BADGER METER INC
Form DEF 14A
March 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

Badger Meter, Inc.
(Name of registrant as specified in its charter)
(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(3) Filing Party:

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BADGER METER, INC.
4545 West Brown Deer Road
Milwaukee, Wisconsin 53223
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
April 24, 2015

The Annual Meeting of the Shareholders of Badger Meter, Inc. will be held at the Wisconsin Club, City Club, 900 W. Wisconsin Avenue, Milwaukee, Wisconsin 53233 on Friday, April 24, 2015, at 8:30 a.m., local time, for the following purposes:

1. To elect as directors the eight nominees named in the proxy statement, each for a one-year term;
2. To consider an advisory vote to approve the compensation of the company's named executive officers;
3. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm for the company for the year ending December 31, 2015; and
4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Our Board of Directors recommends a vote "FOR" each of the director nominees in Proposal 1, and "FOR" Proposals 2 and 3. The persons named as proxies will use their discretion to vote on other matters that may properly arise at the Annual Meeting.

Holders of record of our common stock at the close of business on February 27, 2015, are entitled to notice of and to vote at the meeting and any adjournments or postponements thereof. Shareholders are entitled to one vote per share.

By Order of the Board of Directors

William R. A. Bergum,
Secretary

March 18, 2015

We urge you to submit your proxy as soon as possible. If the records of our transfer agent, American Stock Transfer & Trust Company, LLC, show that you own shares in your name, or you own shares in our Dividend Reinvestment Plan, then you can submit your proxy for those shares via the Internet or by using a toll-free telephone number provided on the proxy card. Or you can mark your votes on the proxy card we have enclosed, sign and date it, and mail it in the postage-paid envelope we have provided. Instructions for using these convenient services are set forth on the proxy card. If your shares are held in "street name" by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct them to vote your shares.

Important Notice Regarding the Availability of Proxy Materials for the
Shareholder Meeting to be held on April 24, 2015
This Proxy Statement and our 2014 Annual Report on Form 10-K are available at
http://www.astproxyportal.com/ast/12549/

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2015 ANNUAL MEETING OF SHAREHOLDERS
PROXY STATEMENT TABLE OF CONTENTS

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BADGER METER, INC.
4545 West Brown Deer Road
Milwaukee, Wisconsin 53223

PROXY STATEMENT

To the Shareholders of
BADGER METER, INC.

We are furnishing you with this Proxy Statement in connection with the solicitation of proxies by the Board of Directors of Badger Meter, Inc. to be used at our Annual Meeting of Shareholders (referred to as the Annual Meeting), which will be held at the Wisconsin Club, City Club, 900 W. Wisconsin Avenue, Milwaukee, Wisconsin 53233, on Friday, April 24, 2015, at 8:30 a.m., local time, and at any adjournment or postponement thereof.

If you execute a proxy, you retain the right to revoke it at any time before it is voted by giving written notice to us, by submitting a valid proxy bearing a later date or by voting your shares in person at the Annual Meeting. Unless you revoke your proxy, your shares will be voted at the Annual Meeting as you instructed in your proxy. Anyone who is a shareholder of record as of the close of business on February 27, 2015 (the "record date"), may attend the Annual Meeting and vote in person. If your shares are held in "street name" by a broker, nominee, fiduciary or other custodian, you may not vote in person at the Annual Meeting unless you first obtain a proxy issued in your name from your broker, nominee, fiduciary or other custodian.

As of the record date, we had 14,454,088 shares of common stock, par value $1 per share, outstanding and entitled to vote. You are entitled to one vote for each of your shares of common stock.

If your shares are held in "street name" by a broker, nominee, fiduciary or other custodian, you will receive a full meeting package including a voting instruction form to vote your shares. Your broker, nominee, fiduciary or other custodian may permit you to vote by the Internet or by telephone. A broker non-vote occurs when your broker, nominee, fiduciary or other custodian submits a proxy card with respect to your shares, but declines to vote on a particular matter, either because such nominee elects not to exercise its discretionary authority to vote on the matter or does not have discretionary authority to vote on the matter. Your broker, nominee, fiduciary or other custodian has the authority under New York Stock Exchange rules to vote your unvoted shares on certain routine matters like the ratification of Ernst & Young LLP as the company's independent registered public accounting firm for 2015, but not on the election of directors nor the advisory vote to approve the compensation of our named executive officers.

