

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

Form 10-Q

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Quarterly Period Ended June 30, 2005

Commission File No. 0-9115

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

PENNSYLVANIA  
(State or other jurisdiction of  
Incorporation or organization)

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

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

15212-5851  
(Zip Code)

Registrant's telephone number, including area code

(412) 442-8200

NOT APPLICABLE

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

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

Yes

No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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

Class A Common Stock 32,017,174 shares

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

	June 30, 2005	September 30, 2004
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 40,263	\$ 65,830
Short-term investments	7,683	858
Accounts receivable, net	88,509	87,490
Inventories: Materials and finished goods	\$ 43,480	\$ 38,395
Labor and overhead in process	6,491	4,141
	49,971	42,536
Other current assets	5,982	5,764
Total current assets	192,408	202,478
Investments	10,856	7,694
Property, plant and equipment: Cost	175,696	157,936
Less accumulated depreciation	(94,863)	(85,222)
	80,833	72,714
Deferred income taxes and other assets	22,229	26,360
Goodwill	201,921	189,016
Other intangible assets, net	30,888	32,280
Total assets	\$ 539,135	\$ 530,542
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Long-term debt, current maturities	\$ 14,886	\$ 17,003
Accounts payable	24,195	26,130
Accrued compensation	30,036	31,274
Accrued income taxes	13,415	13,018
Other current liabilities	26,523	24,147
Total current liabilities	109,055	111,572
Long-term debt	49,840	54,389
Estimated finishing costs	4,800	4,730
Postretirement benefits	17,356	17,407
Deferred income taxes	3,938	4,225
Environmental reserve	9,688	10,604
Other liabilities and deferred revenue	15,058	15,365
Shareholders' equity:		
Common stock	36,334	36,334
Additional paid in capital	13,936	11,699
Retained earnings	348,254	308,435
Accumulated other comprehensive income	8,685	11,538
Treasury stock, at cost	(77,809)	(55,756)
	329,400	312,250
Total liabilities and shareholders' equity	\$ 539,135	\$ 530,542

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Sales	\$ 158,983	\$ 120,635	\$ 463,932	\$ 362,524
Cost of sales	<u>(101,863)</u>	<u>(72,181)</u>	<u>(304,007)</u>	<u>(223,815)</u>
Gross profit	57,120	48,454	159,925	138,709
Selling and administrative expenses	<u>(29,643)</u>	<u>(23,242)</u>	<u>(85,944)</u>	<u>(69,478)</u>
Operating profit	27,477	25,212	73,981	69,231
Investment income	366	435	1,005	1,097
Interest expense	(519)	(613)	(1,540)	(1,493)
Other income (deductions), net	(39)	(118)	1,552	(203)
Minority interest	<u>(1,230)</u>	<u>(1,418)</u>	<u>(3,802)</u>	<u>(3,984)</u>
Income before income taxes	26,055	23,498	71,196	64,648
Income taxes	<u>(9,901)</u>	<u>(9,118)</u>	<u>(27,054)</u>	<u>(25,084)</u>
Net income	<u>\$ 16,154</u>	<u>\$ 14,380</u>	<u>\$ 44,142</u>	<u>\$ 39,564</u>
Earnings per share:				
Basic	<u>\$ .50</u>	<u>\$ .45</u>	<u>\$ 1.37</u>	<u>\$ 1.23</u>
Diluted	<u>\$ .50</u>	<u>\$ .44</u>	<u>\$ 1.36</u>	<u>\$ 1.21</u>

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

	Nine Months Ended	
	June 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 44,142	\$ 39,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,724	11,138
Minority interest	3,802	3,984
Change in deferred taxes	(287)	165
Changes in working capital items	(8,397)	7,526
Decrease in other assets	4,112	5,138
Increase (decrease) in estimated finishing costs	69	(65)
Decrease in other liabilities	(509)	(1,473)
Decrease in postretirement benefits	(51)	(212)
Tax benefit of exercised stock options	2,765	2,805
Net gain on sale of assets	(188)	(133)
	60,182	68,437
Cash flows from investing activities:		
Capital expenditures	(21,636)	(6,826)
Proceeds from sale of assets	867	850
Acquisitions	(14,210)	-
Purchases of investments	(11,554)	(15,193)
Proceeds from disposition of investments	1,519	17
	(45,014)	(21,152)
Cash flows from financing activities:		
Proceeds from long-term debt	12,518	52,066
Payments on long-term debt	(18,520)	(45,907)
Proceeds from the sale of treasury stock	5,351	7,271
Purchases of treasury stock	(27,932)	(12,570)
Dividends	(4,323)	(3,859)
Dividends to minority interests	(4,394)	(2,341)
	(37,300)	(5,340)
Effect of exchange rate changes on cash	(3,435)	582
Net increase (decrease) in cash and cash equivalents	\$ (25,567)	\$ 42,527

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2005  
(Dollar amounts in thousands, except per share data)

