MATTHEWS INTERNATIONAL CORP
Form 10-Q
May 01, 2014

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

Form 10-Q

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

For The Quarterly Period Ended March 31, 2014

Commission File No. 0-9115

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

PENNSYLVANIA (State or other jurisdiction of Incorporation or organization)	25-0644320 (I.R.S. Employer Identification No.)
TWO NORTHSHORE CENTER, PITTSBURGH, PA (Address of principal executive offices)	15212-5851 (Zip Code)
Registrant's telephone number, including area code	(412) 442-8200

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

Yes x No o

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

Yes x No o

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

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

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

Yes o No x

As of April 30, 2014, shares of common stock outstanding were:

Class A Common Stock 27,345,111 shares

PART I - FINANCIAL INFORMATION
MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollar amounts in thousands)

	March 31, 2014		September 30, 2013	
ASSETS				
Current assets:				
Cash and cash equivalents		$61,590		$58,959
Accounts receivable, net		185,274		188,405
Inventories		143,005		130,768
Deferred income taxes		9,805		9,826
Other current assets		21,780		18,997
Total current assets		421,454		406,955
Investments		23,122		22,288
Property, plant and equipment: Cost	$423,414		$414,522	
Less accumulated depreciation	(247,008)		(233,791)	
		176,406		180,731
Deferred income taxes		1,588		1,871
Other assets		15,275		14,402
Goodwill		527,282		524,551
Other intangible assets, net		62,934		65,102
Total assets		$1,228,061		$1,215,900
LIABILITIES				
Current liabilities:				
Long-term debt, current maturities		$23,472		$23,587
Accounts payable		45,936		45,232
Accrued compensation		34,496		41,916
Accrued income taxes		4,010		5,910
Customer prepayments		14,840		13,531
Contingent consideration		-		3,726
Other current liabilities		46,754		51,077
Total current liabilities		169,508		184,979
Long-term debt		354,167		351,068
Accrued pension		63,959		61,642
Postretirement benefits		18,270		17,956
Deferred income taxes		20,640		20,332
Other liabilities		30,296		26,993
Total liabilities		656,840		662,970
SHAREHOLDERS' EQUITY				

Shareholders' equity-Matthews:				
Common stock	$36,334		$36,334	
Additional paid-in capital	46,911		47,315	
Retained earnings	788,966		775,762	
Accumulated other comprehensive loss	(22,287)		(26,940)	
Treasury stock, at cost	(281,859)		(283,006)	
Total shareholders' equity-Matthews		568,065		549,465
Noncontrolling interests		3,156		3,465
Total shareholders' equity		571,221		552,930
Total liabilities and shareholders' equity		$1,228,061		$1,215,900

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Sales	$246,837	$256,390	$476,782	$481,999
Cost of sales	(156,657)	(161,524)	(305,226)	(307,159)
Gross profit	90,180	94,866	171,556	174,840
Selling and administrative expenses	(69,288)	(69,796)	(135,668)	(133,271)
Operating profit	20,892	25,070	35,888	41,569
Investment income	353	607	1,227	840
Interest expense	(2,554)	(3,051)	(5,455)	(6,298)
Other income (deductions), net	(790)	(1,067)	(1,772)	(2,172)
Income before income taxes	17,901	21,559	29,888	33,939
Income taxes	(6,650)	(7,504)	(10,731)	(11,881)
Net income	11,251	14,055	19,157	22,058
Net (income) loss attributable to noncontrolling interests	82	137	90	389
Net income attributable to Matthews shareholders	$11,333	$14,192	$19,247	$22,447
Earnings per share attributable to Matthews shareholders:				
Basic	$0.41	$0.51	$0.71	$0.81
Diluted	$0.41	$0.51	$0.70	$0.81

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

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollar amounts in thousands)

	Three Months Ended March 31,					
	Matthews		Noncontrolling Interest		Total	
	2014	2013	2014	2013	2014	2013
Net income (loss):	$11,333	$14,192	$(82)	$(137)	$11,251	$14,055
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustment	223	(13,543)	(197)	356	26	(13,187)
Pension plans and other postretirement benefits	529	1,074	-	-	529	1,074
Unrecognized gain (loss) on derivatives:						
Net change from periodic revaluation	(1,049)	486	-	-	(1,049)	486
Net amount reclassified to earnings	643	626	-	-	643	626
Net change in unrecognized gain (loss) on derivatives	(406)	1,112	-	-	(406)	1,112
Other comprehensive income (loss), net of tax	346	(11,357)	(197)	356	149	(11,001)
Comprehensive income (loss)	$11,679	$2,835	$(279)	$219	$11,400	$3,054

	Six Months Ended March 31,					
	Matthews		Noncontrolling Interest		Total	
	2014	2013	2014	2013	2014	2013
Net income (loss):	$19,247	$22,447	$(90)	$(389)	$19,157	$22,058
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustment	2,769	(5,934)	(54)	55	2,715	(5,879)
Pension plans and other postretirement benefits	1,057	2,147	-	-	1,057	2,147
Unrecognized gain (loss) on derivatives:						
Net change from periodic revaluation	(472)	497	-	-	(472)	497
Net amount reclassified to earnings	1,299	1,238	-	-	1,299	1,238

Net change in unrecognized gain (loss) on derivatives	827	1,735		-	827	1,735
Other comprehensive income (loss), net of tax	4,653	(2,052)	(54)	55	4,599	(1,997)
Comprehensive income (loss)	$23,900	$20,395	$(144)	$(334)	$23,756	$20,061

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

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the six months ended March 31, 2014 and 2013 (Unaudited)
(Dollar amounts in thousands, except per share data)

	Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2012	$36,334	$47,893	$727,176	$ (65,083)	$(268,499)	$2,613	$480,434
Net income	-	-	22,447	-	-	(389)	22,058
Minimum pension liability	-	-	-	2,147	-	-	2,147
Translation adjustment	-	-	-	(5,934)	-	55	(5,879)
Fair value of derivatives	-	-	-	1,735	-	-	1,735
Total comprehensive income							20,061
Stock-based compensation	-	2,757	-	-	-	-	2,757
Purchase of 354,040 shares of treasury stock	-	-	-	-	(7,259)	-	(7,259)
Issuance of 279,745 shares of treasury stock	-	(8,102)	-	-	8,626	-	524
Cancellations of 42,956 shares of treasury stock	-	1,843	-	-	(1,843)	-	-
Dividends, $.20 per share	-	-	(5,563)	-	-	-	(5,563)
Arrangement with noncontrolling interests			4,980			1,653	6,633
Distributions to noncontrolling interests	-	-	-	-	-	(273)	(273)
Balance, March 31, 2013	$36,334	$44,391	$749,040	$ (67,135)	$(268,975)	$3,659	$497,314

Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2013	$36,334	$47,315	$775,762	$ (26,940)	$(283,006)	$3,465	$552,930
Net income	-	-	19,247	-	-	(90)	19,157
Minimum pension liability	-	-	-	1,057	-	-	1,057
Translation adjustment	-	-	-	2,769	-	(54)	2,715
Fair value of derivatives	-	-	-	827	-	-	827
Total comprehensive income							23,756
Stock-based compensation	-	3,239	-	-		-	3,239
Purchase of 108,605 shares of treasury stock	-	-	-	-	(4,467)	-	(4,467)
Issuance of 281,231 shares of treasury stock	-	(6,799)	-	-	8,770	-	1,971
Cancellations of 77,417 shares of treasury stock		3,156			(3,156)		
Dividends, $.22 per share	-	-	(6,043)	-	-	-	(6,043)
Distributions to noncontrolling interests	-	-				(165)	(165)
Balance, March 31, 2014	$36,334	$46,911	$788,966	$ (22,287)	$(281,859)	$3,156	$571,221

