

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2008

Commission File Number 0-09115

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

**COMMONWEALTH OF 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**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$1.00 par value	NASDAQ Global Select Market System

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405a of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the Class A Common Stock outstanding and held by non-affiliates of the registrant, based upon the closing sale price of the Class A Common Stock on the NASDAQ Global Select Market System on March 31, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.5 billion.

As of October 31, 2008, shares of common stock outstanding were: Class A Common Stock 30,565,778 shares

**Documents incorporated by reference:** Specified portions of the Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

**The index to exhibits is on pages 72-74.**

## PART I

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

Any forward-looking statements contained in this Annual Report on Form 10-K (specifically those contained in Item 1, "Business", Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations") are included in this report 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 Matthews International Corporation ("Matthews" or the "Company") believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered individually significant to consolidated sales, changes in the distribution of the Company's products or the potential loss of one or more of the Company's larger customers are also considered risk factors.

### ITEM 1. BUSINESS.

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 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 and distributor in North America and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets primarily in North America. The Graphics Imaging segment manufactures and provides brand solutions, printing plates, gravure cylinders, pre-press services and imaging services for the primary packaging and corrugated industries. The Marking Products segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

At October 31, 2008, the Company and its majority-owned subsidiaries had approximately 5,000 employees. The Company's principal executive offices are located at Two NorthShore Center, Pittsburgh, Pennsylvania 15212, its telephone number is (412) 442-8200 and its internet website is [www.matw.com](http://www.matw.com). The Company files all required reports with the Securities and Exchange Commission ("SEC") in accordance with the Exchange Act. These reports are available free of charge on the Company's website as soon as practicable after being filed or furnished to the SEC. The reports filed with the SEC are also available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by contacting the SEC at 1-800-732-0330. All reports filed with the SEC can be found on its website at [www.sec.gov](http://www.sec.gov).

The following table sets forth reported sales and operating profit for the Company's business segments for the past three fiscal years. Detailed financial information relating to business segments and to domestic and international operations is presented in Note 15 ("Segment Information") to the Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

ITEM 1. BUSINESS, continued

	Years Ended September 30,					
	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
<b>Sales to unaffiliated customers:</b>						
Memorialization:						
Bronze	\$ 243,063	29.7%	\$ 229,850	30.7%	\$ 218,004	30.4%
Casket	219,792	26.8	210,673	28.1	200,950	28.1
Cremation	26,665	3.3	25,166	3.3	25,976	3.6
	<u>489,520</u>	<u>59.8</u>	<u>465,689</u>	<u>62.1</u>	<u>444,930</u>	<u>62.1</u>
Brand Solutions:						
Graphics Imaging	203,703	24.9	146,049	19.5	140,886	19.7
Marking Products	60,031	7.3	57,450	7.7	52,272	7.3
Merchandising Solutions	65,369	8.0	80,164	10.7	77,803	10.9
	<u>329,103</u>	<u>40.2</u>	<u>283,663</u>	<u>37.9</u>	<u>270,961</u>	<u>37.9</u>
Total	<u>\$ 818,623</u>	<u>100.0%</u>	<u>\$ 749,352</u>	<u>100.0%</u>	<u>\$ 715,891</u>	<u>100.0%</u>
<b>Operating profit:</b>						
Memorialization:						
Bronze	\$ 71,576	53.8%	\$ 66,298	59.3%	\$ 65,049	57.1%
Casket	23,339	17.6	11,801	10.6	16,971	14.9
Cremation	5,474	4.1	3,631	3.2	3,372	3.0
	<u>100,389</u>	<u>75.5</u>	<u>81,730</u>	<u>73.1</u>	<u>85,392</u>	<u>75.0</u>
Brand Solutions:						
Graphics Imaging	18,617	14.0	14,439	12.9	16,554	14.5
Marking Products	9,137	6.9	9,931	8.9	9,066	8.0
Merchandising Solutions	4,809	3.6	5,724	5.1	2,872	2.5
	<u>32,563</u>	<u>24.5</u>	<u>30,094</u>	<u>26.9</u>	<u>28,492</u>	<u>25.0</u>
Total	<u>\$ 132,952</u>	<u>100.0%</u>	<u>\$ 111,824</u>	<u>100.0%</u>	<u>\$ 113,884</u>	<u>100.0%</u>

In fiscal 2008, approximately 69% of the Company's sales were made from the United States, and 27%, 2%, 1% and 1% were made from Europe, Canada, Australia and China, respectively. For further information on Segments see Note 15, "Segment Information" in Item 8 - "Financial Statements and Supplementary Data" on pages 57 through 58 of this report. Bronze segment products are sold throughout the world with the segment's principal operations located in the United States, Europe, Canada, and Australia. Casket segment products are primarily sold in North America. Cremation segment products and services are sold primarily in North America, as well as Asia, Australia, and Europe. Products and services of the Graphics Imaging segment are sold primarily in the United States and Europe. The Marking Products segment sells equipment and consumables directly to industrial consumers and distributors in the United States and internationally through the Company's subsidiaries in Canada, Sweden and China, and through other foreign distributors. Matthews owns a minority interest in Marking Products distributors in Asia, Australia and Europe. Merchandising Solutions segment products and services are sold principally in the United States.

ITEM 1. BUSINESS, continued

**MEMORIALIZATION PRODUCTS AND MARKETS:**

**Bronze:**

The Bronze segment manufactures and markets products used primarily in the cemetery and funeral home industries. The segment's products, which are sold principally in the United States, Europe, Canada and Australia, include cast bronze memorials and other memorialization products used primarily in cemeteries. The segment also manufactures and markets cast and etched architectural products, that are produced from bronze, aluminum and other metals, which are used to identify or commemorate people, places, events and accomplishments.

Memorial products, which comprise the majority of the Bronze segment's sales, include flush bronze memorials, flower vases, crypt plates and letters, cremation urns, niche units, cemetery features and statues, along with other related products and services. Flush bronze memorials are bronze plaques which contain personal information about a deceased individual such as name, birth date, death date and emblems. These memorials are used in cemeteries as an alternative to upright and flush granite monuments. The memorials are even or "flush" with the ground and therefore are preferred by many cemeteries for easier mowing and general maintenance. In order to provide products for the granite memorial and mausoleum markets, the Company's other memorial products include community and family mausoleums, granite monuments and benches, bronze plaques, letters, emblems, vases, lights and photoceramics that can be affixed to granite monuments, mausoleums, crypts and flush memorials. Matthews is a leading builder of mausoleums within North America. Principal customers for memorial products are cemeteries and memorial parks, which in turn sell the Company's products to the consumer.

Customers of the Bronze segment can also purchase memorials and vases on a "pre-need" basis. The "pre-need" concept permits families to arrange for these purchases in advance of their actual need. Upon request, the Company will manufacture the memorial to the customer's specifications (e.g., name and birth date) and place it in storage for future delivery. All memorials in storage have been paid in full with title conveyed to each pre-need purchaser.

The Bronze segment manufactures a full line of memorial products for cremation, including urns in a variety of sizes, styles and shapes. The segment also manufactures bronze and granite niche units, which are comprised of numerous compartments used to display cremation urns in mausoleums and churches. In addition, the Company also markets turnkey cremation gardens, which include the design and all related products for a cremation memorial garden.

Architectural products include cast bronze and aluminum plaques, etchings and letters that are used to recognize, commemorate and identify people, places, events and accomplishments. The Company's plaques are frequently used to identify the name of a building or the names of companies or individuals located within a building. Such products are also used to commemorate events or accomplishments, such as military service or financial donations. The principal markets for the segment's architectural products are corporations, fraternal organizations, contractors, churches, hospitals, schools and government agencies. These products are sold to and distributed through a network of independent dealers including sign suppliers, awards and recognition companies, and trophy dealers.

Raw materials used by the Bronze segment consist principally of bronze and aluminum ingot, sheet metal, coating materials, photopolymers and construction materials and are generally available in adequate supply. Ingot is obtained from various North American, European and Australian smelters.

Competition from other bronze memorialization product manufacturers is on the basis of reputation, product quality, delivery, price and design availability. The Company also competes with upright granite monument and flush granite memorial providers. The Company believes that its superior quality, broad product lines, innovative designs, delivery capability, customer responsiveness, experienced personnel and consumer-oriented merchandising systems are competitive advantages in its markets. Competition in the mausoleum construction industry includes various construction companies throughout North America and is on the basis of design, quality and price. Competitors in the architectural market are numerous and include companies that manufacture cast and painted signs, plastic materials, sand-blasted wood and other fabricated products.

ITEM 1.            BUSINESS, continued

**Casket:**

The Casket segment is a leading manufacturer and distributor of caskets in North America. The segment produces two types of caskets: metal and wood. Caskets can be customized with many different options such as color, interior design, handles and trim in order to accommodate specific religious, ethnic or other personal preferences.

Metal caskets are made from various gauges of cold rolled steel, stainless steel, copper and bronze. Metal caskets are generally categorized by whether the casket is non-gasketed or gasketed, and by material (i.e., bronze, copper, or steel) and in the case of steel, by the gauge, or thickness, of the metal.

The segment's wood caskets are manufactured from nine different species of wood, as well as from veneer. The species of wood used are poplar, pine, ash, oak, pecan, maple, cherry, walnut and mahogany. The Casket segment is a leading manufacturer of all-wood constructed caskets, which are manufactured using pegged and dowelled construction, and include no metal parts. All-wood constructed caskets are preferred by certain religious groups.

The segment also produces casket components. Casket components include stamped metal parts, metal locking mechanisms for gasketed metal caskets, adjustable beds, interior panels and plastic ornamental hardware for the exterior of the casket. Metal casket parts are produced by stamping cold rolled steel, stainless steel, copper and bronze sheets into casket body parts. Locking mechanisms and adjustable beds are produced by stamping and assembling a variety of steel parts. Certain ornamental hardware styles are produced from injection molded plastic. The segment purchases from sawmills and lumber distributors various species of uncured wood, which it dries and cures. The cured wood is processed into casket components.

Additionally, the segment provides assortment planning and merchandising and display products to funeral service businesses. These products assist funeral service professionals in providing value and satisfaction to their client families.

The primary materials required for casket manufacturing are cold rolled steel and lumber. The segment also purchases copper, bronze, stainless steel, cloth, ornamental hardware and coating materials. Purchase orders or supply agreements are typically negotiated with large, integrated steel producers that have demonstrated timely delivery, high quality material and competitive prices. Lumber is purchased from a number of sawmills and lumber distributors. The Company purchases most of its lumber from sawmills within 150 miles of its wood casket manufacturing facility in York, Pennsylvania.

Prior to July 2005, the segment marketed its casket products primarily through independent distributors. With the acquisition of Milso Industries Corporation in July 2005, the segment significantly expanded its internal casket distribution capabilities. The segment now markets its casket products in the United States through a combination of Company-owned and independent casket distribution facilities. The Company operates approximately 45 distribution centers in the United States. Over 75% of the segment's casket products are currently sold through Company-owned distribution centers.

The casket business is highly competitive. The segment competes with other manufacturers on the basis of product quality, price, service, design availability and breadth of product line. The segment provides a line of casket products that it believes is as comprehensive as any of its major competitors. There are a large number of casket industry participants operating in North America, and the industry has recently seen a few new foreign casket manufacturers, primarily from China, enter the North American market. The Casket segment and its two largest competitors account for a substantial portion of the finished caskets produced and sold in North America.

Historically, the segment's operations have experienced seasonal variations. Generally, casket sales are higher in the second quarter and lower in the fourth quarter of each fiscal year. These fluctuations are due in part to the seasonal variance in the death rate, with a greater number of deaths generally occurring in cold weather months.

ITEM 1. BUSINESS, continued

**Cremation:**

The Cremation segment has four major groups of products and services: cremation equipment, cremation caskets, equipment service and repair, and supplies and urns.

The Cremation segment is the leading designer and manufacturer of cremation equipment, serving North America, Asia, Australia and Europe. Cremation equipment includes systems for cremation of humans and animals, as well as equipment for processing the cremated remains and other related equipment such as handling equipment (tables, cooler racks, vacuums). Cremation equipment and products are sold primarily to funeral homes, cemeteries, crematories, animal disposers and veterinarians within North America, Asia, Australia and Europe.

Cremation casket products consist primarily of three types of caskets: cloth-covered wood, cloth-covered corrugated material and paper veneer-covered particleboard and corrugated material. These products are generally used in cremation and are marketed principally in the United States through independent distributors and company-owned distribution centers operated by the Company's Casket segment.

Service and repair consists of maintenance work performed on various makes and models of cremation equipment. This work can be as simple as routine maintenance offered at-need or through annual service contracts, or as complex as complete on-site reconstruction. The principal markets for these services are the owners and operators of cremation equipment. These services are marketed principally in North America through Company sales representatives.

Supplies and urns are consumable items associated with cremation operations. Supplies distributed by the segment include operator safety equipment, identification discs and combustible roller tubes. Urns distributed by the segment include products ranging from plastic containers to bronze urns for cremated remains. These products are marketed primarily in North America.

Raw materials used by the Cremation segment consist principally of structural steel, sheet metal, electrical components, cloth, wood, particleboard, corrugated materials, paper veneer and masonry materials and are generally available in adequate supply from numerous suppliers.

The Company competes with several manufacturers in the cremation equipment market principally on the basis of product quality and price. The Cremation segment and its three largest competitors account for a substantial portion of the U.S. cremation equipment market. The cremation casket business is highly competitive. The segment competes with other cremation casket manufacturers on the basis of product quality, price and design availability. Although there are a large number of casket industry participants, the Cremation segment and its two largest competitors account for a substantial portion of the cremation caskets sold in the United States.

Historically, the segment's cremation casket operations have experienced seasonal variations. These fluctuations are due in part to the seasonal variance in the death rate, with a greater number of deaths generally occurring in cold weather months.

ITEM 1. BUSINESS, continued

**BRAND SOLUTIONS PRODUCTS AND MARKETS :**

**Graphics Imaging:**

The Graphics Imaging segment provides brand management, pre-press services, printing plates and cylinders, embossing tools, and creative design services principally to the primary packaging and corrugated industries. The primary packaging industry consists of manufacturers of printed packaging materials such as boxes, flexible packaging, folding cartons and bags commonly seen at retailers of consumer goods. The corrugated packaging industry consists of manufacturers of printed corrugated containers. Other major industries served include the wallpaper, floor, automotive, and textile industries.

The principal products and services of this segment include brand management, pre-press graphics services, printing plates, gravure cylinders, steel bases, embossing tools, special purpose machinery, engineering assistance, print process assistance, print production management, digital asset management, content management, and package design. These products and services are used by brand owners and packaging manufacturers to develop and print packaging graphics that identify and help sell the product in the marketplace. Other packaging graphics can include nutritional information, directions for product use, consumer warning statements and UPC codes. The primary packaging manufacturer produces printed packaging from paper, film, foil and other composite materials used to display, protect and market the product. The corrugated packaging manufacturer produces printed containers from corrugated sheets. Using the Company's products, this sheet is printed and die cut to make a finished container.

The segment offers a wide array of value-added services and products. These include print process and print production management services; print engineering consultation, pre-press preparation, which includes computer-generated art, film and proofs; plate mounting accessories and various press aids; and rotary and flat cutting dies used to cut out intricately designed containers and point-of-purchase displays. The segment also provides creative digital graphics services to brand owners and packaging markets.

The Company works closely with manufacturers to provide the proper printing forms and tooling used to print the packaging to the user's specifications. The segment's printing plate products are made principally from photopolymer resin and sheet materials. Upon customer request, plates can be pre-mounted press-ready in a variety of configurations that maximize print quality and minimize press set-up time. Gravure cylinders, manufactured from steel, copper and chrome, can be custom engineered for multiple print processes.

The Graphics Imaging segment customer base consists primarily of brand owners and packaging industry converters. Brand owners are generally large, well-known consumer products companies and retailers with a national or global presence. These types of companies tend to purchase their graphics needs directly and supply the printing forms, or the electronic files to make the printing plates and gravure cylinders, to the packaging printer for their products. The Graphics Imaging segment serves customers primarily in the United States and Europe. In Europe, the segment has its principal operations in the U.K., Germany, Poland and Austria.

Major raw materials for this segment's products include photopolymers, copper, steel, film and graphic art supplies. All such materials are presently available in adequate supply from various industry sources.

The Graphics Imaging segment is one of several manufacturers of printing plates and cylinders and providers of pre-press services with an international presence. The segment competes in a fragmented industry consisting of a few multi-plant regional printing form suppliers and a large number of local single-facility companies located across the United States and Europe. The combination of the Company's Graphics Imaging business in the United States and Europe is an important part of Matthews' strategy to become a worldwide leader in the graphics industry and service multinational customers on a global basis. Competition is on the basis of product quality, timeliness of delivery, price and value-added services. The Company differentiates itself from the competition by consistently meeting customer demands, its ability to service customers nationally and globally, and its ability to provide value-added services.

ITEM 1. BUSINESS, continued

**Marking Products:**

The Marking Products segment designs, manufactures and distributes a wide range of marking and coding products and related consumables, as well as industrial automation products. The Company's products are used by manufacturers and suppliers to identify, track and convey their products and packaging. Marking products can range from a simple hand stamp to microprocessor-based ink-jet printing systems. Coding systems often integrate into the customer's manufacturing, inventory tracking and conveyance control systems. The Company manufactures and markets products and systems that employ the following marking methods to meet customer needs: contact printing, indenting, etching and ink-jet printing. Customers will often use a combination of these methods in order to achieve an appropriate mark. These methods apply product information required for identification and traceability as well as to facilitate inventory and quality control, regulatory compliance and brand name communication.

The segment's industrial automation products are based upon embedded control architecture to create innovative custom solutions which can be "productized." Industries that products are created for include oil exploration, material handling and security scanning. The material handling industry customers include the largest automated assembly and mail sorting companies in the United States.

A significant portion of the revenue of the Marking Products segment is attributable to the sale of consumables and replacement parts in connection with the marking, coding and tracking hardware sold by the Company. The Company develops inks, rubber and steel consumables in harmony with the marking equipment in which they are used, which is critical to assure ongoing equipment reliability and mark quality. Many marking equipment customers also use the Company's inks, solvents and cleaners.

The principal customers for the Company's marking products are consumer goods manufacturers, including food and beverage processors, producers of pharmaceuticals, and manufacturers of durable goods and building products. The Company also serves a wide variety of industrial markets, including metal fabricators, manufacturers of woven and non-woven fabrics, plastic, rubber and automotive products.

A portion of the segment's sales are outside the United States and are distributed through the Company's subsidiaries in Canada, Sweden and China in addition to other international distributors. Matthews owns a minority interest in distributors in Asia, Australia and Europe.

The marking products industry is diverse, with companies either offering limited product lines for well-defined specialty markets, or similar to the Company, offering a broad product line and competing in various product markets and countries. In the United States, the Company has manufactured and sold marking products and related consumable items since 1850.

Major raw materials for this segment's products include precision components, electronics, printing components, tool steels, rubber and chemicals, all of which are presently available in adequate supply from various sources.

Competition for marking products is based on product performance, integration into the manufacturing process, service and price. The Company normally competes with specialty companies in specific brand marking solutions and traceability applications. The Company believes that, in general, it offers the broadest line of marking products to address a wide variety of marking applications.



## ITEM 1. BUSINESS, continued

### **Merchandising Solutions:**

The Merchandising Solutions segment provides merchandising and printing solutions for manufacturers and retailers. The segment designs, manufactures and installs merchandising and display systems, and also provides creative merchandising and marketing solutions services.

The majority of the segment's sales are derived from the design, engineering, manufacturing and installation of merchandising and display systems. These systems include permanent and temporary displays, custom store fixtures, brand concept shops, interactive kiosks, custom packaging, and screen and digitally printed promotional signage. Design and engineering services include concept and model development, graphics design and prototyping. Merchandising and display systems are manufactured to specifications developed by the segment in conjunction with the customer. These products are marketed and sold primarily in the United States.

The segment operates in a fragmented industry consisting primarily of a number of small, locally operated companies. Industry competition is intense and the segment competes on the basis of reliability, creativity and providing a broad array of merchandising products and services. The segment is unique in its ability to provide in-depth marketing and merchandising services as well as design, engineering and manufacturing capabilities. These capabilities allow the segment to deliver complete turnkey merchandising solutions quickly and cost effectively.

Major raw materials for the segment's products include wood, particleboard, corrugated materials, structural steel, plastic, laminates, inks, film and graphic art supplies. All of these raw materials are presently available in adequate supply from various sources.

### **PATENTS, TRADEMARKS AND LICENSES:**

The Company holds a number of domestic and foreign patents and trademarks. However, the Company believes the loss of any or a significant number of patents or trademarks would not have a material impact on consolidated operations or revenues.

### **BACKLOG:**

Because the nature of the Company's Bronze, Graphics Imaging and Merchandising Solutions businesses are primarily custom products made to order with short lead times, backlogs are not generally material except for mausoleums. Backlogs vary in a range of approximately one year of sales for mausoleums. Backlogs for the Casket segment and the cremation casket businesses are not material. Cremation equipment sales backlogs vary in a range of eight to ten months of sales. Backlogs generally vary in a range of up to four weeks of sales in the Marking Products segment. The Company's backlog is expected to be substantially filled in fiscal 2009.

### **REGULATORY MATTERS:**

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

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its acquisition, The York Group, Inc. was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a

## ITEM 1. BUSINESS, continued

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 September 30, 2008, an accrual of approximately \$8.2 million had been recorded for environmental remediation (of which \$861,000 was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual 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.

### **ITEM 1A. RISK FACTORS.**

There are inherent risks and uncertainties associated with the Company's businesses that could adversely affect its operating performance and financial condition. Set forth below are descriptions of those risks and uncertainties that the Company currently believes to be material. Additional risks not currently known or deemed immaterial may also result in adverse effects on the Company.

**Changes in Economic Conditions.** Generally, changes in domestic and international economic conditions affect the industries in which the Company and its customers and suppliers operate. These changes include changes in the rate of consumption or use of our products due to economic downturns, volatility in currency exchange rates, and changes in raw material prices resulting from supply and/or demand conditions.

Uncertainty about the current unprecedented global economic conditions poses a risk, as consumers and businesses may postpone or cancel spending in response to tighter credit, negative financial news and/or the potential for a significant global recession. Other factors that could influence customer spending include energy costs, conditions in the credit markets, consumer confidence and other factors affecting consumer spending behavior. These and other economic factors could have an effect on demand for the Company's products and services and negatively impact the Company's financial condition and results of operations.

**Changes in Foreign Currency Exchange Rates.** Manufacturing and sales of a significant portion of the Company's products are outside the United States, and accordingly, the Company holds assets, incurs liabilities, earns revenue and pays expenses in a variety of currencies. The Company's consolidated financial statements are presented in U.S. dollars, and therefore, the Company must translate its foreign assets, liabilities, revenue and expenses into U.S. dollars. Increases or decreases in the value of the U.S. dollar compared to foreign currencies may negatively affect the value of these items in the Company's consolidated financial statements, even though their value has not changed in their original currency.

**Increased Prices for Raw Materials.** The Company's profitability is affected by the prices of the raw material used in the manufacture of its products. These prices may fluctuate based on a number of factors, including changes in supply and demand, domestic and global economic conditions, currency exchange rates, labor costs and fuel related costs. If suppliers increase the price of critical raw materials, alternative sources of supply, or an alternative material, may not exist. In addition, to the extent that the Company has quoted prices to or has existing contracts with customers, it may be unable to increase the price of its products to offset the increased costs. Significant raw material price increases that cannot be mitigated by selling price increases or productivity improvements will negatively affect the Company's results of operations.

**Changes in Mortality and Cremation Rates.** Generally, life expectancy in the United States and other countries in which the Company's Memorialization businesses operate has increased steadily for several decades and is expected to continue to do so in the future. The increase in life expectancy has mitigated the growth in the aging population, and accordingly, the number of deaths is expected to increase only marginally in the future. Additionally, cremations have steadily grown as a percentage of total deaths in the United States since the 1960's, and are expected to continue to increase in the future. The Company expects that these trends will continue in the future, and the result may affect the volume of bronze memorialization products and burial caskets sold in the United States. However, sales of the Company's Cremation segment may benefit from the growth in cremations.

ITEM 1.            BUSINESS, continued

**Changes in Product Demand or Pricing.** The Company's businesses have and will continue to operate in competitive markets. Changes in product demand or pricing are affected by domestic and foreign competition and an increase in consolidated purchasing by large customers operating in both domestic and global markets. The Memorialization businesses generally operate in markets with ample supply capacity and demand which is correlated to death rates. The Brand Solutions businesses serve global customers that are requiring their suppliers to be global in scope and price competitive. Additionally, in recent years the Company has witnessed an increase in products manufactured offshore, primarily in China, and imported into the Company's U.S. markets. It is expected that these trends will continue and may affect the Company's future results of operations.

**Risks in Connection with Acquisitions.** The Company has grown in part through acquisitions, and continues to evaluate acquisition opportunities that have the potential to support and strengthen its businesses. There is no assurance however that future acquisition opportunities will arise, or that if they do, that they will be consummated. In addition, acquisitions involve inherent risks that the businesses acquired will not perform in accordance with expectations, or that expected synergies expected from the integration of the acquisitions will not be achieved as rapidly as expected, if at all. Failure to effectively integrate acquired businesses could prevent the realization of expected rates of return on the acquisition investment and could have a negative effect on the Company's results of operations and financial condition.

**Technological Factors Beyond the Company's Control.** The Company operates in certain markets in which technological product development contributes to its ability to compete effectively. There can be no assurance that the Company will be able to develop new products, that new products can be manufactured and marketed profitably, or that new products will successfully meet the expectations of customers.

**Changes in the Distribution of the Company's Products or the Loss of a Large Customer.** Although the Company does not have any customer that is considered individually significant to consolidated sales, it does have contracts with several large customers in both the Memorialization and Brand Solutions businesses. While these contracts provide important access to large purchasers of the Company's products, they can obligate the Company to sell products at contracted prices for extended periods of time which may, in the short-term, limit the Company's ability to increase prices in response to significant raw material price increases or other factors. Additionally, any significant divestiture of business properties or operations by current customers could result in a loss of business if the Company is not able to maintain the business with the subsequent owners of the properties.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not Applicable.

## ITEM 2. PROPERTIES.

Principal properties of the Company and its majority-owned subsidiaries as of October 31, 2008 were as follows (properties are owned by the Company except as noted):

<u>Location</u>	<u>Description of Property</u>	
<b>Bronze:</b>		
Pittsburgh, PA	Manufacturing / Division Offices	
Kingwood, WV	Manufacturing	
Melbourne, Australia	Manufacturing	(1)
Parma, Italy	Manufacturing / Warehouse	(1)
Searcy, AR	Manufacturing	
Seneca Falls, NY	Manufacturing	
<b>Casket (3):</b>		
Monterrey, Mexico	Manufacturing	(1)
Richmond, IN	Manufacturing	(1)
Richmond, IN	Manufacturing / Metal Stamping	
Richmond, IN	Injection Molding	(1)
York, PA	Manufacturing	
<b>Cremation:</b>		
Apopka, FL	Manufacturing / Division Offices	
Richmond, IN	Manufacturing	(1)
<b>Graphics Imaging:</b>		
Pittsburgh, PA	Manufacturing / Division Offices	
Julich, Germany	Manufacturing / Division Offices	
Atlanta, GA	Manufacturing	
Beverly, MA	Manufacturing	(1)
Bristol, England	Manufacturing	
Dallas, TX	Manufacturing	(1)
Goslar, Germany	Manufacturing	(1)
Kansas City, MO	Manufacturing	(1)
Leeds, England	Manufacturing	(1)
Monchengladbach, Germany	Manufacturing	
Munich, Germany	Manufacturing	(1)
Nuremberg, Germany	Manufacturing	(1)
Oakland, CA	Manufacturing	(1)
Poznan, Poland	Manufacturing	
St. Louis, MO	Manufacturing	
Vienna, Austria	Manufacturing	(1)
Vreden, Germany	Manufacturing	
<b>Marking Products:</b>		
Pittsburgh, PA	Manufacturing / Division Offices	
Gothenburg, Sweden	Manufacturing / Distribution	(1)
Tualatin, OR	Manufacturing	(1)
Beijing, China	Manufacturing	(1)

ITEM 2. PROPERTIES, continued

<u>Location</u>	<u>Description of Property</u>
<b>Merchandising Solutions:</b> East Butler, PA	Manufacturing / Division Offices (2)
<b>Corporate Office:</b> Pittsburgh, PA	General Offices

- (1) These properties are leased by the Company under operating lease arrangements. Rent expense incurred by the Company for all leased facilities was approximately \$12.7 million in fiscal 2008.
- (2) Approximately ten percent of this building is leased to unrelated parties.
- (3) In addition to the properties listed, the Casket division leases warehouse facilities totaling approximately 824,000 square feet in 23 states under operating leases.

All of the owned properties are unencumbered. The Company believes its facilities are generally well suited for their respective uses and are of adequate size and design to provide the operating efficiencies necessary for the Company to be competitive. The Company's facilities provide adequate space for meeting its near-term production requirements and have availability for additional capacity. The Company intends to continue to expand and modernize its facilities as necessary to meet the demand for its products.

**ITEM 3. LEGAL PROCEEDINGS.**

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

On February 15, 2008, The York Group, Inc., a wholly-owned subsidiary of the Company, reached a settlement with Batesville Casket Company, Inc. resolving all litigation previously pending in the United States District Court for the Southern District of Ohio and the Court of Common Pleas of Allegheny County, Pennsylvania.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

No matters were submitted to a vote of the Company's security holders during the fourth quarter of fiscal 2008.