## Note 1. Nature of Operations

Matthews International Corporation ("Matthews"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze memorials and memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, merchandising solutions, and marking products. The Company's products and operations are comprised of six business segments: Bronze, Casket, Cremation, Graphics Imaging, Marking Products and, as of July 19, 2004, Merchandising Solutions. The Bronze segment is a leading manufacturer of cast bronze memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Casket segment is a leading casket manufacturer in the United States and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets primarily in North America. The Graphics Imaging segment manufactures and provides printing plates, pre-press services and imaging services for the corrugated and primary packaging industries. The Marking Products segment designs, manufactures and distributes a wide range of marking equipment and consumables for identifying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

The Company has manufacturing and marketing facilities in the North America, 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 months and nine months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2004.

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

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.

### Reclassifications:

Certain reclassifications have been made in the Consolidated Statements of Cash Flows to conform to the current period presentation.

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

Note 3. Stock-Based Compensation

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 16,154	\$ 14,380	\$ 44,142	\$ 39,564
Net income, pro forma	15,613	13,939	42,668	38,359
Basic earnings per share, as reported	\$ 0.50	\$ 0.45	\$ 1.37	\$ 1.23
Diluted earnings per share, as reported	0.50	0.44	1.36	1.21
Basic earnings per share, pro forma	\$ 0.49	\$ 0.43	\$ 1.33	\$ 1.19
Diluted earnings per share, pro forma	0.49	0.43	1.32	1.18

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), which replaces SFAS No. 123 and supercedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. In April 2005, the Securities and Exchange Commission (“SEC”) delayed the effective date of SFAS 123R for public companies to annual, rather than interim, periods that begin after June 15, 2005. Accordingly, the Company is not required, and does not expect to adopt SFAS 123R until October 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption alternatives.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company is evaluating the requirements of SFAS 123R and SAB 107 and has not yet determined the method of adoption. The Company expects the effect of adopting SFAS 123R and SAB 107 will result in amounts that do not differ materially from the current pro forma disclosures under SFAS 123. In addition, the Company currently discloses the fair value of grants of employee stock options over the normal vesting period for all participants. Beginning in fiscal 2006, expense will be recognized immediately for participants eligible for normal retirement. The financial impact on the expense disclosed for participants eligible for retirement on the date of grant on the periods presented is not expected to be material.

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

Note 4. Income Taxes

Income tax provisions for the Company's interim periods are based on the effective income tax rate expected to be applicable for the full year. The difference between the estimated effective tax rate for fiscal 2005 of 38.0% and the Federal statutory rate of 35.0% primarily reflects the impact of state and foreign income taxes.

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

Note 5. Earnings Per Share

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net income	\$ 16,154	14,380	\$ 44,142	\$ 39,564
Weighted-average common shares outstanding	31,958,308	32,252,258	32,144,329	32,172,931
Dilutive securities, primarily stock options	377,746	466,418	398,313	486,574
Diluted weighted-average common shares outstanding	32,336,054	32,718,676	32,542,642	32,659,505
Basic earnings per share	\$ .50	\$ .45	\$ 1.37	\$ 1.23
Diluted earnings per share	\$ .50	\$ .44	\$ 1.36	\$ 1.21

Note 6. Segment Information

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

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

Information about the Company's segments follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Sales to external customers:				
Memorialization:				
Bronze	\$ 55,574	\$ 51,666	\$ 150,137	\$ 144,271
Casket	29,910	27,013	92,785	91,155
Cremation	5,283	5,163	15,982	16,552
	<u>90,767</u>	<u>83,842</u>	<u>258,904</u>	<u>251,978</u>
Brand Solutions:				
Graphics Imaging	36,175	27,495	106,578	82,420
Marking Products	11,864	9,298	32,747	28,126
Merchandising Solutions	20,177	-	65,703	-
	<u>68,216</u>	<u>36,793</u>	<u>205,028</u>	<u>110,546</u>
	<u>\$ 158,983</u>	<u>\$ 120,635</u>	<u>\$ 463,932</u>	<u>\$ 362,524</u>
Operating profit:				
Memorialization:				
Bronze	\$ 16,937	\$ 14,948	\$ 42,277	\$ 35,338
Casket	3,521	3,763	12,371	13,390
Cremation	165	(128)	264	829
	<u>20,623</u>	<u>18,583</u>	<u>54,912</u>	<u>49,557</u>
Brand Solutions:				
Graphics Imaging	3,918	4,959	10,908	14,634
Marking Products	2,406	1,670	5,633	5,040
Merchandising Solutions	530	-	2,528	-
	<u>6,854</u>	<u>6,629</u>	<u>19,069</u>	<u>19,674</u>
	<u>\$ 27,477</u>	<u>\$ 25,212</u>	<u>\$ 73,981</u>	<u>\$ 69,231</u>

Note 7. Comprehensive Income

Comprehensive income consists of net income adjusted for changes, net of related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and minimum pension liability. For the three months ended June 30, 2005 and 2004, comprehensive income was \$8,784 and \$13,672, respectively. For the nine months ended June 30, 2005 and 2004, comprehensive income was \$41,289 and \$43,230, respectively.

