such Section 13 Event regardless of the scheduled lapse of such restrictions.

SECTION 14 **Administration of Plan; Hardship Withdrawal**

Except where the terms of the Plan specifically grant authority to the Committee of the Board or where the Board delegates authority to the Committee, full power and authority to construe, interpret, and administer the Plan shall be vested in the Board. Decisions of the Committee and the Board shall be final, conclusive, and binding upon all parties. Notwithstanding the terms of a Stock Deferral Election or a Meeting Fee Deferral Election made by a Director hereunder, the Committee may, in its sole discretion, permit the withdrawal of shares credited to a Deferred Stock Compensation Account with respect to Director Fees or Meeting Fees previously payable upon the request of a Director or the Director's representative, or following the death of a Director upon the request of a Director's Beneficiary or such beneficiary's representative, if the Board determines that the Director or the Director's Beneficiary, as the case may be, is confronted with an unforeseeable emergency. For this purpose, an unforeseeable emergency means a severe financial hardship to the Director or the Director's Beneficiary resulting from an illness or accident of the Director or the Director's Beneficiary, the spouse, or a dependent (as defined in Section 152(a) of the Code) of the Director or the Director's Beneficiary, loss of the Director or the Director's Beneficiary's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director or the Director's Beneficiary. The Director or the Director's Beneficiary shall provide to the Committee evidence as the Committee, in its discretion, may require to demonstrate such emergency exists and financial hardship would occur if the withdrawal were not permitted. The withdrawal shall be limited to the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Director or the Director's Beneficiary's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship). Cash needs arising from foreseeable events, such as the purchase or building of a house or education expenses, will not be considered to be the result of an unforeseeable financial emergency. Payment shall be made, as soon as practicable after the Committee approves the payment and determines the number of shares which shall be withdrawn, in a single lump sum from the portion of the Deferred Stock Compensation Account with the longest number of installment payments first. No Director shall participate in any decision of the Committee regarding such Director's request for a withdrawal under this Section 14.

SECTION 15 **Fair Market Value**

Fair Market Value of the Common Stock shall be the mean between the following prices, as applicable, for the date as of which Fair Market Value is to be determined as quoted in *The Wall Street Journal* (or in any other reliable publication as the Board of the Corporation or its delegate, in its discretion, may determine to rely upon):

- (a) if the Common Stock is listed on the New York Stock Exchange, the highest and lowest sales prices per share of the Common Stock as quoted in the NYSE-Composite Transactions listing for such date;
- (b) if the Common Stock is not listed on such exchange, the highest and lowest sales prices per share of Common Stock for such date on (or on any composite index including) the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended (the "1934 Act") on which the Common Stock is listed; or
- (c) if the Common Stock is not listed on any such exchange, the highest and lowest sales prices per share of the Common Stock for such date on the National Association of Securities Dealers Automated Quotations System or any successor system then in use ("NASDAQ").

If there are no such sale price quotations for the date as of which Fair Market Value is to be determined but there are such sale price quotations within a reasonable period both before and after such date, then Fair Market Value shall be determined by taking a weighted average of the means between the highest and lowest sales prices per share of the Common Stock as so quoted on the nearest date before and the nearest date after the date as of which Fair Market Value is to be determined. The average should be weighted inversely by the respective numbers of trading days between the selling dates and the date as of which Fair Market Value is to be determined. If there are no such sale price quotations on or within a reasonable period both before and after the date as of which Fair Market Value is to be determined, then Fair Market Value of the Common Stock shall be the mean between the bona fide bid and asked prices per share of Common Stock as so quoted for such date on NASDAQ, or if none, the weighted average of the means between such bona fide bid and asked prices on the nearest trading date before and the nearest trading date after the date as of which Fair Market Value is to be determined, if both such dates are within a reasonable period. The average is to be determined in the manner described above in this Section 15. If the Fair Market Value of the Common Stock cannot be determined on the basis previously set forth in this Section 15 on the date as of which Fair Market Value is to be determined, the Board or its delegate shall in good faith determine the Fair Market Value of the Common Stock on such date. Fair Market Value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

SECTION 16
Securities Laws; Issuance of Shares

The obligation of the Corporation to issue or credit shares of Common Stock under the Plan shall be subject to:

- (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Corporation;
- (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock shares may then be listed; and
- (iii) all other applicable laws, regulations, rules and orders which may then be in effect.