## OFFICERS AND EXECUTIVE MANAGEMENT OF THE REGISTRANT

The following information is furnished with respect to officers and executive management as of October 31, 2008:

<u>Name</u>	<u>Age</u>	<u>Positions with Registrant</u>
Joseph C. Bartolacci	48	President and Chief Executive Officer
David F. Beck	56	Controller
C. Michael Dempe	52	Chief Operating Officer, Cloverleaf Group, Inc.
James P. Doyle	57	Group President, Memorialization
Brian J. Dunn	51	Group President, Graphics and Marking Products
Steven F. Nicola	48	Chief Financial Officer, Secretary and Treasurer
Paul F. Rahill	51	President, Cremation Division
Franz J. Schwarz	60	President, Graphics Europe

**Joseph C. Bartolacci** was appointed President and Chief Executive Officer effective October 1, 2006. He had been President and Chief Operating Officer since September 1, 2005. Mr. Bartolacci was elected to the Board of Directors on November 15, 2005. He had been President, Casket Division since February 2004 and Executive Vice President of Matthews since January 1, 2004. He had been President, Matthews Europe since April 2002. Prior thereto, he was President, Caggiati, S.p.A. (a wholly-owned subsidiary of Matthews International Corporation) and served as General Counsel of Matthews.

**David F. Beck** was appointed Controller effective September 15, 2003.

**C. Michael Dempe** joined the Company as Chief Operating Officer of Cloverleaf Group, Inc. ("Cloverleaf"), a wholly-owned subsidiary of Matthews International Corporation, in July 2004. Cloverleaf was acquired by Matthews in July 2004. Prior thereto, he was President and Chief Operating Officer of iDL, Inc., a predecessor company to Cloverleaf.

**James P. Doyle** joined the Company as Group President, Memorialization in December 2006. Prior to joining Matthews, he served as President, Kohler Engine Business (a manufacturer of air and liquid-cooled four cycle engines), a division of Kohler Company, from 2004 to 2006. From 2000 to 2004, Mr. Doyle served as President of Fasco Industries, Inc., a division of Invensys PLC, which manufactured custom blowers, motors and gear-motors for global markets.

**Brian J. Dunn** was appointed Group President, Graphics and Marking Products effective September 1, 2007. Prior thereto, Mr. Dunn had been President, Marking Products Division.

**Steven F. Nicola** was appointed Chief Financial Officer, Secretary and Treasurer effective December 1, 2003. Prior thereto, he was Vice President, Accounting and Finance.

**Paul F. Rahill** was appointed President, Cremation Division in October 2002.

**Franz J. Schwarz** was named President, Graphics Europe in May 2006. He has been Managing Director of Matthews International GmbH (a wholly-owned subsidiary of Matthews International Corporation) since 2000. He was a partial owner of S+T Gesellschaft fur Reprotechnik GmbH ("S+T GmbH"), a provider of printing plates and print services located in Julich, Germany, until September 30, 2005. Matthews owns 100% of S+T GmbH as of September 30, 2008.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

**Market Information:**

The authorized common stock of the Company consists of 70,000,000 shares of Class A Common Stock, \$1 par value. The Company's Class A Common Stock is traded on the NASDAQ Global Select Market System under the symbol "MATW". The following table sets forth the high, low and closing prices as reported by NASDAQ for the periods indicated:

	<u>High</u>	<u>Low</u>	<u>Close</u>
<b>Fiscal 2008:</b>			
Quarter ended: September 30, 2008	\$58.55	\$43.71	\$50.74
June 30, 2008	52.00	44.92	45.26
March 31, 2008	50.75	43.28	48.25
December 31, 2007	49.50	39.93	46.87
<b>Fiscal 2007:</b>			
Quarter ended: September 30, 2007	\$48.22	\$36.76	\$43.80
June 30, 2007	44.97	37.61	43.61
March 31, 2007	42.35	38.13	40.70
December 31, 2006	41.75	35.13	39.35

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 12,500,000 shares of Matthews' common stock, of which 11,483,006 shares have been repurchased as of September 30, 2008. 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.

All purchases of the Company's common stock during fiscal 2008 were part of this repurchase program.

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS, (continued)**

The following table shows the monthly fiscal 2008 stock repurchase activity:

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of a publicly announced plan</u>	<u>Maximum number of shares that may yet be purchased under the plan</u>
October 2007	45,000	\$ 43.41	45,000	1,953,557
November 2007	39,088	42.83	39,088	1,914,469
December 2007	15,300	45.12	15,300	1,899,169
January 2008	57,500	45.92	57,500	1,841,669
February 2008	18,300	45.70	18,300	1,823,369
March 2008	56,440	46.37	56,440	1,766,929
April 2008	26,235	48.98	26,235	1,740,694
May 2008	159,700	47.58	159,700	1,580,994
June 2008	196,000	46.38	196,000	1,384,994
July 2008	55,000	44.70	55,000	1,329,994
August 2008	48,000	49.75	48,000	1,281,994
September 2008	265,000	48.91	265,000	1,016,994
Total	<u>981,563</u>	<u>\$ 47.06</u>	<u>981,563</u>	

**Holders:**

Based on records available to the Company, the number of registered holders of the Company's common stock was 505 at October 31, 2008.

**Dividends:**

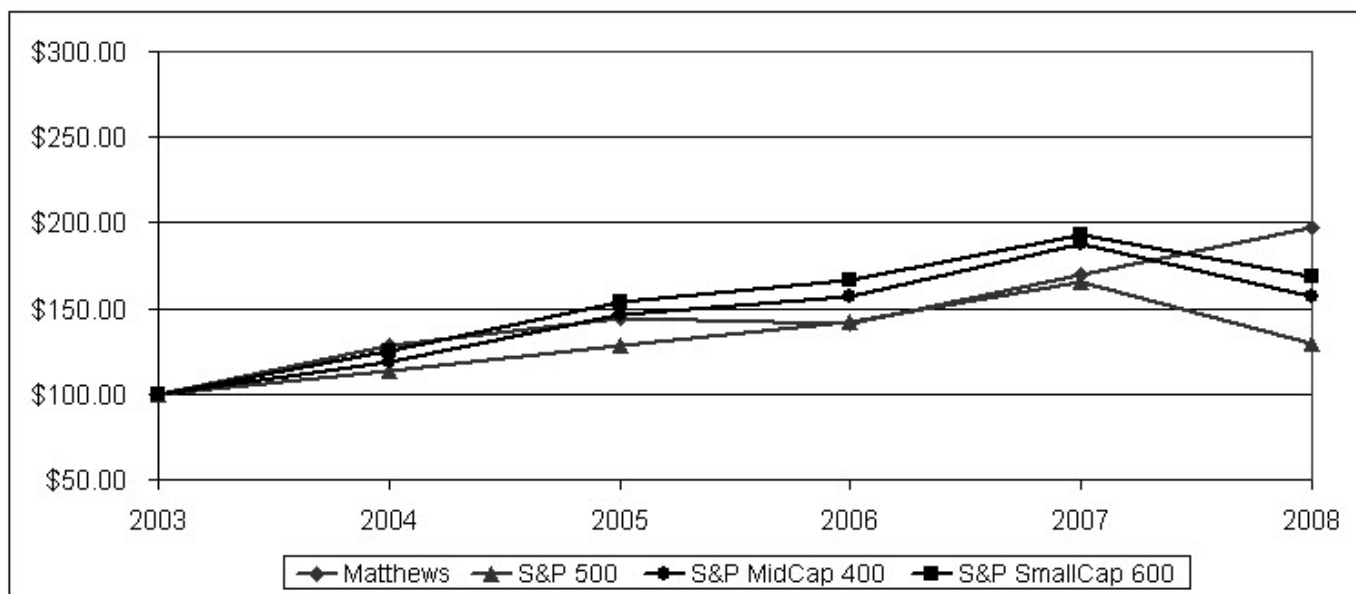
A quarterly dividend of \$.065 per share was paid for the fourth quarter of fiscal 2008 to shareholders of record on October 31, 2008. The Company paid quarterly dividends of \$.06 per share for the first three quarters of fiscal 2008 and the fourth quarter of fiscal 2007. The Company paid quarterly dividends of \$.055 per share for the first three quarters of fiscal 2007 and the fourth quarter of fiscal 2006. The Company paid quarterly dividends of \$.05 per share for the first three quarters of fiscal 2006.

Cash dividends have been paid on common shares in every year for at least the past forty years. It is the present intention of the Company to continue to pay quarterly cash dividends on its common stock. However, there is no assurance that dividends will be declared and paid as the declaration and payment of dividends is at the discretion of the Board of Directors of the Company and is dependent upon the Company's financial condition, results of operations, cash requirements, future prospects and other factors deemed relevant by the Board.



Performance Graph:

COMPARISON OF FIVE-YEAR CUMULATIVE RETURN \*  
AMONG MATTHEWS INTERNATIONAL CORPORATION,  
S&P 500 INDEX, S&P MIDCAP 400 INDEX AND S&P SMALLCAP 600 INDEX \*\*



\* Total return assumes dividend reinvestment

\*\* Fiscal year ended September 30

Note: Performance graph assumes \$100 invested on October 1, 2003 in Matthews International Corporation Common Stock, Standard & Poor's (S&P) 500 Index, S&P MidCap 400 Index and S&P SmallCap 600 Index. The results are not necessarily indicative of future performance.

**ITEM 6. SELECTED FINANCIAL DATA.**

	Years Ended September 30,				
	2008 (1)	2007 (2)	2006 (3)	2005	2004
	(Amounts in thousands, except per share data)				
	(Not Covered by Report of Independent Registered Public Accounting Firm)				
Net sales	\$ 818,623	\$ 749,352	\$ 715,891	\$ 639,822	\$ 508,801
Gross profit	322,964	280,457	271,933	223,075	193,754
Operating profit	132,952	111,824	113,884	98,413	95,078
Interest expense	10,405	8,119	6,995	2,966	1,998
Income before income taxes	121,572	103,716	105,408	93,056	89,117
Income taxes	<u>42,088</u>	<u>38,990</u>	<u>38,964</u>	<u>34,985</u>	<u>34,584</u>
Net income	<u>\$ 79,484</u>	<u>\$ 64,726</u>	<u>\$ 66,444</u>	<u>\$ 58,071</u>	<u>\$ 54,533</u>
Earnings per common share:					
Basic	\$2.57	\$2.05	\$2.08	\$1.81	\$1.69
Diluted	2.55	2.04	2.06	1.79	1.68
Weighted-average common shares outstanding:					
Basic	30,928	31,566	31,999	32,116	32,217
Diluted	31,158	31,680	32,252	32,381	32,542
Cash dividends per share	\$.245	\$.225	\$.205	\$.185	\$.165
Total assets	\$ 914,282	\$ 771,069	\$ 716,090	\$ 665,455	\$ 533,432
Long-term debt, non-current	219,124	142,273	120,289	118,952	54,389

- (1) Fiscal 2008 included a reduction in income taxes of \$1,882 to reflect the adjustment of net deferred tax liabilities resulting from the enactment of lower statutory income tax rates in certain European countries.
- (2) Fiscal 2007 included a net pre-tax charge of approximately \$8,765 which consisted primarily of special charges related to the acceleration of earn-out payments in the resolution of employment agreements from the Milso Industries acquisition and pre-tax charges related to severance costs incurred in several of the Company's segments, partially offset by a pre-tax gain on the sale of the marketing consultancy business of the Merchandising Solutions segment and favorable legal settlements, net of related legal costs, in the Casket segment.
- (3) Fiscal 2006 included a net pre-tax gain of \$1,016 which consisted of a pre-tax gain from the sale of a facility, partially offset by a pre-tax charge related to asset impairments and related costs.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation and related notes thereto. In addition, see "Cautionary Statement Regarding Forward-Looking Information" included in Part I of this Annual Report on Form 10-K.

### 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 and the percentage change in such income statement data from year to year.

	Years Ended September 30,			Percentage Change	
	2008	2007	2006	2008 - 2007	2007 - 2006
Sales	100.0%	100.0%	100.0%	9.2%	4.7%
Gross profit	39.5	37.4	38.0	15.2	3.1
Operating profit	16.2	14.9	15.9	18.9	(1.8)
Income before taxes	14.9	13.8	14.7	17.2	(1.6)
Net income	9.7	8.6	9.3	22.8	(2.6)

### Comparison of Fiscal 2008 and Fiscal 2007:

Sales for the year ended September 30, 2008 were \$818.6 million, compared to \$749.4 million for the year ended September 30, 2007. The increase principally reflected the acquisition of a 78% interest in Saueressig GmbH & Co. KG ("Saueressig"), a manufacturer of gravure printing cylinders, in May 2008, higher sales in the Company's Memorialization businesses, and the effect of higher foreign currency values against the U.S. dollar. The increases were partially offset by the absence of a large one-time Merchandising Solutions project completed in the second quarter of fiscal 2007 (which exceeded \$10.0 million in revenue) and the sale of the segment's marketing consultancy business in August 2007. For the year ended September 30, 2008, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately \$18.0 million on the Company's consolidated sales compared to the year ended September 30, 2007.

In the Memorialization businesses, Bronze segment sales for fiscal 2008 were \$243.1 million compared to \$229.8 million for fiscal 2007. The increase primarily reflected higher selling prices and increases in the value of foreign currencies against the U.S. dollar, partially offset by a decline in the volume of memorial products. Sales for the Casket segment were \$219.8 million for fiscal 2008 compared to \$210.7 million for the same period in fiscal 2007. The increase mainly resulted from higher average selling prices which was partly attributable to the transition to Company-owned distribution in certain territories. Sales for the Cremation segment were \$26.7 million for fiscal 2008 compared to \$25.2 million a year ago. The increase primarily reflected higher cremation equipment, services and repair revenues. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in fiscal 2008 were \$203.7 million, compared to \$146.0 million a year ago. The increase was mainly due to the Saueressig acquisition, an increase in the value of foreign currencies against the U.S. dollar and higher sales in the German markets. The increases were partially offset by lower sales in the U.K. market. Marking Products segment sales for the year ended September 30, 2008 were \$60.0 million, compared to \$57.5 million for fiscal 2007. The increase primarily reflected the acquisition of a 60% interest in Beijing Kenuohua Electronic Technology Co., Ltd. ("Kenuohua"), a Chinese ink-jet equipment manufacturer, in June 2007 and an increase in the value of foreign currencies against the U.S. dollar. These increases were partially offset by lower product demand in the domestic market, reflecting a slowdown in the U.S. economy. Sales for the Merchandising Solutions segment were \$65.4 million for fiscal 2008, compared to \$80.2 million a year ago. The decrease is attributable to a significant one-time project for one of the segment's customers in the second quarter of fiscal 2007, which exceeded \$10.0 million in revenue and did not repeat in fiscal 2008, and the sale of the segment's marketing consultancy business in August 2007.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Gross profit for the year ended September 30, 2008 was \$323.0 million, compared to \$280.5 million for fiscal 2007. The increase in consolidated gross profit primarily reflected the impact of higher sales, the expansion to direct distribution by the Casket segment, the acquisition of Saueressig and the effects of cost structure initiatives implemented in fiscal 2007 in several of the Company's businesses. These gains were partially offset by the impact of lower sales in the U.K. graphics market, the domestic Marking Products business and the Merchandising Solutions segment. Additionally, fiscal 2007 gross profit was impacted by special charges incurred in several of the Company's segments. Consolidated gross profit as a percent of sales increased from 37.4% for fiscal 2007 to 39.5% for fiscal 2008.

Selling and administrative expenses for the year ended September 30, 2008 were \$190.0 million, compared to \$168.6 million for fiscal 2007. Consolidated selling and administrative expenses as a percent of sales were 23.2% for the year ended September 30, 2008, compared to 22.5% last year. The increases in costs and percentage of sales primarily resulted from the continued expansion of the Casket segment's distribution capabilities and the acquisition of Saueressig. Fiscal 2007 included special charges incurred in several of the Company's segments, the most significant of which was the acceleration of earn-out payments in the resolution of employment agreements from the fiscal 2005 acquisition of Milso Industries ("Milso"). These special charges were partially offset by litigation settlements in the Casket segment.

Operating profit for fiscal 2008 was \$133.0 million, compared to \$111.8 million for fiscal 2007. Fiscal 2007 operating profit included unusual items which had a net unfavorable impact of \$8.8 million. The most significant portion of these items (special charges of approximately \$9.4 million) related to the acceleration of earn-out payments in the resolution of employment agreements from the Milso acquisition.

The increase in consolidated operating profit in fiscal 2008 reflected the favorable impact of higher sales, increases in the values of foreign currencies against the U.S. dollar and cost improvements in several of the Company's segments. Bronze segment operating profit for fiscal 2008 was \$71.6 million, compared to \$66.3 million for fiscal 2007. The increase reflected the impact of higher sales and an increase in the value of foreign currencies against the U.S. dollar. Operating profit for the Casket segment for fiscal 2008 was \$23.3 million, compared to \$11.8 million for fiscal 2007. Casket segment operating profit for fiscal 2007 reflected special charges of approximately \$10.0 million, including costs related to the resolution of employment agreements from the Milso acquisition and charges related to cost reduction initiatives. These charges were partially offset by favorable litigation settlements (\$2.8 million net of legal costs incurred) in the fiscal 2007 fourth quarter. Excluding these special charges from a year ago, the Casket segment's fiscal 2008 operating profit improved compared to fiscal 2007, reflecting higher sales and the favorable impact of fiscal 2007 cost structure initiatives. Cremation segment operating profit for the year ended September 30, 2008 was \$5.5 million, compared to \$3.6 million a year ago. The increase was mainly attributable to the impact of higher cremation equipment, services and repair volume, improved price realization, and cost control efforts. The Graphics Imaging segment operating profit for fiscal 2008 was \$18.6 million, compared to \$14.4 million for 2007. Graphics Imaging segment operating profit for fiscal 2007 reflected special charges (mainly severance costs) of approximately \$2.2 million related to cost reduction initiatives in the segment's U.S. and U.K. operations. Excluding these special charges from a year ago, the Graphics Imaging segment fiscal 2008 operating profit improved compared to fiscal 2007, reflecting higher sales in the German markets, an increase in foreign currency values against the U.S. dollar and the favorable impact of the fiscal 2007 cost structure initiatives. Operating profit for the Marking Products segment for fiscal 2008 was \$9.1 million, compared to \$9.9 million a year ago. The decrease resulted principally from lower domestic sales, offset partially by the acquisition of Kenuohua. The Merchandising Solutions segment operating profit was \$4.8 million for fiscal 2008, compared to \$5.7 million for fiscal 2007. Fiscal 2007 operating profit included a \$1.3 million gain on the sale of the segment's marketing consultancy business and the benefit of a significant one-time sales project completed in the second quarter of fiscal 2007. Excluding the gain on the sale of the consulting business in fiscal 2007, the segment's fiscal 2008 operating profit improved

ITEM 7.                    MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

compared to fiscal 2007, reflecting the benefit of recent cost structure initiatives. For the year ended September 30, 2008, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately \$3.4 million on the Company's consolidated operating profit compared to the year ended September 30, 2007.

Investment income for the year ended September 30, 2008 was \$1.8 million, compared to \$2.4 million for the year ended September 30, 2007. The decrease reflected lower average levels of invested funds and a decline in investment performance. Interest expense for fiscal 2008 was \$10.4 million, compared to \$8.1 million last year. The increase in interest expense primarily reflected higher average debt levels and higher average interest rates during fiscal 2008 compared to fiscal 2007. The higher debt level resulted from borrowings related to the Saueressig acquisition in May 2008.

Other income, net, for year ended September 30, 2008 was \$510,000, compared to \$354,000 last year. Minority interest deduction was \$3.3 million for fiscal 2008, compared to \$2.7 million in fiscal 2007. The increase in minority interest deduction reflected the Company's acquisition of Kenuohua in June 2007.

The Company's effective tax rate for fiscal 2008 was 34.6%, compared to 37.6% for fiscal 2007. Fiscal 2008 included the favorable impact of a \$1.9 million reduction in net deferred tax liabilities to reflect the enactment of lower statutory income tax rates in certain European countries. Excluding the one-time adjustment to deferred taxes, the Company's effective tax rate was 36.2%. The decrease in the effective tax rate in fiscal 2008 primarily reflected lower statutory tax rates in Europe, the impact of the U.S. Federal manufacturing credit and the closure of several open domestic and foreign tax years. 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.

**Comparison of Fiscal 2007 and Fiscal 2006:**

Sales for the year ended September 30, 2007 were \$749.4 million, compared to \$715.9 million for the year ended September 30, 2006. The increase reflected higher sales in five of the Company's six segments, and included the effect of higher foreign currency values against the U.S. dollar. For the year ended September 30, 2007, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately \$13.6 million on the Company's consolidated sales compared to fiscal 2006.

In the Memorialization businesses, Bronze segment sales for fiscal 2007 were \$229.8 million compared to \$218.0 million for fiscal 2006. The increase primarily reflected higher selling prices and increases in the value of foreign currencies against the U.S. dollar. The higher selling prices were generally related to increases in the cost of bronze ingot. Sales for the Casket segment were \$210.7 million for fiscal 2007 compared to \$201.0 million in fiscal 2006. The increase mainly resulted from the segment's transition to Company-owned distribution in certain territories. Unit sales through Company-owned distribution are generally at higher price levels than sales to independent distributors. Sales for the Cremation segment were \$25.2 million for fiscal 2007 compared to \$26.0 million in fiscal 2006. The decrease primarily reflected lower sales volume of cremation equipment units, which was partially due to the timing of delivery of several units at the end of fiscal 2007. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in fiscal 2007 were \$146.0 million, compared to \$140.9 million in fiscal 2006. The increase was mainly due to an increase in the value of foreign currencies against the U.S. dollar and higher sales in the German markets, partially offset by lower sales in the U.S. and U.K. markets. Marking Products segment sales for the year ended September 30, 2007 were \$57.5 million, compared to \$52.3 million for fiscal 2006. The increase primarily reflected higher domestic and international sales volume, the acquisition of an interest in a Chinese ink-jet equipment manufacturer in June 2007 and an increase in the value of foreign currencies against the U.S. dollar. Sales for the Merchandising Solutions segment were \$80.2 million for fiscal 2007, compared to \$77.8 million in fiscal 2006. The increase is attributable to a significant project completed in the second quarter for one of the segment's customers. Excluding this project, sales declined from fiscal 2006, reflecting lower demand.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Gross profit for the year ended September 30, 2007 was \$280.5 million, compared to \$271.9 million for fiscal 2006. The increase in consolidated gross profit primarily reflected the impact of higher sales, higher foreign currency values against the U.S. dollar, productivity improvements in the Casket segment's manufacturing facility in Mexico, and other manufacturing and cost reduction initiatives. These gains were partially offset by the impact of lower sales in the U.S. and U.K. graphics markets, the higher cost of bronze ingot in fiscal 2007 compared to fiscal 2006 and the impact of special charges incurred by several of the Company's segments. Consolidated gross profit as a percent of sales decreased from 38.0% for fiscal 2006 to 37.4% for fiscal 2007.

Selling and administrative expenses for the year ended September 30, 2007 were \$168.6 million, compared to \$158.0 million for fiscal 2006. Consolidated selling and administrative expenses as a percent of sales were 22.5% for the year ended September 30, 2007, compared to 22.1% last year. The increases in costs and percentage of sales primarily resulted from the expansion of the Casket segment's distribution capabilities and special charges incurred in several of the Company's segments, the most significant of which was a Casket segment charge related to the acceleration of earn-out payments in the resolution of employment agreements from the Milso acquisition. These increases were partially offset by settlements of several Casket segment legal claims during fiscal 2007.

Operating profit for fiscal 2007 was \$111.8 million, compared to \$113.9 million for fiscal 2006. Fiscal 2007 operating profit included unusual items which had a net unfavorable impact of \$8.8 million. The most significant portion of these represented special charges of \$9.4 million in the resolution of employment agreements from the Milso acquisition. Fiscal 2006 operating profit included unusual items which had a net favorable impact of \$1.0 million.

Fiscal 2007 operating profit reflected the favorable impact of higher sales, increases in the values of foreign currencies against the U.S. dollar, and productivity improvements and cost reduction initiatives in several of the Company's segments. Bronze segment operating profit for fiscal 2007 was \$66.3 million, compared to \$65.0 million for fiscal 2006. The increase reflected the impact of higher sales and an increase in the value of foreign currencies against the U.S. dollar, partially offset by the higher cost of bronze ingot in fiscal 2007. Operating profit for the Casket segment for fiscal 2007 was \$11.8 million, compared to \$17.0 million for fiscal 2006. Casket segment operating profit reflected special charges of approximately \$10.0 million, including costs related to the resolution of employment agreements from the Milso acquisition and cost reduction initiatives in certain operations. These charges were partially offset by favorable litigation settlements (\$2.8 million net of legal costs incurred) in the fiscal 2007 fourth quarter. In addition, the segment's results reflected additional selling and administrative costs related to the expansion of the segment's distribution capabilities in certain territories. Cremation segment operating profit for the year ended September 30, 2007 was \$3.6 million, compared to \$3.4 million in fiscal 2006. The increase was mainly attributable to the impact of improved price realization and cost reduction initiatives. The Graphics Imaging segment operating profit for fiscal 2007 was \$14.4 million, compared to \$16.6 million for 2006. The decrease primarily reflected the impact of lower sales in the U.S. and U.K. markets and special charges (mainly severance costs) of approximately \$2.2 million related to cost reduction initiatives in the segment's U.S. and U.K. operations, partially offset by higher sales in the German markets and an increase in foreign currency values against the U.S. dollar. Operating profit for the Marking Products segment for fiscal 2007 was \$9.9 million, compared to \$9.1 million in fiscal 2006. The increase resulted principally from higher sales and the acquisition made in June 2007, partially offset by higher overhead costs during fiscal 2007. The Merchandising Solutions segment operating profit was \$5.7 million for fiscal 2007, compared to \$2.9 million for fiscal 2006. The increase primarily reflected the impact of higher sales attributable to a significant project completed in the second quarter for one of the segment's customers, a net gain of \$1.3 million recognized on the sale of the segment's marketing consultancy business in the fourth quarter of fiscal 2007 and the favorable effects of the segment's facilities consolidation program. For the year ended September 30, 2007, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately \$2.4 million on the Company's consolidated operating profit compared to fiscal 2006.

ITEM 7.                    MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Investment income for the year ended September 30, 2007 was \$2.4 million, compared to \$1.4 million for fiscal 2006. The increase reflected higher average levels of invested funds and higher rates of return. Interest expense for fiscal 2007 was \$8.1 million, compared to \$7.0 million in fiscal 2006. The increase in interest expense primarily reflected a higher average level of debt and higher average interest rates during fiscal 2007 compared to fiscal 2006.

Other income, net, for year ended September 30, 2007 was \$354,000, compared to \$70,000 in fiscal 2006. Minority interest deduction was \$2.7 million for fiscal 2007, compared to \$3.0 million in fiscal 2006. The reduction in minority interest deduction reflected the Company's purchase of the remaining ownership interest in one of its less than wholly-owned German subsidiaries in September 2006.

The Company's effective tax rate for fiscal 2007 was 37.6%, compared to 37.0% for fiscal 2006. The fiscal 2006 effective tax rate reflected the favorable tax impact from the sale of property in the fourth quarter. 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.

**LIQUIDITY AND CAPITAL RESOURCES:**

Net cash provided by operating activities was \$104.5 million for the year ended September 30, 2008, compared to \$74.6 million and \$66.3 million for fiscal 2007 and 2006, respectively. Operating cash flow for fiscal 2008 primarily reflected net income adjusted for depreciation and amortization, stock-based compensation expense, an increase in minority interest and an increase in deferred taxes, partially offset by cash contributions of \$15.2 million to the Company's principal pension plan. Operating cash flow for fiscal 2007 primarily reflected net income adjusted for depreciation and amortization, stock-based compensation expense, an increase in minority interest and an increase in deferred taxes, partially offset by an increase in working capital. The lower level of cash provided by operating activities in fiscal 2006 was attributable to an increase in working capital primarily resulting from higher levels of accounts receivable and inventories with the Casket segment's expansion of its distribution capabilities.

Cash used in investing activities was \$108.7 million for the year ended September 30, 2008, compared to \$38.7 million and \$48.8 million for fiscal years 2007 and 2006, respectively. Investing activities for fiscal 2008 primarily reflected payments (net of cash acquired) of \$98.1 million for acquisitions (primarily Saueressig), capital expenditures of \$12.1 million, net proceeds from the sale of investments of \$419,000 and proceeds from the sale of assets of \$1.0 million. Investing activities for fiscal 2007 primarily reflected payments (net of cash acquired) of \$23.8 million for acquisitions, capital expenditures of \$20.6 million, net purchases of investments of \$1.1 million and proceeds of \$6.9 million from the sale of assets. Investing activities for fiscal 2006 primarily reflected payments (net of cash acquired) of \$32.3 million for acquisitions, capital expenditures of \$19.4 million, and proceeds of \$3.1 million from the sale of assets. See "Acquisitions" for further discussion of the Company's acquisitions.

Capital expenditures were \$12.1 million for the year ended September 30, 2008, compared to \$20.6 million and \$19.4 million for fiscal 2007 and 2006, respectively. Capital expenditures in each of the last three fiscal years reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash.

Capital spending for property, plant and equipment has averaged \$17.4 million for the last three fiscal years. The capital budget for fiscal 2009 is \$26.7 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Cash provided by financing activities for the year ended September 30, 2008 was \$13.1 million, reflecting proceeds, net of repayments, from long-term debt of \$43.1 million, proceeds from the sale of treasury stock (stock option exercises) of \$19.2 million, a tax benefit of \$3.1 million from exercised stock options, purchases of treasury stock of \$43.3 million, payment of dividends to the Company's shareholders of \$7.4 million (\$0.245 per share) and distributions of \$1.6 million to minority interests. Cash used in financing activities for the year ended September 30, 2007 was \$27.1 million, reflecting treasury stock purchases of \$56.5 million, net proceeds of long-term debt of \$17.7 million, proceeds of \$16.5 million from the sale of treasury stock (stock option exercises), a tax benefit of \$3.8 million from exercised stock options, dividends of \$7.1 million (\$0.225 per share) to the Company's shareholders and distributions of \$1.6 million to minority interests. Cash used in financing activities for the year ended September 30, 2006 was \$29.0 million, reflecting treasury stock purchases of \$17.5 million, net repayments of long-term debt of \$2.1 million, proceeds of \$2.0 million from the sale of treasury stock (stock option exercises), a tax benefit of \$637,000 from exercised stock options, dividends of \$6.6 million (\$0.205 per share) to the Company's shareholders and distributions of \$5.5 million to minority interests.