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

Note 8. Goodwill and Other Intangible Assets

Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment the Company uses a combination of valuation techniques, including discounted cash flows. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. The Company performed its annual impairment review in the second quarter of fiscal 2005 and determined that no additional adjustments to the carrying values of goodwill were necessary.

Changes to goodwill, net of accumulated amortization, for the nine months ended June 30, 2005, are as follows.

	Bronze	Casket	Cremation	Graphics Imaging	Merchandising Solutions	Marking Products	Consolidated
Balance at September 30, 2004	\$ 73,641	\$ 40,706	\$ 6,536	\$ 58,618	\$ 8,019	\$ 1,496	\$ 189,016
Additions during period	-	-	-	8,620	2,102	3,717	14,439
Translation and other adjustments	(500)	-	-	(1,034)	-	-	(1,534)
Balance at June 30, 2005	<u>\$ 73,141</u>	<u>\$ 40,706</u>	<u>\$ 6,536</u>	<u>\$ 66,204</u>	<u>\$ 10,121</u>	<u>\$ 5,213</u>	<u>\$ 201,921</u>

The additions to Marking Products goodwill relate mostly to additional consideration paid in accordance with the Holjeron Corporation ("Holjeron") purchase agreement. The additions to Merchandising Solutions goodwill relate to purchase accounting adjustments associated with the acquisition of The Cloverleaf Group, Inc. ("Cloverleaf") in July 2004 and a small acquisition in 2005. The additions to Graphics Imaging goodwill relate to the purchase of the remaining interest in ReproBusek Druckvorstufentechnik GmbH & Co. KG ("Busek"), a European graphics business, in accordance with the terms of the original purchase agreement and a performance payout to the minority owner of Rudolf Reproflex GmbH, another European graphics business.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of June 30, 2005 and September 30, 2004, respectively.

	Carrying Amount	Accumulated Amortization	Net
<u>June 30, 2005:</u>			
Trade names	\$ 17,885	\$ - *	\$ 17,885
Customer relationships	10,406	(1,238)	9,168
Copyrights/patents/other	4,994	(1,159)	3,835
	<u>\$ 33,285</u>	<u>\$ (2,397)</u>	<u>\$ 30,888</u>
<u>September 30, 2004:</u>			
Trade names	\$ 17,964	\$ - *	\$ 17,964
Customer relationships	10,427	(742)	9,685
Copyrights/patents/other	5,024	(393)	4,631
	<u>\$ 33,415</u>	<u>\$ (1,135)</u>	<u>\$ 32,280</u>

\* Not subject to amortization

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

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

Amortization expense on intangible assets was \$430 and \$87 for the three month periods ended June 30, 2005 and 2004, respectively. For the nine month periods ended June 30, 2005 and 2004, amortization expense was \$1,262 and \$261, respectively. Amortization expense is estimated to be \$1,700 in 2005, \$1,700 in 2006, \$1,300 in 2007, \$1,300 in 2008 and \$1,250 in 2009.

#### Note 9. Debt

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

In April 2004, the Company entered into an interest rate swap that fixed the interest rate on borrowings of \$50,000 for a five-year period. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at June 30, 2005). 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 effective.

The fair value of the interest rate swap reflected an unrealized gain of \$1,000 (\$600 after tax) at June 30, 2005 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2005, approximately \$160 of the \$600 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

Outstanding borrowings on the Revolving Credit Facility at June 30, 2005 were \$40,000. The weighted-average interest rate on outstanding borrowings at June 30, 2005 was 3.16%. Equal quarterly payments of \$2,500 plus interest are due on the facility until its maturity in April 2009.

On July 11, 2005 the Company increased its outstanding borrowings under the facility to \$130,000. The additional borrowings were used to complete the acquisition of Milso Industries ("Milso"). Additionally, the Company has entered into a forward interest rate swap, to be effective September 30, 2005, that will fix the interest rate on \$50,000 of the additional borrowings through the facility's maturity. The interest rate will be fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at June 30, 2005). The interest rate swap has been designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges are considered effective. Equal quarterly payments of \$3,333 plus interest will be due on this \$50,000 borrowing through April 2009.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled \$11,234 at June 30, 2005. Caggiati S.p.A. also has four lines of credit totaling approximately \$13,106 with the same Italian banks. Outstanding borrowings on these lines were \$3,402 at June 30, 2005. The weighted-average interest rate on outstanding Caggiati S.p.A. related borrowings was 2.89% at June 30, 2005.

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

In April 2005, the Company, through its wholly-owned subsidiary, Matthews International GmbH, entered into a credit facility with National Westminster Bank Plc for borrowings up to 10.0 million Euros. At June 30, 2005, outstanding borrowings under the credit facility totaled 8.0 million Euros (\$9,700 USD).