If, on the date on which any shares of Common Stock would be issued pursuant to a current stock payment under Section 3(a) hereof or credited to a Deferred Stock Compensation Account and after consideration of any shares of Common Stock subject to outstanding stock options and stock appreciation rights and awards of restricted shares, sufficient shares of Common Stock are not available under the Plan or the Corporation is not obligated to issue shares pursuant to this Section 16, then no shares of Common Stock shall be issued or credited but rather, in the case of a current stock payment under Section 3(a) hereof, cash shall be paid in payment of the Director Fees payable, and in the case of a Deferred Stock Compensation Account, Director Fees, Meeting Fees and dividends, if applicable, which would otherwise have been credited in shares of Common Stock, shall be credited in cash to a deferred cash compensation account in the name of the Director. The Board shall adopt appropriate rules and regulations to carry out the intent of the immediately preceding sentence if the need for such rules and regulations arises.

SECTION 17
Governing Law; Integration

The provisions of this Plan shall be interpreted and construed in accordance with the laws of the Commonwealth of Pennsylvania. The Plan contains all of the understandings and representations between the Corporation and any of the Directors and supersedes any prior understandings and agreements entered into between them regarding the subject matter of the Plan. There are no representations, agreements, arrangements or understandings, oral or written, between the Corporation and any of the Directors relating to the subject matter of the Plan which are not fully expressed in the Plan.

SECTION 18
Effect of the Plan on the Rights of Corporation and Shareholders

Nothing in the Plan or in any stock option, stock appreciation right or restricted share award under the Plan or in any agreement providing for any of the foregoing or any amendment thereto shall confer any right to any person to continue as a Director of the Corporation or interfere in any way with the rights of the shareholders of the Corporation or the Board to elect and remove Directors.

SECTION 19
Amendment and Termination

(a) General. The right to amend the Plan at any time and from time to time and the right to terminate the Plan at any time are hereby specifically reserved to the Board; provided that no amendment of the Plan shall:

- (i) be made without shareholder approval if shareholder approval of the amendment is at the time required by the rules of the NASDAQ National Market System or any stock exchange on which the Common Stock may then be listed; or
- (ii) otherwise amend the Plan in any manner that would cause the shares of Common Stock issued or credited under the Plan not to qualify for the exemption from Section 16(b) of the 1934 Act provided by Rule 16b-3.

No amendment or termination of the Plan shall, without the written consent of the holder of shares of Common Stock issued or credited under the Plan or the holder of a stock option, stock appreciation right or restricted shares theretofore granted or awarded under the Plan, adversely affect the rights of such holder with respect thereto.

(b) Rule 16b-3. Notwithstanding anything contained in the preceding paragraph or any other provision of the Plan, the Board shall have the power to amend the Plan in any manner deemed necessary or advisable for shares of Common Stock issued or credited under the Plan to qualify for the exemption provided by Rule 16b-3 (or any successor rule relating to exemption from Section 16(b) of the

1934 Act), and any such amendment shall, to the extent deemed necessary or advisable by the Board, be applicable to any outstanding shares of Common Stock theretofore issued or credited under the Plan.

(c) Termination Date. Notwithstanding any other provision of the Plan:

- (i) no shares of Common Stock shall be issued or credited on a Payment Date under the Plan after November 15, 2014;
- (ii) no shares of Common Stock shall be credited with respect to Meeting Fees payable under the Plan after November 15, 2014;
- (iii) no stock option or stock appreciation right shall be granted under the Plan after November 15, 2014; and
- (iv) no restricted shares shall be awarded under the Plan after November 15, 2014.

SECTION 20
Effective Date

The effective date and date of adoption of the Plan shall be December 9, 1994, the date of adoption of the Plan by the Board.

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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: May 9, 2006

David M. Kelly

David M. Kelly
Chairman of the Board
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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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: May 9, 2006

Steven F. Nicola

Steven F. Nicola
Chief Financial Officer,
Secretary and Treasurer

32.1

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 ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Kelly, 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

David M. Kelly,
Chief Executive Officer

May 9, 2006

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 ended March 31, 2006 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

Steven F. Nicola,
Chief Financial Officer

May 9, 2006

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.