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is \$225.0 million and the facility's maturity is September 2012. Borrowings under the facility bear interest at LIBOR plus a factor ranging from .40% to .80% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10.0 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at September 30, 2008 and 2007 were \$172.5 million and \$147.8 million, respectively. The weighted-average interest rate on outstanding borrowings at September 30, 2008 and 2007 was 4.35% and 5.08%, respectively.

The Company has entered into the following interest rate swaps:

Date	Initial Amount	Fixed Interest Rate	Interest Rate Spread at September 30, 2008	Equal Quarterly Payments	Maturity Date
April 2004	\$50 million	2.66%	.40%	\$2.5 million	April 2009
September 2005	50 million	4.14	.40	3.3 million	April 2009
August 2007	15 million	5.07	.40	-	April 2009
August 2007	10 million	5.07	.40	-	April 2009
September 2007	25 million	4.77	.40	-	September 2012
May 2008	40 million	3.72	.40	-	September 2012

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

The fair value of the interest rate swaps reflected an unrealized loss of \$1.3 million (\$818,000 after tax) at September 30, 2008 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at September 30, 2008, approximately \$345,000 of the \$818,000 loss included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.



#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

The Company, through certain of its German subsidiaries, has a credit facility with a European bank. In May 2008, the maximum amount of borrowings available under this facility was increased from 10.0 million Euros to 25.0 million Euros (\$35.2 million). Outstanding borrowings under the credit facility totaled 22.5 million Euros (\$31.7 million) and 8.0 million Euros (\$11.3 million) at September 30, 2008 and 2007, respectively. The weighted-average interest rate on outstanding borrowings under the facility at September 30, 2008 and 2007 was 5.86% and 4.90%, respectively. The facility's maturity is September 2012.

The Company, through its German subsidiary, Saueressig, has several loans with various European banks. At September 30, 2008, outstanding borrowings under these loans totaled 11.6 million Euros (\$16.3 million). The weighted-average interest rate on outstanding borrowings of Saueressig at September 30, 2008 was 5.79%.

The Company, through its wholly-owned subsidiary Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 15.3 million Euros (\$21.6 million) and 5.1 million Euros (\$7.3 million) at September 30, 2008 and 2007, respectively. Matthews International S.p.A. also has three lines of credit totaling 8.4 million Euros (\$11.8 million) with the same Italian banks. Outstanding borrowings on these lines were 2.3 million Euros (\$3.3 million) and 1.4 million Euros (\$2.0 million) at September 30, 2008 and 2007, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at September 30, 2008 and 2007 was 3.88% and 3.26%, respectively.

The Company has a stock repurchase program, which was initiated in 1996. As of September 30, 2008, the Company's Board of Directors had authorized the repurchase of a total of 12,500,000 shares of Matthews' common stock under the program, of which 11,483,006 shares had been repurchased as of September 30, 2008. 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 was \$141.4 million at September 30, 2008, compared to \$143.1 million and \$105.6 million at September 30, 2007 and 2006, respectively. Working capital at September 30, 2008 reflected the impact of the Company's working capital management initiatives, primarily in the Casket segment, partially offset by the impact of the acquisition of Saueressig. Working capital at September 30, 2007 reflected higher levels of inventories resulting primarily from the Casket segment's expansion of its distribution capabilities. Cash and cash equivalents were \$50.7 million at September 30, 2008, compared to \$44.0 million and \$29.7 million at September 30, 2007 and 2006, respectively. The Company's current ratio at September 30, 2008 was 1.9, compared to 2.2 and 1.8 at September 30, 2007 and 2006, respectively.

#### **ENVIRONMENTAL MATTERS:**

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

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its acquisition, The York Group, Inc. ("York") 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 September 30, 2008, an accrual of approximately \$8.2 million had been recorded for environmental remediation (of which \$861,000 was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. Changes in the accrued environmental remediation obligation from the prior fiscal year reflect payments charged against the accrual.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

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:**

**Fiscal 2008:**

Acquisition spending, net of cash acquired, during the year ended September 30, 2008 totaled \$98.1 million, and primarily included the following:

In September 2008, the Company acquired the remaining 20% interest in S+T Gesellschaft fur Reprrotechnik GmbH ("S+T GmbH"). The Company had acquired a 50% interest in S+T GmbH in 1998 and a 30% interest in 2005.

In May 2008, the Company acquired a 78% interest in Saueressig. Saueressig is headquartered in Vreden, Germany and has its principal manufacturing operations in Germany, Poland and the United Kingdom. The transaction was structured as an asset purchase with a preliminary purchase price of approximately 54.8 million Euros (\$91.2 million). The cash portion of the transaction was funded principally through borrowings under the Company's existing credit facilities. In addition, the Company entered into an option agreement related to the remaining 22% interest in Saueressig. The acquisition is designed to expand Matthews' products and services in the global graphics imaging market.

**Fiscal 2007:**

Acquisition spending, net of cash acquired, during the year ended September 30, 2007 totaled \$23.8 million, and primarily included the following:

In July 2007, York reached a settlement agreement with Yorktowne Caskets, Inc. and its shareholders (collectively "Yorktowne") with respect to all outstanding litigation between the parties. In exchange for the mutual release, the principal terms of the settlement included the assignment by Yorktowne of certain customer and employment-related contracts to York and the purchase by York of certain assets, including York-product inventory, of Yorktowne.

In June 2007, the Company acquired a 60% interest in Beijing Kenuohua Electronic Technology Co., Ltd., ("Kenuohua"), an ink-jet equipment manufacturer, headquartered in Beijing, China. The acquisition was structured as a stock purchase. The acquisition was intended to expand Matthews' marking products manufacturing and distribution capabilities in Asia.

In December 2006, the Company paid additional purchase consideration of \$7.0 million under the terms of the Milso acquisition agreement.

**Fiscal 2006:**

Acquisition spending, net of cash acquired, during the year ended September 30, 2006 totaled \$32.3 million, and primarily included the following:

In March 2006, the Company acquired Royal Casket Company, 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.

ITEM 7.            MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

In February 2006, the Company acquired The Doyle Group, a provider of reprographic services to the packaging industry, located in Oakland, California. The transaction was structured as an asset purchase, and was intended to expand the Company's graphics business in the Western United States.

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

**DISPOSITION:**

In August 2007, the Company sold its marketing consultancy business. The transaction resulted in a pre-tax gain of \$1.3 million, which was recorded as a reduction in administrative expenses in the Company's Consolidated Statement of Income.

**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% over the long term. For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of 14.7%.

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 (see "Liquidity and Capital Resources").

Significant factors expected to impact fiscal 2009 results include the recent acceleration of the slowdown in the U.S. and global economies, which the Company believes has unfavorably affected sales in both the Memorialization and Brand Solutions businesses in the fiscal 2009 first quarter. There has also been continued volatility in commodity costs, such as bronze, steel and fuel. Additionally, the recent strengthening in the U.S. dollar will unfavorably impact fiscal 2009 reported results for the Company's overseas operations, when compared to fiscal 2008.

With these challenges, each of the Company's segments continues to work to increase productivity. Operating margins are expected to grow further in the Casket segment as this business continues to look to improve its distribution and manufacturing infrastructure. The Merchandising Solutions segment is also expected to grow operating margins further as a result of recent profitability initiatives. In addition, the Company's most recent acquisition, Saueressig, is projected to contribute to improved results in fiscal 2009. Lastly, the Bronze segment is planning to consolidate certain production operations to better utilize the capacity in this business and increase productivity. These consolidation activities are expected to result in some special charges during fiscal 2009.

The challenges in the current market environment are expected to have a negative impact on operating results, especially in the near term. The Company's results for the fiscal 2009 first quarter are projected to be lower than the first quarter of fiscal 2008. At present, the Company is hopeful that conditions will improve as the fiscal year progresses and, as a result, is targeting earnings per share for fiscal 2009 in the range of \$2.62 to \$2.74 (excluding unusual items). This range represents an increase of approximately 5% to 10% over fiscal 2008, excluding the one-time tax benefit in fiscal 2008. Finally, assuming market conditions improve, the Company continues to target its long-term growth rate in the range of 12% to 15%.

**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 Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Annual Report on Form 10-K.

The Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. 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 were considered critical to the preparation of the Company's consolidated financial statements for the year ended September 30, 2008.

**Allowance for Doubtful Accounts:**

The allowance for doubtful accounts is based on an evaluation of specific customer accounts for which available facts and circumstances indicate collectibility may be uncertain. In addition, the allowance includes a 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. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets is determined by evaluating the estimated undiscounted net cash flows of the operations to which the assets relate. An impairment loss would be recognized when the carrying amount of the assets exceeds the fair value which is based on a discounted cash flow analysis.

Goodwill is not 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. Intangible assets are amortized over their estimated useful lives, unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets. The Company performed its annual impairment reviews in the second quarters of fiscal 2008, 2007 and 2006 and determined that no adjustments to the carrying values of goodwill or other intangibles were necessary at those times.

**Share-Based Payment:**

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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

**Pension and Postretirement Benefits:**

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.

The Company's principal pension plan maintains a substantial portion of its assets in equity securities in accordance with the investment policy established by the Company's pension board. Based on an analysis of the historical performance of the plan's assets and information provided by its independent investment advisor, the Company set the long-term rate of return assumption for these assets at 8.5% at July 31, 2008 for purposes of determining pension cost and funded status under Statement of Financial Accounting Standards ("SFAS") SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Company's discount rate assumption used in determining the present value of the projected benefit obligation is based upon published indices as of its plan year-end date (July 31). The discount rate was 7.00%, 6.50% and 6.50% in fiscal 2008, 2007 and 2006, respectively, and was based upon published indices.

**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 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 September 30, 2008, the Company held 347,056 memorials and 243,223 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

**LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:**

The following table summarizes the Company's contractual obligations at September 30, 2008, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

	Payments due in fiscal year:				After 2013	
	Total	2009	2010 to 2011	2012 to 2013		
Contractual Cash Obligations:						
		(Dollar amounts in thousands)				
Revolving credit facilities	\$ 204,171	\$ 17,500	\$ -	\$ 186,671	\$ -	
Notes payable to banks	43,678	12,416	11,869	16,167	3,226	
Short-term borrowings	3,266	3,266	-	-	-	
Capital lease obligations	2,108	713	1,077	318	-	
Non-cancelable operating leases	31,598	9,727	13,624	6,823	1,424	
Other	1,327	1,327	-	-	-	
Total contractual cash obligations	<u>\$ 286,148</u>	<u>\$ 44,949</u>	<u>\$ 26,570</u>	<u>\$ 209,979</u>	<u>\$ 4,650</u>	

A significant portion of the loans included in the table above bear interest at variable rates. At September 30, 2008, the weighted-average interest rate was 4.35% on the Company's domestic Revolving Credit Facility, 5.86% on the credit facility through the Company's wholly-owned German subsidiaries, 3.88% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A., and 5.79% on bank loans to its majority-owned subsidiary, Saueressig.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. Under IRS regulations, the Company was not required to make any significant contributions to its principal retirement plan in fiscal 2008, however, in fiscal 2008, the Company made contributions of \$15.2 million to its principal retirement plan. The Company is not required to make any significant contributions to its principal retirement plan in fiscal 2009. The Company estimates that benefit payments to participants under its retirement plans (including its supplemental retirement plan) and postretirement benefit payments will be approximately \$5.5 million and \$1.0 million, respectively, in fiscal 2009. The amounts are not expected to change materially thereafter. 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.

In connection with its acquisition of a 78% interest in Saueressig, the Company entered into an option agreement related to the remaining 22% interest. The option agreement contains certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. The Company has recorded an estimate of \$28.8 million in "Minority interest and minority interest arrangement" on the September 30, 2008 Consolidated Balance Sheet representing the current estimate of the future purchase price. The timing of the exercise of the put and call provisions is not presently determinable.

Unrecognized tax benefits are positions taken, or expected to be taken, on an income tax return that may result in additional payments to tax authorities. If a tax authority agrees with the tax position taken, or expected to be taken, or the applicable statute of limitations expires, then additional payments will not be necessary. As of September 30, 2008, the Company had unrecognized tax benefits, excluding penalties and interest, of approximately \$4.4 million. The timing of potential future payments related to the unrecognized tax benefits is not presently determinable.

**INFLATION:**

Except for the significant increases in the cost of bronze ingot and steel (see "Results of Operations"), inflation has not had a material impact on the Company over the past three years nor is it anticipated to have a material impact for the foreseeable future.

**ACCOUNTING PRONOUNCEMENTS:**

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 is reported as an adjustment to beginning retained earnings in the period of adoption. The Company adopted FIN 48 as of October 1, 2007 which did not have a material effect on the financial statements. See Note 11 for additional disclosures related to the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, however, for non-financial assets and liabilities the effective date has been extended to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 157.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF 06-11). EITF 06-11 requires that tax benefits generated by dividends on equity classified non-vested equity shares, non-vested equity share units, and outstanding equity share options be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF 06-11 is effective for years beginning after December 15, 2007 and is to be applied on a prospective basis. The Company is currently evaluating the impact of the adoption of EITF 06-11.

Effective September 30, 2007, the Company adopted the recognition and related disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158") which amends SFAS No. 87, No. 88, No. 106 and No. 132(R). SFAS No. 158 requires the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. This provision of the SFAS No. 158 is effective for the Company on September 30, 2009. The Company currently measures plan assets and benefit obligations as of July 31 of each year. Upon adoption, this provision is not expected to have a material effect on the financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) requires recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in a business combination, goodwill acquired or a gain from a bargain purchase. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R).

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"). SFAS No. 160 amends Accounting Research Bulletin 51 and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. The Statement requires that consolidated net income reflect the amounts attributable to both the parent and the noncontrolling interest, and also includes additional disclosure requirements. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") to require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements. The Statement is effective for financial statements issued for fiscal years

ITEM 7.                    MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

and interim periods beginning after November 15, 2008. Early application is encouraged. The Company is currently evaluating the impact of the adoption of SFAS No. 161.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

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

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

The Company has entered into the following interest rate swaps:

Date	Initial Amount	Fixed Interest Rate	Interest Rate Spread at September 30, 2008	Equal Quarterly Payments	Maturity Date
April 2004	\$50 million	2.66%	.40%	\$2.5 million	April 2009
September 2005	50 million	4.14	.40	3.3 million	April 2009
August 2007	15 million	5.07	.40	-	April 2009
August 2007	10 million	5.07	.40	-	April 2009
September 2007	25 million	4.77	.40	-	September 2012
May 2008	40 million	3.72	.40	-	September 2012

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

The fair value of the interest rate swaps reflected an unrealized loss of \$1.3 million (\$818,000 after tax) at September 30, 2008 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 5.0% to 4.5%) would result in an increase of approximately \$310,000 in the fair value liability of the interest rate swaps.

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

**Foreign Currency Exchange Rates** - The Company is subject to changes in various foreign currency exchange rates, primarily including the Euro, British Pound, Canadian Dollar, Australian Dollar, Swedish Krona, Chinese Yuan and Polish Zloty in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. An adverse change (weakening dollar) of 10% in exchange rates would have resulted in a decrease in sales of \$25.2 million and a decrease in operating income of \$3.1 million for the year ended September 30, 2008.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

<b>Description</b>	<b>Pages</b>
Management's Report to Shareholders	34
Report of Independent Registered Public Accounting Firm	35
Financial Statements:	
Consolidated Balance Sheets as of September 30, 2008 and 2007	36-37
Consolidated Statements of Income for the years ended September 30, 2008, 2007 and 2006	38
Consolidated Statements of Shareholders' Equity for the years ended September 30, 2008, 2007 and 2006	39
Consolidated Statements of Cash Flows for the years ended September 30, 2008, 2007 and 2006	40
Notes to Consolidated Financial Statements	41-63
Supplementary Financial Information (unaudited)	64
Financial Statement Schedule – Schedule II-Valuation and Qualifying Accounts for the years ended September 30, 2008, 2007 and 2006	65

## MANAGEMENT'S REPORT TO SHAREHOLDERS

To the Shareholders and Board of Directors of  
Matthews International Corporation:

### Management's Report on Financial Statements

The accompanying consolidated financial statements of Matthews International Corporation and its subsidiaries (collectively, the "Company") were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report on Form 10-K is consistent with that in the financial statements.

### Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting management has conducted an assessment using the criteria in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's internal controls over financial reporting include those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Saueressig GmbH & Co. KG ("Saueressig") has been excluded from management's assessment of internal control over financial reporting as of September 30, 2008, because it was acquired by the Company in a purchase business combination in May 2008. Saueressig is a 78% owned subsidiary whose total assets and total sales represent approximately 17% and 6%, respectively, of the related consolidated financial statement amounts of the Company as of and for the year ended September 30, 2008.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of September 30, 2008, based on criteria in *Internal Control – Integrated Framework* issued by the COSO. The effectiveness of the Company's internal control over financial reporting as of September 30, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

### Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act have been included as Exhibits 31 and 32 in the Company's Form 10-K.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of  
Matthews International Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Matthews International Corporation and its subsidiaries (the "Company") at September 30, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 10 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans in 2007.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Saueressig GmbH & Co. KG ("Saueressig") from its assessment of internal control over financial reporting as of September 30, 2008 because it was acquired by the Company in a purchase business combination in May 2008. We have also excluded Saueressig from our audit of internal control over financial reporting. Saueressig is a 78% owned subsidiary whose total assets and total revenues represent approximately 17% and 6%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2008.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania  
November 24, 2008

**MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**September 30, 2008 and 2007**

(Dollar amounts in thousands, except per share data)

<b>ASSETS</b>	<u><b>2008</b></u>	<u><b>2007</b></u>
Current assets:		
Cash and cash equivalents	\$ 50,667	\$ 44,002
Short-term investments	62	105
Accounts receivable, net of allowance for doubtful accounts of \$11,538 and \$11,160, respectively	145,288	120,882
Inventories	96,388	93,834
Deferred income taxes	1,271	1,666
Other current assets	9,439	6,025
Total current assets	<u>303,115</u>	<u>266,514</u>
Investments	10,410	12,044
Property, plant and equipment, net	145,738	88,926
Deferred income taxes	17,714	23,311
Other assets	17,754	10,670
Goodwill	359,641	318,298
Other intangible assets, net	<u>59,910</u>	<u>51,306</u>
Total assets	<u>\$ 914,282</u>	<u>\$ 771,069</u>

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

**MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS, continued**  
**September 30, 2008 and 2007**  
(Dollar amounts in thousands, except per share data)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2008</b>	<b>2007</b>
	<u>          </u>	<u>          </u>
Current liabilities:		
Long-term debt, current maturities	\$ 35,144	\$ 27,057
Trade accounts payable	26,647	22,859
Accrued compensation	40,188	31,205
Accrued income taxes	12,075	5,792
Other current liabilities	47,656	36,543
Total current liabilities	<u>161,710</u>	<u>123,456</u>
Long-term debt	219,124	142,273
Accrued pension	17,208	23,629
Postretirement benefits	20,918	20,743
Deferred income taxes	10,594	11,799
Environmental reserve	7,382	7,841
Other liabilities and deferred revenue	12,500	9,227
Total liabilities	<u>449,436</u>	<u>338,968</u>
Minority interest and minority interest arrangement	30,891	5,323
Commitments and contingent liabilities		
Shareholders' equity:		
Class A common stock, \$1.00 par value; authorized 70,000,000 shares; 36,333,992 shares issued	36,334	36,334
Preferred stock, \$100 par value, authorized 10,000 shares, none issued	-	-
Additional paid-in capital	47,250	41,570
Retained earnings	511,130	467,846
Accumulated other comprehensive income	(2,979)	13,390
Treasury stock, 5,474,514 and 5,276,830 shares, respectively, at cost	(157,780)	(132,362)
Total shareholders' equity	<u>433,955</u>	<u>426,778</u>
Total liabilities and shareholders' equity	<u>\$ 914,282</u>	<u>\$ 771,069</u>

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

**MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**for the years ended September 30, 2008, 2007 and 2006**  
(Dollar amounts in thousands, except per share data)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sales	\$ 818,623	\$ 749,352	\$ 715,891
Cost of sales	<u>(495,659)</u>	<u>(468,895)</u>	<u>(443,958)</u>
Gross profit	322,964	280,457	271,933
Selling expense	(82,677)	(71,623)	(70,354)
Administrative expense	<u>(107,335)</u>	<u>(97,010)</u>	<u>(87,695)</u>
Operating profit	132,952	111,824	113,884
Investment income	1,808	2,390	1,420
Interest expense	(10,405)	(8,119)	(6,995)
Other income, net	510	354	70
Minority interest	<u>(3,293)</u>	<u>(2,733)</u>	<u>(2,971)</u>
Income before income taxes	121,572	103,716	105,408
Income taxes	<u>(42,088)</u>	<u>(38,990)</u>	<u>(38,964)</u>
Net income	<u>\$ 79,484</u>	<u>\$ 64,726</u>	<u>\$ 66,444</u>
Earnings per share:			
Basic	<u>\$2.57</u>	<u>\$2.05</u>	<u>\$2.08</u>
Diluted	<u>\$2.55</u>	<u>\$2.04</u>	<u>\$2.06</u>

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

**MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**for the years ended September 30, 2008, 2007 and 2006**  
(Dollar amounts in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (net of tax)	Treasury Stock	Total
Balance, September 30, 2005	\$ 36,334	\$ 29,524	\$ 350,311	\$ (1,359)	\$ (77,061)	\$ 337,749
Net income	-	-	66,444	-	-	66,444
Minimum pension liability	-	-	-	88	-	88
Translation adjustment	-	-	-	5,688	-	5,688
Fair value of derivatives	-	-	-	(31)	-	(31)
Total comprehensive income	-	-	-	-	-	72,189
Stock-based compensation	-	3,865	-	-	-	3,865
Treasury stock transactions:						
Purchase of 513,750 shares	-	-	-	-	(17,491)	(17,491)
Issuance of 121,353 shares under stock plans	-	564	-	-	2,101	2,665
Dividends, \$.205 per share	-	-	(6,552)	-	-	(6,552)
Balance, September 30, 2006	36,334	33,953	410,203	4,386	(92,451)	392,425
Net income	-	-	64,726	-	-	64,726
Minimum pension liability	-	-	-	2,191	-	2,191
Translation adjustment	-	-	-	16,546	-	16,546
Fair value of derivatives	-	-	-	(740)	-	(740)
Total comprehensive income	-	-	-	-	-	82,723
Initial adoption of SFAS						
No. 158	-	-	-	(8,993)	-	(8,993)
Stock-based compensation	-	3,509	-	-	-	3,509
Treasury stock transactions:						
Purchase of 1,366,297 shares	-	-	-	-	(56,526)	(56,526)
Issuance of 789,164 shares under stock plans	-	4,108	-	-	16,615	20,723
Dividends, \$.225 per share	-	-	(7,083)	-	-	(7,083)
Balance, September 30, 2007	36,334	41,570	467,846	13,390	(132,362)	426,778
Net income	-	-	79,484	-	-	79,484
Minimum pension liability	-	-	-	(3,049)	-	(3,049)
Translation adjustment	-	-	-	(12,323)	-	(12,323)
Fair value of derivatives	-	-	-	(997)	-	(997)
Total comprehensive income	-	-	-	-	-	63,115
Stock-based compensation	-	4,899	-	-	-	4,899
Treasury stock transactions:						
Purchase of 981,563 shares	-	-	-	-	(46,189)	(46,189)
Issuance of 649,654 shares under stock plans	-	781	-	-	20,771	21,552
Dividends, \$.245 per share	-	-	(7,437)	-	-	(7,437)
Minority interest agreement	-	-	(28,763)	-	-	(28,763)
Balance, September 30, 2008	<u>\$ 36,334</u>	<u>\$ 47,250</u>	<u>\$ 511,130</u>	<u>\$ (2,979)</u>	<u>\$ (157,780)</u>	<u>\$ 433,955</u>

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

**MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the years ended September 30, 2008, 2007 and 2006**  
(Dollar amounts in thousands, except per share data)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:			
Net income	\$ 79,484	\$ 64,726	\$ 66,444
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,935	20,528	21,463
Minority interest	3,293	2,733	2,971
Stock-based compensation expense	4,899	3,509	3,865
Increase (decrease) in deferred taxes	7,270	7,826	(1,885)
Impairment charges	-	-	986
Loss (gain) on dispositions of assets	926	(3,106)	(3,090)
Changes in working capital items	(1,793)	(14,373)	(28,093)
Increase in other assets	(3,653)	(5,113)	(118)
Increase (decrease) in other liabilities	503	(1,225)	(1,205)
(Decrease) increase in pension and postretirement benefit obligations	(11,320)	(907)	5,007
Net cash provided by operating activities	<u>104,544</u>	<u>74,598</u>	<u>66,345</u>
Cash flows from investing activities:			
Capital expenditures	(12,053)	(20,649)	(19,397)
Acquisitions, net of cash acquired	(98,070)	(23,784)	(32,278)
Proceeds from dispositions of assets	980	6,859	3,114
Purchases of investment securities	(5,118)	(4,033)	(232)
Proceeds from dispositions of investments	5,537	2,919	15
Net cash used in investing activities	<u>(108,724)</u>	<u>(38,688)</u>	<u>(48,778)</u>
Cash flows from financing activities:			
Proceeds from long-term debt	128,269	75,770	45,422
Payments on long-term debt	(85,207)	(58,024)	(47,539)
Purchases of treasury stock	(43,267)	(56,526)	(17,491)
Proceeds from the sale of treasury stock	19,192	16,524	2,028
Tax benefit on exercised stock options	3,134	3,834	637
Dividends	(7,437)	(7,083)	(6,552)
Distributions to minority interests	(1,566)	(1,601)	(5,536)
Net cash provided by (used in) financing activities	<u>13,118</u>	<u>(27,106)</u>	<u>(29,031)</u>
Effect of exchange rate changes on cash	<u>(2,273)</u>	<u>5,478</u>	<u>1,629</u>
Net change in cash and cash equivalents	6,665	14,282	(9,835)
Cash and cash equivalents at beginning of year	44,002	29,720	39,555
Cash and cash equivalents at end of year	<u>\$ 50,667</u>	<u>\$ 44,002</u>	<u>\$ 29,720</u>
Cash paid during the year for:			
Interest	\$ 10,574	\$ 8,105	\$ 6,377
Income taxes	32,305	31,470	42,377

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



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

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**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 and distributor in North America and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets primarily in North America. The Graphics Imaging segment manufactures and provides brand management, printing plates, gravure cylinders, pre-press services and imaging services for the primary packaging and corrugated industries. The Marking Products segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

The Company has manufacturing and marketing facilities in the United States, Mexico, Canada, Europe, Australia and China.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Principles of Consolidation:**

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.

**Use of Estimates:**

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 the 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.

**Foreign Currency:**

The functional currency of the Company's foreign subsidiaries is the local currency. Balance sheet accounts for foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the consolidated balance sheet date. Gains or losses that result from this process are recorded in accumulated other comprehensive income. The revenue and expense accounts of foreign subsidiaries are translated into U.S. dollars at the average exchange rates that prevailed during the period. Gains and losses from foreign currency transactions are recorded in other income, net.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:**

**Cash and Cash Equivalents:**

For purposes of the consolidated statement of cash flows, the Company considers all investments purchased with a remaining maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments.

**Allowance for Doubtful Accounts:**

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

**Inventories:**

Inventories are stated at the lower of cost or market with cost generally determined under the average cost method.

**Property, Plant and Equipment:**

Property, plant and equipment are carried at cost. Depreciation is computed primarily on the straight-line method over the estimated useful lives of the assets, which generally range from 10 to 45 years for buildings and 3 to 12 years for machinery and equipment. Gains or losses from the disposition of assets are reflected in operating profit. The cost of maintenance and repairs is charged against income as incurred. Renewals and betterments of a nature considered to extend the useful lives of the assets are capitalized. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets is determined by evaluating the estimated undiscounted net cash flows of the operations to which the assets relate. An impairment loss would be recognized when the carrying amount of the assets exceeds the fair value which is based on a discounted cash flow analysis.

**Goodwill and Other Intangible Assets:**

Goodwill and indefinite-lived intangible assets are not amortized but are subject to annual review for impairment. Other intangible assets are amortized over their estimated useful lives, ranging from 2 to 20 years. 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. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets.

**Environmental:**

Costs that mitigate or prevent future environmental issues or extend the life or improve equipment utilized in current operations are capitalized and depreciated on a straight-line basis over the estimated useful lives of the related assets. Costs that relate to current operations or an existing condition caused by past operations are expensed. 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.

**Treasury Stock:**

Treasury stock is carried at cost. The cost of treasury shares sold is determined under the average cost method.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:**

**Income Taxes:**

Deferred tax assets and liabilities are provided for the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred income taxes for U.S. tax purposes have not been provided on certain undistributed earnings of foreign subsidiaries, as such earnings are considered to be reinvested indefinitely. To the extent earnings are expected to be returned in the foreseeable future, the associated deferred tax liabilities are provided.

**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 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 September 30, 2008, the Company held 347,056 memorials and 243,223 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.

**Share-Based Payment:**

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.

**Derivatives and Hedging:**

Derivatives are held as part of a formal documented hedging program. All derivatives are straight forward and held for purposes other than trading. Matthews measures effectiveness by formally assessing, at least quarterly, the historical and probable future high correlation of changes in the fair value or future cash flows of the hedged item. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains and losses on the derivative will be recorded in other income (deductions) at that time.

Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income, net of tax and are reclassified to earnings in a manner consistent with the underlying hedged item. The cash flows from derivative activities are recognized in the statement of cash flows in a manner consistent with the underlying hedged item.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:**

**Research and Development Expenses:**

Research and development costs are expensed as incurred and were approximately \$2,100, \$2,700 and \$2,800 for the years ended September 30, 2008, 2007 and 2006, respectively.

**Earnings Per Share:**

Basic earnings per share is computed by dividing net income by the average number of common shares outstanding. Diluted earnings per share is computed using the treasury stock method, which assumes the issuance of common stock for all dilutive securities.

**Reclassifications:**

Certain reclassifications have been made in the Consolidated Balance Sheets for the prior period to conform to the current period presentation.

**3. INVENTORIES:**

Inventories at September 30, 2008 and 2007 consisted of the following:

	2008	2007
Materials and finished goods	\$ 84,925	\$ 86,304
Labor and overhead in process	11,463	7,530
	\$ 96,388	\$ 93,834

**4. INVESTMENTS:**

Investment securities are recorded at estimated market value at the consolidated balance sheet date and, except for investments held in a non-revocable trust established to fund benefit payments under the Company's supplemental retirement plan, are classified as available-for-sale. Short-term investments consisted principally of corporate obligations with purchased maturities of over three months but less than one year. The cost of short-term investments approximated market value at September 30, 2008 and 2007. Investments classified as non-current and available-for-sale consisted of securities of the U.S. government and its agencies and corporate obligations with purchased maturities in the range of one to five years. Accrued interest on these non-current investment securities was classified with short-term investments. Investments classified as non-current and trading securities consisted of equity and fixed income mutual funds.

At September 30, 2008 and 2007, non-current investments were as follows:

	2008	2007
Available-for-sale:		
U.S. government and its agencies	\$ -	\$ 1,501
Corporate obligations	-	3,814
Trading securities:		
Mutual funds	7,671	4,923
Equity and other investments	2,739	1,806
	\$ 10,410	\$ 12,044

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

**4. INVESTMENTS, continued:**

Non-current investments classified as available-for-sale and trading securities are recorded at market value, which approximated cost at September 30, 2007. At September 30, 2008, cost exceeded market value of trading securities by approximately \$727.

Unrealized gains and losses on available for sale securities, including related deferred taxes, are reflected in accumulated other comprehensive income. Realized gains and losses are based on the specific identification method and are recorded in investment income. Realized gains (losses) for fiscal 2008, 2007 and 2006 were not material. Bond premiums and discounts are amortized on the straight-line method, which does not significantly differ from the interest method.

Equity investments primarily included ownership interests in various entities of less than 20%, which are recorded under the cost method of accounting.

**5. PROPERTY, PLANT AND EQUIPMENT:**

Property, plant and equipment and the related accumulated depreciation at September 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Buildings	\$ 74,682	\$ 42,493
Machinery and equipment	<u>203,271</u>	<u>166,183</u>
	277,953	208,676
Less accumulated depreciation	<u>(143,127)</u>	<u>(129,995)</u>
	134,826	78,681
Land	8,455	4,159
Construction in progress	<u>2,457</u>	<u>6,086</u>
	<u>\$ 145,738</u>	<u>\$ 88,926</u>

**6. LONG-TERM DEBT:**

Long-term debt at September 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Revolving credit facilities	\$ 204,171	\$ 159,240
Notes payable to banks	43,678	7,332
Short-term borrowings	3,266	2,068
Other	1,327	-
Capital lease obligations	<u>1,826</u>	<u>690</u>
	254,268	169,330
Less current maturities	<u>(35,144)</u>	<u>(27,057)</u>
	<u>\$ 219,124</u>	<u>\$ 142,273</u>

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is \$225,000 and the facility's maturity is September 2012. Borrowings under the facility bear interest at LIBOR plus a factor ranging from .40% to .80% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of

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

**6. LONG-TERM DEBT, continued:**

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 September 30, 2008 and 2007 were \$172,500 and \$147,833 respectively. The weighted-average interest rate on outstanding borrowings at September 30, 2008 and 2007 was 4.35% and 5.08%, respectively.

The Company has entered into the following interest rate swaps:

Date	Initial Amount	Fixed Interest Rate	Interest Rate Spread at September 30, 2008	Equal Quarterly Payments	Maturity Date
April 2004	\$ 50,000	2.66%	.40%	\$ 2,500	April 2009
September 2005	50,000	4.14	.40	3,333	April 2009
August 2007	15,000	5.07	.40	-	April 2009
August 2007	10,000	5.07	.40	-	April 2009
September 2007	25,000	4.77	.40	-	September 2012
May 2008	40,000	3.72	.40	-	September 2012

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

The fair value of the interest rate swaps reflected an unrealized loss of \$1,340 (\$818 after tax) at September 30, 2008 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at September 30, 2008, approximately \$345 of the \$818 loss included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

The Company, through certain of its German subsidiaries, has a credit facility with a European bank. In 2008, the maximum amount of borrowings available under this facility was increased from 10.0 million Euros to 25.0 million Euros (\$35,190). Outstanding borrowings under the credit facility totaled 22.5 million Euros (\$31,671) and 8.0 million Euros (\$11,261) at September 30, 2008 and 2007, respectively. The weighted-average interest rate on outstanding borrowings under this facility at September 30, 2008 and 2007 was 5.86% and 4.90%, respectively. The facility's maturity is September 2012.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. At September 30, 2008, outstanding borrowings under these loans totaled 11.6 million Euros (\$16,330). The weighted-average interest rate on outstanding borrowings of Saueressig at September 30, 2008 was 5.79%.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 15.3 million Euros (\$21,565) and 5.1 million Euros (\$7,300) at September 30, 2008 and 2007, respectively. Matthews International S.p.A. also has three lines of credit totaling 8.4 million Euros (\$11,781) with the same Italian banks. Outstanding borrowings on these lines were 2.3 million Euros (\$3,256) and 1.4 million Euros (\$1,980) at September 30, 2008 and 2007, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at September 30, 2008 and 2007 was 3.88% and 3.26%, respectively.

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

**6. LONG-TERM DEBT, continued:**

Aggregate maturities of long-term debt, including short-term borrowings and capital leases, follows:

2009	\$	35,144
2010		7,191
2011		5,616
2012		191,866
2013		11,225
Thereafter		3,226
	\$	<u><u>254,268</u></u>

The carrying amounts of the Company's borrowings under its financing arrangements approximated their fair value.

**7. SHAREHOLDERS' EQUITY:**

The authorized common stock of the Company consists of 70,000,000 shares of Class A Common Stock, \$1 par value.

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 12,500,000 shares of Matthews' common stock, of which 11,483,006 shares have been repurchased as of September 30, 2008. 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.

Comprehensive income consists of net income adjusted for changes, net of any related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and minimum pension liability.

Accumulated other comprehensive income at September 30, 2008 and 2007 consisted of the following:

	2008	2007
Cumulative foreign currency translation	\$ 18,203	\$ 30,526
Fair value of derivatives, net of tax of \$522 and \$114, respectively	(818)	178
Minimum pension liability, net of tax of \$12,789 and \$5,091, respectively	(20,364)	(8,321)
Impact of adoption of SFAS No. 158, net of tax of \$5,748		(8,993)
	<u><u>\$ (2,979)</u></u>	<u><u>\$ 13,390</u></u>

**8. SHARE-BASED PAYMENTS:**

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

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

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**8. SHARE-BASED PAYMENTS, continued:**

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

For the years ended September 30, 2008, 2007 and 2006, stock-based compensation cost totaled \$4,899, \$3,509 and \$3,865, respectively. The associated future income tax benefit recognized was \$1,911, \$1,369 and \$1,507 for the years ended September 30, 2008, 2007 and 2006, respectively.

The amount of cash received from the exercise of stock options was \$19,192, \$16,524 and \$2,028, for the years ended September 30, 2008, 2007 and 2006, respectively. In connection with these exercises, the tax benefits realized by the Company were \$5,111, \$5,976 and \$902 for the years ended September 30, 2008, 2007 and 2006, respectively.

Changes to restricted stock for the year ended September 30, 2008 were as follows:

	<b>Shares</b>	<b>Weighted- average grant-date fair value</b>
Non-vested at September 30, 2007	9,249	\$40.56
Granted	133,565	38.83
Vested	(21,953)	38.54
Expired or forfeited	(7,740)	38.56
Non-vested at September 30, 2008	113,121	39.05

As of September 30, 2008, the total unrecognized compensation cost related to unvested restricted stock was \$2,509 and is expected to be recognized over a weighted average period of 2.0 years.



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

**8. SHARE-BASED PAYMENTS, continued:**

The transactions for shares under options for the year ended September 30, 2008 were as follows:

	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term</u>	<u>Aggregate intrinsic value</u>
Outstanding, September 30, 2007	2,100,577	\$33.60		
Granted	-	-		
Exercised	(634,107)	28.77		
Expired or forfeited	(100,128)	37.39		
Outstanding, September 30, 2008	<u>1,366,342</u>	35.56	6.7	\$20,738
Exercisable, September 30, 2008	<u>331,474</u>	29.78	5.3	\$6,948

The weighted-average grant date fair value of options granted was \$12.29 per share in 2007 and \$9.47 per share in 2006. The fair value of shares earned was \$4,906, \$4,331 and \$3,752 during the years ended September 30, 2008, 2007 and 2006, 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 years ended September 30, 2008, 2007 and 2006 was \$13,422, \$15,336 and \$2,411, respectively.

The transactions for non-vested option shares for the year ended September 30, 2008 were as follows:

	<u>Shares</u>	<u>Weighted- average grant-date fair value</u>
Non-vested at September 30, 2007	1,642,201	\$10.87
Granted	-	-
Vested	(508,872)	9.64
Expired or forfeited	(98,461)	10.94
Non-vested at September 30, 2008	<u>1,034,868</u>	11.46

As of September 30, 2008, the total unrecognized compensation cost related to non-vested stock options was approximately \$2,965. This cost is expected to be recognized over a weighted-average period of 2.7 years in accordance with the vesting periods of the options.

The fair value of each option and restricted stock grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value of stock options (fiscal 2007 and 2006) and restricted stock (fiscal 2008) for the years ended September 30, 2008, 2007 and 2006.

	<u>Years Ended September 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Expected volatility	24.0%	24.0%	24.0%
Dividend yield	.6%	.6%	.6%
Average risk free interest rate	3.6%	4.7%	4.4%
Average expected term (years):			
Restricted shares	2.3	-	-
Stock options	-	6.3	5.5

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

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**8. SHARE-BASED PAYMENTS, continued:**

The risk free interest rate is based on United States Treasury yields at the date of grant. The dividend yield is based on the most recent dividend payment and average stock price over the 12 months prior to the grant date. Expected volatilities are based on the historical volatility of the Company's stock price. The expected term for the years ended September 30, 2007 and 2006 represent an estimate of the period of time options are expected to remain outstanding. The expected term for the year ended September 30, 2008 represents an estimate of the average period of time for restricted shares to vest. Separate employee groups and option characteristics are considered separately for valuation purposes.

Under the Company's Director Fee Plan, directors (except for the Chairman of the Board) who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$30. The equivalent amount paid to a non-employee Chairman of the Board is \$100. 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 37,946 shares had been deferred under the Director Fee Plan at September 30, 2008. Additionally, directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of \$50. A total of 22,300 stock options have been granted under the plan. At September 30, 2008, 17,800 options were outstanding and vested. Additionally, 21,600 shares of restricted stock have been granted under the plan, 15,400 of which were unvested at September 30, 2008. A total of 300,000 shares have been authorized to be issued under the Director Fee Plan.

**9. EARNINGS PER SHARE:**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 79,484	\$ 64,726	\$ 66,444
Weighted-average common shares outstanding	30,927,719	31,565,716	31,999,309
Dilutive securities, stock options and restricted stock	230,584	113,900	252,415
Diluted weighted-average common shares outstanding	31,158,303	31,679,616	32,251,724
Basic earnings per share	\$2.57	\$2.05	\$2.08
Diluted earnings per share	\$2.55	\$2.04	\$2.06

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

**10. PENSION AND OTHER POSTRETIREMENT PLANS:**

The Company provides defined benefit pension and other postretirement plans to certain employees. Effective September 30, 2007, the Company adopted the recognition and related disclosure provisions Statement of Financial Accounting Standards ("SFAS") SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158") which amends SFAS No. 87, No. 88, No. 106 and No. 132(R). The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans as of the Company's actuarial valuation as of July 31, 2008:

	<u>Pension</u>		<u>Other Postretirement</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Change in benefit obligation:				
Benefit obligation, beginning	\$ 111,543	\$ 104,060	\$ 21,819	\$ 18,267
Service cost	4,107	3,892	585	533
Interest cost	7,042	6,525	1,391	1,188
Assumption changes	(6,970)	-	943	-
Actuarial (gain) loss	(1,608)	1,774	(1,882)	2,944
Benefit payments	(5,483)	(4,708)	(968)	(1,113)
Benefit obligation, ending	<u>108,631</u>	<u>111,543</u>	<u>21,888</u>	<u>21,819</u>
Change in plan assets:				
Fair value, beginning	87,040	75,817	-	-
Actual return	(7,511)	9,849	-	-
Benefit payments	(5,483)	(4,708)	(968)	(1,113)
Employer contributions	16,470	6,082	968	1,113
Fair value, ending	<u>90,516</u>	<u>87,040</u>	<u>-</u>	<u>-</u>
Funded status	(18,115)	(24,503)	(21,888)	(21,819)
Unrecognized actuarial loss	29,462	24,296	6,665	7,991
Unrecognized prior service cost	283	311	(2,926)	(4,214)
Net amount recognized	<u>\$ 11,630</u>	<u>\$ 104</u>	<u>\$ (18,149)</u>	<u>\$ (18,042)</u>
Amounts recognized in the consolidated balance sheet:				
Current liability	\$ (907)	\$ (874)	\$ (970)	\$ (1,076)
Noncurrent benefit liability	(17,208)	(23,629)	(20,917)	(20,743)
Accumulated other comprehensive income	29,745	24,607	3,738	3,777
Net amount recognized	<u>\$ 11,630</u>	<u>\$ 104</u>	<u>\$ (18,149)</u>	<u>\$ (18,042)</u>
Amounts recognized in accumulated other comprehensive income:				
Net actuarial gain/loss	\$ 29,462	\$ 24,296	\$ 6,665	\$ 7,991
Prior service cost	283	311	(2,927)	(4,214)
Net amount recognized	<u>\$ 29,745</u>	<u>\$ 24,607</u>	<u>\$ 3,738</u>	<u>\$ 3,777</u>

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

**10. PENSION AND OTHER POSTRETIREMENT PLANS, continued:**

Based upon actuarial valuations performed as of July 31, 2008 and 2007, the accumulated benefit obligation for the Company's defined benefit pension plans was \$95,703 and \$97,283 at September 30, 2008 and 2007, respectively, and the projected benefit obligation for the Company's defined benefit pension plans was \$108,631 and \$111,543 at September 30, 2008 and 2007, respectively. On September 29, 2008 the Company made a contribution of \$10,240 to its principal pension plan, the effect of which is not reflected in the aforementioned accumulated benefit obligation or projected benefit obligation at September 30, 2008 as calculated in the July 31, 2008 actuarial valuation. This contribution is reflected as a reduction in accrued pension on the Company's Consolidated Balance sheet at September 30, 2008.

Net periodic pension and other postretirement benefit cost for the plans included the following:

	Pension			Other Postretirement		
	2008	2007	2006	2008	2007	2006
Service cost	\$ 4,107	\$ 3,892	\$ 4,504	\$ 585	\$ 533	\$ 632
Interest cost	7,042	6,525	5,923	1,390	1,188	1,227
Expected return on plan assets	(7,454)	(6,410)	(6,879)	-	-	-
Amortization:						
Prior service cost	28	31	(14)	(1,287)	(1,287)	(1,287)
Net actuarial loss	1,220	1,527	1,979	487	288	646
Net benefit cost	<u>\$ 4,943</u>	<u>\$ 5,565</u>	<u>\$ 5,513</u>	<u>\$ 1,175</u>	<u>\$ 722</u>	<u>\$ 1,218</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 cash. Under IRS regulations, the Company was not required to make any significant contributions to its principal retirement plan in fiscal 2008, however, the Company made contributions of \$15,240 to its principal retirement plan. The Company is not required to make any significant contributions to its principal retirement plan in fiscal 2009. Contributions of \$776 and \$968 were made under the Company's supplemental retirement plan and postretirement benefit plan, respectively, in fiscal 2008.

Amounts expected to be recognized in net periodic benefit costs in fiscal 2009 include:

	Pension Benefits	Other Postretirement Benefits
Net actuarial gain/loss	\$ 1,783	\$ 390
Prior service cost	28	(1,287)

The measurement date of annual actuarial valuations for the Company's principal retirement and other postretirement benefit plans is July 31, and the weighted-average assumptions for those plans were:

	Pension			Other Postretirement		
	2008	2007	2006	2008	2007	2006
Discount rate	7.00%	6.50%	6.50%	7.00%	6.50%	6.50%
Return on plan assets	8.50	9.00	9.00	-	-	-
Compensation increase	4.25	4.25	4.25	-	-	-

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

**10. PENSION AND OTHER POSTRETIREMENT PLANS, continued:**

The Company's principal pension plan maintains a substantial portion of its assets in equity securities in accordance with the investment policy established by the Company's pension board. Based on an analysis of the historical performance of the plan's assets and information provided by its independent investment advisor, the Company set the long-term rate of return assumption for these assets at 8.5% in 2008 for purposes of determining pension cost and funded status under SFAS No. 158 and No. 87. The Company's discount rate assumption used in determining the present value of the projected benefit obligation is based upon published indices.

Benefit payments expected to be paid are as follows:

Year ended September 30:	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
2009	\$ 5,476	\$ 970
2010	5,648	1,088
2011	5,863	1,256
2012	6,115	1,337
2013	6,332	1,490
2014-2018	36,651	9,844
	<u>\$ 66,085</u>	<u>\$ 15,985</u>

For measurement purposes, a rate of increase of 10% in the per capita cost of health care benefits was assumed for 2008; the rate was assumed to decrease gradually to 5.0% for 2030 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported. An increase in the assumed health care cost trend rates by one percentage point would have increased the accumulated postretirement benefit obligation as of September 30, 2008 by \$1,311 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$137. A decrease in the assumed health care cost trend rates by one percentage point would have decreased the accumulated postretirement benefit obligation as of September 30, 2008 by \$1,157 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$119.

**11. INCOME TAXES:**

The provision for income taxes consisted of the following:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current:			
Federal	\$ 22,270	\$ 20,941	\$ 28,782
State	4,735	2,762	5,245
Foreign	7,813	7,461	7,087
	<u>34,818</u>	<u>31,164</u>	<u>41,114</u>
Statutory rate changes	(1,882)	-	-
Deferred	9,152	7,826	(2,150)
Total	<u>\$ 42,088</u>	<u>\$ 38,990</u>	<u>\$ 38,964</u>

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

**11. INCOME TAXES, continued:**

	<b>2008</b>	<b>2007</b>
Deferred tax assets:		
Postretirement benefits	\$ 8,536	\$ 8,510
Environmental reserve	3,215	3,437
Pension costs	6,271	8,762
Deferred compensation	2,646	2,535
Stock options	3,714	3,825
Other	14,082	14,284
	38,464	41,353
Deferred tax liabilities:		
Depreciation	(1,647)	(3,510)
Goodwill	(28,426)	(24,550)
Other	-	(115)
	(30,073)	(28,175)
Net deferred tax asset	\$ 8,391	\$ 13,178

The reconciliation of the federal statutory tax rate to the consolidated effective tax rate was as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Federal statutory tax rate	35.0%	35.0%	35.0%
Effect of state income taxes, net of federal deduction	3.2	2.2	2.9
Foreign taxes (less than) in excess of federal statutory rate	(0.5)	.5	.4
Changes in statutory tax rates	(1.5)	.0	.0
Other	(1.6)	(0.1)	(1.3)
Effective tax rate	34.6%	37.6%	37.0%

The Company's foreign subsidiaries had income before income taxes for the years ended September 30, 2008, 2007 and 2006 of approximately \$24,326, \$24,300 and \$24,500, respectively. At September 30, 2008, undistributed earnings of foreign subsidiaries for which deferred U.S. income taxes have not been provided approximated \$94,893.

On October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The adoption of FIN 48 did not have a material effect on the Company's financial statements.

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

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**11. INCOME TAXES, continued**

Changes in the total amount of gross unrecognized tax benefits (excluding penalties and interest) are as follows:

Balance at October 1, 2007	\$ 4,495
Increase for tax positions of prior years	1,047
Decreases for tax positions of prior years	(1,174)
Increases based on tax positions related to the current year	682
Decreases due to settlements with taxing authorities	(225)
Decreases due to lapse of statute of limitation	(455)
Balance at September 30, 2008	<u>\$ 4,370</u>

The Company had unrecognized tax benefits of \$4,370 and \$4,495 at September 30, 2008 and September 30, 2007, respectively, all of which, if recorded, would impact the annual effective tax rate. It is reasonably possible that the amount of unrecognized tax benefits could change by approximately \$654 in the next 12 months primarily due to expiration of statutes related to specific tax positions.

The Company classifies interest and penalties on tax uncertainties as a component of the provision for income taxes. For Fiscal 2008, the Company included a net reduction of \$88 in interest and penalties as a component of the provision for income taxes. Total penalties and interest accrued were \$2,774 and \$2,862 at September 30, 2008 and September 30, 2007, respectively. These accruals may potentially be applicable in the event of an unfavorable outcome of uncertain tax positions.

The Company is currently under examination in several tax jurisdictions and remains subject to examination until the status of limitation expires for those tax jurisdictions. As of September 30, 2008, the tax years that remain subject to examination by major jurisdiction generally are:

United States - Federal	2007 and forward
United States - State	2005 and forward
Canada	2004 and forward
Europe	2002 and forward
United Kingdom	2007 and forward
Australia	2004 and forward

**12. COMMITMENTS AND CONTINGENT LIABILITIES:**

The Company operates various production, warehouse and office facilities and equipment under operating lease agreements. Annual rentals under these and other operating leases were \$16,938, \$15,621 and \$13,747 in fiscal 2008, 2007 and 2006, respectively. Future minimum rental commitments under non-cancelable operating lease arrangements for fiscal years 2009 through 2013 are \$9,727, \$7,446, \$6,177, \$4,719 and \$2,104, respectively, and \$1,424 thereafter.

The Company is party to various legal proceedings, the eventual outcome of which are not predictable. Although the ultimate disposition of these proceedings is not presently determinable, management is of the opinion that they should not result in liabilities in an amount which would materially affect the Company's consolidated financial position, results of operations or cash flows.

The Company has employment agreements with certain employees, the terms of which expire at various dates between 2009 and 2013. The agreements generally provide for base salary and bonus levels and include non-compete provisions. The aggregate commitment for salaries under these agreements at September 30, 2008 was \$9,226.

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

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**13. ENVIRONMENTAL MATTERS:**

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

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its acquisition, The York Group, Inc. ("York") 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 September 30, 2008, an accrual of \$8,243 had been recorded for environmental remediation (of which \$861 was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. 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.

**14. SUPPLEMENTAL CASH FLOW INFORMATION:**

Changes in working capital items as presented in the Consolidated Statements of Cash Flows consisted of the following:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current assets:			
Accounts receivable	\$ (6,677)	\$ 1,502	\$ (4,110)
Inventories	9,361	(2,135)	(10,860)
Other current assets	(1,729)	(2,567)	518
	955	(3,200)	(14,452)
Current liabilities:			
Trade accounts payable	(1,418)	1,064	(9,765)
Accrued compensation	6,314	(2,411)	50
Accrued income taxes	4,601	(3,644)	(2,410)
Customer prepayments	(2,397)	514	(674)
Other current liabilities	(9,848)	(6,696)	(842)
	(2,748)	(11,173)	(13,641)
Net change	\$ (1,793)	\$ (14,373)	\$ (28,093)



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

**15. SEGMENT INFORMATION:**

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

The accounting policies of the segments are the same as those described in Summary of Significant Accounting Policies (Note 2). Intersegment sales are accounted for at negotiated prices. Operating profit is total revenue less operating expenses. Segment assets include those assets that are used in the Company's operations within each segment. Assets classified under "Other" principally consist of cash and cash equivalents, investments, deferred income taxes and corporate headquarters' assets. Long-lived assets include property, plant and equipment (net of accumulated depreciation), goodwill, and other intangible assets (net of accumulated amortization).

Information about the Company's segments follows:

	Memorialization			Brand Solutions			Other	Consolidated
	Bronze	Casket	Cremation	Graphics Imaging	Marking Products	Merchandising Solutions		
<b>Sales to external customers:</b>								
2008	\$ 243,063	\$ 219,792	\$ 26,665	\$ 203,703	\$ 60,031	\$ 65,369	\$ -	\$ 818,623
2007	229,850	210,673	25,166	146,049	57,450	80,164	-	749,352
2006	218,004	200,950	25,976	140,886	52,272	77,803	-	715,891
<b>Intersegment sales:</b>								
2008	213	542	3,883	30	32	45	-	4,745
2007	208	220	2,594	13	41	41	-	3,117
2006	151	301	1,048	1	36	105	-	1,642
<b>Depreciation and amortization:</b>								
2008	3,182	7,840	179	9,716	691	2,433	894	24,935
2007	3,707	6,680	164	5,431	630	2,896	1,020	20,528
2006	4,411	6,581	221	6,015	482	2,760	993	21,463
<b>Operating profit:</b>								
2008	71,576	23,339	5,474	18,617	9,137	4,809	-	132,952
2007	66,298	11,801	3,631	14,439	9,931	5,724	-	111,824
2006	65,049	16,971	3,372	16,554	9,066	2,872	-	113,884
<b>Total assets:</b>								
2008	168,050	264,607	11,990	339,308	48,514	56,714	25,099	914,282
2007	158,666	280,598	11,910	180,987	42,851	59,436	36,621	771,069
2006	149,593	258,224	11,452	157,677	31,477	65,860	41,807	716,090
<b>Capital expenditures:</b>								
2008	1,369	1,672	130	6,158	365	489	1,870	12,053
2007	3,557	5,811	170	3,850	545	6,426	290	20,649
2006	2,101	7,217	38	3,730	592	5,391	328	19,397

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

**15. SEGMENT INFORMATION, continued:**

Information about the Company's operations by geographic area follows:

	<u>United States</u>	<u>Mexico</u>	<u>Canada</u>	<u>Europe</u>	<u>Australia</u>	<u>China</u>	<u>Consolidated</u>
<b>Sales to external customers:</b>							
2008	\$ 562,991	\$ -	\$ 14,122	\$ 221,378	\$ 11,801	\$ 8,331	\$ 818,623
2007	563,594	-	14,475	158,651	9,969	2,663	749,352
2006	550,254	-	13,520	143,706	8,411	-	715,891
<b>Long-lived assets:</b>							
2008	304,614	5,588	469	247,310	2,673	4,635	565,289
2007	312,694	6,377	504	131,786	3,066	4,103	458,530
2006	300,502	6,785	2,544	118,797	2,561	-	431,189

**16. ACQUISITIONS:**

**Fiscal 2008:**

Acquisition spending, net of cash acquired, during the year ended September 30, 2008 totaled \$98,070, and primarily included the following:

In September 2008, the Company acquired the remaining 20% interest in S+T Gesellschaft fur Reprotechnik GmbH ("S+T GmbH"). The Company had acquired a 50% interest in S+T GmbH in 1998 and a 30% interest in 2005.

In May 2008, the Company acquired a 78% interest in Saueressig. Saueressig is headquartered in Vreden, Germany and has its principal manufacturing operations in Germany, Poland and the United Kingdom. The transaction was structured as an asset purchase with a preliminary purchase price of approximately 58.4 million Euros (\$91,248). The cash portion of the transaction was funded principally through borrowings under the Company's existing credit facilities. The acquisition is designed to expand Matthews' products and services in the global graphics imaging market.

In addition, the Company entered into an option agreement related to the remaining 22% interest in Saueressig. The option agreement contains certain put and call provisions for the purchase of the remaining 22% interest in future years at a price to be determined by a specified formula based on future operating results of Saueressig. The Company has accounted for this agreement under Emerging Issues Task Force Abstract Topic No. D-98 ("EITF D-98"). In accordance with EITF D-98, the initial carrying value of minority interest was adjusted to the estimated future purchase price ("Redemption Value") of the minority interest, with a corresponding charge to retained earnings. For subsequent periods, the carrying value of minority interest reflected on the Company's balance sheet will be adjusted for changes in Redemption Value, with a corresponding adjustment to retained earnings. Under EITF D-98, to the extent Redemption Value in future periods is less than or greater than the estimated fair value of the minority interest, income available to common shareholders in the determination of earnings per share will increase or decrease, respectively, by such amount. However, income available to common shareholders will only increase to the extent that a decrease was previously recognized. In any case, net income will not be affected by such amounts. At September 30, 2008, Redemption Value was equal to fair value, and there was no impact on income available to common shareholders.

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

**16. ACQUISITIONS, continued:**

The Company has made an assessment of the fair value in all material respects of the assets acquired and liabilities assumed in the Saueressig acquisition. Operating results of the acquired business have been included in the consolidated statement of income from the acquisition date forward.

The following table summarizes the fair value of major assets and liabilities of Saueressig at the date of acquisition.

Cash	\$ 504
Trade receivables	22,362
Inventory	11,925
Other current assets	1,061
Property, plant and equipment	76,653
Goodwill	41,866
Intangible assets	14,737
Other assets	3,581
Total assets acquired	<u>172,689</u>
Trade accounts payable	4,925
Debt	49,161
Other liabilities	24,660
Minority interest	2,695
Total liabilities assumed	<u>81,441</u>
Net assets acquired	<u>\$ 91,248</u>

The estimated fair value of the acquired intangible assets of Saueressig include trade names with an assigned value of \$3,130, customer relationships with an assigned value of \$10,609, and technology and non-compete values of approximately \$998. The intangible assets will be amortized between 2 and 20 years.