We commenced mailing this Proxy Statement and accompanying form of proxy on or about March 18, 2015.

NOMINATION AND ELECTION OF DIRECTORS

You and the other holders of the common stock are entitled to elect eight directors at the Annual Meeting. If you submit a proxy to us, it will be voted as you direct. If, however, you submit a proxy without specifying voting directions, it will be voted in favor of the election of each of the eight nominees for director identified below. If your shares are held in "street name" by your broker, nominee, fiduciary or other custodian, your broker, nominee, fiduciary or other custodian may only vote your shares with your specific voting instructions for the election of directors. Therefore, we urge you to respond to your brokerage firm so that your vote will be cast.

Directors will be elected by a plurality of votes cast at the Annual Meeting (assuming a quorum is present). If you do not vote your shares at the Annual Meeting, whether due to abstentions, broker nonvotes or otherwise, and a quorum is present, it will have no impact on the election of directors. Once elected, a director serves for a one-year term or until his/her successor has been duly appointed, or until his/her death, resignation or removal.

If a director receives more "withheld" or "against" votes than "for" votes in an election, then that director will tender his or her resignation to the Board of Directors following certification of the shareholder vote. The Board of Directors will then consider whether or not to accept such resignation. Thereafter, the Board will disclose its decision regarding whether to accept the director's resignation (or the reason(s) for rejecting the resignation, if applicable) in a Current Report on Form 8-K furnished to the Securities and Exchange Commission.

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The nominees of the Board of Directors for director, together with certain additional information concerning each such nominee, are identified below. All of the nominees are current directors of our company. If any nominee is unable or unwilling to serve, the named proxies have discretionary authority to select and vote for substitute nominees. The Board of Directors has no reason to believe that any of the nominees will be unable or unwilling to serve.

Nominees for Election to the Board of Directors

The following section provides information as of the date of this proxy statement about each nominee. The information presented includes information each director has given us about his/her age, all positions he/she holds, his/her principal occupation and business experience for the past five years, and the names of other companies, some of which are publicly-held, of which he/she currently serves as a director or has served as a director during the past five years. All directors meet the qualifications established by the Corporate Governance Committee as set forth on Page 5 of this proxy statement.

In addition to the information presented below regarding each nominee's specific experience, qualifications, attributes and skills that led our board to the conclusion that he/she should serve as a director, we also believe that all of our director nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to the company and our board.

Name	Age	Business Experience During Last Five Years	Director Since
Ronald H. Dix	70	Badger Meter, Inc.: Retired. Formerly, Senior Vice President - Administration. Mr. Dix has significant experience at the company as well as a broad knowledge of employee benefit and human resource issues which enable him to assist the company in dealing with such issues.	2005
Thomas J. Fischer	67	Mr. Fischer is a consultant in corporate financial and accounting matters and a retired Senior Regional Managing Partner of Arthur Andersen LLP. At Arthur Andersen he served principally international public manufacturing and distribution companies. Mr. Fischer is also a director of Actuant Corporation, Regal-Beloit Corporation and Wisconsin Energy Corporation. The Board benefits from Mr. Fischer's expertise in the areas of financial, accounting and auditing matters, including financial reporting, corporate transactions and enterprise risk management.	2003
Gale E. Klappa	64	Wisconsin Energy Corporation (a holding company for electric and gas utilities): Chairman and Chief Executive Officer. Mr. Klappa is a director of Wisconsin Energy Corporation and Joy Global, Inc. Mr. Klappa has significant experience as the Chief Executive Officer of a public company and as a manager of regulated utility companies. Further, he has in-depth knowledge of utility metering needs. He is able to provide valuable advice and guidance to the company in these areas.	2010
Gail A. Lione	65	Marquette University School of Law: Adjunct Professor of Intellectual Property Law. The Harley-Davidson Foundation: Retired President. Harley-Davidson, Inc.: Former Executive Vice President, General Counsel &	2012