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

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

	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013
Cash flows from operating activities:		
Net income	$19,157	$22,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,921	17,314
Stock-based compensation expense	3,239	2,757
Change in deferred taxes	(651)	(787)
Gain on sale of assets	(632)	(660)
Unrealized gain on investments	(875)	(450)
Changes in working capital items	(23,233)	(10,554)
Increase in other assets	(805)	(95)
Increase (decrease) in other liabilities	4,282	(2,785)
Increase in pension and postretirement benefits	4,369	6,642
Other, net	(164)	(3,293)
Net cash provided by operating activities	23,608	30,147
Cash flows from investing activities:		
Capital expenditures	(9,859)	(10,947)
Proceeds from sale of assets	29	221
Acquisitions, net of cash acquired	-	(63,769)
Net cash used in investing activities	(9,830)	(74,495)
Cash flows from financing activities:		
Proceeds from long-term debt	15,335	117,636
Payments on long-term debt	(14,484)	(54,055)
Payments of contingent consideration	(3,703)	(9,542)
Proceeds from the sale of treasury stock	1,828	524
Purchases of treasury stock	(4,267)	(7,259)
Dividends	(6,043)	(5,563)
Distributions to noncontrolling interests	(165)	(273)
Net cash (used in) provided by financing activities	(11,499)	41,468
Effect of exchange rate changes on cash	352	216
Net change in cash and cash equivalents	$2,631	$(2,664)

Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	$949	$-

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

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2014
(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze and granite 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 and fulfillment systems and merchandising solutions. The Company's products and operations are comprised of six business segments: Cemetery Products, Funeral Home Products, Cremation, Graphics Imaging, Marking and Fulfillment Systems and Merchandising Solutions. The Cemetery Products segment is a leading manufacturer of cast bronze and granite memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Funeral Home Products segment is a leading casket manufacturer and distributor in North America and produces a wide variety of wood, metal and cremation caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment in North America and Europe. 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 and Fulfillment Systems segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, industrial automation products and order fulfillment systems for identifying, tracking, picking and conveying consumer and industrial products. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

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

Note 2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2013. The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. All intercompany accounts and transactions have been eliminated.

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

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

Note 2. Basis of Presentation (continued)

Reclassifications and Revision:

Certain reclassifications have been made in these financial statements to adjust the effect of exchange rate changes on cash in the Consolidated Statement of Cash Flows for the six-month period ended March 31, 2013. Additionally, reclassifications have been made in these financial statements to adjust for bank overdrafts in the Consolidated Statement of Cash Flows for the six months ended March 31, 2013 and on the Consolidated Balance Sheet for the fiscal year ended September 30, 2013.

Note 3. Fair Value Measurements

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

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

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

Level 3: Unobservable inputs for the asset or liability.

The fair values of the Company's assets and liabilities measured on a recurring basis are categorized as follows:

	March 31, 2014				September 30, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Derivatives (1)	$-	$3,850	-	$3,850	$-	$3,736	-	$3,736
Trading securities	$18,879	-	-	$18,879	$17,929	-	-	$17,929
Total assets at fair value	$18,879	$3,850	-	$22,729	$17,929	$3,736	-	$21,665
Liabilities:								
Derivatives (1)	-	$3,403	-	$3,403	-	$4,644	-	$4,644
Total liabilities at fair value	-	$3,403	-	$3,403	-	$4,644	-	$4,644

(1) Interest rate swaps are valued based on observable market swap rates.

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

Note 4. Inventories

Inventories consisted of the following:

	March 31, 2014	September 30, 2013
Raw Materials	$ 44,507	$ 40,931
Work in process	30,930	25,293
Finished goods	67,568	64,544
	$ 143,005	$ 130,768

Note 5. Debt

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is $500,000 and borrowings under the facility bear interest at LIBOR plus a factor ranging from .75% to 1.25% based on the Company's leverage ratio. The facility's maturity is July 2018. 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 $30,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at March 31, 2014 and September 30, 2013 were $310,000 and $305,000, respectively. The weighted-average interest rate on outstanding borrowings on this facility at March 31, 2014 and 2013 was 2.53% and 2.98%, respectively.

In connection with the pending acquisition of Schawk, Inc. ("SGK") (see Note 12.) the Company entered into a commitment letter with RBS Citizens in March 2014 to amend and increase the maximum amount of borrowings available under the facility to $850,000. The amendment is conditional upon the closing of the SGK acquisition.

The Company has entered into the following interest rate swaps:

Effective Date	Amount	Fixed Interest Rate	Interest Rate Spread at March 31, 2014	Maturity Date
May 2011	$25,000	1.37%	1.00%	May 2014
October 2011	25,000	1.67%	1.00%	October 2015
November 2011	25,000	2.13%	1.00%	November 2014
March 2012	25,000	2.44%	1.00%	March 2015
June 2012	40,000	1.88%	1.00%	June 2022
August 2012	35,000	1.74%	1.00%	June 2022
September 2012	25,000	3.03%	1.00%	December 2015
	25,000	1.24%	1.00%	March 2017

September 2012				
November 2012	25,000	1.33%	1.00%	November 2015
May 2014	25,000	1.35%	1.00%	May 2018

The Company enters into interest rate swaps in order to achieve a mix of fixed and variable rate debt that it deems appropriate. The interest rate swaps have been designated as cash flow hedges of the future variable interest payments under the Revolving Credit Facility, which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective.

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

Note 5. Debt (continued)

The fair value of the interest rate swaps reflected an unrealized gain, net of unrealized losses, of $447 ($273 after tax) at March 31, 2014 and an unrealized loss, net of unrealized gains, of $908 ($554 after tax) at September 30, 2013. The net unrealized gain and loss are included in shareholders' equity as part of accumulated other comprehensive income (loss) ("AOCI"). Assuming market rates remain consistent with the rates at March 31, 2014, approximately $1,131 net unrealized loss included in AOCI is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

At March 31, 2014 and September 30, 2013, the interest rate swap contracts were reflected in the consolidated balance sheets as follows:

Balance Sheet Location:	March 31, 2014	September 30, 2013
Current assets		
Other current assets	$ 473	$ 427
Long-term assets		
Other assets	3,378	3,309
Current liabilities:		
Other current liabilities	(2,327)	(2,590)
Long-term liabilities:		
Other liabilities	(1,077)	(2,054)
Total derivatives	$ 447	$ (908)

The loss recognized on derivatives was as follows:

Derivatives in Cash Flow Hedging Relationships	Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivatives Three Months ended March 31,		Amount of Loss Recognized in Income on Derivatives Six Months ended March 31,	
		2014	2013	2014	2013
Interest rate swaps	Interest expense	$(1,054)	$(1,026)	$(2,130)	$(2,029)

10

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

Note 5. Debt (continued)

The Company recognized the following losses in AOCI:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCL on Derivatives		Location of Gain or (Loss) Reclassified From AOCI into Income (Effective Portion*)	Amount of Loss Reclassified from AOCL into Income (Effective Portion*)	
	March 31, 2014	March 31, 2013		March 31, 2014	March 31, 2013
Interest rate swaps	$(472)	$497	Interest expense	$(1,299)	$(1,238)

*There is no ineffective portion or amount excluded from effectiveness testing.

The Company, through certain of its European subsidiaries has a credit facility with a European bank. The maximum amount of borrowing available under this facility was 25.0 million Euros ($34,425). Outstanding borrowings under the credit facility totaled 21.9 million Euros ($30,144) and 22.5 million Euros ($30,454) at March 31, 2014 and September 30, 2013, respectively. The weighted-average interest rate on outstanding borrowings under this facility at March 31, 2014 and 2013 was 1.48% and 1.37%, respectively.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 1.5 million Euros ($2,001) and 1.7 million Euros ($2,310) at March 31, 2014 and September 30, 2013, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at March 31, 2014 and 2013 was 4.04% and 3.89%, respectively.