The following unaudited pro-forma information presents a summary of the consolidated results of Matthews combined with Saueressig as if the acquisition had occurred on October 1, 2006:

	<u>2008</u>	<u>2007</u>
Sales	\$ 932,213	\$ 875,068
Income before income taxes	121,572	105,796
Net income	79,484	66,935
Earnings per share	\$2.56	\$2.11

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.

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

**16. ACQUISITIONS, continued:**

**Fiscal 2007:**

Acquisition spending, net of cash acquired, during the year ended September 30, 2007 totaled \$23,784, and primarily included the following:

In July 2007, York reached a settlement agreement with Yorktowne Caskets, Inc. and its shareholders (collectively "Yorktowne") with respect to all outstanding litigation between the parties. In exchange for the mutual release, the principal terms of the settlement included the assignment by Yorktowne of certain customer and employment-related contracts to York and the purchase by York of certain assets, including York-product inventory, of Yorktowne.

In June 2007, the Company acquired a 60% interest in Beijing Kenuohua Electronic Technology Co., Ltd., ("Kenuohua"), an ink-jet equipment manufacturer, headquartered in Beijing, China. The acquisition was structured as a stock purchase. The acquisition was intended to expand Matthews' marking products manufacturing and distribution capabilities in Asia.

In December 2006, the Company paid additional purchase consideration of \$7,000 under the terms of the Milso Industries ("Milso") acquisition agreement.

**Fiscal 2006:**

Acquisition spending, net of cash acquired, during the year ended September 30, 2006 totaled \$32,278, and primarily included the following:

In March 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.

In February 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, and was intended to expand the Company's graphics business in the Western United States.

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

Matthews has accounted for these acquisitions using the purchase method and, accordingly, recorded the acquired assets and liabilities at their estimated fair values at the acquisition dates. The excess of the purchase price over the estimated fair value of the net assets acquired was recorded as goodwill.

**17. DISPOSITION:**

In August 2007, the Company sold its marketing consultancy business. The transaction resulted in a pre-tax gain of \$1,322, which was recorded as a reduction in administrative expenses in the Consolidated Statement of Income.

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

**18. GOODWILL AND OTHER INTANGIBLE ASSETS:**

Goodwill 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 performed its annual impairment reviews in the second quarters of fiscal 2008 and fiscal 2007 and determined that no adjustments to the carrying values of goodwill or other indefinite lived intangibles were necessary. Changes to goodwill, net of accumulated amortization, during the years ended September 30, 2008 and 2007, follow.

	<u>Bronze</u>	<u>Casket</u>	<u>Cremation</u>	<u>Graphics Imaging</u>	<u>Marking Products</u>	<u>Merchandising Solutions</u>	<u>Consolidated</u>
Balance at September 30, 2006	\$ 74,178	\$ 115,982	\$ 6,536	\$ 86,269	\$ 5,213	\$ 9,947	\$ 298,125
Additions	-	4,573	-	885	3,550	-	9,008
Dispositions	-	-	-	-	-	(809)	(809)
Translation and adjustments	3,197	-	-	8,478	299	-	11,974
Balance at September 30, 2007	77,375	120,555	6,536	95,632	9,062	9,138	318,298
Additions	-	882	-	41,865	151	-	42,898
Dispositions	-	-	-	(160)	-	-	(160)
Translation and adjustments	(588)	-	-	(1,183)	376	-	(1,395)
Balance at September 30, 2008	<u>\$ 76,787</u>	<u>\$ 121,437</u>	<u>\$ 6,536</u>	<u>\$ 136,154</u>	<u>\$ 9,589</u>	<u>\$ 9,138</u>	<u>\$ 359,641</u>

In 2008, the addition to Graphics relates to the purchase of a 78% interest in Saueressig which is expected to be deductible for tax purposes, and the remaining 20% interest in S+T GmbH. The additions to Casket goodwill during fiscal 2008 related primarily to additional consideration paid in accordance with the purchase agreement with Royal.

In fiscal 2007, the additions to Casket relate primarily to additional consideration paid in accordance with the acquisition of Royal and the purchase of certain Yorktowne assets. The additions to Graphics Imaging goodwill relate to the additional consideration paid in accordance with the purchase agreement related to a European Graphics business. The addition to Marking Products goodwill related to the purchase of a 60% interest in Kenuohua. The reduction in goodwill in Merchandising Solutions relates to the disposition of its marketing consultancy business during the year.

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

**18. GOODWILL AND OTHER INTANGIBLE ASSETS, continued:**

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of September 30, 2008 and 2007, respectively.

	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>
<b>September 30, 2008:</b>			
Trade names	\$ 25,109	\$ -*	\$ 25,109
Trade names	2,822	(145)	2,677
Customer relationships	34,477	(5,720)	28,757
Copyrights/patents/other	7,885	(4,518)	3,367
	<u>\$ 70,293</u>	<u>\$ (10,383)</u>	<u>\$ 59,910</u>
<b>September 30, 2007:</b>			
Trade names	\$ 26,140	\$ -*	\$ 26,140
Customer relationships	25,215	(3,977)	21,238
Copyrights/patents/other	7,382	(3,454)	3,928
	<u>\$ 58,737</u>	<u>\$ (7,431)</u>	<u>\$ 51,306</u>

\* Not subject to amortization

The increase in intangible assets during fiscal 2008 was due to the acquisition of Saueressig. The increase in intangible assets during fiscal 2007 was due to the addition of intellectual property in the Bronze and Marking Products segments, the purchase of certain assets by the Casket segment and the impact of fluctuations in foreign currency exchange rates on intangible assets denominated in foreign currencies, offset by additional amortization.

Amortization expense on intangible assets was \$3,536, \$2,129, and \$2,216 in fiscal 2008, 2007 and 2006, respectively. Fiscal year amortization expense is estimated to be \$3,822 in 2009, \$3,018 in 2010, \$2,842 in 2011, \$2,424 in 2012, and \$2,281 in 2013.

**19. ACCOUNTING PRONOUNCEMENTS:**

In June 2006, the FASB issued FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 is reported as an adjustment to beginning retained earnings in the period of adoption. The Company adopted FIN 48 as of October 1, 2007 which did not have a material effect on the financial statements. See Note 11 for additional disclosures related to the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, however, for non-financial assets and liabilities the effective date has been extended to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 157.

**19. ACCOUNTING PRONOUNCEMENTS, continued:**

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF 06-11). EITF 06-11 requires that tax benefits generated by dividends on equity classified non-vested equity shares, non-vested equity share units, and outstanding equity share options be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF 06-11 is effective for years beginning after December 15, 2007 and is to be applied on a prospective basis. The Company is currently evaluating the impact of the adoption of EITF 06-11.

Effective September 30, 2007, the Company adopted the recognition and related disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158") which amends SFAS No. 87, No. 88, No. 106 and No. 132(R). SFAS No. 158 also requires the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. This provision of the SFAS No. 158 is effective for the Company on September 30, 2009. The Company currently measures plan assets and benefit obligations as of July 31 of each year. Upon adoption, this provision is not expected to have a material effect on the financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) requires recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in a business combination, goodwill acquired or a gain from a bargain purchase. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R).

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"). SFAS No. 160 amends Accounting Research Bulletin 51 and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. The Statement requires that consolidated net income reflect the amounts attributable to both the parent and the noncontrolling interest, and also includes additional disclosure requirements. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") to require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements. The Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. The Company is currently evaluating the impact of the adoption of SFAS No. 161.

**SUPPLEMENTARY FINANCIAL INFORMATION**

**Selected Quarterly Financial Data (Unaudited):**

The following table sets forth certain items included in the Company's unaudited consolidated financial statements for each quarter of fiscal 2008 and fiscal 2007.

	Quarter Ended				Year Ended September 30
	December 31	March 31	June 30	September 30	
	(Dollar amounts in thousands, except per share data)				
FISCAL YEAR 2008:					
Sales	\$ 182,348	\$ 197,827	\$ 219,270	\$ 219,178	\$ 818,623
Gross profit	71,988	80,234	86,919	83,823	322,964
Operating profit	26,778	34,392	36,734	35,048	132,952
Net income	17,431	20,283	21,378	20,392	79,484
Earnings per share	\$ .56	\$ .65	\$ .69	\$ .66	\$ 2.55
FISCAL YEAR 2007:					
Sales	\$ 175,424	\$ 202,979	\$ 185,477	\$ 185,472	\$ 749,352
Gross profit	64,934	74,207	69,418	71,898	280,457
Operating profit	24,184	31,645	21,129	34,866	111,824
Net income	13,971	18,501	12,029	20,225	64,726
Earnings per share	\$ .44	\$ .58	\$ .38	\$ .64	\$ 2.04



FINANCIAL STATEMENT SCHEDULE

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions</u>		<u>Deductions(2)</u>	<u>Balance at end of period</u>
		<u>Charged to expense</u>	<u>Charged to other accounts (1)</u>		
<b>Allowance for Doubtful Accounts:</b>					
Fiscal Year Ended:					
September 30, 2008	\$ 11,160	\$ 1,712	\$ 885	\$ (2,219)	\$ 11,538
September 30, 2007	10,829	335	209	(213)	11,160
September 30, 2006	10,547	474	890	(1,082)	10,829

(1) Amount comprised principally of acquisitions and purchase accounting adjustments in connection with acquisitions.

(2) Amounts determined not to be collectible, net of recoveries.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

There have been no changes in accountants or disagreements on accounting or financial disclosure between the Company and PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, for the fiscal years ended September 30, 2008, 2007 and 2006.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

#### **(a) Evaluation of Disclosure Controls and Procedures.**

The Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are designed to provide reasonable assurance that information required to be disclosed in our reports filed under that Act (the "Exchange Act"), such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. These disclosure controls and procedures also are designed to provide reasonable assurance that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Management, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures in effect as of September 30, 2008. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2008, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, and that such information is recorded, summarized and properly reported within the appropriate time period, relating to the Company and its consolidated subsidiaries, required to be included in the Exchange Act reports, including this Annual Report on Form 10-K.

#### **(b) Management's Report on Internal Control over Financial Reporting.**

Management's Report on Internal Control over Financial Reporting is included in Management's Report to Shareholders in Item 8 of this Annual Report on Form 10-K.

#### **(c) Attestation Report of the Registered Public Accounting Firm.**

The Company's internal control over financial reporting as of September 30, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

#### **(d) Changes in Internal Control over Financial Reporting.**

There have been no changes in the Company's internal controls over financial reporting that occurred during the fourth fiscal quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART III

### ITEM 10. DIRECTORS, OFFICERS and EXECUTIVE MANAGEMENT OF THE REGISTRANT.

In addition to the information reported in Part I of this Form 10-K, under the caption "Officers and Executive Management of the Registrant", the information required by this item as to the directors of the Company is hereby incorporated by reference from the information appearing under the captions "Proposal No. 1 – Elections of Directors", "General Information Regarding Corporate Governance – Audit Committee" and "Compliance with Section 16(a) of the Exchange Act" in the Company's definitive proxy statement, which involves the election of the directors and is to be filed with the Securities and Exchange Commission pursuant to the Exchange Act of 1934, as amended, within 120 days of the end of the Company's fiscal year ended September 30, 2008.

The Company's Code of Ethics Applicable to Executive Management is set forth in Exhibit 14.1 hereto.

### ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item as to the compensation of directors and executive management of the Company is hereby incorporated by reference from the information appearing under the captions "Executive Compensation and Retirement Benefits" and "Compensation of Directors" in the Company's definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act, within 120 days of the end of the Company's fiscal year ended September 30, 2008. The information contained in the "Compensation Committee Report" is specifically not incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item as to the ownership by management and others of securities of the Company is hereby incorporated by reference from the information appearing under the caption "Stock Ownership" in the Company's definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act, within 120 days of the end of the Company's fiscal year ended September 30, 2008.

#### Equity Compensation Plans:

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

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

Under the Company's Director Fee Plan, directors (except for the Chairman of the Board) who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$30,000. The annual retainer fee has been increased to \$60,000 in fiscal 2009. The equivalent amount paid to a non-employee Chairman of the Board is \$100,000. 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 37,946 shares had been deferred under the Director Fee Plan at September 30, 2008. Additionally, directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of \$50,000. The value of the annual stock-based grant has been increased to \$70,000 in 2009. A total of 22,300 stock options have been granted under the plan. At September 30, 2008, 17,800 options were outstanding and vested. Additionally, 21,600 shares of restricted stock have been granted under the plan, 15,400 of which were unvested at September 30, 2008. A total of 300,000 shares have been authorized to be issued under the Director Fee Plan.

The following table provides information about grants under the Company's equity compensation plans as of September 30, 2008:

Plan category	Equity Compensation Plan Information		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	
Equity compensation plans approved by security holders:			
1992 Stock Incentive Plan	1,366,342	\$35.56	- (1)
2007 Equity Incentive Plan	-	-	2,200,000 (2)
Employee Stock Purchase Plan	-	-	1,714,884 (3)
Director Fee Plan	55,746	35.13	172,598 (4)
Equity compensation plans not approved by security holders	None	None	None
Total	1,422,088	\$33.61	4,087,482

- (1) As a result of the approval of the 2007 Equity Incentive Plan, no further grants or awards will be made under the 1992 Incentive Stock Plan.
- (2) The 2007 Equity Incentive Plan was approved in February 2008. The Plan provides for the grant or award of stock options, restricted shares, stock-based performance units and certain other types of stock based awards, with a maximum of 2,200,000 shares available for grants or awards. As of September 30, 2008 no shares have been granted under the 2007 Equity Incentive Plan.
- (3) Shares under the Employee Stock Purchase Plan (the "Plan") are purchased in the open market by employees at the fair market value of the Company's stock. The Company provides a matching contribution of 10% of such purchases subject to certain limitations under the Plan. As the Plan is an open market purchase plan, it does not have a dilutive effect.
- (4) Shares of restricted stock may be issued under the Director Fee Plan. The maximum number of shares authorized to be issued under the Director Fee Plan is 300,000 shares.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

The information required by this item as to certain relationships and transactions with management and other related parties of the Company is hereby incorporated by reference from the information appearing under the captions "Proposal No. 1 – Election of Directors" and "Certain Transactions" in the Company's definitive proxy statement, which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act, within 120 days of the end of the Company's fiscal year ended September 30, 2008.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this item as to the fees billed and the services provided by the principal accounting firm of the Company is hereby incorporated by reference from the information appearing under the caption "Relationship with Independent Registered Public Accounting Firm" in the Company's definitive proxy statement, which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act within 120 days of the end of the Company's fiscal year ended September 30, 2008.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

**(a) 1. Financial Statements:**

The following items are included in Part II, Item 8:

	<u>Pages</u>
Management's Report to Shareholders	34
Report of Independent Registered Public Accounting Firm	35
Consolidated Balance Sheets as of September 30, 2008 and 2007	36-37
Consolidated Statements of Income for the years ended September 30, 2008, 2007 and 2006	38
Consolidated Statements of Shareholders' Equity for the years ended September 30, 2008, 2007 and 2006	39
Consolidated Statements of Cash Flows for the years ended September 30, 2008, 2007 and 2006	40
Notes to Consolidated Financial Statements	41-63
Supplementary Financial Information (unaudited)	64

**2. Financial Statement Schedules:**

Schedule II - Valuation and Qualifying Accounts is included on page 65 in Part II, Item 8 of this Annual Report on Form 10-K.

**3. Exhibits Filed:**

The index to exhibits is on pages 72-74.

**(b) Reports on Form 8-K:**

On July 29, 2008 Matthews filed a Current Report on Form 8-K under Item 2 in connection with a press release announcing its earnings for the third fiscal quarter of 2008.

On July 29, 2008 Matthews filed a Current Report on Form 8-K under Item 5.02 in connection with a press release announcing the election of Katherine E. Dietze to the Board of Directors

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on November 25, 2008.

MATTHEWS INTERNATIONAL CORPORATION

(Registrant)

By /s/ Joseph C. Bartolacci

Joseph C. Bartolacci

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on November 25, 2008:

/s/ Joseph C. Bartolacci

Joseph C. Bartolacci

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Steven F. Nicola

Steven F. Nicola

Chief Financial Officer, Secretary

and Treasurer (Principal Financial  
and Accounting Officer)

/s/ William J. Stallkamp

William J. Stallkamp, Chairman of the Board

/s/ Robert G. Neubert

Robert G. Neubert, Director

/s/ David J. DeCarlo

David J. DeCarlo, Director

/s/ John P. O'Leary, Jr.

John P. O'Leary, Jr., Director

/s/ Katherine E. Dietze

Katherine E. Dietze, Director

/s/ Martin Schlatter

Martin Schlatter, Director

/s/ Glenn R. Mahone

Glenn R. Mahone, Director

/s/ John D. Turner

John D. Turner, Director

**MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES**

**EXHIBITS**

**INDEX**

The following Exhibits to this report are filed herewith or, if marked with an asterisk (\*), are incorporated by reference. Exhibits marked with an "a" represent a management contract or compensatory plan, contract or arrangement required to be filed by Item 601(b)(10)(iii) of Regulation S-K.

<u>Exhibit No.</u>	<u>Description</u>	<u>Prior Filing or Sequential Page Numbers Herein</u>
3.1	Restated Articles of Incorporation *	Exhibit Number 3.1 to Form 10-K for the year ended September 30, 1994
3.2	Restated By-laws *	Exhibit Number 99.1 to Form 8-K dated October 18, 2007
4.1 a	Form of Revised Option Agreement of Repurchase (effective October 1, 1993) *	Exhibit Number 4.5 to Form 10-K for the year ended September 30, 1993
4.2	Form of Share Certificate for Class A Common Stock *	Exhibit Number 4.9 to Form 10-K for the year ended September 30, 1994
10.1	Revolving Credit Facility *	Exhibit Number 10.1 to Form 10-K for the year ended September 30, 2001
10.2	First Amendment to Revolving Credit Facility*	Exhibit Number 10.1 to Form 10-Q for the quarter ended March 31, 2004
10.3	Second Amendment to Revolving Credit Facility *	Exhibit Number 10.1 to Form 10-Q for the quarter ended December 31, 2004
10.4	Third Amendment to Revolving Credit Facility*	Exhibit Number 10.4 to Form 10-K for the year ended September 30, 2007
10.5 a	Supplemental Retirement Plan*	Exhibit Number 10.4 to Form 10-K for the year ended September 30, 2006
10.6 a	1992 Stock Incentive Plan (as amended through April 25, 2006) *	Exhibit Number 10.1 to Form 10-Q for the quarter ended March 31, 2006
10.7 a	Form of Stock Option Agreement	Filed Herewith
10.8 a	Form of Restricted Stock Agreement	Filed Herewith
10.9 a	1994 Director Fee Plan (as amended through November 13, 2008)	Filed Herewith
10.10 a	1994 Employee Stock Purchase Plan *	Exhibit Number 10.2 to Form 10-Q for the quarter ended March 31, 1995



**INDEX, Continued**

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<b>Exhibit No.</b>	<b>Description</b>	<b>Prior Filing or Sequential Page Numbers Herein</b>
10.11 a	2007 Equity Incentive Plan (as amended through September 26, 2008)	Filed Herewith
10.12	Asset Purchase Agreement between I.D.L. Incorporated and Hugh Andrew, L.P. and Big Red Rooster, Inc. and The Cloverleaf Group, L.P. and iDL shareholders and the BRR shareholders and The Cloverleaf Group, Inc. and Matthews International Corporation dated as of July 19, 2004*	Exhibit Number 10.1 to Form 10-Q for the quarter ended June 30, 2004
10.13	Asset Purchase Agreement by and among The York Group, Inc., Midnight Acquisition Corporation, Milso Industries, Inc., Milso Industries, LLC, SBC Holding Corporation, the Shareholders identified therein and Matthews International Corporation*	Exhibit Number 10.1 to Form 8-K dated on July 14, 2005
10.14	Sale and Purchase Agreement by and among Mr. Jorg Christian Saueressig, Mr. Karl Wilhelm Saueressig, Mr. Jakob Heinrich Saueressig, Mr. Reinhart Zech Von Hymen and Matthews International Corporation*	Exhibit Number 10.1 to Form 8-K dated May 12, 2008
10.15	Option Agreement between Mr. Kilian Saueressig and Matthews International Corporation (English translation)*	Exhibit Number 10.1 to Form 10-Q for the quarter ended June 30, 2008
14.1	Form of Code of Ethics Applicable to Executive Management *	Exhibit Number 14.1 to Form 10-K for the year ended September 30, 2004
21	Subsidiaries of the Registrant	Filed Herewith
23	Consent of Independent Registered Public Accounting Firm	Filed Herewith
31.1	Certification of Principal Executive Officer for Joseph C. Bartolacci	Filed Herewith
31.2	Certification of Principal Financial Officer for Steven F. Nicola	Filed Herewith

**INDEX, Continued**

<u>Exhibit No.</u>	<u>Description</u>	<u>Prior Filing or Sequential Page Numbers Herein</u>
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Joseph C. Bartolacci	Filed Herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Steven F. Nicola	Filed Herewith

Copies of any Exhibits will be furnished to shareholders upon written request. Requests should be directed to Mr. Steven F. Nicola, Chief Financial Officer, Secretary and Treasurer of the Registrant.



**MATTHEWS INTERNATIONAL CORPORATION**  
**Two NorthShore Center**  
**Pittsburgh, PA 15212**

**Agreement for Nonstatutory Stock Options under 1992**  
**Stock Incentive Plan, as amended through April 25, 2006**

MATTHEWS INTERNATIONAL CORPORATION, a Pennsylvania corporation (the "Corporation"), and \_\_\_\_\_, an employee of the Corporation or a Subsidiary of the Corporation (the "Optionee"), for good and valuable consideration the receipt and adequacy of which are hereby acknowledged and intending to be legally bound hereby, agree as follows:

1. **Grant of Option.** The Corporation hereby confirms the grant to the Optionee on \_\_\_\_\_ (the "Date of Grant") of an option (the "Option") to purchase \_\_\_\_\_ shares of Class A Common Stock, par value \$1.00 per share, of the Corporation (the "Class A Common Stock") at an option price of \$ \_\_\_\_\_ per share (the fair market value per share of the Class A Common Stock on the Date of Grant), under and subject to the terms and conditions of the Corporation's 1992 Stock Incentive Plan, as amended through April 25, 2006 (the "Plan") and this Agreement. The Plan is incorporated by reference and made a part of this Agreement as though set forth in full. Terms which are capitalized but not defined in this Agreement have the same meaning as in the Plan unless the context otherwise requires.

The Option confirmed hereby is intended to be a nonstatutory stock option as that term is defined in Section 4 of the Plan and will not be treated as an incentive stock option under Section 422 or an option under Section 423 of the Internal Revenue Code of 1986. Subject to the provisions of Section 5 of the Plan (as modified by this Agreement) and Section 9 of the Plan, the Option shall first become exercisable only in accordance with the following schedule:

- (a) For one-third (1/3) of the number of shares subject to the Option (rounded upward to the nearest whole share) on the later of (i) the date on which the fair market value per share of the Class A Common Stock equals or exceeds one hundred ten percent (110%) of the fair market value per share of the Class A Common Stock on the Date of Grant for a period of ten (10) consecutive trading days, or (ii) \_\_\_\_\_;
- (b) For an additional one-third (1/3) of the number of shares subject to the Option (rounded upward to the nearest whole share) on the later of (i) the date on which the fair market value per share of the Class A Common Stock equals or exceeds one hundred thirty-three percent (133%) of the fair market value per share of the Class A Common Stock on the Date of Grant for a period of ten (10) consecutive trading days, or (ii) \_\_\_\_\_; and
- (c) For the remaining number of shares subject to the Option on the later of (i) the date on which the fair market value per share of the Class A Common Stock equals or exceeds one hundred sixty percent (160%) of the fair market value per share of the Class A Common Stock on the Date of Grant for a period of ten (10) consecutive trading days, or (ii) \_\_\_\_\_;

Subject to the provisions of Section 5 of the Plan (as modified by this Agreement) providing for earlier termination of the Option, the Option may not be exercised after, and shall terminate at, the close of business on \_\_\_\_\_. Notwithstanding Sections 5(F)(iii) and (iv) of the Plan, the Option shall be exercisable under Sections 5(F)(iii) and (iv) of the Plan only to the extent that the stock performance conditions set forth in this Section 1(a)(i), 1(b)(i) and 1(c)(i) have been satisfied prior to termination of employment and death, respectively. Cash payment rights are not granted with respect to the Option.

In accordance with the express authorization granted by the Plan, the following changes in this paragraph to the vesting and exercisability of the Option (and only this Option, not other options which may be held by the Optionee) are being made. If the employment of the Optionee is voluntarily terminated with the consent of the Corporation or the Optionee retires under any retirement plan of the Corporation, then for any Applicable Option Group (as defined below) in which the stock performance conditions set forth in subsections 1(a)(i), 1(b)(i) or 1(c)(i), as the case may be, have not been met on the date of such termination of employment or retirement, the Options in such Applicable Option Group shall continue to be eligible for vesting under the stock performance conditions set forth in this Section 1(a)(i), 1(b)(i), and 1(c)(i) and shall be exercisable (to the extent such Options vest as described above) at any time prior to the expiration date of the Option or within two years after the date of termination of employment of the Optionee, whichever is the shorter period. As used herein, "Applicable Option Group" shall mean such of the groups of Options available under subsections 1(a), 1(b) or 1(c) above in which the date of termination of employment of the Optionee (in the case of the Optionee being voluntarily terminated with the consent of the Corporation or retiring under any retirement plan of the Corporation) is on or after the date set forth in subsection (ii) of such subsections 1(a), (b) or (c). For the avoidance of doubt, any of the groups of Options available under subsections 1(a), 1(b) or 1(c) above in which the date of termination of employment of the Optionee is prior to the date set forth in subsection (ii) of such subsections 1(a), (b) or (c) shall terminate.

2. **Acceptance of Grant of Option.** The Optionee accepts the grant of the Option confirmed hereby, acknowledges having received a copy of the Plan and agrees to be bound by the terms and provisions of the Plan (as modified by this Agreement), as the Plan may be modified or amended from time to time; provided, however, that no termination, modification or amendment of the Plan shall, without the consent of the Optionee, adversely affect the rights of the Optionee with respect to the Option.

3. **Option Not Transferable.** The Option shall not be transferable otherwise than by Will or by the laws of descent and distribution, and the Option shall be exercisable during the lifetime of the Optionee only by the Optionee.

4. Procedure for Exercise of Option. The Option may be exercised only by execution and delivery by the Optionee to the Corporation of an exercise form or forms prescribed by the Stock Compensation Committee of the Board of Directors that administers the Plan (the "Stock Compensation Committee"). Each exercise form must set forth the number of whole shares of Class A Common Stock as to which the Option is exercised, must be dated and signed by the person exercising the Option and must be accompanied by cash in United States dollars (including check, bank draft or money order or cash forwarded through a broker or other agent-sponsored exercise or financing program), shares of already-owned Class A Common Stock at the fair market value of such shares on the date of exercise, an attestation of ownership of such shares of already-owned Class A Common Stock in the form prescribed by the Stock Compensation Committee, or any combination thereof, in the amount of the full purchase price for the number of shares of Class A Common Stock as to which the Option is exercised; provided, however, that any portion of the option price representing a fraction of a share shall be paid by the Optionee in cash and no shares of the Class A Common Stock which have been held for less than one year may be delivered in payment of the option price. If the option price is paid in shares of already-owned Class A Common Stock, in lieu of actual delivery of certificates for such shares to the Corporation the person exercising the Option may complete and deliver to the Corporation the exercise form containing an attestation of stock ownership as prescribed by the Stock Compensation Committee. Such form must certify that such person owns the shares to be used to pay the option price (and must be executed by any joint owner of the shares) and that such shares are free and clear of all liens, claims and encumbrances of every kind and are not subject to any pledge or security interest. Receipt of such form and verification by the Corporation of the share ownership reflected in such form will eliminate the need of the person exercising the Option to deliver certificates for such shares to the Corporation.

The Corporation shall advise any person exercising the Option in whole or in part with shares of already-owned Class A Common Stock as to the amount of any cash required to be paid to the Corporation representing a fraction of a share, and such person will be required to pay any such cash directly to the Corporation before any distribution of certificates representing shares of Class A Common Stock will be made. The person exercising the Option should deliver an executed Assignment Separate from Certificate with respect to each stock certificate physically delivered in payment of the option price. The signature on all Assignments Separate from Certificate must be guaranteed by a commercial bank or trust company, by a firm having membership in the New York Stock Exchange, Inc., the American Stock Exchange, Inc. or the National Association of Securities Dealers, Inc. or by any other person acceptable to the Corporation's Transfer Agent.

The person exercising the Option may choose to exercise the Option by participating in a broker or other agent-sponsored exercise or financing program. If the person so chooses, the Corporation will deliver the shares of the Class A Common Stock acquired pursuant to the exercise of the Option to the broker or other agent, as designated by the person exercising the Option, and will cooperate with all other reasonable procedures of the broker or other agent to permit participation in the sponsored exercise or financing program. Notwithstanding any procedures of the broker or other agent-sponsored exercise or financing program, if the option price is paid in cash, no exercise of an Option shall be deemed to occur and no shares of the Class A Common Stock will be issued or delivered 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.

If a person other than the Optionee exercises the Option, the exercise material must include proof satisfactory to the Corporation of the right of such person to exercise the Option.