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 in accordance with the revised version of SFAS No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits."

	Pension		Other Postretirement	
	2005	2004	2005	2004
Three months ended June 30,				
Service cost	\$ 804	\$ 906	\$ 126	\$ 99
Interest cost	1,310	1,266	293	262
Expected return on plan assets	(1,521)	(1,484)	-	-
Amortization:				
Prior service cost	20	28	(322)	(322)
Net actuarial loss	350	293	123	112
Net benefit cost	<u>\$ 963</u>	<u>\$ 1,009</u>	<u>\$ 220</u>	<u>\$ 151</u>
Nine months ended June 30,				
Service cost	\$ 2,413	\$ 2,719	\$ 379	\$ 296
Interest cost	3,931	3,797	879	786
Expected return on plan assets	(4,563)	(4,452)	-	-
Amortization:				
Prior service cost	60	84	(966)	(966)
Net actuarial loss	1,050	879	370	335
Net benefit cost	<u>\$ 2,891</u>	<u>\$ 3,027</u>	<u>\$ 662</u>	<u>\$ 451</u>

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under a supplemental retirement plan and postretirement benefit plan are made from the Company's operating funds. Due to the IRS full funding limitations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal 2005. As of June 30, 2005, contributions of \$290 and \$522 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$75 and \$528 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2005.

Note 11. Acquisitions

In June 2005, the Company paid additional consideration of \$6,000 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.

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

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

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

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Sales	\$ 158,983	\$ 150,523	\$ 463,932	\$ 443,803
Income before taxes	26,055	23,862	71,196	67,322
Net income	16,154	14,602	44,142	41,201
Earnings per share	\$ .50	\$ .45	\$ 1.36	\$ 1.26

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

In July 2004, the Company acquired Holjeron, an industrial controls manufacturer located in Wilsonville, Oregon. The acquisition was structured as a stock purchase, at an initial cost of approximately \$1,700, plus potential additional consideration based upon calendar 2004 financial performance. In February 2005, additional consideration of \$3,100 was paid in accordance with the purchase agreement to complete the transaction. The acquisition is a part of Matthews’ strategy to increase its presence in the marking products industry.

Note 12. Subsequent Event

On July 11, 2005, the Company acquired Milso, a leading manufacturer and marketer 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 \$95,000. The transaction was also structured to include potential additional asset purchase consideration of \$7,500 contingent on the fiscal 2006 performance of the acquired operations. The acquisition is designed to expand Matthews’ products and services in the United States casket market.

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

Cautionary Statement:

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation and related notes thereto included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended September 30, 2004. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control.

Results of Operations:

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

	Nine months ended June 30,		Years ended September 30,	
	2005	2004	2004	2003(1)
Sales	100.0%	100.0%	100.0%	100.0%
Gross profit	34.5%	38.3%	38.1%	37.1%
Operating profit	15.9%	19.1%	19.2%	17.5%
Income before taxes	15.3%	17.8%	18.0%	16.0%
Net income	9.5%	10.9%	11.0%	9.8%

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

Sales for the nine months ended June 30, 2005 were \$463.9 million and were \$101.4 million, or 28.0%, higher than sales of \$362.5 million for the nine months ended June 30, 2004. The increase resulted principally from the acquisitions of The Cloverleaf Group, Inc. ("Cloverleaf"), The InTouch Group, Limited ("InTouch") and Holjeron Corporation ("Holjeron") during the fourth quarter of fiscal 2004, and higher foreign currency exchange rates. Sales for Cloverleaf, which is reported as the Company's Merchandising Solutions segment, were \$65.7 million for the first nine months of fiscal 2005. Sales for InTouch and Holjeron were \$22.9 million and \$3.8 million, respectively. For the nine months ended June 30, 2005, higher foreign currency values against the U.S. dollar had a favorable impact of approximately \$5.5 million on the Company's consolidated sales compared to the nine months ended June 30, 2004. Bronze segment sales for the first nine months of fiscal 2005 were \$150.1 million compared to \$144.3 million for the first nine months of fiscal 2004. The higher level of Bronze sales principally reflected higher memorial sales (which included a price surcharge implemented in fiscal 2004) and the favorable impact of increases in the values of foreign currencies against the U.S. dollar. These increases were offset partially by a decline in mausoleum sales. Sales for the Casket segment were \$92.8 million for the first nine months of fiscal 2005 compared to \$91.2 million for the same period last

Results of Operations, continued:

year. The increase primarily reflected higher unit prices offset by a slight reduction in volume compared to a year ago. Unit volume improved during the third quarter compared to the same period last year. Sales for the Cremation segment were \$16.0 million for the first nine months of fiscal 2005 compared to \$16.5 million for the same period a year ago. The decrease reflected a decline in volume of cremation caskets partially offset by higher sales of cremation equipment and related supplies and services compared to the same period a year ago. Sales for the Graphics Imaging segment in the first nine months of fiscal 2005 were \$106.6 million, compared to \$82.4 million for the same period a year ago. The increase primarily reflected the acquisition of InTouch and an increase in the value of the Euro against the U.S. dollar. These increases were partially offset by lower sales in domestic markets. Marking Products segment sales for the nine months ended June 30, 2005 were \$32.7 million, compared to \$28.1 million for the first nine months of fiscal 2004. The increase of \$4.6 million was principally due to the acquisition of Holjeron, higher sales volume, and the increase in value of the Swedish Krona against the U.S. dollar.