The Company, through its German subsidiary, Wetzel GmbH ("Wetzel"), has several loans with various European banks. Outstanding borrowings under these loans totaled 6.5 million Euros ($8,932) and 7.4 million Euros ($10,000) at March 31, 2014 and September 30, 2013, respectively. The weighted-average interest rate on outstanding borrowings of Wetzel at March 31, 2014 and 2013 was 7.75% and 7.17%, respectively.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 7.1 million Euros ($9,766) and 5.1 million Euros ($6,871) at March 31, 2014 and September 30, 2013, respectively. Matthews International S.p.A. also has three lines of credit totaling 11.3 million Euros ($15,601) with the same Italian banks. Outstanding borrowings on these lines were 4.3 million Euros ($5,932) and 5.6 million Euros ($7,639) at March 31, 2014 and September 30, 2013, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at March 31, 2014 and 2013 was 3.12% and 3.16%, respectively.

11

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

Note 6. Share-Based Payments

The Company maintains an equity incentive plan (the "2012 Equity Incentive Plan") that provides for grants of stock options, restricted shares, stock-based performance units and certain other types of stock-based awards. The Company also maintains an equity incentive plan (the "2007 Equity Incentive Plan") and a stock incentive plan (the "1992 Incentive Stock Plan") that previously provided for grants of stock options, restricted shares and certain other types of stock-based awards. Under the 2012 Equity Incentive Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 2,500,000. There will be no further grants under the 2007 Equity Incentive Plan or the 1992 Incentive Stock Plan. At March 31, 2014, there were 2,097,550 shares reserved for future issuance under the 2012 Equity Incentive Plan. All 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 generally vest in one-third increments upon the attainment of pre-defined levels of 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, for grants made prior to fiscal 2013, generally one-half of the shares vest on the third anniversary of the grant, with the remaining one-half of the shares vesting in one-third increments upon attainment of pre-defined levels of appreciation in the market value of the Company's Class A Common Stock. For grants made in fiscal 2013 and forward, generally one-half of the shares vest on the third anniversary of the grant, one-quarter of the shares vest in one-third increments upon the attainment of pre-defined levels of adjusted earnings per share, and the remaining one-quarter of the shares vest in one-third increments upon attainment of pre-defined levels of appreciation in the market value of the Company's Class A Common Stock. Additionally, restricted shares cannot vest until the first anniversary of the grant date. Unvested restricted shares generally expire on the earlier of five years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company issues restricted shares from treasury shares.

For the three-month periods ended March 31, 2014 and 2013, total stock-based compensation cost totaled $1,665 and $1,378, respectively. For the six-month periods ended March 31, 2014 and 2013, total stock-based compensation cost totaled $3,239 and $2,757, respectively. The associated future income tax benefit recognized was $649 and $537 for the three-month periods ended March 31, 2014 and 2013, respectively, and $1,263 and $1,075 for the six-month periods ended March 31, 2014 and 2013, respectively.

For the three-month periods ended March 31, 2014 and 2013, the amount of cash received from the exercise of stock options was $173 and $48, respectively. For the six-month periods ended March 31, 2014 and 2013, the amount of cash received from the exercise of stock options was $1,828 and $523, respectively. In connection with these exercises, the tax benefits realized by the Company were $8 and $3 for the three-month periods ended March 31, 2014 and 2013, respectively, and $185 and $66 for the six-month periods ended March 31, 2014 and 2013, respectively.

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

Note 6. Share-Based Payments (continued)

The transactions for restricted stock for the six months ended March 31, 2014 were as follows:

	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2013	641,399	$29.46
Granted	201,225	35.71
Vested	(225,503)	29.44
Expired or forfeited	(77,417)	30.84
Non-vested at March 31, 2014	539,704	31.60

As of March 31, 2014, the total unrecognized compensation cost related to unvested restricted stock was $7,898 and is expected to be recognized over a weighted average period of 1.8 years.

The transactions for shares under options for the six months ended March 31, 2014 were as follows:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding, September 30, 2013	744,824	$37.76		
Granted	-	-		
Exercised	(62,653)	32.37		
Expired or forfeited	(20,214)	39.12		
Outstanding, March 31, 2014	661,957	38.23	1.8	$1,710
Exercisable, March 31, 2014	349,183	37.77	1.6	$1,063

No options vested during the three-month and six-month periods ended March 31, 2014 and 2013, respectively. The intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the six-month periods ended March 31, 2014 and 2013 was $509 and $190, respectively.

The transactions for non-vested options for the six months ended March 31, 2014 were as follows:

Non-vested shares	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2013	331,755	$11.29
Granted	-	-
Vested	-	-

Expired or forfeited	(18,981)	12.23
Non-vested at March 31, 2014	312,774	11.23

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

Note 6. Share-Based Payments (continued)

The fair value of each restricted stock grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value of restricted stock for the periods ended March 31, 2014 and 2013.

	Six Months Ended March 31,			
	2014		2013	
Expected volatility	26.6	%	29.5	%
Dividend yield	1.1	%	1.2	%
Average risk free interest rate	1.4	%	0.6	%
Average expected term (years)	2.0		2.0	

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

Under the Company's 1994 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 $60. The equivalent amount paid to a non-employee Chairman of the Board is $130. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. The value of deferred shares is recorded in other liabilities. A total of 17,005 shares had been deferred under the 1994 Director Fee Plan at March 31, 2014. 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 $100. A total of 22,300 stock options have been granted under the plan. At March 31, 2014, 11,800 options were outstanding and vested. Additionally, 120,500 shares of restricted stock have been granted under the plan, 37,457 of which were unvested at March 31, 2014. A total of 300,000 shares have been authorized to be issued under the 1994 Director Fee Plan.

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

Note 7. Earnings Per Share Attributable to Matthews' Shareholders

The information used to compute earnings per share attributable to Matthews' common shareholders was as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Net income attributable to Matthews shareholders	$11,333	$14,192	$19,247	$22,447
Less: dividends and undistributed earnings allocated to participating securities	23	145	74	251
Net income available to Matthews shareholders	$11,310	$14,047	$19,173	$22,196
Weighted-average shares outstanding (in thousands):				
Basic shares	27,276	27,369	27,193	27,312
Effect of dilutive securities	194	143	231	99
Diluted shares	27,470	27,512	27,424	27,411

There were no anti-dilutive securities for the three and six months ended March 31, 2014. Options to purchase 730,642 and 749,667 shares of common stock were not included in the computation of diluted earnings per share for the three months and six months ended March 31, 2013, respectively, because the inclusion of these options would be anti-dilutive.

Note 8. Pension and Other Postretirement Benefit Plans

The Company provides defined benefit pension and other postretirement plans to certain employees. Net periodic pension and other postretirement benefit cost for the plans included the following:

	Three months ended March 31,			
	Pension		Other Postretirement	
	2014	2013	2014	2013
Service cost	$1,582	$1,685	$109	$199
Interest cost	2,213	1,913	230	282
Expected return on plan assets	(2,396)	(2,243)	-	-
Amortization:				
Prior service cost	(52)	(52)	(21)	(68)
Net actuarial loss (gain)	991	1,806	(49)	110
Net benefit cost	$2,338	$3,109	$269	$523

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

Note 8. Pension and Other Postretirement Benefit Plans (continued)

	Six months ended March 31,			
	Pension		Other Postretirement	
	2014	2013	2014	2013
Service cost	$3,164	$3,370	$218	$398
Interest cost	4,426	3,826	460	564
Expected return on plan assets	(4,792)	(4,486)	-	-
Amortization:				
Prior service cost	(104)	(104)	(43)	(136)
Net actuarial loss	1,982	3,612	(98)	220
Net benefit cost	$4,676	$6,218	$537	$1,046

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the postretirement benefit plan are made from the Company's operating funds. Under IRS regulations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal year 2014.