The exercise material should be hand delivered or mailed to the Chief Financial Officer of the Corporation at the address set forth on the cover page of this Agreement, Attention: Chief Financial Officer. In the case of hand delivery, the date of exercise is the date on which the exercise form or forms, proof of right to exercise (if required) and payment of the option price in cash or shares of already-owned Class A Common Stock (or a proper attestation of ownership of such shares in the exercise form) are hand delivered. In the case of mailing, the date of exercise is the date of the postmark on the envelope containing the exercise form or forms, proof of right to exercise (if required) and payment (or a proper attestation of ownership of shares in the exercise form). For purposes of determining the date of exercise where payment of the option price is made in shares of already-owned Class A Common Stock (by physical delivery of certificates or attestation), any cash required to be paid to the Corporation with respect to a fraction of a share shall not be taken into account in determining whether payment of the option price has been made. If exercise is made by mail and the option price is paid in whole or in part by physical delivery of certificates for shares of already-owned Class A Common Stock to the Corporation, the executed Assignments Separate from Certificate should be mailed to the Corporation at the same time in a separate envelope from the other exercise material.

5 . Determination of Fair Market Value. For purposes of this Agreement, the fair market value of the Class A Common Stock shall be determined as provided in Section 5(H) of the Plan.

6 . Issuance of Certificates. Subject to Sections 4 and 7 of this Agreement and this Section 6, the Corporation will issue a certificate or certificates representing the number of shares of Class A Common Stock to which the person exercising the Option is entitled as soon as practicable after the date of exercise. Unless the person exercising the Option otherwise directs the Corporation in writing, the certificate or certificates will be registered in the name of the person exercising the Option and delivered to such person.<sup>1</sup> If the Option is exercised and the option price is paid in whole or in part by physical delivery of certificates for shares of already-owned Class A Common Stock to the Corporation, the Corporation will issue at the same time and return to the person exercising the Option a certificate representing the number of any excess shares included in any certificate or certificates physically delivered to the Corporation at the time of exercise. If attestation of stock ownership is used to pay the option price in shares, the Corporation will issue a certificate or certificates representing the number of shares of Class A Common Stock for which the Option is exercised less the number of shares of already-owned Class A Common Stock used to pay the option price through attestation.

Under Section 7 of the Plan, the obligation of the Corporation to issue or deliver shares on exercise of an option is subject to 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 to the Corporation. The Corporation is not obligated to file such a Registration Statement. If at the time of exercise of the Option, no such Registration Statement is in effect, the issuance of shares on exercise of the Option (including any shares of already-owned Class A Common Stock used to pay the option price and returned to or retained by the person exercising the Option) may also be made subject to such restrictions on the transfer of the shares, including the placing of an appropriate legend on the certificates restricting the transfer thereof, and to such other restrictions as the Stock Compensation Committee, on the advice of counsel, may deem necessary or

appropriate to prevent a violation of applicable securities laws.

7. Withholding of Taxes. The Optionee will be advised by the Corporation as to the amount of any Federal income or employment taxes required to be withheld by the Corporation or a Subsidiary of the Corporation on any compensation income resulting from the exercise of the Option. State, local or foreign income or employment taxes may also be required to be withheld by the Corporation or Subsidiary on any compensation income resulting from the exercise of the Option. The Optionee shall pay any such taxes required to be withheld to the Corporation or Subsidiary upon request by one or more of the following methods, at the election of the Optionee:

(a) in cash;

(b) by having the Corporation withhold from the shares of Class A Common Stock to which the Optionee would otherwise be entitled from the exercise of the Option, a number of such shares with a fair market value on the date of exercise of the Option equal to the amount of such taxes (rounded down to the next whole number of shares) and with payment in cash by the Optionee to the Corporation or Subsidiary of the difference between the amount of such taxes and the fair market value of such whole number of shares on such date of exercise; or

(c) by delivery and transfer to the Corporation or Subsidiary by the Optionee of certificates for a number of unencumbered shares of Class A Common Stock with a fair market value on the date of exercise of the Option equal to the amount of such taxes (rounded down to the next whole number of shares) and with payment in cash by the Optionee to the Corporation or Subsidiary of the difference between the amount of such taxes and the fair market value of such whole number of shares on such date of exercise;

provided, however, that payment of such taxes through the methods described in (b) or (c) above shall only be permitted if payment of such taxes through such methods, in itself, will not result in liability accounting for the Option by the Corporation. Shares of Class A Common Stock may not be withheld under (b) above or delivered under (c) above in excess of the number of shares with a fair market value equal to the required tax withholding (based on the minimum statutory withholding rates for federal, state and local tax purposes, including rates for payroll taxes, applicable to taxable income from the Option). If the Optionee does not pay any taxes required to be withheld directly to the Corporation or Subsidiary within ten days after any such request, the Corporation and any of its Subsidiaries may withhold such taxes by retaining shares of Class A Common Stock to which the Optionee is entitled from the exercise of the Option or from any other compensation to which the Optionee is entitled from the Corporation or Subsidiary. The Optionee shall hold the Corporation or Subsidiary harmless in acting to satisfy the withholding obligation in this manner if it becomes necessary to do so.

8. Interpretation of Plan and Agreement. This Agreement is the written agreement referred to in Section 5(G) of the Plan. If there is any conflict between the Plan and this Agreement, the provisions of the Plan shall control. However, there may be provisions in this Agreement not contained in the Plan, which provisions shall nevertheless be effective. In addition, to the extent that provisions in the Plan are expressly modified for purposes of this Agreement pursuant to authorization in the Plan, the provisions of this Agreement shall control. Any dispute or disagreement which shall arise under or in any way relate to the interpretation or construction of the Plan or this Agreement shall be resolved by the Stock Compensation Committee and the decision of the Stock Compensation Committee shall be final, binding and conclusive for all purposes.

9. Effect of Agreement on Rights of Corporation and Optionee. This Agreement does not confer any right on the Optionee to continue in the employ of the Corporation or a Subsidiary or interfere in any way with the rights of the Corporation or a Subsidiary to terminate the employment of the Optionee.

10. Effect of Agreement on Other Employee Benefit Plans of the Corporation. The Optionee hereby acknowledges and agrees that no amount of income received by the Optionee under this Agreement shall be considered compensation for purposes of any pension or retirement plan, insurance plan or any other employee benefit plan of the Corporation (notwithstanding the definition of compensation provided in such plans), including but not limited to, the Matthews International Corporation Employee Retirement Plan and the Matthews International Supplemental Retirement Plan.

11. Binding Effect. This Agreement shall be binding upon the successors and assigns of the Corporation and upon the legal representatives, heirs and legatees of the Optionee.

12. Entire Agreement. This Agreement constitutes the entire agreement between the Corporation and the Optionee and supersedes all prior agreements and understandings, oral or written, between the Corporation and the Optionee with respect to the subject matter of this Agreement.

13. Amendment. This Agreement may be amended only by a written instrument signed by the Corporation and the Optionee.

14. Section Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of any of the provisions of this Agreement.

15. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the Corporation and the Optionee have executed this Agreement or caused this Agreement to be executed as of the Date of Grant.

CORPORATION

MATTHEWS INTERNATIONAL

By: Joseph C. Bartolacci

WITNESS:

OPTIONEE:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

<sup>1</sup> If the person exercising the Option directs the Corporation to register the Class A Common Stock in the name of another, the person exercising the Option should consult his or her tax advisor on the gift tax implications of such registration.

\_\_\_\_\_

**MATTHEWS INTERNATIONAL CORPORATION**  
**2007 Equity Incentive Plan (as amended through September 26, 2008)**  
**Restricted Stock Agreement For Employees**

MATTHEWS INTERNATIONAL CORPORATION, a Pennsylvania corporation (the "Corporation"), and \_\_\_\_\_, an eligible employee of the Corporation or one of its Subsidiaries (the "Awardee"), for good and valuable consideration the receipt and adequacy of which are hereby acknowledged and intending to be legally bound hereby, agree as follows:

1 . Stock Award. The Corporation hereby confirms the award to the Awardee of \_\_\_\_ shares of Class A Common Stock, par value \$1.00 per share, of the Corporation (the "Class A Common Stock") under and subject to the terms and conditions of the Corporation's 2007 Equity Incentive Plan (as amended through September 26, 2008) (the "Plan") and this Agreement (the "Restricted Stock"). The Plan is incorporated by reference and made a part of this Agreement as though set forth in full herein. Terms which are capitalized but not defined in this Agreement have the same meaning as in the Plan unless the context otherwise requires. This Restricted Stock award shall be effective as of \_\_\_\_\_ (the "Effective Date"), provided that this Agreement is executed by the Awardee and delivered to the Corporation. As of the Effective Date, the Awardee shall be a shareholder of the Corporation with respect to the Restricted Stock and shall have all the rights of a shareholder with respect to the Restricted Stock, including the right to vote the Restricted Stock and to receive all dividends and other distributions paid with respect to the Restricted Stock, subject to the restrictions of the Plan and this Agreement.

2 . Acceptance of Restricted Stock Award. The Awardee accepts the award of the Restricted Stock confirmed hereby, subject to the restrictions of the Plan and this Agreement.

3 . Performance-Based Restrictions. The restrictions set forth in this Section 3 shall apply with respect to \_\_\_\_ shares of the Restricted Stock (the "Performance Restricted Stock").

A. General. If (i) the Awardee remains continuously employed with the Corporation and its Subsidiaries until the later to occur of (a) \_\_\_\_\_ or (b) the date(s) described in the following table (the "Performance Vesting Date(s)"), (ii) the shares of Performance Restricted Stock set forth in the table with respect to each respective Performance Vesting Date have not been previously forfeited to the Corporation pursuant to Section 5, and (iii) the restrictions imposed under this Agreement on such shares have not previously lapsed pursuant to Section 6, the restrictions imposed on the following respective numbers of shares of the Performance Restricted Stock shall lapse (except for the restriction set forth in Section 5 for the period set forth in Section 5), such shares shall become vested, and the Corporation shall instruct its transfer agent that such shares are no longer to be designated as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock, as of the later to occur of (a) \_\_\_\_\_ or (b) the following respective date(s):

<b>Performance Vesting Dates</b>	<b>Number of Shares of Performance Restricted Stock on Which the Restrictions Shall Lapse and Which Shall Vest</b>
(a) The first date, if any, prior to _____ on which the Fair Market Value per share of the Class A Common Stock has equaled or exceeded \$ _____ for a period of ten (10) consecutive trading days;	_____
(b) The first date, if any, prior to _____ on which the Fair Market Value per share of the Class A Common Stock has equaled or exceeded \$ _____ for a period of ten (10) consecutive trading days; and	_____
(c) The first date, if any, prior to _____ on which the Fair Market Value per share of the Class A Common Stock has equaled or exceeded \$ _____ for a period of ten (10) consecutive trading days.	_____

If any event described in Section 4.5 of the Plan occurs, the Committee, subject to the conditions set forth in Section 4.5 of the Plan, shall make such adjustments to the amounts set forth in (a) – (c) above as it deems appropriate and equitable to prevent the dilution or enlargement of the rights of the Awardee under this Agreement.

The Fair Market Value per share of the Class A Common Stock for purposes of this Agreement shall be determined under Section 1.2(d) of the Plan, and such Fair Market Value per share of the Class A Common Stock on the Effective Date is \$ \_\_\_\_\_. If the Awardee's employment with the Corporation and its Subsidiaries terminates prior to the later to occur of (a) \_\_\_\_\_ or (b) a Performance Vesting Date for any reason other than as a result of the Awardee's death or permanent disability (as defined in Section 3.B.), voluntary termination of the Awardee's employment with the consent of the Corporation (with such a voluntary termination by the Awardee requiring the written consent of the Committee or, in the case of an awardee other than the Chief Executive Officer of the Corporation, such Chief Executive Officer) (a "Voluntary Termination With Consent"), or the Awardee's retirement under any retirement plan of the Corporation or one of its Subsidiaries, and the employment and stock performance restrictions with respect to such Performance Vesting Date have not previously lapsed pursuant to Section 6, the



shares of the Performance Restricted Stock set forth in the table above in this Section 3.A. with respect to such Performance Vesting Date which have not been previously forfeited to the Corporation pursuant to Section 5 shall, upon such termination of employment and without any further action, be forfeited to the Corporation by the Awardee and cease to be issued and outstanding shares of the Class A Common Stock of the Corporation. Any shares of the Performance Restricted Stock (i) which have not been previously forfeited to the Corporation pursuant to Section 5 or the immediately preceding sentence, (ii) for which the employment and stock performance restrictions have not previously lapsed pursuant to Section 6, and (iii) which have not vested prior to \_\_\_\_\_ pursuant to the foregoing table shall, on \_\_\_\_\_ and without any further action, be forfeited to the Corporation by the Awardee and cease to be issued and outstanding shares of the Class A Common Stock of the Corporation.

B. Certain Terminations of Employment. If the Awardee's employment with the Corporation and its Subsidiaries terminates as a result of the Awardee's death or permanent disability (within the meaning of Section 422(c)(6) of the Internal Revenue Code of 1986 as amended (the "Code") or any successor section), a Voluntary Termination With Consent, or the Awardee's retirement under any retirement plan of the Corporation or one of its Subsidiaries, and the employment and stock performance restrictions have not previously lapsed with respect to shares of the Performance Restricted Stock pursuant to Sections 3, A. or 6, such shares of the Performance Restricted Stock which have not been previously forfeited to the Corporation pursuant to Section 5 or the last sentence of Section 3, A. shall continue to be eligible for vesting under the stock performance conditions set forth in Section 3. A.(a), (b) and (c) and shall become vested pursuant to the table set forth in Section 3. A., if (and at the time) the Performance Vesting Dates described in Section 3. A.(a), (b) and (c), respectively, occur within two years after the date of termination of employment of the Awardee. Sections 5 and 6 and the last sentence of Section 3.A. shall continue to apply to shares of Performance Restricted Stock during such two-year period or, in the case of Section 6 and the last sentence of Section 3.A, if earlier, until such shares of Performance Restricted Stock become vested pursuant to the table set forth in Section 3.A. The Corporation shall instruct its transfer agent to no longer designate as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock any shares of the Performance Restricted Stock which become vested pursuant to this Section 3.B, provided that Section 5 shall continue to apply to such shares to the extent set forth in Section 5 for the period set forth in Section 5. Any such shares of the Performance Restricted Stock on which the employment and stock performance restrictions under Section 3 of this Agreement have not previously lapsed, which have not been previously forfeited, and which have not become vested as of the close of business on the two-year anniversary of the date of termination of employment of the Awardee shall, without any further action, be forfeited to the Corporation by the Awardee at such time and cease to be issued and outstanding shares of the Class A Common Stock of the Corporation.

C. Qualified Performance-Based Award. The Performance Restricted Stock has been designated as a Qualified Performance-Based Award under Sections 6.2(a) and 12.1 of the Plan if the Awardee is or may be a Covered Employee, and the Committee shall certify in writing when and if the Performance Restricted Stock becomes vested pursuant to this Section 3 and Section 12.1(b) of the Plan.

4. Time-Based Restrictions. The restrictions set forth in this Section 4 shall apply to all of the shares of the Restricted Stock which are not Performance Restricted Stock (i.e., the remaining \_\_\_\_\_ shares of Restricted Stock) (the "Time-Based Restricted Stock").

A. General. If, on or before \_\_\_\_\_ (the "Vesting Date"), the Awardee's employment with the Corporation and its Subsidiaries terminates for any reason other than as a result of (i) the Awardee's death or permanent disability (as defined in Section 3.B.), (ii) a Voluntary Termination With Consent, or (iii) the Awardee's retirement under any retirement plan of the Corporation or one of its subsidiaries, and this restriction has not previously lapsed pursuant to Section 6, the shares of the Time-Based Restricted Stock which have not been previously forfeited to the Corporation shall, upon such termination of employment and without any further action, be forfeited to the Corporation by the Awardee and cease to be issued and outstanding shares of the Class A Common Stock of the Corporation. If (i) the Awardee remains an employee of the Corporation and its Subsidiaries until the Vesting Date, (ii) the shares of the Time-Based Restricted Stock have not been previously forfeited to the Corporation pursuant to Section 5, and (iii) the employment restriction described in the first sentence of this Section 4.A. (the "Section 4, A. Restriction") has not previously lapsed pursuant to Section 6, the Section 4. A. Restriction on the Time-Based Restricted Stock shall lapse, such shares shall become vested, and the Corporation shall instruct its transfer agent that such shares are no longer to be designated as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock, provided that Section 5 shall continue to apply to such shares to the extent set forth in Section 5 for the period set forth in Section 5.

B. Certain Terminations of Employment. If the Awardee terminates employment with the Corporation and its Subsidiaries due to any of the reasons set forth in Section 4.A. (i)-(iii), upon such termination the Section 4.A. Restriction on the shares of the Time-Based Restricted Stock which have not been previously forfeited to the Corporation pursuant to Section 5 and on which the Section 4.A. Restriction has not previously lapsed pursuant to Section 6, shall lapse, such shares shall become vested, and the Corporation shall instruct its transfer agent that such shares are no longer to be designated as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock, provided that Section 5 shall continue to apply to such shares to the extent set forth in Section 5 for the period set forth in Section 5.

5. Non-Competition/Non-Solicitation/Non-Disparagement. If the Awardee (whether during or after termination of employment with the Corporation and its Subsidiaries) (i) 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, (ii) induces or attempts to induce any customer, supplier, licensee or other individual, corporation or other business organization having a business relationship with the Corporation or any of its Subsidiaries to cease doing business with the Corporation or any of its Subsidiaries or in any way interferes with the relationship between any such customer, supplier, licensee or other person and the Corporation or any of its Subsidiaries, (iii) solicits any employee of the Corporation or any of its Subsidiaries to leave the employment thereof or in any way interferes with the relationship of such

employee with the Corporation or any of its Subsidiaries, or (iv) makes any statements or comments, orally or in writing, of a defamatory or disparaging nature regarding the Corporation or any of its Subsidiaries (including but not limited to regarding any of their respective businesses, officers, directors, personnel, products or policies), the Committee may (a) cause all shares of the Restricted Stock remaining subject to the employment and stock performance restrictions imposed by this Agreement to be immediately forfeited to the Corporation and the Awardee shall have no further rights with respect to such shares and/or (b) require the Awardee to promptly return and transfer, and thereby forfeit, ownership to the Corporation of all or a portion (at the discretion of the Committee) of a number of shares of the Class A Company Stock equal to the number of shares of the Restricted Stock which were issued or transferred by the Corporation to the Awardee within the three (3) years immediately preceding any such activity by the Awardee (or, at the discretion of the Committee, to pay to the Corporation in cash an amount equal to the fair market value of such number of shares of the Class A Common Stock as of the date of the determination by the Committee under this Section 5), provided, however, that this Section 5 shall not apply if a Section 11 Event occurs prior to any such activity by the Awardee. Whether the Awardee has engaged in any of the activities referred to in the immediately preceding sentence shall be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

6 . Section 11 Event. If (i) a Section 11 Event occurs, (ii) the employment and stock performance restrictions (if any) imposed by this Agreement on the shares of the Restricted Stock have not previously lapsed, and (iii) such shares of the Restricted Stock have not been previously forfeited to the Corporation, the employment and stock performance restrictions (if any) and the restrictions set forth in Section 5 imposed by this Agreement on such shares of the Restricted Stock remaining subject to such restrictions shall lapse upon the occurrence of such Section 11 Event, such shares shall become vested, and the Corporation shall instruct its transfer agent that such shares are no longer to be designated as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock.

7. Transfers. Except for transfers to a trust that is revocable by the Awardee alone as permitted by Section 6.3 of the Plan and subject to the conditions set forth therein, the Awardee shall not sell, exchange, assign, alienate, pledge, hypothecate, encumber, charge, give, transfer or otherwise dispose of, either voluntarily or by operation of law, any shares of the Restricted Stock or any rights or interests appertaining thereto, prior to the lapse of the employment and stock performance restrictions (if any) imposed by this Agreement as to such shares, except that the shares of the Restricted Stock may be transferred by the Awardee by Will or, if the Awardee dies intestate, by the laws of descent and distribution of the state of domicile of the Awardee at the time of death. Subsequent to the lapse of the employment and stock performance restrictions imposed by this Agreement as to shares of the Restricted Stock, Awardee agrees that such shares of the Restricted Stock cannot be offered, sold, pledged or otherwise disposed of, and the Awardee will not offer, sell, pledge or otherwise dispose of such shares of the Restricted Stock, except pursuant to (i) an effective registration statement under the Securities Act of 1933, as amended (the "1933 Act") and qualification under applicable state and foreign securities laws, or (ii) in accordance with Rule 144 under the 1933 Act.

8 . Book-Entry Share Records. As of the Effective Date, the shares of the Registered Stock shall be issued in book-entry form in the name of the Awardee until any forfeiture of the shares of the Restricted Stock to the Corporation. As of the Effective Date, the Corporation shall instruct its transfer agent that the shares of the Restricted Stock (a) are to be recorded as owned by the Awardee and designated as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock, and (b) may not be transferred from the name of the Awardee until the earlier of (i) when the Corporation instructs its transfer agent in writing pursuant to this Agreement to record the shares as owned by the Corporation (rather than by the Awardee) or (ii) when requested in writing by the Awardee (or the Awardee's personal representative) after the Corporation has instructed its transfer agent in writing that such shares are no longer to be designated as restricted on the transfer agent's book-entry records. If the employment and stock performance restrictions (if any) imposed by this Agreement lapse with respect to such shares, the Corporation shall instruct its transfer agent that such shares are no longer to be designated as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock. If such shares are forfeited to the Corporation by the Awardee under this Agreement, the Corporation shall instruct its transfer agent that such shares are no longer to be recorded as owned by the Awardee but rather shall be recorded as owned by the Corporation. The Awardee hereby acknowledges that the transfer agent may take such action based solely on instructions from the Corporation and shall hold the transfer agent harmless from any liability for such action.

9. Section 83(b) Election/Foreign Taxes. If the Awardee is subject to taxation in the United States of America (the "United States") the Awardee acknowledges that an election under Section 83(b) of the Code, may be available to the Awardee for Federal income tax purposes and that **such election, if desired, must be made within thirty (30) days of the Effective Date.** The Awardee acknowledges that whether to make such election (or any similar election in a country other than the United States) is the responsibility of the Awardee, not the Corporation. The Awardee may make the election as to any or all of both the Performance Restricted Stock and the Time-Based Restricted Stock. The Awardee acknowledges that the Awardee and not the Corporation is responsible for all tax consequences, including but not limited to all non-United States tax consequences, and that the Awardee should consult the Awardee's tax advisor with respect to any applicable election and all other tax aspects associated with this Agreement.

10. Withholding of Taxes. If the Awardee is subject to taxation in the United States, the Awardee shall be advised by the Corporation or a Subsidiary as to the amount of any United States Federal income or employment taxes required to be withheld by the Corporation or such Subsidiary on the compensation income resulting from the award of the Restricted Stock. The timing of the withholding will depend on whether the Awardee makes an election under Section 83(b) of the Code. State, local or foreign income or employment taxes may also be required to be withheld by the Corporation or a Subsidiary on any compensation income resulting from the award of the Restricted Stock. The Awardee shall pay any taxes required to be withheld directly to the Corporation or any Subsidiary in cash upon receipt, provided, however, that taxes required to be withheld upon the vesting of the Restricted Stock (as opposed to upon the Awardee's making of an election under Section 83(b) of the Code), may be paid by one or more of the following methods, at the election of the Awardee:

(a) in cash;

(b) if in compliance with any applicable securities laws, by having the Corporation withhold from the shares of Restricted Stock which have then vested for the Awardee, a number of such shares with a Fair Market Value on the date of vesting of the Restricted Stock equal to the amount of such taxes (rounded down to the next whole number of shares) and with payment in cash by the Awardee to the Corporation or a Subsidiary of the difference between the amount of such taxes and the Fair Market Value of such whole number of shares on such date of vesting; or

(c) if in compliance with any applicable securities laws, by delivery and transfer to the Corporation or a Subsidiary by the

Awardee of a number of unencumbered shares of Class A Common Stock with a Fair Market Value on the date of vesting of the Restricted Stock equal to the amount of such taxes (rounded down to the next whole number of shares) and with payment in cash by the Awardee to the Corporation or a Subsidiary of the difference between the amount of such taxes and the Fair Market Value of such whole number of shares on such date of vesting.

If the Awardee does not pay any taxes required to be withheld directly to the Corporation or one of its Subsidiaries in the manner provided in this Section 10 within ten days after any such request, the Corporation or any of its Subsidiaries may withhold such taxes from any other compensation to which the Awardee is entitled from the Corporation or any of its Subsidiaries. The Awardee shall hold the Corporation and its Subsidiaries harmless in acting to satisfy the withholding obligation in this matter if it becomes necessary to do so. Notwithstanding other provisions of this Agreement, the Corporation shall not be required to instruct its transfer agent that shares of the Restricted Stock are no longer to be designated as restricted on the transfer agent's book-entry records of the owners of the Class A Common Stock until all taxes required to be withheld with respect to the Restricted Stock have been paid to the Corporation or a Subsidiary.

11. Effect of Agreement on Rights of Corporation and Awardee. This Agreement does not confer any right on the Awardee to continue in the employ of the Corporation or any of its Subsidiaries or interfere in any way with the rights of the Corporation or any of its Subsidiaries to terminate the employment of the Awardee with the Corporation or any of its Subsidiaries at any time.

12. Binding Effect. This Agreement shall be binding upon the successors and assigns of the Corporation and upon the legal representatives, estate, heirs and legatees of the Awardee.

13. Entire Agreement. This Agreement constitutes the entire agreement between the Corporation and the Awardee and supersedes all prior agreements and understandings, oral or written, between the Corporation and the Awardee with respect to the subject matter of this Agreement.

14. Amendment. This Agreement may be amended only by a written instrument signed by the Corporation and the Awardee.

15. Section Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of any of the provisions of this Agreement.

16. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Pennsylvania.

17. Interpretation of Plan and Agreement; Dispute Resolution. This Agreement is the agreement referred to in Section 2.5 of the Plan with respect to this Restricted Stock Award. If there is any conflict between the Plan and this Agreement, the provisions of the Plan shall control. Any dispute or disagreement which shall arise under or in any way relate to the interpretation or construction of the Plan or this Agreement shall be resolved by the Committee and the decision of the Committee shall be final, binding and conclusive for all purposes. The Awardee and the Corporation and their respective heirs, representatives, successors and assigns irrevocably submit to the exclusive and sole jurisdiction and venue of the state courts of Allegheny County, Pennsylvania and the federal courts of the Western District of Pennsylvania with respect to any and all disputes arising out of or relating to the Plan, this Agreement, and/or the Restricted Stock, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of this Restricted Stock Award or the terms and conditions of the Plan, and agree that (a) sole and exclusive appropriate venue for any such action shall be such Pennsylvania courts, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Pennsylvania courts, and no other, (c) such Pennsylvania courts shall have sole and exclusive jurisdiction over the Awardee and the Corporation and over the subject matter of any dispute relating hereto and (d) the Awardee and the Corporation waive any and all objections and defenses to bringing any such action before such Pennsylvania courts, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens*.

IN WITNESS WHEREOF, the Corporation and the Awardee have executed this Agreement as of this \_\_\_\_\_.

MATTHEWS INTERNATIONAL CORPORATION

By: \_\_\_\_\_

Chief Executive Officer

WITNESS:

AWARDEE:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**MATTHEWS INTERNATIONAL CORPORATION****1994 DIRECTOR FEE PLAN,  
as amended through November 13, 2008****SECTION 1****Purposes; Reservation of Shares**

- (a) Purposes. The purposes of the 1994 Director Fee Plan, as amended through November 13, 2008 (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 and, in the case of a Director who is Chairperson (the "NE Chairperson"), an additional retainer fee 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 (except the NE Chairperson shall only be entitled to the fees, if any, in (a) and (e) and only for such meetings after February 20, 2008) for:
    - (a) fees, if any, paid for attendance at meetings of the Board ("Board Meeting Fees");
    - (b) fees, if any, 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 any Lead Director of the Board of Directors ("Lead Director Fees"); and
    - (e) fees, if any, 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 (15<sup>th</sup>) 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 300,000 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 sixty thousand dollars (\$60,000) (lesser amounts, as previously set forth in the Plan prior to amendment of the Plan on November 13, 2008, for Payment Dates before February 19, 2009) and, in the case of the NE Chairperson, an additional seventy thousand dollars (\$70,000) (forty-five thousand dollars (\$45,000) for Payment Dates before January 1, 2008) (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 (i) the Director files such Notice of Election within ten (10) business days subsequent to being elected or re-elected as a Director and (ii) a Stock Deferral Election shall only be effective for Director Fees payable for services performed after the Notice of Election is filed. 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) **Evidence of Shares.** 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, pursuant to Sections 5 and 6 hereof, (i) the Corporation, at its discretion, shall either issue share certificates to the Director for the shares of Common Stock received under the Plan or cause such shares to be registered in the name of the Director on any book-entry registration maintained by the Corporation or its transfer agent, and (ii) 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 2009 annual meeting of the shareholders of the Corporation (the "2009 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), except that the NE Chairperson shall only be entitled to Board Meeting Fees and Shareholder's Meeting Fees, if any, and only for such meetings after February 20, 2008:

Board Meeting Fees:	None
Committee Meeting Fees:	None
Committee Chairperson Retainer Fees:	\$7,500 (or \$12,000 in the case of the Audit Committee Chairperson) for a year of service as a Committee Chairperson
Lead Director Fees, if a Lead Director is elected (effective after 2006 Annual meeting):	\$5,000 for a year of service as the Lead Director.
Shareholders' Meeting Fees:	None

(The amount and payment of Meeting Fees for meetings prior to the 2009 Annual Meeting Date shall be governed by the provisions of this Section 4(a) as in effect prior to amendment of the Plan on November 13, 2008.) Except as set forth in Sections 4(b) and 4(c) hereof, each Director shall receive payment of Meeting Fees, if any, (other than Committee Chairperson Retainer Fees and Lead Director Fees) to which the Director is entitled 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, if any, shall receive payment of the Lead Director Fees on the fifteenth (15<sup>th</sup>) 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 after the time of a person's initial election, or any subsequent re-election, to the office of Director with respect to Meeting Fees and, if applicable, Committee Chairperson Retainer Fees or Lead Director Fees, payable for services performed after the Meeting Fee Deferral Election is filed 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 ) Evidence of Shares. 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, (i) the Corporation, at its discretion, shall either issue share certificates to the Director for the shares of Common Stock received under the Plan or cause such shares to be registered in the name of the Director on any book-entry registration maintained by the Corporation or its transfer agent, and (ii) 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 payment option 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. 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.