Gross profit for the nine months ended June 30, 2005 was \$159.9 million, compared to \$138.7 million for the nine months ended June 30, 2004. Consolidated gross profit as a percent of sales decreased from 38.3% for the first nine months of fiscal 2004 to 34.5% for the first nine months of fiscal 2005. The increase in consolidated gross profit primarily reflected the acquisitions completed in the fourth quarter of fiscal 2004, the effects of manufacturing improvements and cost reduction initiatives, and higher foreign exchange values against the U.S. dollar. These gains were partially offset by lower sales in the Cremation segment and domestic graphics businesses, higher costs for bronze ingot and steel, and costs incurred in connection with the establishment of a casket manufacturing facility in Mexico. The gross margin percentage decline principally related to the factors discussed above, as well as the acquisition of Cloverleaf which generally has lower gross margins than other Matthews' businesses.

Selling and administrative expenses for the nine months ended June 30, 2005 were \$85.9 million, compared to \$69.5 million for the first nine months of fiscal 2004. The increase resulted primarily from the acquisitions completed during the fourth quarter of fiscal 2004. Consolidated selling and administrative expenses as a percent of sales were 18.5% for the nine months ended June 30, 2005 compared to 19.2% for the same period last year. The decrease primarily reflected cost controls in the Bronze segment and the acquisition of Cloverleaf, which generally has lower selling and administrative expenses as a percentage of sales than other Matthews' businesses.

Operating profit for the nine months ended June 30, 2005 was \$74.0 million, representing an increase of \$4.8 million, or 6.9%, over operating profit of \$69.2 million for the nine months ended June 30, 2004. The Cloverleaf acquisition, reported as the Merchandising Solutions segment, contributed \$2.5 million of operating profit during the first nine months of fiscal 2005. Higher foreign currency values against the U. S. dollar had a favorable impact of approximately \$1.5 million on the Company's consolidated operating profit for the nine months ended June 30, 2005 compared to the nine months ended June 30, 2004. Bronze segment operating profit for the first nine months of fiscal 2005 was \$42.3 million, compared to \$35.3 million for the first nine months of fiscal 2004. The increase reflected higher sales, the continuing effects of prior year cost reduction initiatives and the favorable impact of the increase in the value of foreign currencies against the U.S. dollar. In addition, the segment's operating profit during the prior year included one-time severance costs related to personnel reductions. Operating profit for the Casket segment for the first nine months of fiscal 2005 was \$12.4 million compared to \$13.4 million for the same period a year ago. The decrease reflected the higher cost of steel and costs incurred in connection with the establishment of a casket manufacturing facility in Mexico. Year-to-date costs incurred related to the Mexico project approximated \$2.1 million. These factors were partially offset by higher sales, operating efficiencies realized in connection with productivity initiatives, and a reduction in administrative expenses. Cremation segment operating profit was \$264,000 for the first nine months of fiscal 2005 compared to \$829,000 for the same period in fiscal 2004. The decrease primarily reflected lower sales volume and higher steel and other raw material costs. The Company estimates that for the first nine months of fiscal 2005 the aggregate impact on consolidated operating profit of increases in the cost of steel and bronze, net of the bronze price surcharge, approximated \$700,000. Graphics Imaging operating profit for the nine months ended June 30, 2005 was \$10.9 million compared to \$14.6 million for the nine months ended June 30, 2004. The segment's decrease in operating profit reflected lower domestic sales volume, lower margins in several European graphics businesses and investments during the current period in developing new accounts. Operating profit for the Marking Products segment for the first nine months of fiscal 2005 was \$5.6 million compared to \$5.0 million for the same period a year ago. The increase resulted from the acquisition of Holjeron and the benefit of higher sales partially offset by an increase in new product development costs.

Results of Operations, continued:

Investment income for the nine months ended June 30, 2005 was \$1.0 million, compared to \$1.1 million for the nine months ended June 30, 2004. The decrease from the prior period reflected lower average levels of invested cash. Interest expense was \$1.5 million for the first nine months of fiscal 2005, which was relatively consistent with the same period last year.