		Secretary and Chief Compliance Officer. Ms. Lione is a director of Sargento Foods Inc., a privately-held company where she serves on the audit committee; and The F. Dohmen Co., a privately-held company where she serves on the audit committee. Ms. Lione has significant legal and management experience in manufacturing that includes securities law, intellectual property, corporate governance and corporate compliance, as well as human resources issues, which enables her to provide valuable advice and guidance to the company.	
Richard A. Meeusen	60	Badger Meter, Inc.: Chairman, President and Chief Executive Officer. Mr. Meeusen is a director of Menasha Corporation and Serigraph Inc., both privately-held companies. Mr. Meeusen has significant experience in managing Badger Meter which enables him to provide the board with valuable insights and advice.	2001

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Name	Age	Business Experience During Last Five Years	Director Since
Andrew J. Policano	65	Paul Merage School of Business, University of California - Irvine, former Dean, Chaired Professor and Director - Center for Investment and Wealth Management. Formerly, Paul Merage School of Business, University of California - Irvine. Mr. Policano is a director of Rockwell-Collins, Inc. and a trustee of Payden & Rygel, a mutual fund company. Mr. Policano's experience in general management and his involvement in and knowledge of new academic research into business issues enable him to provide valuable insights and advice to the company.	1997
Steven J. Smith	64	Journal Communications, Inc. (a diversified media company with operations in television and radio broadcasting, publishing and digital media): Chairman and Chief Executive Officer. Formerly, Journal Communications, Inc.: Chairman, Chief Executive Officer and President. Mr. Smith is a director of Journal Communications, Inc. Mr. Smith has significant experience both in business management and as the Chief Executive Officer of a public company. He is able to provide valuable advice and insights for the company.	2000
Todd J. Teske	50	Briggs & Stratton Corporation (a producer of gasoline engines and outdoor power products): Chairman, President and Chief Executive Officer. Formerly, Briggs & Stratton Corporation: President and Chief Executive Officer, and President and Chief Operating Officer. Mr. Teske is a director of Briggs & Stratton Corporation and Lennox International, Inc. Mr. Teske has significant experience in management and as the Chief Executive Officer of a public company and in the operational management of a manufacturing company, including international operations, which enables him to provide valuable advice and guidance for the company.	2009

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE “FOR” EACH NOMINEE IDENTIFIED ABOVE.

Independence, Committees, Meetings and Attendance

Our Board of Directors has three standing committees: the Audit and Compliance Committee (referred to as the Audit Committee), the Compensation Committee and the Corporate Governance Committee (referred to as the Governance Committee). The Board of Directors has adopted written charters for each committee, which are available on our website at www.badgermeter.com under the selection “Company”- “Investors”-”Corporate Governance"-"Highlights." In making independence determinations, the board observes all criteria for independence established by the Securities and Exchange Commission, the New York Stock Exchange, and other governing laws and regulations. The board has determined that each of the directors (other than Mr. Meeusen) (i) is “independent” within the definitions contained in the current New York Stock Exchange listing standards and our Principles of Corporate Governance; (ii) meets the categorical independence standards adopted by the board (set forth below); and (iii) has no other “material relationship” with the company that could interfere with his/her ability to exercise independent judgment. In addition, the board has determined that each member of the Audit Committee meets the additional independence standards for audit committee members. One of the Audit Committee members, Mr. Fischer, serves on three other audit committees. Our board has affirmatively determined that such simultaneous service does not impair Mr. Fischer's ability to effectively serve on our Audit Committee.