Contributions made and anticipated for fiscal year 2014 are as follows:

Contributions	Pension	Other Postretirement
Contributions during the six months ended March 31, 2014:		
Supplemental retirement plan	$362	$ -
Other postretirement plan	-	464
Additional contributions expected in fiscal 2014:		
Supplemental retirement plan	359	-
Other postretirement plan	-	462

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

Note 9. Accumulated Other Comprehensive Income

The changes in AOCI by component, net of tax, for the three month period ended March 31, 2014 were as follows:

		Post-retirement benefit plans	Currency translation adjustment		Derivatives	Total
Attributable to Matthews:						
Balance, December 31, 2013		$ (29,572)	$ 6,260		$ 679	$ (22,633)
OCI before reclassification		-	223		(1,049)	(826)
Amounts reclassified from AOCI	(a)	529	-	(b)	643	1,172
Net current-period OCI		529	223		(406)	346
Balance, March 31, 2014		$ (29,043)	$ 6,483		$ 273	$ (22,287)
Attributable to noncontrolling interest:						
Balance, December 31, 2013		-	$ 544		-	$ 544
OCI before reclassification		-	(197)		-	(197)
Net current-period OCI		-	(197)		-	(197)
Balance, March 31, 2014		-	$ 347		-	$ 347

The changes in AOCI by component, net of tax, for the six month period ended March 31, 2014 were as follows:

		Post-retirement benefit plans	Currency translation adjustment		Derivatives	Total
Attributable to Matthews:						
Balance, September 30, 2013		$ (30,100)	$ 3,714		$ (554)	$ (26,940)
OCI before reclassification		-	2,769		(472)	2,297
Amounts reclassified from AOCI	(a)	1,057	-	(b)	1,299	2,356
Net current-period OCI		1,057	2,769		827	4,653
Balance, March 31, 2014		$ (29,043)	$ 6,483		$ 273	$ (22,287)
Attributable to noncontrolling interest:						
Balance, September 30, 2013		-	$ 401		-	$ 401
OCI before reclassification		-	(54)		-	(54)
Net current-period OCI		-	(54)		-	(54)
Balance, March 31, 2014		-	$ 347		-	$ 347

(a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see note 8).
(b) Amounts were included in interest expense in the periods the hedged item affected earnings (see note 5).

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

Note 9. Accumulated Other Comprehensive Income (continued)

Reclassifications out of AOCI for the three and six month periods ended March 31, 2014 were as follows:

Details about AOCI Components	Amount reclassified from AOCI Three months ended March 31, 2014		Six months ended March 31, 2014	Affected line item in the Statement of income
Postretirement benefit plans				
Prior service (cost) credit	73	(a)	147	
Actuarial losses	(942)	(a)	(1,884)	
	(869)	(b)	(1,737)	Total before tax
	(340)		(680)	Tax provision (benefit)
	$ (529)		$ (1,057)	Net of tax
Derivatives				
Interest rate swap contracts	(1,054)		(2,130)	Interest expense
	(1,054)	(b)	(2,130)	Total before tax
	(411)		(831)	Tax provision (benefit)
	(643)		(1,299)	Net of tax

(a) Amounts are included in the computation of pension and other postretirement benefit expense, which is reported in both cost of goods sold and selling and administrative expenses. For additional information, see Note 8.
(b) For pre-tax items, positive amounts represent income and negative amounts represent expense.

Note 10. Income Taxes

Income tax provisions for the Company’s interim periods are based on the effective income tax rate expected to be applicable for the full year. The Company's effective tax rate for the six months ended March 31, 2014 was 35.9%, compared to 35.0% for the first half of fiscal 2013. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes and estimated non-deductible transaction costs related to the pending acquisition of Schawk, Inc. (“SGK”) (see Note 12), offset by lower foreign income taxes.

The Company had unrecognized tax benefits (excluding penalties and interest) of $4,386 and $4,516 on March 31, 2014 and September 30, 2013, respectively, all of which, if recorded, would impact the 2014 annual effective tax rate.

The Company classifies interest and penalties on tax uncertainties as a component of the provision for income taxes. The Company included $178 in interest and penalties in the provision for income taxes for the first six months of fiscal 2014. Total penalties and interest accrued were $2,579 and $2,401 at March 31, 2014 and September 30, 2013, 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 statute of limitations expires for those tax jurisdictions. As of March 31, 2014, the tax years that remain subject to examination by major jurisdiction generally are:

United States – Federal	2010 and forward
United States – State	2009 and forward
Canada	2008 and forward
Europe	2008 and forward
United Kingdom	2012 and forward
Australia	2009 and forward
Asia	2008 and forward

18

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

Note 11. 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 (Cemetery Products, Funeral Home Products, Cremation) and Brand Solutions (Graphics Imaging, Marking and Fulfillment Systems, 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 interests.

Information about the Company's segments follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Sales to external customers:				
Memorialization:				
Cemetery Products	$52,858	$55,690	$102,685	$108,514
Funeral Home Products	63,069	67,996	121,737	128,753
Cremation	9,724	12,320	18,589	23,422
	125,651	136,006	243,011	260,689
Brand Solutions:				
Graphics Imaging	80,296	78,519	152,950	140,954
Marking and Fulfillment Systems	22,845	22,350	44,368	40,265
Merchandising Solutions	18,045	19,515	36,453	40,091
	121,186	120,384	233,771	221,310
	$246,837	$256,390	$476,782	$481,999

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Operating profit:				
Memorialization:				
Cemetery Products	$8,069	$5,851	$14,188	$12,223
Funeral Home Products	9,141	9,751	15,962	17,444
Cremation	565	997	163	1,472
	17,775	16,599	30,313	31,139
Brand Solutions:				
Graphics Imaging	1,310	5,510	2,351	5,802
Marking and Fulfillment Systems	1,830	2,407	2,970	2,783
Merchandising Solutions	(23)	554	254	1,845
	3,117	8,471	5,575	10,430

	$20,892	$25,070	$35,888	$41,569

19

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

Note 12. Acquisitions

In March 2014, the Company signed a definitive agreement to acquire SGK (NYSE: SGK). SGK is a leading global brand development, activation and brand deployment company. Under the terms of the transaction, SGK shareholders will receive $11.80 cash and 0.20582 shares of Matthews' common stock for each SGK share held. Based on the closing price of Matthews' stock at the time the agreement was signed, the transaction represents an implied price of $20.00 per share and a total enterprise value of approximately $577 million. The transaction is expected to close in the quarter ending September 30, 2014, subject to approval by the shareholders of SGK and other customary closing conditions. Members of the Schawk family and various Schawk family trusts, who collectively own approximately 61% of the common stock of Schawk, have agreed to vote in favor of the merger.

In March 2013, the Company completed the purchase of the remaining 38.5% interest in Kroma Pre-Press Preparation Systems Industry & Trade, Inc. ("Kroma"), completing the option arrangement in connection with the July 2011 acquisition of a 61.5% interest in Kroma.

In March 2013, the Company completed the purchase of the remaining 20% interest in Furnace Construction Cremators Limited ("FCC"). The Company had acquired an 80% interest in FCC in March 2010.

In December 2012, the Company acquired Pyramid Controls, Inc. and its affiliate, Pyramid Control Systems (collectively, "Pyramid"). Pyramid is a provider of warehouse control systems and conveyor control solutions for distribution centers. The acquisition is designed to expand Matthews' fulfillment products and services in the warehouse management market. The initial purchase price for the transaction was $24,532, plus potential additional consideration up to $3,700 based on future operating results.

In November 2012, the Company completed the acquisition of Wetzel Holding AG, Wetzel GmbH and certain related affiliates (collectively "Wetzel"). Wetzel is a leading European provider of pre-press services and gravure printing forms, with manufacturing operations in Germany and Poland. Wetzel's products and services are sold primary within Europe, and the acquisition is designed to expand Matthews' products and services in the global graphics imaging market. The purchase price for Wetzel was 42.6 million Euros ($54,748) on a cash-free, debt-free basis.