Other income (deductions), net, for the nine months ended June 30, 2005 represented an increase in pre-tax income of \$1.6 million, compared to a reduction in pre-tax income of \$203,000 for same period last year. Other income in the first nine months of fiscal 2005 primarily reflected foreign currency exchange gains on intercompany advances to foreign affiliates. Minority interest deduction for the first nine months of fiscal 2005 was \$3.8 million, compared to \$4.0 million for the first nine months of fiscal 2004. The lower minority interest deduction for fiscal 2005 primarily resulted from lower operating income in the Company's European Graphics Imaging businesses that are not wholly-owned.

The Company's effective tax rate for the nine months ended June 30, 2005 was 38.0%, compared to the effective rate of 38.8% for the fiscal year ended September 30, 2004. The reduction reflected a lower effective tax rate on foreign income and a reduction in state income taxes. The difference between the Company's effective tax rate and the Federal statutory rate of 35% primarily reflected the impact of state and foreign income taxes.

Liquidity and Capital Resources:

Net cash provided by operating activities was \$60.2 million for the nine months ended June 30, 2005, compared to \$68.4 million for the first nine months of fiscal 2004. Operating cash flow for the first nine months of fiscal 2005 principally reflected net income adjusted for depreciation and amortization, minority interest (non-cash charges) and a tax benefit of \$2.8 million from exercised stock options, which were partially offset by an increase in inventory. For the nine months ended June 30, 2004, operating cash flow primarily reflected net income adjusted for depreciation and amortization, minority interest, an increase in accrued income taxes, and a tax benefit of \$2.8 million from exercised stock options.

Cash used in investing activities was \$45.0 million for the nine months ended June 30, 2005, compared to \$21.2 million for the nine months ended June 30, 2004. Investing activities for the first nine months of fiscal 2005 primarily included capital expenditures of \$21.6 million, net purchases of investments of \$10.0 million and acquisitions of \$14.2 million. Investing activities for the first nine months of fiscal 2004 included capital expenditures of \$6.8 million and net purchases of investments of \$15.2 million, partially offset by proceeds of \$850,000 from the sale of assets.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged \$9.9 million for the last three fiscal years. The capital budget for fiscal 2005 is approximately \$24 million, which reflects projected capital spending in connection with establishing a casket manufacturing facility in Monterrey, Mexico. The total cost of establishing this facility is projected to be in the range of \$11 to \$12 million (including capital and expense portions). The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash used in financing activities for the nine months ended June 30, 2005 was \$37.3 million, reflecting net payments on long-term debt of \$6.0 million, treasury stock purchases of \$27.9 million, dividends of \$4.3 million to the Company's shareholders and dividends of \$4.4 million to minority interests. These payments were partially offset by proceeds of \$5.4 million from the sale of treasury stock (stock option exercises). Cash used in financing activities for the nine months ended June 30, 2004 was \$5.3 million, reflecting stock repurchases of \$12.6 million, dividends of \$3.9 million to the Company's shareholders and dividends of \$2.3 million to minority interests, partially offset by a net increase in long-term debt of \$6.2 million and net proceeds from the sale of treasury stock of \$7.3 million (stock option exercises).

Liquidity and Capital Resources, continued:

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

In April 2004, the Company entered into an interest rate swap that fixed the interest rate on borrowings of \$50.0 million for a five-year period. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at June 30, 2005). 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 effective.

The fair value of the interest rate swap reflected an unrealized gain of \$1.0 million (\$600,000 after tax) at June 30, 2005 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2005, approximately \$160,000 of the \$600,000 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

Outstanding borrowings on the Revolving Credit Facility at June 30, 2005 were \$40.0 million. The weighted-average interest rate on outstanding borrowings at June 30, 2005 was 3.16%. Equal quarterly payments of \$2.5 million plus interest are due on the facility until its maturity in April 2009.

On July 11, 2005 the Company increased its outstanding borrowings under the facility to \$130.0 million. The additional borrowings were used to complete the acquisition of Milso Industries ("Milso"). Additionally, the Company has entered into a forward interest rate swap, to be effective September 30, 2005, that will fix the interest rate on \$50.0 million of the additional borrowings through the facility's maturity. The interest rate will be fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at June 30, 2005). The interest rate swap has been designated as a cash flow hedge of the future variable interest payments under the revolving credit facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges are considered effective. Equal quarterly payments of \$3.3 million plus interest will be due on this \$50.0 million borrowing through April 2009.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled \$11.2 million at June 30, 2005. Caggiati S.p.A. also has four lines of credit totaling approximately \$13.1 million with the same Italian banks. Outstanding borrowings on these lines were \$3.4 million at June 30, 2005. The weighted-average interest rate on outstanding Caggiati S.p.A. related borrowings was 2.89% at June 30, 2005.

In April 2005, the Company, through its wholly-owned subsidiary, Matthews International GmbH, entered into a credit facility with National Westminster Bank Plc for borrowings up to 10.0 million Euros. At June 30, 2005, outstanding borrowings under the credit facility totaled 8.0 million Euros (\$9.7 million USD).