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The current committee assignments are:

Director	BOARD COMMITTEES Audit and Compliance	Compensation	Corporate Governance
Ronald H. Dix			X
Thomas J. Fischer	X*		X
Gale E. Klappa	X	X	
Gail A. Lione		X	X
Andrew J. Policano			X*
Steven J. Smith	X	X*	
Todd J. Teske	X	X	
Richard A. Meeusen			

*Chairman of the Committee

The Audit Committee met five times in 2014. The Audit Committee oversees our financial reporting process on behalf of the board and reports the results of their activities to the board. The activities of the Audit Committee include employing, with shareholder ratification, an independent registered public accounting firm for us, discussing with the independent registered public accounting firm and internal auditors the scope and results of audits, monitoring our internal controls, ethics and compliance risk management, and pre-approving and reviewing audit fees and other services performed by our independent registered public accounting firm. The board has determined that each member of the Audit Committee qualifies as an “audit committee financial expert” as defined by the Securities and Exchange Commission. Furthermore, the board has determined that all members of our Audit Committee meet the financial literacy requirements of the New York Stock Exchange.

In overseeing the independent registered public accounting firm, the Audit Committee, among other things, (1) reviews the independence of the independent registered public accounting firm; (2) reviews periodically the level of fees approved for the independent registered public accounting firm and the pre-approved non-audit services it has provided; (3) reviews the performance, qualifications and quality control procedures of the independent registered public accounting firm; and (4) reviews the scope of and overall plans for the annual audit and the internal audit program. In addition to the Audit Committee’s responsibilities regarding the independent registered public accounting firm, the Audit Committee established, and oversees, procedures for the receipt, retention and treatment, on a confidential basis, of any concerns regarding questionable accounting, internal controls or auditing matters.

The Compensation Committee, which met two times in 2014, and in January 2015, reviews and establishes all forms of compensation for our executive officers and directors, administers our compensation plans, including the various stock plans, reviews the various management development and succession programs and addresses compensation-related risks.

The Governance Committee, which met two times in 2014 oversees all matters related to director performance, including the recommendation of nominees for the Board of Directors, assists the Board of Directors in providing oversight of the Company’s enterprise risk management programs, and oversees all corporate governance matters, including developing and recommending to the board the Company’s Principles of Corporate Governance.

The Board of Directors held six meetings in 2014. During 2014, all directors attended at least 75% of the meetings of the full board and the committees on which they served during the period. A closed session for only outside directors was held following each of the regular board meetings. All members of the board attended the 2014 Annual Meeting of Shareholders. It is the board’s policy that all directors attend the Annual Meeting of Shareholders, unless unusual circumstances prevent such attendance.

Leadership Structure

Our Board of Directors currently believes it is in the best interests of the company to combine the positions of Chairman and Chief Executive Officer ("CEO") because this provides the company with unified leadership and direction. In addition, our current Chairman and CEO has an in-depth knowledge of our business that enables him to effectively set appropriate board agendas and ensure appropriate processes and relationships are established with both management and the Board of Directors, as our board works together to oversee our management and affairs.

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Because our Chairman is not an independent director, our independent directors believe it is appropriate to appoint an independent director as a Lead Outside Director. Our Lead Outside Director works with our Chairman and CEO and other board members to provide strong, independent oversight of our management and affairs. Among other things, our Lead Outside Director serves as the principal liaison between the Chairman and our independent directors and chairs the closed sessions that consist of only our independent directors. Mr. Klappa currently serves as Lead Outside Director of the board.

Board Role in Risk Oversight

Our Board of Directors oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance shareholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board of Directors in setting the company's business strategy is a key part of its assessment of management's tolerance for risk and also a determination of what constitutes an appropriate level of risk for the company. The full Board of Directors participates in an annual enterprise risk management assessment. In this process, risk is assessed by management throughout the business, focusing on four primary areas of risk: employment risks, facility risks, product risks and general business risks (which include strategic, financial, legal, compliance and reputational risks). A report is provided and presented to the board, which is reviewed thoroughly.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the board also have responsibility for risk management. In particular, the Audit Committee focuses on financial risk, including overseeing the integrity of the Company's financial statements, qualifications and independence of the independent registered public accounting firm, internal controls and general corporate ethics and compliance. In addition, the Audit Committee annually reviews and assesses the effectiveness of the company's overall compliance program. The Compensation Committee focuses on compensation risk including risks associated with the administration and structure of our employee benefit plans. The Governance Committee focuses on corporate governance policies that help mitigate risk.