Note 13. Goodwill and Other Intangible Assets

Goodwill related to business combinations is not amortized, but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss may need to be recognized. For purposes of testing for impairment, the Company uses a discounted cash flow technique. A number of assumptions and estimates are involved in the application of the discounted cash flow model to forecast operating cash flows, including sales volumes and pricing, costs to produce, tax rates, capital spending, working capital changes, and discount rate. The Company estimates future cash flows using volume and pricing assumptions based largely on existing customer relationships and contracts, and operating cost assumptions management believes are reasonable based on historical performance and projected future performance as reflected in its most recent operating plans and projections. The discount rate used in the discounted cash flow analysis was developed with the assistance of valuation experts and management believes it appropriately reflects the risks associated with the Company's operating cash flows. In order to further validate the reasonableness of the estimated fair values of the reporting units as of the valuation date, a reconciliation of the aggregate fair values of all reporting units to market capitalization was performed using a reasonable control premium.

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

Note 13. Goodwill and Other Intangible Assets (continued)

The Company performed its annual impairment review in the second quarter of fiscal 2014 and determined that for all reporting units, except Graphics Imaging, the estimated fair value significantly exceeded carrying value so no adjustments to the carrying value of goodwill were necessary at March 31, 2014. As discussed in the Company's Annual Report on Form 10-K for the year ended September 30, 2013, recent economic conditions in Europe have unfavorably impacted the operating results of the Graphics Imaging business. For the Graphics Imaging reporting unit, the estimated fair value exceeded its carrying value by less than 10%, resulting in no goodwill impairment for the unit. While the Graphics Imaging reporting unit passed the first step of the impairment test, if its operating profits or another significant assumption were to deteriorate in the future, it could adversely affect the estimated fair value of the reporting unit. Factors that could have a negative impact on the estimated fair value of the Graphics Imaging reporting unit include a further delay in the recovery of the European market, continued pricing pressure, declines in expected volumes, and an increase in discount rates. If the Company is unsuccessful in its plans to recover the profitability of this business, the estimated fair value could decline and lead to a potential goodwill impairment in the future.

Trade names with indefinite lives are tested for impairment annually in the second quarter. Matthews performed a quantitative impairment evaluation of its trade names for 2014, and the test indicated the trade names were not impaired.

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

	Cemetery Products	Funeral Home Products	Cremation	Graphics Imaging	Marking and Fulfillment Systems	Merchandising Solutions	Consolidated
Goodwill	$99,707	$163,208	$17,823	$193,281	$50,646	$ 9,138	$ 533,803
Accumulated impairment losses	(412)	-	(5,000)	(3,840)	-	-	(9,252)
Balance at September 30, 2013	99,295	163,208	12,823	189,441	50,646	9,138	524,551
Additions during period	-	-	-	-	-	-	-
Translation and other adjustments	427	-	165	2,208	(69)	-	2,731
Goodwill	100,134	163,208	17,988	195,489	50,577	9,138	536,534
Accumulated impairment losses	(412)	-	(5,000)	(3,840)	-	-	(9,252)
Balance at March 31, 2014	$99,722	$163,208	$12,988	$191,649	$50,577	$ 9,138	$ 527,282

21

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

Note 13. Goodwill and Other Intangible Assets (continued)

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of March 31, 2014 and September 30, 2013, respectively.

	Carrying Amount	Accumulated Amortization	Net
March 31, 2014:			
Trade names	$23,014	$ - *	$23,014
Trade names	3,050	(2,150)	900
Customer relationships	59,191	(21,176)	38,015
Copyrights/patents/other	10,196	(9,191)	1,005
	$95,451	$ (32,517)	$62,934
September 30, 2013:			
Trade names	$22,878	$ - *	$22,878
Trade names	3,034	(2,142)	892
Customer relationships	59,061	(19,099)	39,962
Copyrights/patents/other	10,116	(8,746)	1,370
	$95,089	$ (29,987)	$65,102

* Not subject to amortization

The carrying amount of indefinite-lived trade names as of September 30, 2013 included an impairment loss of approximately $1.6 million in the Graphics Imaging segment that was recorded in the second quarter of fiscal 2013. The net change in intangible assets during the six months ended March 31, 2014 included foreign currency fluctuations during the period, and additional amortization.

Amortization expense on intangible assets was $1,165 and $943 for the three-month periods ended March 31, 2014 and 2013, respectively. For the six-month periods ended March 31, 2014 and 2013, amortization expense was $2,340 and $1,886, respectively. Amortization expense is estimated to be $1,947 for the remainder of 2014, $3,662 in 2015, $3,374 in 2016, $3,181 in 2017 and $3,163 in 2018.

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

Cautionary Statement:

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation ("Matthews" or the "Company") and related notes thereto included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended September 30, 2013. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, including the risks associated with the Company's pending acquisition of Schawk, Inc. ("SGK"), and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered individually significant to consolidated sales, changes in the distribution of the Company's products or the potential loss of one or more of the Company's larger customers are also considered risk factors.

Results of Operations:

The following table sets forth the sales and operating profit for the Company's Memorialization and Brand Solutions businesses for the three and six-month periods ended March 31, 2014 and 2013.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Sales:				
Memorialization	$125,651	$136,006	$243,011	$260,689
Brand Solutions	121,186	120,384	233,771	221,310
	$246,837	$256,390	$476,782	$481,999
Operating Profit:				
Memorialization	$17,775	$16,599	$30,313	$31,139
Brand Solutions	3,117	8,471	5,575	10,430
	$20,892	$25,070	$35,888	$41,569

Sales for the six months ended March 31, 2014 were $476.8 million, compared to $482.0 million for the six months ended March 31, 2013. The decrease in sales primarily reflected lower sales in the Memorialization businesses and Merchandising Solutions segment, partially offset by higher sales volume in the Marking and Fulfillment Systems segment and the impact of acquisitions. Consolidated sales for the current period also reflected the benefit of favorable changes in foreign currencies against the U.S. dollar of approximately $4.0 million.

In the Company's Memorialization business, Cemetery Products segment sales for the first six months of fiscal 2014 were $102.7 million, compared to $108.5 million for the first six months of fiscal 2013. The decrease primarily reflected lower unit volume of memorial products. Sales for the Funeral Home Products segment were $121.7 million for the six months ended March 31, 2014, compared to $128.8 million a year ago. The decrease resulted principally from lower unit volume. Based on published CDC data, the Company estimated that the number of casketed, in-ground burial deaths in the U.S. declined in the first six months of fiscal 2014, compared to a year ago, contributing to the decrease in unit volume in both the Cemetery Products and Funeral Home Products segments in fiscal 2014. Sales for the Cremation segment were $18.6 million for the first six months of fiscal 2014, compared to $23.4 million for the same period a year ago. The decrease principally reflected lower sales volume of cremation equipment, primarily in the U.K. and Europe. However, based on current backlog, including a significant incinerator project, the segment expects to recover the first half decline during the remaining six months of fiscal 2014. In the Brand Solutions business, sales for the Graphics Imaging segment were $153.0 million in the first six months of fiscal 2014, compared to $141.0 million for the same period a year ago. The acquisition of Wetzel Holding AG, Wetzel GmbH and related affiliates (collectively "Wetzel") in November 2012 contributed $7.7 million to the segment's sales increase in the first six months of fiscal 2014. In addition, changes in foreign currency values against the U.S. dollar favorably impacted the segment's fiscal 2014 sales by $3.8 million, compared to fiscal 2013. Marking and Fulfillment Systems segment sales were $44.4 million for the first six months of fiscal 2014, compared to $40.3 million for the first six months of fiscal 2013. The increase resulted principally from higher unit volume of equipment in North America and the acquisition of Pyramid Controls, Inc. ("Pyramid") in December 2012. Pyramid contributed $1.8 million to the fiscal 2014 sales increase over fiscal 2013. Sales for the Merchandising Solutions segment were $36.5 million for the first six months of fiscal 2014, compared to $40.1 million for the same period a year ago. The decrease principally reflected lower sales to several large, national accounts. However, based upon current backlog, the Company expects the segment to recover the current decline by the end of fiscal 2014.