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 8,621,396 shares

Liquidity and Capital Resources, continued:

have been repurchased as of June 30, 2005. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

Consolidated working capital of the Company was \$83.4 million at June 30, 2005, compared to \$90.9 million at September 30, 2004. Cash and cash equivalents were \$40.3 million at June 30, 2005, compared to \$65.8 million at September 30, 2004. The Company's current ratio was 1.8 at June 30, 2005 and September 30, 2004.

Environmental Matters:

The Company's operations are subject to various federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations impose limitations on the discharge of materials into the environment and require the Company to obtain and operate in compliance with conditions of permits and other government authorizations. As such, the Company has developed policies and procedures with respect to environmental, safety and health, including the proper handling, storage and disposal of hazardous materials.

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its acquisition, York Casket was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a landfill site in York, PA. At this time, the Company has not been joined in any lawsuit or administrative order related to the site or its clean-up.

At June 30, 2005, an accrual of \$10.6 million was recorded for environmental remediation (of which \$812,000 has been classified in other current liabilities) representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York Casket and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

Acquisitions:

On July 11, 2005, the Company acquired Milso, a leading manufacturer and marketer 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 \$95 million. The transaction was also structured to include potential additional asset purchase consideration of \$7.5 million contingent on the fiscal 2006 performance of the acquired operations. The acquisition is designed to expand Matthews' products and services in the United States casket market.

In June 2005, the Company paid additional consideration of \$6.0 million 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.

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

#### Acquisitions, continued:

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

In July 2004, the Company acquired Holjeron Corporation, an industrial controls manufacturer located in Wilsonville, Oregon. The acquisition was structured as a stock purchase, at an initial cost of approximately \$1.7 million, plus potential additional consideration based upon calendar 2004 financial performance. In February 2005, additional consideration of \$3.1 million was paid in accordance with the purchase agreement to complete the transaction. The acquisition is a part of Matthews' strategy to increase its presence in the marking products industry.

#### Forward-Looking Information:

The Company's objective with respect to operating performance is to increase annual earnings per share in the range of 12% to 15% annually. For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of approximately 16%. 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 nine months of fiscal 2005 were the acquisitions of Cloverleaf, InTouch and Holjeron during the fourth quarter of fiscal 2004 and the favorable impact of foreign currency exchange rate changes. The Company remains concerned with the continued high cost of bronze and steel. While fiscal 2004 cost initiatives and productivity improvements have mitigated some of this impact, the significantly higher costs of bronze and steel affected the first nine months of fiscal 2005 and will be a challenge for the remainder of the fiscal year, particularly in the competitive markets served by the Company. Additionally, the Company has initiated a restructuring and facility consolidation program within the Merchandising Solutions segment. Finally, costs associated with the Company's project to establish a new lower cost casket manufacturing plant in Mexico in fiscal 2005 have negatively affected, and will continue to negatively affect, fiscal 2005 operating results until project completion.

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

#### Critical Accounting Policies:

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

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2004. Management believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the Company's operating results and financial condition. The following accounting policies involve significant estimates, which are considered critical to the preparation of the Company's consolidated financial statements.

## Critical Accounting Policies, continued:

### 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. 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 2005 and determined that no adjustments to the carrying values of goodwill were necessary. Intangible assets are amortized over their estimated useful lives, unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets.

### Pension Costs

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

### Environmental Reserve

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

### Revenue Recognition

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

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

At June 30, 2005, the Company held 351,245 memorials and 231,266 vases in its storage facilities under the pre-need sales program.

Critical Accounting Policies, continued:

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

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company's contractual obligations at June 30, 2005, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

	Payments due in fiscal year:				
	Total	2005 Remainder	2006 to 2007	2008 to 2009	After 2009
Contractual Cash Obligations:	(Dollar amounts in thousands)				
Revolving credit facilities	\$ 49,673	\$ 2,500	\$ 20,000	\$ 27,173	\$ --
Notes payable to banks	11,229	1,190	2,438	2,438	5,163
Short-term borrowings	3,402	3,402	-	-	-
Capital lease obligations	422	123	299	-	-
Non-cancelable operating leases	21,758	1,399	8,769	5,898	5,692
Total contractual cash obligations	<u>\$ 86,484</u>	<u>\$ 8,614</u>	<u>\$ 31,506</u>	<u>\$ 35,509</u>	<u>\$ 10,855</u>

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are made from the Company's operating funds. Due to the IRS full funding limitations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal 2005. As of June 30, 2005, contributions of \$290,000 and \$522,000 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional \$75,000 and \$528,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2005.