Nomination of Directors

All members of the Governance Committee meet the definition of independence set forth by the New York Stock Exchange. The Governance Committee has responsibility for recommending nominees for our Board of Directors. The board has adopted a policy by which the Governance Committee will consider nominees for board positions, as follows:

- When a vacancy occurs on the Board of Directors, the Governance Committee will initiate and oversee a search process for potential new candidates for Board of Director positions.
- The Governance Committee will review each candidate's qualifications in light of the needs of the Board of Directors and the company, considering the current mix of director attributes and other pertinent factors.
- The following minimum qualifications must be met by each director nominee:

Each director must display the highest personal and professional ethics, integrity and values.

Each director must have the ability to exercise sound business judgment.

Each director must be highly accomplished in his or her respective field, with superior credentials and recognition and broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest.

Each director must have relevant expertise and experience, and be able to offer advice and guidance to the Chief Executive Officer based on that expertise and experience.

Each director must be independent of any particular constituency, be able to represent all shareholders of the company and be committed to enhancing long-term shareholder value.

Each director must have sufficient time available to devote to activities of the board and to enhance his or her knowledge of the company's business.

The specific qualities and skills required of any candidate will vary depending on our specific needs at any point in time. In considering the diversity of a candidate, the governance committee considers a variety of factors including but not limited to age, gender and ethnicity.

No candidate, including current directors, may stand for reelection after reaching the age of 72.

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- There are no differences in the manner in which the Governance Committee evaluates candidates recommended by shareholders and candidates identified from other sources.
- To recommend a candidate, shareholders should write to the Board of Directors, c/o Secretary, Badger Meter, Inc., P.O. Box 245036, Milwaukee, WI 53224-9536, via certified mail. Such recommendation should include the candidate’s name and address, a brief biographical description and statement of qualifications of the candidate and the candidate’s signed consent to be named in the proxy statement and to serve as a director if elected.
- To be considered by the Governance Committee for nomination and inclusion in our proxy statement, the Board of Directors must receive shareholder recommendations for director no later than October 15 of the year prior to the relevant annual meeting of shareholders.

During 2014, and as of the date of this Proxy Statement, the Governance Committee did not pay any fees to third parties to assist in identifying or evaluating potential candidates. Also, the Governance Committee did not receive any shareholder nominees for consideration at the Annual Meeting.

Communications with the Board of Directors

Shareholders and non-shareholders may communicate with the full Board of Directors, non-management directors as a group or individual directors, including the Lead Outside Director, by submitting such communications in writing to the Secretary of Badger Meter, Inc., P.O. Box 245036, Milwaukee, WI 53224-9536, via certified mail. The Secretary will forward communications received to the appropriate party. However, commercial advertisements or other forms of solicitation will not be forwarded.

Categorical Independence Standards for Directors

The company’s categorical independence standards for directors are contained in the company’s Principles of Corporate Governance, which are annually reviewed by the Governance Committee. If appropriate, changes are recommended to the Board of Directors for approval.

A director who at all times during the previous three years has met all of the following categorical standards and has no other material relationships with Badger Meter, Inc. will be deemed to be independent:

1. The company has not employed the director, and has not employed (except in a non-executive officer capacity) any of his or her immediate family members. Employment as an interim Chairman or Chief Executive Officer does not disqualify a director from being considered independent following that employment.
2. Neither the director, nor any of his or her immediate family members, has received more than $120,000 per year in direct compensation from the company, other than director and committee fees, and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service as an interim Chairman or Chief Executive Officer need not be considered in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of the company need not be considered in determining independence under this test.
3. The director has not been employed by, or affiliated with the company’s present or former internal or external auditor, nor have any of his or her immediate family members been so employed or affiliated (except in a nonprofessional capacity).
4. Neither the director, nor any of his or her immediate family members, has been part of an “interlocking directorate” in which any of the company’s present executives serve on the compensation (or equivalent) committee of another company that employs the director or any of his or her immediate family members in an executive officer capacity.
5. Neither the director, nor any of his or her immediate family members (except in a non-executive officer capacity), has been employed by a company that makes payments to, or receives payments from, the company for property or services in an amount which, in any single fiscal year, exceeds the greater of $1 million or 2% of such other company’s consolidated gross revenues. In applying this test, both the payments and the consolidated gross revenues to be measured are those reported in the last completed fiscal year. The look-back provision for this test

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applies solely to the financial relationship between the company and the director's or immediate family member's current employer; the company need not consider former employment of the director or immediate family member.