- (i) Dividends/Distributions Prior to September 26, 2008. With respect to shares of the Common Stock credited to a Deferred Stock Compensation Account, the effect, if any, of dividends or distributions paid prior to September 26, 2008 on the Common Stock in cash or property other than Common Stock shall be governed by the provisions of this Section 5(a) as in effect prior to September 26, 2008.
- (ii) Dividends/Distributions on or after September 26, 2008. If on or after September 26, 2008 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 the Corporation shall pay to a Director a) an amount (in cash or property other than Common Stock, as the case may be) equal to the dividend or distribution which would have been paid on the number of shares, if any, of the Common

Stock (including fractional shares) credited to such Director's Deferred Stock Compensation Account as of the date fixed for determining the shareholders entitled to receive such distribution, as if such shares of the Common Stock had been issued and outstanding on such date less b) any taxes required to be withheld on such amount, including but not limited to any taxes required to be withheld due to the characterization of such amount as wages or compensation.

(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.

- (i) Elections for 2008 and Prior Years. For Stock Deferral Elections and Meeting Fee Deferral Elections effective for Director Fees and Meeting Fees otherwise payable in 2008 and earlier years, subject to Section 5(b)(iii) below and except as otherwise provided in Section 6(b) and 6(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 a lump sum on, or in two to ten annual installments commencing 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 first separates from service with the Corporation under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor section, upon or after ceasing to be a member of the Board for any reason, including by reason of death or disability (the "Separation from Service Payment Commencement Date").
- (ii) Elections For Years After 2008. For Stock Deferral Elections and Meeting Fee Deferral Elections effective for Director Fees and Meeting Fees otherwise payable in years after 2008, 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 whole or in part, as follows (except as otherwise provided in Sections 6(b) and 6(c) hereof, if applicable):
- A. In a lump sum on the Separation From Service Payment Commencement Date;
  - B. In two to five annual installments commencing on the Separation From Service Payment Commencement Date and continuing on the same date (or if such date is not a business day, on the immediately preceding business day) in the calendar year(s) thereafter;
  - C. In a lump sum on April 1 (or if April 1 is not a business day, on the immediately preceding business day) of the calendar year specified by the Director at the time of filing of such Notice of Election (the "Designated Payment Commencement Date");
  - D. In two to five annual installments commencing on the Designated Payment Commencement Date and continuing on the same date (or if such date is not a business day, on the immediately preceding business day) in the calendar year(s) thereafter; or
  - E. If earlier than the date on which payment would be received under A-D of this Section 5(b)(ii), in a lump sum or in two to five annual installments, with payment commencing on the sixtieth (60<sup>th</sup>) day (or if such date is not a business day, on the immediately preceding business day) following the death of the Director or following the date on which the Director becomes disabled (within the meaning of Section 409A of the Code) and continuing on the same date (or if such date is not a business day, on the immediately preceding business day) in the calendar year(s) thereafter.
- (iii) Special 2008 Election. Any Director who has a balance in the Director's Deferred Stock Compensation Account as of September 26, 2008 may elect, by filing a 2008 Payment Change Election with the Secretary of the Corporation in a form prescribed by the Corporation on or before December 31, 2008, to change the timing of payments to be made from such Deferred Stock Compensation Account to the Director, in whole or in part, as follows:
- A. In accordance with any of the payment options described in Section 5(b)(ii) hereof; or
  - B. In a lump sum on a date in 2009 specified by the Director in the 2008 Payment Change Election.

Notwithstanding the foregoing, (I) a 2008 Payment Change Election may apply only to amounts that would not otherwise be payable in 2008 and may not cause an amount to be paid in 2008 that would not otherwise be payable in 2008, and (II) payment shall not be made in installments but rather in a lump sum if the Director made a Section 6(c) Event Election, as defined below, and Section 6(c) hereof applies. This Section 5(b)(iii) is intended to comply with Section 409A of the Code, or any successor section, and shall be interpreted consistently therewith.

- (iv) Installment Payments. In any case where payments are made in installments, 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.

- (v) General. 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, at its discretion, shall either issue share certificates to the Director, or the Director's Beneficiary, for the shares of Common Stock distributed hereunder or cause such shares to be registered in the name of the Director, or the Director's Beneficiary, on any book-entry registration maintained by the Corporation or its transfer agent. 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

### Other Payment Commencement Dates

(a) General. 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 the relevant payment commencement date specified in Section 5(b) hereof or any amount is credited to such a Deferred Stock Compensation Account after a lump sum payment has been made pursuant to Section 5(b) hereof from such Deferred Stock Compensation Account, payment of shares credited to such Deferred Stock Compensation Account shall be made or 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 5(b) 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 under Section 5(b) 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 the election under Section 5(b) 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 the election under Section 5(b) hereof.

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

(c) Section 6(c) Event. Notwithstanding Sections 5(b) 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 the election under Section 5(b) or 6(b) hereof or in a lump sum immediately following the occurrence of any Section 6(c) Event, as defined below (a "Section 6(c) Event Election"). A Section 6(c) 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 (i) the Director files such Section 6(c) Event Election within ten (10) business days subsequent to being elected or re-elected as a Director and (ii) a Section 6(c) Event Election shall only be effective for Director Fees and Meeting Fees payable for services performed after the Section 6(c) Event Election is filed. A Director may terminate a Section 6(c) Event Election only by filing a Notice of Termination of Section 6(c) 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 6(c) Event Election is filed. If payments from a Director's Deferred Stock Compensation Account have previously commenced at the time of a Section 6(c) 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 6(c) Event Election, to the extent thereof. A Section 6(c) Event shall mean the date upon which any event occurs which 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 Treasury Regulation §1.409A-3(i)(5)(v)-(vii) thereunder or any successor section, provided that:



- (i) The percentage specified in Treasury Regulation §1.409A-3(i)(5)(v) (addressing the percentage change in the ownership of the total fair market value or voting power of the Corporation's stock) shall be 50 percent and not a higher percentage;
- (ii) The percentage specified in Treasury Regulation §1.409-3(i)(5)(vi)(A)(1) (addressing the percentage change in the ownership of the voting power of the Corporation's stock) shall be 30 percent and not a higher percentage;
- (iii) For purposes of Treasury Regulation §1.409A-3(i)(5)(vi)(A)(2) (addressing a change in the effective control of the Corporation by virtue of a change in the composition of the Board), the words "a majority of the members of the corporation's board of directors" shall not be replaced by a higher portion; and
- (iv) The percentage specified in Treasury Regulation §1.409A-3(i)(5)(vii)(A) (addressing the percentage change in the ownership of the Corporation's assets) shall be 40 percent and not a higher percentage.

**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 in 2009 and later years, 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 seventy thousand dollars (\$70,000) (or (a) such other amount determined by the Board or by any committee of the Board which the Board authorizes to determine such amount and (b) fifty thousand dollars (\$50,000) for Payment Dates in 2007 and 2008). 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) Evidence of Shares; Dividends. Following a restricted share award and prior to the lapse or termination of the applicable restrictions, the Corporation, at its discretion, shall either (i) issue share certificates in the name of the awardee and hold them in escrow together with related stock powers in blank signed by the awardee, or (ii) issue the shares in book-entry form in the name of the awardee. If share certificates are issued in the name of the awardee, the awardee shall execute and deliver to the Corporation a blank stock power in form acceptable to the Corporation with respect to each of the certificates subject to the restricted share award. In the case of forfeiture of the shares, the Corporation shall use the stock power(s) to transfer ownership of the shares to the Corporation. Upon the lapse or termination of the applicable restrictions, the certificate(s) and accompanying blank stock power(s) shall be delivered to the awardee (or the awardee's personal representative). If shares are issued in book-entry form, the Corporation shall instruct its transfer agent that the shares are to be designated as restricted on the transfer agent's book-entry records of the owners of the Common Stock, and may not be transferred from the name of the awardee until the earlier of (i) in the case of forfeiture of the shares, when the Corporation instructs its transfer agent in writing to record the shares as owned by the Corporation (rather than by the awardee), or (ii) when requested in writing by the awardee (or the awardee's personal representative) after the Corporation has instructed its transfer agent in writing that such shares are no longer to be designated as restricted on the transfer agent's book-entry records due to the lapse or termination of the applicable restrictions. Except as provided in Section 12 hereof, the Committee, in its discretion, may determine that dividends and other distributions on the shares 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 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 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 of 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 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 shall be changed or exchangeable in any such transaction, 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 or for which any restricted shares shall be exchanged in any such transaction 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 shall be treated in the same manner as owners of Common Stock which is not subject to restrictions 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 amount reasonably 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, 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) or by the cessation of deferrals under the Plan. 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 Deferred Stock Compensation Account(s) providing for the latest payments or series of payments. 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 and Meeting Fees 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.

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**MATTHEWS INTERNATIONAL CORPORATION**  
**2007 EQUITY INCENTIVE PLAN,**  
**AS AMENDED THROUGH SEPTEMBER 26, 2008**

**SECTION 1**

**Purpose; Definitions**

1.1 Purpose. The purposes of the 2007 Equity Incentive Plan, as amended through September 26, 2008 (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 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.

1.2 Certain Definitions. In addition to terms defined herein in the first place where they are used, the following terms are defined as set forth below:

- (a) "Award" means a stock option, a stock appreciation right, restricted stock, restricted stock units, performance units or other stock-based award granted under the Plan.
- (b) "Base Price" shall have the meaning set forth in Section 5.3.
- (c) "Common Stock" shall mean the Class A Common Stock, par value \$1.00 per share, of the Corporation.
- (d) "Fair Market Value" with respect to a share of the Common Stock shall mean 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 such other reliable publication as the Committee, in its sole discretion, may determine to rely upon): (i) 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, (ii) 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 of America securities exchange registered under the 1934 Act on which the Common Stock is listed or (iii) 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 definition. If the Fair Market Value of the Common Stock cannot be determined on the basis previously set forth in this definition on the date as of which Fair Market Value is to be determined, the Committee shall in good faith and in conformance with the requirements of Section 409A of the Code, to the extent applicable to an Award, 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.
- (e) "Free-Standing SARs" shall have the meaning set forth in Section 5.2.
- (f) "Participant" means an eligible employee selected by the Committee who has received an Award under the Plan and any transferee or transferees of such employee to the extent the transfer is permitted under the Plan.
- (g) "Performance Goals" means the performance goals, if any, established by the Committee in connection with the grant of restricted stock, restricted stock units, performance units or other Awards. In the case of Qualified Performance-Based Awards, the "Performance Goals" means such performance goals based on one or more of the following:
  - (i) The following criteria for the Corporation on a consolidated basis, one or more of its direct or indirect Subsidiaries, and/or one or more divisions of the foregoing, either in absolute terms or relative to the performance of (x) the Corporation, its Subsidiaries or divisions (for a different period), (y) one or more other companies or (z) an index covering multiple companies:
    1. net income
    2. economic value added (earnings less a capital charge)
    3. EBITDA (earnings before interest, taxes, depreciation and amortization)
    4. sales
    5. costs

6. gross margin
7. operating margin
8. pre-tax profit or income
9. market share
10. return on net assets
11. return on assets
12. return on capital
13. return on invested capital
14. cash flow
15. free cash flow
16. operating cash flow
17. operating income
18. earnings before interest and taxes
19. working capital
20. innovation as measured by a percentage of sales from new products

(ii) The following criteria for the Corporation, either in absolute terms or relative to the performance of the Corporation (for a different period), one or more other companies or an index covering multiple companies:

1. stock price
2. return on shareholders' equity
3. earnings per share
4. cash flow per share
5. total shareholder return (stock price appreciation plus dividends)

(h) "Qualified Performance-Based Award" means an Award intended to qualify for the Section 162(m) Exemption, as provided in Section 12.

(i) "Subsidiary" means any corporation, partnership, joint venture, limited liability company or other entity in an unbroken chain of entities beginning with the Corporation if each of the entities other than the last entity in the unbroken chain owns an equity interest possessing at least fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other entities in the chain.

(j) "Tandem SARs" shall have the meaning set forth in Section 5.2.

## SECTION 2

### Administration

2.1. Committee. 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 (a) "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, (b) "outside directors" under Section 162(m)(4)(C) of the Internal Revenue Code of 1986 as amended (the "Code") or any successor provision, and (c) independent directors under the applicable rules of any applicable stock exchange or NASDAQ, if the Common Stock is subject to such rules. The Committee shall have plenary authority to 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. Without limitation of the foregoing, the Committee shall have the authority, subject to the terms and conditions of the Plan:

- (a) to select the employees to whom Awards may be made;
- (b) to determine whether and to what extent incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, other Awards of or based upon Common Stock, or any combination thereof, are to be granted hereunder;
- (c) to determine the number of shares of Common Stock to be covered by each Award made hereunder;
- (d) to determine the terms and conditions of each Award made hereunder, based on such factors as the Committee shall determine;
- (e) subject to Section 2.5, to modify, amend or adjust the terms and conditions of any Award;
- (f) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable;
- (g) to interpret the terms and provisions of the Plan and any Award under the Plan (and any agreement under Section 2.5 relating thereto);
- (h) subject to Section 2.5, to accelerate the vesting or lapse of restrictions on any outstanding Award, other than a Qualified Performance-Based Award, based in each case on such considerations as the Committee in its sole discretion determines;

(i) to decide all other matters that must be determined in connection with an Award;

(j) to determine whether, to what extent and under what circumstances cash, shares of Common Stock and other property and other amounts payable with respect to an Award under this Plan shall be deferred either automatically or at the election of the employee;

(k) to establish any “blackout” period that the Committee in its sole discretion deems necessary or advisable; and

(l) to otherwise administer the Plan.

In determining any Award to be made to any eligible employee, 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. The Committee may, except to the extent prohibited by applicable law or the listing standards of the stock exchange which is the principal market for the Common Stock, allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any officers of the Corporation or committee of officers of the Corporation selected by it, except with respect to Awards (including Qualified Performance-Based Awards) to any covered employees as defined in Section 162(m)(3) of the Code (“Covered Employees”) or persons subject to Section 16 of the Exchange Act.

2.2. Committee Action. 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.

2.3 Committee Discretion. Any determination made by the Committee or by an appropriately delegated officer pursuant to delegated authority under the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such officer at the time of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Corporation and the employees eligible under the Plan.

2.4 Cancellation; Suspension; Clawback. Any or all outstanding Awards to a Participant may, at any time between the date of grant and the third anniversary of any exercise, payment or vesting of such Awards, in the Committee’s sole discretion and subject to such terms and conditions established by the Committee, be cancelled, suspended, or required to be repaid to the Corporation if the Participant (whether during or after termination of employment with the Corporation and its Subsidiaries) (i) 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, (ii) induces or attempts to induce any customer, supplier, licensee or other individual, corporation or other business organization having a business relationship with the Corporation or any of its Subsidiaries to cease doing business with the Corporation or any of its Subsidiaries or in any way interferes with the relationship between any such customer, supplier, licensee or other person and the Corporation or any of its Subsidiaries, (iii) solicits any employee of the Corporation or any of its Subsidiaries to leave the employment thereof or in any way interferes with the relationship of such employee with the Corporation or any of its Subsidiaries, or (iv) makes any statements or comments, orally or in writing, of a defamatory or disparaging nature regarding the Corporation or any of its Subsidiaries (including but not limited to regarding any of their respective businesses, officers, directors, personnel, products or policies), provided, however, that this sentence shall not apply following the occurrence of a Section 11 Event (as defined in Section 11) unless the agreement under Section 2.5 specifically so provides. Whether a Participant has engaged in any such activities shall also be determined, in its sole discretion, by the Committee, and any such determination by the Committee shall be final and binding.

2.5 Agreements. The terms and conditions of each Award shall be set forth in a written (or electronic) agreement, which shall be delivered to the Participant receiving such Award upon, or as promptly as is reasonably practicable following, the making of such Award. The effectiveness of an Award shall be subject to the agreement being signed by the Corporation and the Participant receiving the Award unless otherwise provided in the agreement. Unless otherwise provided in the agreement, 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 Participant. 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. Without the consent of the Participant, upon notice to the Participant thereof, the Committee may amend any Award to the Participant and the corresponding agreement in any respect not materially adverse to the Participant. All other amendments to the agreement shall be in writing (including electronic amendments) and executed on behalf of the Corporation and by the Participant. Any reference in the Plan to the agreement under Section 2.5 shall include any amendment to such agreement.

## SECTION 3

### Eligibility

Those employees of the Corporation or any Subsidiary (including, but not limited to, Covered Employees) who share responsibility for the management, growth or protection of the business of the Corporation or any Subsidiary shall be eligible to receive Awards as described herein, provided however, that incentive stock options may be granted only to employees of the Corporation and Subsidiaries which are its subsidiaries within the meaning of Section 424(f) of the Code.

## SECTION 4

### Shares Subject to the Plan

4.1 Number of Shares. Subject to adjustment as provided in Section 4.5, the maximum aggregate number of shares of the Common

Stock for which Awards may be made under the Plan shall be 2,200,000 shares. The maximum number of shares of Common Stock that may be granted pursuant to options intended to be incentive stock options shall be 1,000,000 shares.

4.2 Individual Limit. The maximum number of shares of Common Stock as to which Awards other than performance units under Section 8 or Awards under Section 9 may be made under the Plan to any one Participant in any one calendar year is 250,000 shares, subject to adjustment and substitution as set forth in Section 4.5. For the purposes of this limitation, any adjustment or substitution made pursuant to Section 4.5 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 Awards previously granted under the Plan to such Participant in the same calendar year.

#### 4.3 Share Counting.

(a) For purposes of the limit set forth in the first sentence of Section 4.1 (but not for purposes of Section 4.2), each share of Common Stock which is subject to an Award other than a stock option or a stock appreciation right shall be counted as two (2) shares rather than one (1) share, provided, however, that in case of performance units, shares of Common Stock shall be counted as two (2) shares rather than one (1) share for each actual share issued only at the time, if any, of the actual issuance of shares pursuant to the performance unit Award.

(b) Except in the case of performance unit Awards (where shares of Common Stock are counted only upon actual issuance of the shares pursuant to Section 4.3(a)) to the extent that any Award is forfeited, or any option and the Tandem SAR (if any) or any Free-Standing SAR terminates, expires or lapses without being exercised, or any Award is settled for cash, the shares of Common Stock subject to such Awards shall again be available for Awards under the Plan under Section 4.1. However, shares of Common Stock subject to such Awards shall continue to be counted for purposes of Section 4.2 or Section 9, as applicable.

(c) If the exercise price of any option and/or the tax withholding obligations relating to any Awards are satisfied by delivering shares (either actually or through attestation) or withholding shares relating to such Award, the gross number of shares subject to the Award shall nonetheless be deemed to have been granted for purposes of Sections 4.1 and 4.2 and any shares which are delivered will not be added to the aggregate number of shares under Section 4.1 for which Awards may be made under the Plan.

(d) If a Tandem SAR is granted, each share of Common Stock subject to both the Tandem SAR and related stock option shall be counted as only one share of Common Stock for purposes of Sections 4.1 and 4.2.

(e) Each share of Common Stock subject to a stock option (with or without a Tandem SAR) or a Free-Standing SAR shall be counted as one share of Common Stock for purposes of Sections 4.1 and 4.2.

(f) All shares of Common Stock covered by a stock appreciation right, to the extent it is exercised and shares of Common Stock are actually issued upon exercise of the right, shall be counted for purposes of Sections 4.1 and 4.2, regardless of the number of shares used to settle the stock appreciation right upon exercise.

4.4 Common Stock. To the extent that the Corporation has such shares of Common Stock available to it and can issue such shares without violating any law or regulation, the Corporation will reserve Common Stock for issuance with respect to an Award payable in Common Stock. The shares of Common Stock 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.

4.5 Adjustment and Substitution of Shares. In the event of a merger, consolidation, acquisition of shares, stock rights offering, liquidation, separation, spinoff, disaffiliation of a Subsidiary from the Corporation, extra-ordinary dividend of cash or other property, or similar event affecting the Corporation or any of its Subsidiaries (each, a "Corporate Transaction"), the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to prevent the dilution or enlargement of the rights of Participants to (A) the aggregate number and kind of shares of Common Stock reserved for issuance and delivery under the Plan, (B) the various maximum limitations set forth in Sections 4.1 and 4.2 upon certain types of Awards and upon the Awards to individuals, (C) the number and kind of shares of Common Stock subject to outstanding Awards; and (D) the exercise price of outstanding Awards. In the event of a stock dividend, stock split, reverse stock split, reorganization, share combination, or recapitalization or similar event affecting the capital structure of the Corporation (each, a "Share Change"), the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to prevent the dilution or enlargement of the rights of Participants to (A) the aggregate number and kind of shares of Common Stock reserved for issuance and delivery under the Plan, (B) the various maximum limitations set forth in Sections 4.1 and 4.2 upon certain types of Awards and upon the Awards to individuals, (C) the number and kind of shares of Common Stock subject to outstanding Awards; and (D) the exercise price of outstanding Awards. In the case of Corporate Transactions, such adjustments may include, without limitation, (1) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee or the Board in its sole discretion (it being understood that in the case of a Corporate Transaction with respect to which shareholders of Common Stock receive consideration other than publicly-traded equity securities of the ultimate surviving entity, any such determination by the Committee that the value of an option or stock appreciation right shall for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each share pursuant to such Corporate Transaction over the exercise price of such option or stock appreciation right shall conclusively be deemed valid); (2) the substitution of other property (including, without limitation, cash or other securities of the Corporation and securities of entities other than the Corporation) for the shares subject to outstanding Awards; and (3) in connection with any disaffiliation of a Subsidiary, arranging for the assumption of Awards, or replacement of Awards with new Awards based on other property or other securities (including, without limitation, other securities of the Corporation and securities of entities other than the Corporation), by the affected Subsidiary, or by the entity that controls such Subsidiary following such disaffiliation (as well as any corresponding adjustments to Awards that remain based upon Corporation securities). The Committee shall adjust the Performance Goals applicable to any Awards to reflect any unusual or non-recurring events and other extraordinary items, impact of charges for restructurings, discontinued operations, and the cumulative effects of accounting or tax changes, each as defined by generally accepted accounting principles or as identified in the Corporation's financial statements, notes to the financial statements, management's discussion and analysis or other of the Corporation's SEC filings, *provided* that in the case of Performance Goals applicable to any Qualified Performance-Based Awards, such adjustment does not violate Section 162(m) of the Code or cause such Awards not to qualify for the Section 162(m) Exemption, as defined in Section 12.1. No adjustment or substitution provided in this Section 4.5 shall require the

Corporation or any other entity to issue or sell a fraction of a share or other security. Except as provided in this Section 4.5, a Participant shall not have any rights with respect to any Corporate Transaction or Share Change.

4.6 Section 409A; Section 162(m); Incentive Stock Options. Notwithstanding the foregoing: (i) any adjustments made pursuant to Section 4.5 to Awards that are considered “deferred compensation” within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code; (ii) any adjustments made pursuant to Section 4.5 to Awards that are not considered “deferred compensation” subject to Section 409A of the Code shall be made in such a manner as to ensure that after such adjustment, the Awards either (A) continue not to be subject to Section 409A of the Code or (B) comply with the requirements of Section 409A of the Code; and (iii) in any event, neither the Committee nor the Board shall have the authority to make any adjustments pursuant to Section 4.5 to the extent the existence of such authority would cause an Award that is not intended to be subject to Section 409A of the Code at the grant date of the Award to be subject thereto. If any such adjustment or substitution provided for in Section 4.5 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 option to fail to continue to qualify as an incentive stock option or to cause a modification, extension or renewal of such 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 incentive stock option as the Committee, in its sole 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.

## SECTION 5

### Grant of Stock Options and Stock Appreciation Rights

5.1 Types of Options; Limit on Incentive Stock Options. The Committee shall have authority, in its sole discretion, 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). Notwithstanding any other provision contained in the Plan or in any agreement under Section 2.5, but subject to the possible exercise of the Committee's discretion contemplated in the last sentence of this Section 5.1, the aggregate Fair Market Value on the date of grant of the shares with respect to which such incentive stock options are exercisable for the first time by a Participant during any calendar year under all plans of the corporation employing such Participant, 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 agreement under Section 2.5 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 sole 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 second sentence of this Section 5.1 and even if one or more such incentive stock options are thereby converted in whole or in part to nonstatutory stock options.

5.2 Types and Nature of Stock Appreciation Rights. Stock appreciation rights may be tandem stock appreciation rights which are granted in conjunction with incentive stock options or nonstatutory stock options (“Tandem SARs”), or stock appreciation rights which are not granted in conjunction with options (“Free-Standing SARs”). Upon the exercise of a stock appreciation right, the Participant shall be entitled to receive an amount in cash, shares of Common Stock, or both, in value equal to the product of (i) the excess of the Fair Market Value of one share of Common Stock on the date of exercise of the stock appreciation right over, in the case of a Tandem SAR, the exercise price of the related option, or in the case of a Free-Standing SAR, the Base Price per share (the “Spread”), multiplied by (ii) the number of shares of Common Stock in respect of which the stock appreciation right has been exercised. Notwithstanding the foregoing, the Committee at the time it grants a stock appreciation right may provide that the Spread covered by such stock appreciation right may not exceed a lower specified amount. The applicable agreement under Section 2.5 governing the stock appreciation rights shall specify whether such payment is to be made in cash or Common Stock or both, or shall reserve to the Committee or the Participant the right to make that determination prior to or upon the exercise of the stock appreciation right. Tandem SARs may be granted at the grant date of the related stock options or, in the case of a related nonstatutory stock option, also at a later date. At the time a Tandem SAR is granted, the Committee may limit the exercise period for such Tandem SAR, before and after which period no Tandem SAR shall attach to the underlying stock option. In no event shall the exercise period for a Tandem SAR exceed the exercise period for the related stock option. A Tandem SAR shall be exercisable only at such time or times and to the extent that the related option is exercisable in accordance with the provisions of this Section 5. A Tandem SAR shall terminate or be forfeited upon the exercise or forfeiture of the related stock option, and the related stock option shall terminate or be forfeited upon the exercise or forfeiture of the Tandem SAR. Any Tandem SAR granted with a related incentive stock option shall be exercisable only when the Fair Market Value of a share of Common Stock exceeds the exercise price for a share of Common Stock under the related incentive stock option.

5.3 Exercise Price and Base Price. The exercise price per share of Common Stock subject to an option and any Tandem SAR, and the base price per share for any Free-Standing SAR (the “Base Price”), shall be determined by the Committee and set forth in the applicable agreement under Section 2.5, and shall not be less than the Fair Market Value of a share of the Common Stock on the applicable grant date, except that in the case of an incentive stock option granted to a Participant 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 which is a corporation (a “Ten Percent Employee”), the exercise price shall not be less than one hundred ten percent (110%) of the Fair Market Value on the date of grant. For purposes of this Section 5.3, 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 shareholder, partner or beneficiary. In no event may any option or stock appreciation right granted under this Plan, other than pursuant to Section 4.5, be amended to decrease the exercise price or Base Price thereof, be cancelled in conjunction with the grant of any new option or stock appreciation right with a lower exercise price or Base Price, be cancelled or repurchased for cash, property, or another Award at a time when the exercise price or Base Price is greater than

the Fair Market Value of the underlying Common Stock, or otherwise be subject to any action that would be treated, for accounting purposes, as a "repricing" of such option or stock appreciation right, unless such amendment, cancellation, or action is approved by the Corporation's shareholders.

5.4 Term; Vesting and Exercisability. The term of each option and each stock appreciation right shall be fixed by the Committee, but shall not exceed ten years from the date of grant (five years in the case of an incentive stock option granted to a Ten Percent Employee). Except as otherwise provided herein, options and stock appreciation rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee and may be exercisable commencing with the grant date.

5.5 Method of Exercise. Subject to the provisions of this Section 5, options and stock appreciation rights may be exercised, in whole or in part (unless otherwise specified by the Committee in its sole discretion), at any time during the applicable term by giving written notice of exercise to the Corporation specifying the number of shares of Common Stock as to which the option or stock appreciation rights is being exercised. In the case of the exercise of an option, such notice shall be accompanied by payment in full of the exercise price in United States of America dollars by certified or bank check or wire of immediately available funds. If approved 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), payment, in full or in part, may also be made as follows:

(a) Payment may be made in the form of unrestricted shares of Common Stock (by delivery of such shares or by attestation) of the same class as the Common Stock subject to the option already owned by the Participant (based on the Fair Market Value of the Common Stock on the date the option is exercised) provided however, that any portion of the exercise price representing a fraction of a share shall be paid in cash;

(b) To the extent permitted by applicable law, payment may be made by delivering a properly executed exercise notice to the Corporation, together with a copy of irrevocable instructions to a broker to deliver promptly to the Corporation the amount of sale or loan proceeds necessary to pay the exercise price, and, if requested, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Corporation may, to the extent permitted by applicable law, enter into agreements for coordinated procedures with one or more brokerage firms. In the event the broker sells any shares on behalf of a Participant, the broker shall be acting solely as the agent of the Participant, and the Corporation disclaims any responsibility for the actions of the broker in making any such sales; and/or

(c) With such other instrument as approved by the Committee, including Corporation loans, to the extent permitted by applicable law.

5.6 Delivery; Rights of Shareholders. No shares shall be delivered pursuant to the exercise of an option until the exercise price for the option has been fully paid and applicable taxes have been withheld. Unless otherwise specified by the Committee, the applicable Participant shall have all of the rights of a shareholder of the Corporation holding Common Stock with respect to the shares of Common Stock to be issued upon the exercise of the option or stock appreciation right (including the right to vote the applicable shares and the right to receive dividends), when the Participant (i) has given written notice of exercise in accordance with the procedures established by the Committee, (ii) if requested, has given the representation described in Section 10, and (iii) in the case of an option, has paid in full the exercise price for such shares.