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

Accounting Pronouncements:

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123 and supercedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. In April 2005, the Securities and Exchange Commission delayed the effective date of SFAS 123R for public companies to annual, rather than interim, periods that begin after June 15, 2005. Accordingly, the Company is not required, and does not expect, to adopt SFAS 123R until October 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption alternatives.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company is evaluating the requirements of SFAS 123R and SAB 107 and has

## Accounting Pronouncements, continued:

not yet determined the method of adoption. The Company expects the effect of adopting SFAS 123R and SAB 107 will result in amounts that do not differ materially from the current pro forma disclosures under SFAS 123. In addition, the Company currently discloses the fair value of grants of employee stock options over the normal vesting period for all participants. Beginning in fiscal 2006, expense will be recognized immediately for participants eligible for normal retirement. The financial impact on the expense disclosed for participants eligible for retirement on the date of grant on the periods presented is not expected to be material.

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

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

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

**Interest Rates** - The Company's most significant long-term debt instrument is the Revolving Credit Facility, as amended, which bears interest at variable rates based on LIBOR. In April 2004, the Company entered into an interest rate swap that fixed the interest rate on borrowings of \$50.0 million at 3.16% for a five-year period. The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility. The fair value of the interest rate swap reflected an unrealized gain of \$1.0 million (\$600,000 after tax) at June 30, 2005 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 \$500,000 in the fair value of the interest rate swap.

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

**Foreign Currency Exchange Rates** - The Company is subject to changes in various foreign currency exchange rates, including the Euro, the British Pound, Canadian dollar, Australian dollar and Swedish Krona, in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. An adverse change of 10% in average exchange rates would have resulted in a decrease in sales of \$12.3 million and a decrease in operating income of \$2.1 million for the nine-month period ended June 30, 2005.

## Item 4. Controls and Procedures

Based on their evaluation at the end of the period covered by this Quarterly Report on Form 10-Q, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended June 30, 2005 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

On May 18, 2005, Ralph Lee Fancher (“Fancher”) filed an anti-trust suit against several national owners and operators of funeral homes as well as several manufacturers and marketers of caskets, including Matthews International Corporation’s wholly-owned subsidiary, The York Group, Inc. (“York”). The anti-trust suit was filed in the United States District Court for the Eastern District of Tennessee. Fancher alleges violations of various state anti-trust laws, state consumer protection statutes and state unjust enrichment laws. No violations of federal law are alleged. In general, Fancher alleges a conspiracy to suppress competition for caskets, disparagement against “Independent Casket Discounters” and efforts to restrict casket price competition. Fancher seeks certification of two classes of consumers based on different groups of state laws and seeks unspecified monetary damages, trebling of any such damages that may be awarded, where appropriate, and recovery of attorney’s fees and costs. As of the date of the filing of this Form 10-Q, the suit has been voluntarily withdrawn by the plaintiff. However, it is likely that the suit will be re-filed in another jurisdiction.

It is possible that resolution of this matter could be unfavorable to the Company, however the Company does not presently have sufficient information to estimate the materiality of such impact. The Company believes York’s inclusion in this anti-trust suit is without merit and intends to aggressively defend itself against the allegations.

### 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 8,621,396 shares have been repurchased as of June 30, 2005. All purchases of the Company’s common stock during the first nine months of fiscal 2005 were part of this repurchase program.

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan
October 2004	112,300	\$ 32.61	112,300	2,059,032
November 2004	66,200	35.90	66,200	1,992,832
December 2004	160,519	37.03	160,519	1,832,313
January 2005	133,509	36.02	133,509	1,698,804
February 2005	114,700	35.01	114,700	1,584,104
March 2005	204,500	34.66	204,500	1,379,604
April 2005	-	-	-	1,379,604
May 2005	-	-	-	1,379,604
June 2005	1,000	38.32	1,000	1,378,604
Total	<u>792,728</u>	<u>\$ 35.23</u>	<u>792,728</u>	

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

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
31.1	Certification of Principal Executive Officer for 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 April 21, 2005, Matthews filed a Current Report on Form 8-K under Item 2.02 in connection with a press release announcing its earnings for the second fiscal quarter of 2005.

On June 1, 2005 Matthews filed a Current Report on Form 8-K under Item 1.01 in connection with the signing of a definitive agreement to purchase substantially all of the assets and assume certain liabilities of Milso Industries.

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 8/9/05

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David M. Kelly

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

Date 8/9/05

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Steven F. Nicola

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



CERTIFICATION  
PRINCIPAL EXECUTIVE OFFICER

I, David M. Kelly, certify that:

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

Date: August 9, 2005

David M. Kelly

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

Exhibit 31.2

CERTIFICATION  
PRINCIPAL FINANCIAL OFFICER

I, Steven F. Nicola, certify that:

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

Date: August 9, 2005

Steven F. Nicola

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Steven F. Nicola  
Chief Financial Officer,  
Secretary and Treasurer

Exhibit 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 ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Kelly, President and Chief Executive Officer, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

David M. Kelly

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David M. Kelly,  
President and Chief Executive Officer

August 9, 2005

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

Exhibit 32.2

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

As Adopted Pursuant to

Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Matthews International Corporation (the "Company") on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven F. Nicola, Chief Financial Officer, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Steven F. Nicola

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Steven F. Nicola,  
Chief Financial Officer

August 9, 2005

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