6. Neither the director, nor any of his or her immediate family members, has been an employee, officer or director of a foundation, university or other non-profit organization to which the company gives directly, or indirectly through the provision of services, more than $1 million per annum or 2% of such organization's consolidated gross revenues (whichever is greater).

In addition to satisfying the criteria set forth above, directors who are members of the Audit Committee will not be considered independent for purposes of membership on the Audit Committee unless they satisfy the following additional criteria:

1. A director who is a member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the board, or any other board committee, accept directly or indirectly any consulting, advisory, or other compensatory fee from the company or any subsidiary thereof, provided that, unless the rules of the New York Stock Exchange provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the company (provided that such compensation is not contingent in any way on continued service).
2. A director, who is a member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the board, or any other board committee, be an affiliated person of the company.
3. If an Audit Committee member simultaneously serves on the audit committees of more than two other public companies, then the board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the company's Audit Committee. The company must disclose this determination in its proxy statement.

Available Corporate Governance Information

The company's Code of Business Conduct, Principles of Corporate Governance, Code of Conduct for Financial Executives and Charters of all current board committees are available on our website at www.badgermeter.com under the selection "Company" - "Investors" - "Corporate Governance." Copies can also be obtained by writing to the Secretary of Badger Meter, Inc., P.O. Box 245036, Milwaukee, WI 53224-9536.

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RELATED PERSON TRANSACTIONS

We had no transactions during 2014, and none are currently proposed, in which we were a participant and in which any related person had a direct or indirect material interest. Our Board of Directors has adopted policies and procedures regarding related person transactions. For purposes of these policies and procedures:

- A “related person” means any person who is, or was at some time since the beginning of the last fiscal year, (a) one of our directors, executive officers or nominees for director, (b) a greater than five percent beneficial owner of our common stock, or (c) an immediate family member of the foregoing; and

Sales	$ 202,979	$ 181,068	$ 378,403	$ 351,177
Cost of sales	(128,772)	(114,121)	(239,262)	(223,033)
Gross profit	74,207	66,947	139,141	128,144
Selling and administrative expenses	(42,562)	(37,886)	(83,312)	(76,665)
Operating profit	31,645	29,061	55,829	51,479
Investment income	439	244	850	571
Interest expense	(1,924)	(1,576)	(3,740)	(3,016)
Other income (deductions), net	79	(18)	210	(51)
Minority interest	(591)	(704)	(1,111)	(1,292)
Income before income taxes	29,648	27,007	52,038	47,691
Income taxes	(11,147)	(10,155)	(19,566)	(17,932)
Net income	$ 18,501	$ 16,852	$ 32,472	$ 29,759
Earnings per share:				
Basic	$.58	$.53	$1.02	$.93
Diluted	$.58	$.52	$1.02	$.92