Gross profit for the six months ended March 31, 2014 was $171.6 million, compared to $174.8 million for the same period a year ago. Consolidated gross profit as a percent of sales was 36.0% and 36.3% for the first six months of fiscal 2014 and fiscal 2013, respectively. The decrease in consolidated gross profit primarily reflected the impact of lower sales in the Memorialization businesses and the Merchandising Solutions segment.

Selling and administrative expenses for the six months ended March 31, 2014 were $135.7 million, compared to $133.3 million for the first six months of fiscal 2013. Consolidated selling and administrative expenses as a percent of sales were 28.5% for the six months ended March 31, 2014, compared to 27.6% for the same period last year. Selling and administrative expenses in the first six months of fiscal 2014 included expenses related to acquisition activities, primarily the SGK acquisition, of $3.6 million, the Company's strategic cost structure initiatives of $3.3 million and litigation expenses of $1.1 million related to a legal dispute in the Funeral Home Products segment. Selling and administrative expenses in the first six months of fiscal 2013 included expenses related to acquisition activities of $2.3 million, strategic cost structure initiatives of $3.6 million, expenses of $1.2 million related to implementation of an ERP system and an impairment charge of approximately $1.6 million related to the carrying value of an intangible asset. These expenses were partially offset by a gain of $3.3 million on the settlement of the purchase of the remaining ownership interest in one of the Company's subsidiaries.

Operating profit for the six months ended March 31, 2014 was $35.9 million, compared to $41.6 million for the six months ended March 31, 2013. Cemetery Products segment operating profit for the first six months of fiscal 2014 was $14.2 million, compared to $12.2 million for the first six months of fiscal 2013. Fiscal 2014 operating profit included expenses of $570,000 related to strategic cost-structure initiatives. Fiscal 2013 operating profit included expenses related to strategic cost-structure initiatives of $1.7 million and ERP implementation costs of $1.2 million. Excluding these expenses from both periods, the Cemetery Products segment operating profit in the first six months of fiscal 2014 was approximately the same as in the prior year. The impact on operating profit of lower sales was offset by the benefit of the Company's recent cost structure initiatives. Operating profit for the Funeral Home Products segment was $16.0 million for the six months ended March 31, 2014, compared to $17.4 million for the first six months of fiscal 2013. The Funeral Home Products segment operating profit included expenses related to the Company's strategic cost-structure initiatives of $1.7 million and $762,000 for the first six months of fiscal 2014 and 2013, respectively. In addition, the fiscal 2014 period includes litigation expenses of $1.1 million related to a legal dispute with one of the Company's competitors. Excluding the aforementioned expenses from both periods, the Funeral Home Products segment operating profit increased $614,000 despite lower sales, reflecting the benefit of the Company's recent cost structure initiatives. The Cremation segment reported an operating profit of $163,000 for the first six months of fiscal 2014, compared to $1.5 million for the same period in fiscal 2013. The decrease principally reflected the impact of lower sales. Graphics Imaging segment operating profit for the six months ended March 31, 2014 was $2.4 million, compared to $5.8 million for the six months ended March 31, 2013. The Graphics Imaging segment's fiscal 2014 operating profit included acquisition-related expenses of $3.5 million and expenses related to strategic cost structure initiatives of $585,000. Operating profit for the segment in fiscal 2013 included acquisition-related expenses of $2.1 million, expenses related to strategic cost structure initiatives of approximately $850,000 and an impairment charge of $1.6 million related to the carrying value of an intangible asset. These fiscal 2013 expenses were partially offset by a gain of $3.3 million on the settlement of the purchase of the remaining ownership interest in one of the Company's subsidiaries. Excluding these items from both fiscal periods, the Graphics Imaging segment operating profit declined approximately $600,000, primarily reflecting an unfavorable change in product mix, partially offset by the impact of the Wetzel acquisition of approximately $500,000. Operating profit for the Marking and Fulfillment Systems segment for the first six months of fiscal 2014 was $3.0 million, compared to $2.8 million for the same period a year ago. The increase primarily resulted from the favorable impact of higher sales. Merchandising Solutions segment operating profit was $254,000 for the first six months of fiscal 2014, compared to $1.8 million for the same period in fiscal 2013, primarily reflecting lower sales and an increase in expenses related to strategic cost structure initiatives of approximately $600,000.

Investment income was $1.2 million for the six months ended March 31, 2014, compared to $840,000 for the six months ended March 31, 2013. The increase reflected higher rates of return on investments held in trust for certain of the Company's benefit plans. Interest expense for the first six months of fiscal 2014 was $5.5 million, compared to $6.3 million for the same period last year. The decrease in interest expense primarily reflected lower interest rates. Other deductions, net, for the six months ended March 31, 2014 represented a decrease in pre-tax income of $1.8 million, compared to a decrease in pre-tax income of $2.2 million for the same period last year. Other income and deductions generally include banking related fees and the impact of currency gains and losses on certain intercompany debt.

The Company's effective tax rate for the six months ended March 31, 2014 was 35.9%, compared to 35.0% for the first six months of fiscal 2013 and 32.7% for the fiscal 2013 full year. The fiscal 2013 full year effective tax rate included the benefit of a European tax loss carryback. The increase in the effective tax rate for the first six months of fiscal 2014 primarily reflected the impact of estimated non-deductible transaction costs related to the pending acquisition of SGK. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes and estimated non-deductible acquisition costs, offset by lower foreign income taxes.

Net earnings attributable to noncontrolling interests was a loss of $90,000 in the six months ended March 31, 2014, compared to a loss of $389,000 for the same period a year ago. The decrease related principally to the Company's acquisition of the remaining ownership interest in its Turkish subsidiary in March 2013.

Goodwill and Other Intangible Assets:

Goodwill related to business combinations is not amortized, but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss may need to be recognized. For purposes of testing for impairment, the Company uses a discounted cash flow technique. A number of assumptions and estimates are involved in the application of the discounted cash flow model to forecast operating cash flows, including sales volumes and pricing, costs to produce, tax rates, capital spending, working capital changes, and discount rate. The Company estimates future cash flows using volume and pricing assumptions based largely on existing customer relationships and contracts, and operating cost assumptions management believes are reasonable based on historical performance and projected future performance as reflected in its most recent operating plans and projections. The discount rate used in the discounted cash flow analysis was developed with the assistance of valuation experts and management believes it appropriately reflects the risks associated with the Company's operating cash flows. In order to further validate the reasonableness of the estimated fair values of the reporting units as of the valuation date, a reconciliation of the aggregate fair values of all reporting units to market capitalization was performed using a reasonable control premium.

The Company performed its annual impairment review in the second quarter of fiscal 2014 and determined that for all reporting units, except Graphics Imaging, the estimated fair value significantly exceeded carrying value so no adjustments to the carrying value of goodwill were necessary at March 31, 2014. As discussed in the Company's Annual Report on Form 10-K for the year ended September 30, 2013, recent economic conditions in Europe have unfavorably impacted the operating results of the Graphics Imaging business. For the Graphics Imaging reporting unit, which had $191.6 million of goodwill at March 31, 2014, the estimated fair value exceeded its carrying value by less than 10%, resulting in no goodwill impairment for the unit. While the Graphics Imaging reporting unit passed the first step of the impairment test, if its operating profits or another significant assumption were to deteriorate in the future, it could adversely affect the estimated fair value of the reporting unit. Factors that could have a negative impact on the estimated fair value of the Graphics Imaging reporting unit include a further delay in the recovery of the European market, continued pricing pressure, declines in expected volumes, and an increase in discount rates. If the Company is unsuccessful in its plans to recover the profitability of this business, the estimated fair value could decline and lead to a potential goodwill impairment in the future.