5.7 Nontransferability of Options and Stock Appreciation Rights. Unless the Committee shall otherwise determine in the case of nonstatutory stock options and stock appreciation rights and limited to a transfer without the payment of value or consideration to the Participant, (i) no option or stock appreciation right shall be transferable by a Participant other than by will, or if the Participant dies intestate, by the laws of descent and distribution of the state of domicile of the Participant at the time of death, and (ii) all stock options and stock appreciation rights shall be exercisable during the lifetime of the Participant only by the Participant (or the Participant's guardian or legal representative). Any Tandem SAR shall be transferable only when the related stock option is transferable and with the related stock option.

5.8 Termination of Employment. Unless the Committee, in its sole discretion, shall otherwise determine at the time of grant of the Award or, other than in the case of incentive stock options, thereafter, but subject to the provisions of Section 5.1 in the case of incentive stock options:

(a) If the employment of a Participant who is not disabled within the meaning of Section 422(c)(6) of the Code (a "Disabled Participant") is voluntarily terminated with the consent of the Corporation or a Subsidiary or a Participant retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding incentive stock option held by such Participant shall be exercisable by the Participant (but only to the extent exercisable by the Participant 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;

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

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

(d) Following the death of a Participant during employment, any outstanding stock option or stock appreciation right

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

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

(f) Unless the exercise period of a stock option or stock appreciation right following termination of employment has been extended as provided in Section 11.3, if the employment of a Participant 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 and stock appreciation rights held by the Participant 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 Participant is a Disabled Participant shall be determined in each case, in its sole discretion, by the Committee (or, in the case of Participants who are not (i) Covered Employees as of the end of the Corporation's immediately preceding fiscal year or (ii) the Chief Executive Officer of the Corporation, by such Chief Executive Officer, in his sole discretion) and any such determination by the Committee or such Chief Executive Officer shall be final and binding. Without limitation of the foregoing, a termination of employment by the Participant shall not be a voluntary termination with the consent of the Corporation unless the Committee or, if applicable, such Chief Executive Officer, in its or his sole discretion, specifically consents to the termination of employment in writing.

5.9 Other Terms and Conditions. Subject to the foregoing provisions of this Section 5 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 sole discretion, by the Committee and set forth in the agreement under Section 2.5.

## SECTION 6

### Restricted Stock

6.1 Restricted Stock Awards; Certificates. Shares of restricted stock are actual shares of Common Stock issued to a Participant, and shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of shares of restricted stock shall be registered in the name of the applicable Participant and, unless held by or on behalf of the Corporation in escrow or custody until the restrictions lapse or the shares are forfeited, shall bear an appropriate conspicuous legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Matthews International Corporation 2007 Equity Incentive Plan and a corresponding agreement. Copies of such Plan and agreement are on file at the offices of Matthews International Corporation, Two NorthShore Center, Pittsburgh, PA 15212-5851."

The Committee may require that the certificates evidencing such shares be held in escrow or custody by or on behalf of the Corporation until the restrictions thereon shall have lapsed or the shares are forfeited and that, as a condition of any Award of restricted stock, the applicable Participant deliver to the Corporation a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

6.2 Terms and Conditions. Shares of restricted stock shall be subject to the restrictions set forth in Section 15.11 and the following terms and conditions:

(a) The Committee shall, prior to or at the time of grant, condition the vesting of an Award of restricted stock upon (i) the continued service of the applicable Participant, (ii) the attainment of Performance Goals, or (iii) the attainment of Performance Goals and the continued service of the applicable Participant. The Committee shall establish at the time the restricted stock is granted the performance periods during which any Performance Goals specified by the Committee with respect to the restricted stock Award are to be measured. In the event that the Committee conditions the vesting of an Award of restricted stock upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate an Award of restricted stock as a Qualified Performance-Based Award. The conditions for vesting and the other provisions of restricted stock Awards (including without limitation any applicable Performance Goals) need not be the same with respect to each recipient, and shall be established by the Committee in its sole discretion. Except in the case of a Qualified Performance-Based Award and subject to the restrictions set forth in Section 15.11, the Committee at any time after the date of grant, in its sole discretion, may modify or waive any of the conditions applicable to an Award of restricted stock.

(b) Subject to the provisions of the Plan (including Section 6.3) and the applicable agreement under Section 2.5, during the period, if any, set by the Committee, commencing with the date of such restricted stock Award for which such vesting restrictions apply (the "Restriction Period"), and until the expiration of the Restriction Period, the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber shares of such restricted stock. A restricted stock Award may vest in part on a pro rata basis prior to the expiration of any Restriction Period.

(c) Except as provided in this Section 6 and in the applicable agreement under Section 2.5, the applicable Participant shall have, with respect to the shares of restricted stock, all of the rights of a shareholder of the Corporation holding the Common Stock that is the subject of the restricted stock, including, if applicable, the right to vote the shares and the right to receive any cash dividends. If so determined by the Committee and set forth in the applicable agreement under Section 2.5 and subject to Section 15.4, cash dividends on the Common Stock that is the subject of the restricted stock Award may be (i) automatically deferred and reinvested in additional restricted stock, and held subject to the same vesting and forfeiture conditions of the underlying restricted stock, or (ii) held by the Corporation in cash (without any payment of interest thereon) subject to the same vesting and forfeiture conditions of the restricted stock with respect to which the dividends are payable. Unless otherwise determined by the Committee and set forth in the applicable agreement under Section 2.5, any Common Stock or other securities payable with respect to any restricted stock as a result of or pursuant to Section 4.5, shall be held subject to the same vesting and forfeiture conditions of the underlying restricted stock.

(d) As soon as practicable after the applicable Restriction Period has ended, the Committee shall determine and certify (in writing in the case of Qualified Performance-Based Awards) whether and the extent to which the service period and/or the Performance Goals were met for the applicable restricted stock. If the vesting condition or conditions applicable to the restricted stock are not satisfied by the time the Restriction Period has expired, such restricted stock shall be forfeited. If and when the Restriction Period expires without a prior forfeiture of the shares of restricted stock (i) if legended certificates have been issued, unlegended certificates for such shares shall be delivered to the Participant upon surrender of the legended certificates, (ii) if legended certificates have not yet been issued, unlegended certificates (and any related blank stock powers previously executed by the Participant) shall be delivered to the Participant, and (iii) any cash dividends held by the Corporation pursuant to Section 6.2(c) shall be delivered to the Participant.

6.3 Permitted Transfers. Neither this Section 6 nor any other provision of the Plan shall preclude a Participant from transferring or assigning restricted stock, without the payment of value or consideration to the Participant, to (i) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death or (ii) the trustee of any other trust to the extent approved in advance by the Committee, in its sole discretion, in writing. A transfer or assignment of restricted stock from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee, in its sole discretion, in writing, and restricted stock held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable agreement under Section 2.5 as if such trustee were a party to such agreement.

## SECTION 7

### Restricted Stock Units

7.1 Restricted Stock Unit Awards. Restricted stock units are Awards denominated in shares of Common Stock that will be settled, subject to the terms and conditions of the restricted stock units and at the sole discretion of the Committee, in an amount in cash, shares of Common Stock, or both, based upon the Fair Market Value of a specified number of shares of Common Stock.

7.2 Terms and Conditions. Restricted stock units shall be subject to the restrictions set forth in Section 15.11 and the following terms and conditions:

(a) The Committee shall, prior to or at the time of grant, condition the vesting of restricted stock units upon (i) the continued service of the applicable Participant, (ii) the attainment of Performance Goals or (iii) the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the vesting of restricted stock units upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate the restricted stock units as a Qualified Performance-Based Awards. The Committee shall determine the performance period(s) during which any Performance Goals are to be achieved. The conditions for grant or vesting and the other provisions of restricted stock units (including without limitation any applicable Performance Goals) need not be the same with respect to each recipient. An Award of restricted stock units shall be settled as and when the restricted stock units vest, as determined and certified (in writing in the case of Qualified Performance-Based Awards) by the Committee, or at a later time specified by the Committee or in accordance with an election of the Participant, if the Committee so permits. Except in the case of a Qualified Performance-Based Award and subject to the restrictions set forth in Section 15.11, the Committee at any time after the date of grant, in its sole discretion, may modify or waive any of the conditions applicable to an Award of restricted stock units.

(b) Subject to the provisions of the Plan and the applicable agreement under Section 2.5, during the period, if any, set by the Committee, commencing with the date of grant of such restricted stock units for which such vesting restrictions apply (the "Units Restriction Period"), and until the expiration of the Units Restriction Period, the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber restricted stock units. A restricted stock unit may vest in part prior to the expiration of any Units Restriction Period.

(c) Participants granted restricted stock units shall not be entitled to any dividends payable on the Common Stock unless the agreement under Section 2.5 for restricted stock units specifies to what extent and on what terms and conditions the applicable Participant shall be entitled to receive current or deferred payments of cash, Common Stock or other property corresponding to the dividends payable on the Common Stock (subject to Section 15.4 below). Restricted stock units shall not have any voting rights, and holders of restricted stock units shall not be shareholders of the Corporation unless and until shares of Common Stock are issued by the Corporation (in book-entry form or otherwise).

## SECTION 8

### Performance Units



Performance units may be granted hereunder to eligible employees, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The Committee shall establish at the time the performance unit is granted the performance period(s) during which any Performance Goals specified by the Committee with respect to the Award are to be measured, provided, however, that performance units shall be subject to the restrictions set forth in Section 15.11. The Performance Goals to be achieved during any performance period(s) and the length of the performance period(s) shall be determined by the Committee upon the grant of each performance unit. The Committee may, in connection with the grant of performance units, designate them as Qualified Performance-Based Awards. The conditions for grant or vesting and the other provisions of performance units (including without limitation any applicable Performance Goals) need not be the same with respect to each Participant. Performance units may be paid in cash, shares of Common Stock, other property or any combination thereof, in the sole discretion of the Committee as set forth in the applicable agreement under Section 2.5. Performance units shall not have any voting rights, and holders of performance units shall not be shareholders of the Corporation unless and until shares of Common Stock are issued by the Corporation (in book-entry form or otherwise). The Performance Goals to be achieved for each performance period, whether the Performance Goals have been achieved, and the amount of the Award to be distributed shall be conclusively determined and certified (in writing in the case of Qualified Performance-Based Awards) by the Committee. Performance units may be paid in a lump sum or in installments following the close of the performance period(s). The Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber performance units. The maximum value of the property, including cash, that may be paid or distributed to any Participant pursuant to a grant of performance units made in any one calendar year shall be five million United States of America dollars (\$5,000,000). Except in the case of a Qualified Performance-Based Award and subject to the restrictions set forth in Section 15.11, the Committee at any time after the grant of performance units, in its sole discretion, may modify or waive any of the conditions applicable to an Award of performance units.

## SECTION 9

### Other Stock-Based Awards

The Committee may award Common Stock and other Awards that are valued in whole or in part by reference to, or are otherwise based upon, Common Stock, including but not limited to, unrestricted stock or dividend equivalents. Any such Award shall be subject to the restrictions set forth in Section 15.11 and such other terms and conditions as established by the Committee, and may include Qualified Performance-Based Awards. The maximum value of Common Stock and other property, including cash, that may be paid or distributed to any Participant pursuant to this Section 9 (and not pursuant to other sections of the Plan) in any one calendar year shall be five million United States of America dollars (\$5,000,000).

## SECTION 10

### Issuance of Shares

The Committee may require each person purchasing or receiving shares of Common Stock pursuant to an Award to represent to and agree with the Corporation in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. The obligation of the Corporation to issue 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 shares of Common Stock may then be listed, (iii) all other applicable laws, regulations, rules and orders which may then be in effect and (iv) obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable.

## SECTION 11

### Additional Rights in Certain Events

#### 11.1 Definitions.

For purposes of this Section 11, 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 Corporation 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 Corporation 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) "Section 11 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) 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;

(c) 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

(d) The shareholders of the Corporation shall approve any liquidation, sale or transfer of all or substantially all of the assets of the Corporation (other than to an entity or entities controlled by the Corporation and/or its shareholders following such event);

provided, however, that if securities beneficially owned by a Participant are included in determining the Beneficial Ownership of a Person referred to in paragraph 4(a), then no Section 11 Event with respect to such Participant shall be deemed to have occurred by reason of such event.

11.2 Acceleration of the Exercise Date of Stock Options and Stock Appreciation Rights. Subject to the provisions of Section 5 in the case of incentive stock options and Section 11.6, unless the agreement under Section 2.5 shall otherwise provide, notwithstanding any other provision contained in the Plan, in case any Section 11 Event occurs all outstanding stock options and stock appreciation rights shall become immediately and fully exercisable whether or not otherwise exercisable by their terms.

11.3 Extension of the Expiration Date of Stock Options and Stock Appreciation Rights. Subject to the provisions of Section 5 in the case of incentive stock options and Section 11.6, unless the agreement under Section 2.5 shall otherwise provide, notwithstanding any other provision contained in the Plan, all stock options and stock appreciation rights held by a Participant whose employment with the Corporation or a Subsidiary terminates within one year of any Section 11 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 or stock appreciation right.

11.4 Lapse of Restrictions on Restricted Stock Awards. Unless the agreement under Section 2.5 shall otherwise provide, notwithstanding any other provision contained in the Plan other than Section 11.6, if any Section 11 Event occurs prior to the scheduled lapse of all restrictions applicable to restricted stock Awards under the Plan (including but not limited to Qualified Performance-Based Awards), all such restrictions shall lapse upon the occurrence of any such Section 11 Event regardless of the scheduled lapse of such restrictions.

11.5 Vesting of Restricted Stock Units and Performance Units. Unless the agreement under Section 2.5 shall otherwise provide, notwithstanding any other provision contained in the Plan other than Section 11.6, if any Section 11 Event occurs, all restricted stock units and performance units (including but not limited to Qualified Performance-Based Awards) shall be considered to be earned and payable in full, any vesting conditions shall be considered to have been satisfied, and such restricted stock units and performance units shall be settled in cash as promptly as is practicable.

11.6 Code Section 409A. Notwithstanding the foregoing, if any Award is subject to Section 409A of the Code, this Section 11 shall be applicable only to the extent specifically provided in the agreement under Section 2.5 applicable to the Award and permitted pursuant to Section 12.2.

11.7 Tax Gross-Up Payments. Unless the agreement under Section 2.5 shall otherwise provide, if the independent auditors of the Corporation most recently selected by the Board determine that (i) any grant, payment or transfer to or for the benefit of a Participant (whether granted, paid or payable or transferred or transferable pursuant to the Plan or otherwise) (a "Payment") would be deemed to be an "excess parachute payment" for Federal income tax purposes because of Section 280G of the Code, or any successor provision ("Section 280G"), and (ii) any Award, grant, payment or transfer under the Plan to or for the benefit of a Participant within one year of or following the occurrence of a Section 11 Event constitutes in whole or in part a "parachute payment" under Section 280G (without regard to Section 280G(b)(4)) used in calculating such "excess parachute payment," the Payment will be grossed up through the payment by the Corporation to the Participant in cash of the amount of any excise tax under Section 4999 of the Code, or any successor provision ("Section 4999"), on the "excess parachute payment" and the amount of any excise tax under Section 4999 and applicable income tax on the total amount of such gross up payment so that the Participant will receive the full amount of the Payment after the Participant has paid any excise tax under Section 4999 of the Code on the "excess parachute payment" and any excise tax under Section 4999 and applicable income tax on the amount of such gross up payment. On the later of the date an "excess parachute payment" is paid to or for the benefit of the Participant or the date on which it can be first determined that a Payment would be deemed to be an "excess parachute payment" (but in any event no later than the end of the Participant's taxable year next following the taxable year in which the Participant remits the taxes subject to the gross up payment), the Corporation shall pay or distribute to or for the benefit of the Participant the gross up payment due to the Participant under this Section 11.7. Notwithstanding the foregoing, no amounts shall be payable under this Section 11.7 unless they are either exempt from the application of, or comply with, the requirements of Section 409A of the Code.

## SECTION 12

### Qualified Performance-Based Awards; Section 409A

12.1 Qualified Performance-Based Awards.

(a) The provisions of this Plan are intended to ensure that all options and stock appreciation rights granted hereunder to any Participant who is or may be a Covered Employee in the tax year in which such option or stock appreciation right is expected to be deductible to the Corporation qualify for the exemption from the limitation on deductions imposed by Section 162(m) of the Code (the "Section 162(m) Exemption"), and all such Awards shall therefore be considered Qualified Performance-Based Awards and this Plan shall be interpreted and operated consistent with that intention. When granting any Award other than an option or stock appreciation right, the Committee may designate such Award as a Qualified Performance-Based Award, based upon a determination that (i) the recipient is or may be a Covered Employee with respect to such Award, and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption, and the terms of any such Award (and of the grant thereof) shall be consistent with such designation. Within 90 days after the commencement of a performance period or, if earlier, by the expiration of 25% of a performance period, the Committee will designate one or more performance periods, determine the Participants for the performance periods and establish the Performance Goals for the performance periods.

(b) Each Qualified Performance-Based Award (other than an option or stock appreciation right) shall be earned, vested and/or payable (as applicable) upon certification in writing by the Committee of the achievement of one or more Performance Goals, together with the satisfaction of any other conditions, such as continued employment, as previously established by the Committee with respect to such Award.

(c) Notwithstanding any provision in the Plan or in any agreement under Section 2.5, to the extent that any such provision or action of the Committee would cause any Qualified Performance-Based Award not to qualify for the Section 162(m) Exemption, such provision or action shall be null and void as it relates to Covered Employees, to the extent permitted by law and deemed advisable by the Committee.

12.2 Code Section 409A. It is the intention of the Corporation that no Award shall be "deferred compensation" subject to Section 409A of the Code, unless and to the extent that the Committee specifically determines otherwise as provided in the immediately following sentence, and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. The terms and conditions governing any Awards that the Committee determines will be subject to Section 409A of the Code, including any rules for elective or mandatory deferral of the delivery of cash or shares of Common Stock pursuant thereto and any rules regarding treatment of such Awards in the event of a Section 11 Event, shall be set forth in the applicable agreement under Section 2.5, and shall comply in all respects with Section 409A of the Code.

## SECTION 13

### 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 any Award under the Plan. Nothing in the Plan, in any Award under the Plan or in any agreement under Section 2.5 providing for any Award under the Plan 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 14

### 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 of Common Stock for which Awards may be made under Section 4.1 of the Plan, (b) increase the maximum aggregate number of shares of Common Stock as to which incentive stock options may be granted under Section 4.1 of the Plan, (c) make any changes in the class of employees eligible to receive Awards under the Plan, (d) change the maximum number of shares of Common Stock as to which Awards may be made to any Participant under Section 4.2 of the Plan, or the maximum amount that may be paid or distributed to any Participant pursuant to a grant of performance units or other stock-based Awards made in any one calendar year under Section 8 or 9 of the Plan, respectively, (e) change the exercise price or Base Price permitted under Section 5.3 of the Plan or the restrictions regarding repricing under Section 5.3 of the Plan, (f) be made if shareholder approval of the amendment is at the time required for Awards 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 or (g) be made to the extent such approval is needed for Qualified Performance-Based Awards to qualify for the Section 162(m) Exemption. No amendment or termination of the Plan shall, without the written consent of the holder of an Award under the Plan, adversely affect the rights of such holder with respect thereto.

## SECTION 15

### General Provisions

15.1 Additional Compensation Arrangements. Nothing contained in the Plan shall prevent the Corporation or any Subsidiary from adopting other or additional compensation arrangements for its employees.

15.2 Tax Withholding. No later than the date as of which an amount first becomes includible in the gross income of a Participant for federal, state, local or foreign income or employment or other tax purposes with respect to any Award under the Plan, such Participant shall pay to the Corporation (or, if applicable, a Subsidiary), or make arrangements satisfactory to the Corporation (or, if applicable, a Subsidiary) regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such

amount. Unless otherwise determined by the Committee, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement, having a Fair Market Value on the date of withholding equal to the minimum amount (and not any greater amount unless otherwise determined by the Committee) required to be withheld for tax purposes, all in accordance with such procedures as the Committee establishes, and provided that any fractional share amount must be paid in cash or withheld from compensation otherwise due to the Participant. The obligations of the Corporation under the Plan shall be conditional on such payment or arrangements, and the Corporation and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to such Participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

15.3 Limitation of Liability. The grant of any Award shall not:

- (a) give a Participant any rights except as expressly set forth in the Plan or in the agreement under Section 2.5;
- (b) create any fiduciary or other obligation of the Corporation or any Subsidiary to take any action or provide to the Participant any assistance or dedicate or permit the use of any assets of the Corporation or any Subsidiary that would permit the Participant to be able to attain any Performance Goals associated with any Award;
- (c) create any trust, fiduciary or other duty or obligation of the Corporation or any Subsidiary to engage in any particular business, continue to engage in any particular business, engage in any particular business practices or sell any particular product or products; or
- (d) create any obligation of the Corporation or any Subsidiary that shall be greater than the obligation of the Corporation or that Subsidiary to any of their general unsecured creditors.

15.4 Limitation on Dividend Reinvestment and Dividend Equivalents. Reinvestment of dividends in additional restricted stock at the time of any dividend payment, and the payment of shares with respect to dividends to Participants holding Awards of restricted stock units, shall only be permissible if authorized by the Committee and if sufficient shares of Common Stock are available under Section 4 for such reinvestment or payment (taking into account then outstanding Awards). In the event that sufficient shares of Common Stock are not available for such reinvestment or payment, such reinvestment or payment shall be made in the form of a grant of restricted stock units equal in number to the shares of Common Stock that would have been obtained by such payment or reinvestment, the terms of which restricted stock units shall provide for settlement in cash and for dividend equivalent reinvestment in further restricted stock units on the terms contemplated by this Section 15.4.

15.5 Governing Law and Interpretation. To the extent not preempted by federal Law, the Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without reference to principles of conflict of laws. The captions of this Plan are not part of the provisions hereof and shall have no force or effect.

15.6 Dispute Resolution. Since Awards are granted in Western Pennsylvania, records relating to the Plan and Awards are located in Western Pennsylvania, and the Plan and Awards are administered in Western Pennsylvania, the Corporation and the Participant to whom an Award is granted, for themselves and their heirs, representatives, successors and assigns (collectively, the "Parties") irrevocably submit to the exclusive and sole jurisdiction and venue of the state courts of Allegheny County, Pennsylvania and the federal courts of the Western District of Pennsylvania with respect to any and all disputes arising out of or relating to the Plan, the subject matter of the Plan or any Awards under the Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any Awards or the terms and conditions of the Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to the Plan, and to ensure consistency in application and interpretation of the governing law under Section 15.5 of the Plan, the Parties agree that (a) sole and exclusive appropriate venue for any such action shall be the Pennsylvania courts described in the immediately preceding sentence, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Pennsylvania courts, and no other, (c) such Pennsylvania courts shall have sole and exclusive jurisdiction over the Parties and over the subject matter of any dispute relating hereto and (d) the Parties waive any and all objections and defenses to bringing any such action before such Pennsylvania courts, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens*.

15.7 Non-Transferability. Except as otherwise specifically provided in the Plan or by the Committee and limited to a transfer without the payment of value or consideration to the Participant, Awards under the Plan are not transferable except by will or by laws of descent and distribution of the state of domicile of the Participant at the time of death.

15.8 Deferrals. The Committee shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred, provided that any such deferral is consistent with all aspects of Section 409A of the Code. Subject to the provisions of this Plan and any agreement under Section 2.5, the recipient of an Award (including, without limitation, any deferred Award) may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, interest or dividends, or interest or dividend equivalents, with respect to the number of shares covered by the Award, as determined by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional shares or otherwise reinvested.

15.9 Integration. The Plan and any written agreements executed by Participants and the Corporation under Section 2.5 contain all of the understandings and representations between the parties and supersede any prior understandings and agreements entered into between them regarding the subject matter within. There are no representations, agreements, arrangements or understandings, oral or written, between the parties relating to the subject matter of the Plan which are not fully expressed in the Plan and the written agreements.

15.10 Foreign Employees and Foreign Law Considerations. The Committee may grant Awards to eligible employees who are foreign nationals, who are located outside the United States of America or who are not compensated from a payroll maintained in the United States of America, or who are otherwise subject to (or could cause the Corporation to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States of America, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, or subplans as may be necessary or advisable to

comply with such legal or regulatory provisions.

15.11 Certain Restrictions on Certain Awards. Subject to the terms of the Plan and more restrictive terms, if any, of the applicable agreement under Section 2.5, any Award of restricted stock, restricted stock units, performance units, or other stock-based Awards under Section 9 shall be subject to vesting during a restriction period of at least three (3) years following the date of grant, provided, however, that:

- (i) A restriction period of only at least one (1) year following the date of grant is permissible if vesting is conditional, in whole or in part, upon the achievement of Performance Goals, except that there need not be any minimum restriction period for a Performance Goal based upon stock price if there is also a service-based restriction of at least one (1) year following the date of grant;
- (ii) To the extent permitted by the Committee, in its sole discretion, and specified in the applicable agreement under Section 2.5, an Award with a restriction period of at least three (3) years may vest in part on a pro rata basis prior to the expiration of any such restriction period;
- (iii) To the extent permitted by the Committee, in its sole discretion, and specified in the applicable agreement under Section 2.5, an Award may vest prior to the expiration of any restriction period required under this Section 15.11 in the event of a Participant's death or retirement, the Participant becoming a Disabled Participant, or an involuntary termination of the Participant's employment by the Corporation or a Subsidiary;
- (iv) In the event of the occurrence of a Section 11 Event, an Award may vest prior to the expiration of any restriction period required under this Section 15.11 pursuant to Section 11.4 or 11.5 or as otherwise permitted by the Committee, in its sole discretion, and specified in the applicable agreement under Section 2.5; and
- (v) The Committee may grant Awards of restricted stock, restricted stock units, performance units and other stock-based Awards under Section 9 without regard to the foregoing requirements, and the Committee may accelerate the vesting of and lapse any restrictions with respect to, any such Awards (in addition to the potential acceleration under (ii)-(iv) of the foregoing), for up to, collectively for all such Awards, ten percent (10%) of the shares of Common Stock for which Awards may be made under Section 4.1 of the Plan, as adjusted under the terms of the Plan.

## **SECTION 16**

### **Effective Date and Duration of Plan**

The effective date and date of adoption of the Plan shall be November 13, 2007, the date of adoption of the Plan by the Board, and the effective date of the amendments to the Plan by the Board on September 26, 2008 shall be September 26, 2008. No Award under the Plan may be made subsequent to November 12, 2017.

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
 SUBSIDIARIES OF THE REGISTRANT  
 (as of October 31, 2008)

Name	Percentage Ownership
Kenuohua Matthews Electronic (Beijing) Company, Ltd.	60
Cloverleaf Group, Inc.	100
Holjeron Corporation	100
Matthews Canada Ltd.	100
Matthews Holding Company (U.K.) Ltd.	100
The InTouch Group plc	100
InTouch by Design	76
Matthews Industries	100
Matthews Bronze Pty. Ltd.	100
C. Morello, Pty. Ltd.	100
Ashcroft Pty. Ltd.	100
Matthews International GmbH	100
Reproservice Eurodigital GmbH Munchen	100
Repro-Busek GmbH & Co. KG	100
Rudolf Reproflex GmbH & Co. KG	75
Scholler GmbH & Co. KG	100
S+T GmbH & Co. KG	100
Matthews International Holding Company GmbH	100
Saueressig GmbH & Co. KG	78
APEX Cylinders Ltd.	61
Brand Security International GmbH	100
Devine GmbH & Co. GmbH	100
Saueressig ooo	100
Saueressig Cylinders Geschäftsführungs GmbH	100
Saueressig Design Studio GmbH	70
Saueressig Engineering Geschäftsführungs GmbH	100
Saueressig Flexo GmbH & Co. KG	100
Saueressig Geschäftsführungs GmbH	100
Saueressig Jordan Ltd.	51
Saueressig Polska Sp. z.o.o.	100
Matthews International S.p.A.	100
Caggiati Espana S.A.	100
Caggiati France SARL	100
Matthews Packaging Graphics Asia Pte. Ltd.	100
Matthews Resources, Inc.	100
Matthews Swedot AB	100
Venetian Investment Corporation	100
The York Group, Inc.	100
Milso Industries Corporation	100
York Agency, Inc.	100
York Casket Development Company	100
York Distribution Company	100

CONSENT OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 33-57793, 33-57795, 33-57797, 333-83731 and 333-131496) of Matthews International Corporation of our report dated November 24, 2008 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania  
November 24, 2008

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CERTIFICATION  
PRINCIPAL EXECUTIVE OFFICER

I, Joseph C. Bartolacci, certify that:

1. I have reviewed this annual report on Form 10-K 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: November 25, 2008

/s/Joseph C. Bartolacci

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Joseph C. Bartolacci  
President and Chief Executive Officer

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CERTIFICATION  
PRINCIPAL FINANCIAL OFFICER

I, Steven F. Nicola, certify that:

1. I have reviewed this annual report on Form 10-K 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: November 25, 2008

/s/Steven F. Nicola

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Steven F. Nicola  
Chief Financial Officer,  
Secretary and Treasurer

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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 Annual Report of Matthews International Corporation (the "Company") on Form 10-K for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph C. Bartolacci, 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.

/s/Joseph C. Bartolacci

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Joseph C. Bartolacci,  
President and Chief Executive Officer

November 25, 2008

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.

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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 Annual Report of Matthews International Corporation (the "Company") on Form 10-K for the period ended September 30, 2008 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.

/s/Steven F. Nicola

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Steven F. Nicola,  
Chief Financial Officer

November 25 , 2008

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.

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