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

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

	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 32,472	$ 29,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,274	10,706
Net (gain) loss on sale of assets	(1,525)	67
Minority interest	1,111	1,292
Stock-based compensation expense	1,720	2,448
Change in deferred taxes	331	(695)
Changes in working capital items	(19,333)	(22,342)
Increase in other assets	(963)	(271)
Increase (decrease) in other liabilities	71	(253)
Increase in pension and postretirement benefits	2,664	2,429
Net cash provided by operating activities	26,822	23,140
Cash flows from investing activities:		
Capital expenditures	(10,679)	(7,488)
Proceeds from sale of assets	3,764	90
Acquisitions, net of cash acquired	(8,361)	(29,900)
Purchases of investments	(596)	(104)
Proceeds from disposition of investments	134	7
Net cash used in investing activities	(15,738)	(37,395)
Cash flows from financing activities:		
Proceeds from long-term debt	32,343	38,299
Payments on long-term debt	(22,184)	(21,019)
Proceeds from the sale of treasury stock	5,780	1,421
Purchases of treasury stock	(11,901)	(36)
Tax benefit of exercised stock options	1,469	506
Dividends	(3,486)	(3,210)
Distributions to minority interests	(895)	(3,910)
Net cash provided by financing activities	1,126	12,051
Effect of exchange rate changes on cash	1,580	(711)
Net increase (decrease) in cash and cash equivalents	$ 13,790	$ (2,915)

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

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007
(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

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

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

Note 2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and six months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. 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, 2006. 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.

Reclassifications and restatements:

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

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

Note 3. Share-Based Payments

The Company has a stock incentive plan that provides for grants of incentive stock options, non-statutory stock options and restricted share awards in an aggregate number not to exceed 15% of the outstanding shares of the Company's common stock (4,739,237 at March 31, 2007). The plan is administered by the Compensation Committee of the Board of Directors. The option price for each stock option that may be granted under the plan may not be less than the fair market value of the Company's common stock on the date of grant. Outstanding stock options are exercisable in one-third increments upon the attainment of 10%, 33% and 60% appreciation in the market value of the Company's Class A Common Stock. In addition, options generally vest in one-third increments after three, four and five years, respectively, from the grant date (but, in any event, not until the attainment of the market value thresholds). The options expire on the earlier of ten years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company generally settles employee stock option exercises with treasury shares.

Effective October 1, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"), using the modified retrospective method. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period.

For the three-month periods ended March 31, 2007 and 2006, stock-based compensation cost totaled $848 and $1,087, respectively. For the six-month periods ended March 31, 2007 and 2006, stock-based compensation cost totaled $1,720 and $2,448, respectively. The associated future income tax benefit recognized was $331 and $424 for the three-month periods ended March 31, 2007 and 2006, respectively, and was $671 and $955 for the six-month periods ended March 31, 2007 and 2006, respectively.

The amount of cash received from the exercise of stock options was $3,659 and $1,095 for the three-month periods ended March 31, 2007 and 2006, respectively and $5,780 and $1,421 for the six-month periods ended March 31, 2007 and 2006, respectively. In connection with these exercises, the tax benefits realized by the Company were $1,335 and $429 for the three-month periods ended March 31, 2007 and 2006, respectively, and $2,232 and $710 for the six-month periods ended March 31, 2007 and 2006, respectively.

The transactions for shares under options for the six-months ended March 31, 2007 were as follows:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding, September 30, 2006	2,529,451	$ 28.75		
Granted	392,650	40.59		
Exercised	(287,177)	19.85		
Expired or forfeited	(16,316)	31.17		
Outstanding, March 31, 2007	2,618,608	$ 31.49	7.2	$ 24,119
Exercisable, March 31, 2007	822,143	$ 23.49	5.3	$ 14,145
Shares reserved for future options	2,120,629			

The weighted-average grant date fair value of options granted for the six-month periods ended March 31, 2007 and 2006 was $12.29 and $9.47, respectively. The fair value of shares earned was $1,481 and $915, during the three-month periods ended March 31, 2007 and 2006, respectively, and $3,301 and $3,594 during the six-month periods ended March 31, 2007 and 2006, respectively. The intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the six-month periods ended March 31, 2007 and 2006 was $5,742 and $1,887, respectively.

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

Note 3. Share-Based Payments (continued)

The transactions for non-vested shares for the six months ended March 31, 2007 were as follows:

Non-vested shares	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2006	1,814,878	$ 9.84
Granted	392,650	12.29
Vested	(395,163)	8.35
Expired or forfeited	(15,900)	9.63
Non-vested at March 31, 2007	1,796,465	$ 10.70

As of March 31, 2007 the total unrecognized compensation cost related to non-vested stock options was approximately $7,157. This cost is expected to be recognized over a weighted-average period of 3.9 years in accordance with the vesting periods of the options.