The carrying amount of trade names with indefinite lives as of March 31, 2014 and September 30, 2013 totaled $23.0 million and $22.9 million, respectively. These trade names are tested for impairment annually in the second quarter. Matthews performed a quantitative impairment evaluation of its trade names for 2014, and the test indicated the trade names were not impaired.

Liquidity and Capital Resources:

Net cash provided by operating activities was $23.6 million for the first six months of fiscal 2014, compared to $30.1 million for the first six months of fiscal 2013. Operating cash flow for both periods reflected net income adjusted for depreciation, amortization, stock-based compensation expense and non-cash pension expense. Net changes in working capital items, which principally related to increases in inventory and fiscal year-end compensation-related payments, resulted in a use of working capital of approximately $23.2 million in fiscal 2014, compared to $10.6 million a year ago.

Cash used in investing activities was $9.8 million for the six months ended March 31, 2014, compared to $74.5 million for the six months ended March 31, 2013. Investing activities for the first six months of fiscal 2014 primarily reflected capital expenditures. Investing activities for the first six months of fiscal 2013 primarily reflected acquisitions, net of cash acquired, of $63.8 million and capital expenditures of $10.9 million.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged $26.9 million for the last three fiscal years. Capital spending for fiscal 2014 is currently expected to be approximately $30.0 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash used in financing activities for the six months ended March 31, 2014 was $11.5 million, primarily reflecting long-term debt proceeds, net of repayments, of $851,000, proceeds from the sale of treasury stock (stock option exercises) of $1.8 million, treasury stock purchases of $4.3 million, payment of contingent consideration of $3.7 million and dividends of $6.0 million to the Company's shareholders. Cash provided by financing activities for the six months ended March 31, 2013 was $41.5 million, primarily reflecting long-term debt proceeds, net of repayments, of $63.6 million, payment of contingent consideration of $9.5 million, treasury stock purchases of $7.3 million and dividends of $5.6 million to the Company's shareholders.

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is $500.0 million and borrowings under the facility bear interest at LIBOR plus a factor ranging from .75% to 1.25% based on the Company’s leverage ratio. The facility’s maturity is July 2018. 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 $30.0 million) is available for the issuance of commercial and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility as of March 31, 2014 and September 30, 2013 were $310.0 million and $305.0 million, respectively. The weighted-average interest rate on outstanding borrowings under the credit facilities was 2.53% and 2.98% at March 31, 2014 and 2013, respectively.

In connection with the pending acquisition of SGK (see “Acquisitions”), the Company entered into a commitment letter with RBS Citizens, N.A. in March 2014 to amend and increase the maximum amount of borrowings available under the facility to $850.0 million. The amendment is conditional upon the closing of the SGK acquisition.

The Company has entered into the following interest rate swaps:

Effective Date	Amount	Fixed Interest Rate	Interest Rate Spread at March 31, 2014	Maturity Date

May 2011	$25,000	1.37%	1.00%	May 2014
October 2011	25,000	1.67%	1.00%	October 2015
November 2011	25,000	2.13%	1.00%	November 2014
March 2012	25,000	2.44%	1.00%	March 2015
June 2012	40,000	1.88%	1.00%	June 2022
August 2012	35,000	1.74%	1.00%	June 2022
September 2012	25,000	3.03%	1.00%	December 2015
September 2012	25,000	1.24%	1.00%	March 2017
November 2012	25,000	1.33%	1.00%	November 2015
May 2014	25,000	1.35%	1.00%	May 2018

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 gain, net of unrealized losses, of $447,000 ($273,000 after tax) at March 31, 2014 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2014, an approximately $1.1 million net unrealized loss included in accumulated other comprehensive income is expected to be recognized in earnings as interest expense over the next twelve months.

The Company, through certain of its European subsidiaries, has a credit facility with a bank. The maximum amount of borrowings available under this facility is 25.0 million Euros ($34.4 million). Outstanding borrowings under the credit facility totaled 21.9 million Euros ($30.1 million) and 22.5 million Euros ($30.4 million) at March 31, 2014 and September 30, 2013, respectively. The weighted-average interest rate on outstanding borrowings under the facility at March 31, 2014 and 2013 was 1.48% and 1.37%, respectively.

The Company, through its German subsidiary, Saueressig GmbH & Co. KG ("Saueressig"), has several loans with various European banks. Outstanding borrowings under these loans totaled 1.5 million Euros ($2.0 million) and 1.7 million Euros ($2.3 million) at March 31, 2014 and September 30, 2013, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at March 31, 2014 and 2013 was 4.04% and 3.89%, respectively.

The Company, through its German subsidiary, Wetzel GmbH ("Wetzel"), has several loans with various European banks. Outstanding borrowings under these loans totaled 6.5 million Euros ($8.9 million) and 7.4 million Euros ($10.0 million) at March 31, 2014 and September 30, 2013. The weighted-average interest rate on outstanding borrowings of Wetzel at March 31, 2014 and 2013 was 7.75% and 7.17%, respectively.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 7.1 million Euros ($9.8 million) and 5.1 million Euros ($6.9 million) at March 31, 2014 and September 30, 2013, respectively. Matthews International S.p.A. also has three lines of credit totaling 11.3 million Euros ($15.6 million) with the same Italian banks. Outstanding borrowings on these lines were 4.3 million Euros ($5.9 million) and 5.6 million Euros ($7.6 million) at March 31, 2014 and September 30, 2013, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at March 31, 2014 and 2013 was 3.12% and 3.16%, respectively.

26

The Company has a stock repurchase program. Under the current authorization, the Company's Board of Directors has authorized the repurchase of a total of 2,500,000 shares of Matthews' common stock under the program, of which 1,086,065 shares remain available for repurchase as of March 31, 2014. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

Consolidated working capital of the Company was $251.9 million at March 31, 2014, compared to $222.0 million at September 30, 2013. Cash and cash equivalents were $61.6 million at March 31, 2014, compared to $59.0 million at September 30, 2013. The Company's current ratio was 2.5 and 2.2 at March 31, 2014 and September 30, 2013, 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 March 31, 2014, an accrual of approximately $5.2 million had been recorded for environmental remediation (of which $1.4 million was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. Changes in the accrued environmental remediation obligation from the prior fiscal year reflect payments charged against the accrual.

While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

ACQUISITIONS:

In March 2014, the Company signed a definitive agreement to acquire Schawk, Inc. ("SGK") (NYSE: SGK). SGK is a leading global brand development, activation and brand deployment company. Under the terms of the transaction, SGK shareholders will receive $11.80 cash and 0.20582 shares of Matthews' common stock for each SGK share held. Based on the closing price of Matthews' stock at the time the agreement was signed, the transaction represents an implied price of $20.00 per share and a total enterprise value of approximately $577 million. The transaction is expected to close in the quarter ending September 30, 2014, subject to approval by the shareholders of SGK and other customary closing conditions. Members of the Schawk family and various Schawk family trusts, who collectively own approximately 61% of the common stock of Schawk, have agreed to vote in favor of the merger.

In March 2013, the Company completed the purchase of the remaining 38.5% interest in Kroma Pre-Press Preparation Systems Industry & Trade, Inc. (“Kroma”), completing the option arrangement in connection with the July 2011 acquisition of a 61.5% interest in Kroma.

In March 2013, the Company completed the purchase of the remaining 20% interest in Furnace Construction Cremators Limited (“FCC”). The Company had acquired an 80% interest in FCC in March 2010.

In December 2012, the Company acquired Pyramid Controls, Inc. and its affiliate, Pyramid Control Systems (collectively, “Pyramid”). Pyramid is a provider of warehouse control systems and conveyor control solutions for distribution centers. The acquisition is designed to expand Matthews' fulfillment products and services in the warehouse management market. The initial purchase price for the transaction was approximately $24.5 million, plus potential additional consideration up to $3.7 million based on future operating results.

In November 2012, the Company completed the acquisition of Wetzel Holding AG, Wetzel GmbH and certain related affiliates (collectively “Wetzel”). Wetzel is a leading European provider of pre-press services and gravure printing forms, with manufacturing operations in Germany and Poland. Wetzel’s products and services are sold primarily within Europe, and the acquisition is designed to expand Matthews' products and services in the global graphics imaging market. The purchase price for Wetzel was approximately 42.6 million Euros ($54.7 million) on a cash-free, debt-free basis, plus potential additional consideration up to 2.2 million Euros ($2.8 million) based upon operating results.

Forward-Looking Information:

Matthews has a three-pronged strategy to attain annual growth in earnings per share. This strategy consists of the following: internal growth (which includes organic growth, cost structure and 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").

In developing the Company’s outlook for the remainder of fiscal 2014, some of the more significant factors considered include:

- The Company will continue to incur costs in connection with the pending acquisition of SGK. These costs are expected to be significant and they will be identified and disclosed as they are incurred.

- Strategic cost structure initiatives, particularly with respect to lean and sourcing, will continue. The Company has started to realize some of the benefits of these initiatives and, as these projects progress, the costs associated with these actions will also continue.

- Based on published CDC data, the Company estimated that the number of casketed, in-ground burial deaths in the United States in the most recent quarter and six-month periods decreased from a year ago. This indicates that the death rate trends have moderated from fiscal 2013. As such, this may project to a decline in casketed, in-ground burial deaths for the remainder of fiscal 2014.

- The challenges stemming from the European economic weakness are expected to continue. While some growth is forecasted, the economic climate is expected to be difficult in the near term and remains a risk to the Company’s European businesses.

- The current year declines in sales in the Cremation and Merchandising Solutions businesses are currently projected to be recovered based on the backlog of both segments.

Based on our year-to-date results and current forecasts, the Company is projecting growth in fiscal 2014 earnings per share over fiscal 2013, on a non-GAAP basis.

Critical Accounting Policies:

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

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements and in the critical accounting policies in Management's Discussion and Analysis included in the Company's Annual Report on Form 10-K for the year ended September 30, 2013. Management believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the company's operating results and financial condition.

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company's contractual obligations at March 31, 2014, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

		Payments due in fiscal year:			
		2014			After
			2015 to	2017 to	
	Total	Remainder	2016	2018	2019
Contractual Cash Obligations:		(Dollar amounts in thousands)			
Revolving credit facilities	$340,144	$-	$30,144	$310,000	$-
Notes payable to banks	22,033	13,230	6,649	2,154	-
Short-term borrowings	6,556	6,556	-	-	-
Capital lease obligations	10,713	1,255	3,351	1,918	4,189
Non-cancelable operating leases	27,271	5,472	10,860	8,970	1,969
Total contractual cash obligations	$406,717	$26,513	$51,004	$323,042	$6,158

A significant portion of the loans included in the table above bear interest at variable rates. At March 31, 2014, the weighted-average interest rate was 2.53% on the Company's domestic Revolving Credit Facility, 1.48% on the credit facility through the Company's European subsidiaries, 4.04% on bank loans to its wholly-owned subsidiary, Saueressig, 7.75% on bank loans to its wholly-owned subsidiary, Wetzel and 3.12% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company is not required to make any significant contributions to its principal retirement plan in fiscal 2014. During the six months ended March 31, 2014, contributions of $362,000 and $464,000 were made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional $359,000 and $462,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2014.

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 March 31, 2014, 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. 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

The Company has entered into interest rate swaps as listed under “Liquidity and Capital Resources”.

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

The fair value of the interest rate swaps reflected a net unrealized gain of $447,000 ($273,000 after tax) at March 31, 2014 that is included in equity as part of accumulated other comprehensive income. A decrease of 10% in market interest rates (e.g. a decrease from 5.0% to 4.5%) would result in a decrease of approximately $790,000 in the net fair value asset 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. In addition, based on competitive market conditions and to the extent that the Company has established pricing terms with customers through contracts or similar arrangements, the Company’s ability to immediately increase the price of its products to offset the increased costs may be limited.

Foreign Currency Exchange Rates - The Company is subject to changes in various foreign currency exchange rates, including the Euro, British Pound, Canadian Dollar, Australian Dollar, Swedish Krona, Chinese Yuan, Hong Kong Dollar, Polish Zloty, Turkish Lira and Vietnamese Dong in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. A strengthening of the U. S. dollar of 10% would have resulted in a decrease in reported sales of $17.4 million and a decrease in reported operating income of $1.3 million for the six months ended March 31, 2014.

Actuarial Assumptions – The most significant actuarial assumptions affecting pension expense and pension obligations include the valuation of retirement plan assets, the discount rate and the estimated return on plan assets. The estimated return on plan assets is currently based upon projections provided by the Company’s independent investment advisor, considering the investment policy of the plan and the plan’s asset allocation. The fair value of plan assets and discount rate are "point-in-time" measures, and the recent volatility of the debt and equity markets makes estimating future changes in fair value of plan assets and discount rates more challenging. The following table summarizes the impact on the September 30, 2013 actuarial valuations of changes in the primary assumptions affecting the Company's principal retirement plan and supplemental retirement plan.

	Impact of Changes in Actuarial Assumptions					
	Change in Discount Rate		Change in Expected Return		Change in Market Value of Assets	
	+1%	-1%	+1%	-1%	+5%	-5%
	(Dollar amounts in thousands)					
Increase (decrease) in net benefit cost	$ (2,394)	$ 3,163	$(1,204)	$1,204	$ (1,097)	$ 1,097
Increase (decrease) in projected benefit obligation	(23,348)	30,054	-	-	-	-
Increase (decrease) in funded status	23,348	(30,054)	-	-	6,219	(6,219)

Item 4. Controls and Procedures:

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

Management, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures in effect as of March 31, 2014. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2014, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, and that such information is recorded, summarized and properly reported within the appropriate time period, relating to the Company and its consolidated subsidiaries, required to be included in the Exchange Act reports, including this Quarterly Report on Form 10-Q.

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The following risk factor relating to the Company’s agreement to acquire Schawk, Inc. (the “Acquisition”) updates the risk factors in the Company’s Annual Report on Form 10-K for the year ended September 30, 2013.

Certain risks related to the Acquisition.

In March 2014, the Company signed a definitive agreement to acquire Schawk, Inc. ("SGK"), a leading global brand development, activation and brand deployment company. Due to the acquisition, additional risks and uncertainties could affect the Company's financial performance and actual results. Specifically, the acquisition could cause actual results for fiscal 2014 and beyond to differ materially from those expressed or implied in any forward-looking statements included in this report or otherwise made by the Company's management. The risks associated with the acquisition include risks related to combining businesses and achieving expected savings and synergies, assimilating acquired companies and the fact that merger integration costs related to the acquisition are difficult to predict with a level of certainty, and may be greater than expected. Furthermore, completion of the acquisition remains subject to approval by SGK's stockholders and other customary closing conditions; thus, the acquisition may not be completed timely, or at all.

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

Stock Repurchase Plan

The Company has a stock repurchase program. 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. Under the current authorization, the Company's Board of Directors had authorized the repurchase of a total of 2,500,000 shares of Matthews' common stock under the program, of which 1,086,065 shares remain available for repurchase as of March 31, 2014.

The following table shows the monthly fiscal 2014 stock repurchase activity:

Period	Total number of shares purchased	Weighted-average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan
October 2013	509	$40.83	509	1,194,161
November 2013	86,287	40.95	86,287	1,107,874
December 2013	15,381	41.67	15,381	1,092,493
January 2014	6,428	42.39	6,428	1,086,065
February 2014	-	-	-	1,086,065
March 2014	-	-	-	1,086,065
Total	108,605	$41.13	108,605	