As of October 1, 2005, the fair value of each option grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value for the six-month periods ended March 31, 2007 and 2006.

	Six Months Ended March 31,	
	2007	2006
Expected volatility	24.0%	24.0%
Dividend yield	.6%	.6%
Average risk free interest rate	4.7%	4.4%
Average expected term (years)	6.3	5.5

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 period of time options are expected to remain outstanding. Separate employee groups and option characteristics are considered separately for valuation purposes.

In the first quarter of fiscal 2007, 15,209 shares of restricted stock were granted to certain employees. The shares generally vest based upon certain service and performance criteria. The unrecognized compensation cost related to the unvested shares was approximately $361 at March 31, 2007.

Under the Company's Director Fee Plan, directors who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to $30. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. Directors may also elect to receive the common stock equivalent of meeting fees credited to a deferred stock account. The value of deferred shares is recorded in other liabilities. A total of 49,569 shares had been deferred under the Director Fee Plan at March 31, 2007. Directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of $50 in fiscal 2007 and $40 in fiscal 2006. A total of 22,300 stock options have been granted under the plan, all of which were outstanding and unvested at March 31, 2007. Additionally, 13,200 shares of restricted stock have been granted under the plan, all of which are unvested at March 31, 2007. A total of 500,000 shares have been authorized to be issued under the Director Fee Plan.

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

Note 4. Income Taxes

Income tax provisions for the Company's interim periods are based on the effective income tax rate expected to be applicable for the full year. The difference between the estimated effective tax rate for fiscal 2007 of 37.6% and the Federal statutory rate of 35.0% primarily reflects the impact of state and foreign income taxes.

Note 5. Earnings Per Share

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
Net income	$ 18,501	$ 16,852	$ 32,472	$ 29,759
Weighted-average common shares outstanding	31,733,347	32,087,041	31,699,731	32,063,349
Dilutive securities, primarily stock options	135,651	206,038	184,776	263,975
Diluted weighted-average common shares outstanding	31,868,998	32,293,079	31,884,507	32,327,324
Basic earnings per share	$.58	$.53	$1.02	$.93
Diluted earnings per share	$.58	$.52	$1.02	$.92

Note 6. Comprehensive Income

Comprehensive income consists of net income adjusted for changes, net of the related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and minimum pension liability. For the three-months ended March 31, 2007 and 2006, comprehensive income was $20,091 and $18,717, respectively. For the six-months ended March 31, 2007 and 2006, comprehensive income was $38,805 and $29,306, respectively.

Note 7. Inventories:

Inventories consisted of the following:

	March 31, 2007	September 30, 2006
Materials and finished goods	$ 86,030	$ 79,715
Labor and overhead in process	7,493	5,700
	$ 93,523	$ 85,415

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

Note 8. Segment Information

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

Information about the Company's segments follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
Sales to external customers:				
Memorialization:				
Bronze	$ 56,159	$ 53,138	$ 106,587	$ 101,822
Casket	58,845	55,204	112,668	103,398
Cremation	6,661	6,672	13,295	12,382
	121,665	115,014	232,550	217,602
Brand Solutions:				
Graphics Imaging	36,890	34,258	70,641	67,548
Marking Products	14,097	13,027	27,777	25,288
Merchandising Solutions	30,327	18,769	47,435	40,739
	81,314	66,054	145,853	133,575
	$ 202,979	$ 181,068	$ 378,403	$ 351,177
Operating profit:				
Memorialization:				
Bronze	$ 15,899	$ 15,025	$ 27,525	$ 26,951
Casket	5,577	6,909	11,488	10,497
Cremation	1,215	1,115	1,991	1,688
	22,691	23,049	41,004	39,136
Brand Solutions:				
Graphics Imaging	3,335	4,064	5,525	7,618
Marking Products	2,083	2,421	4,469	4,356
Merchandising Solutions	3,536	(473)	4,831	369
	8,954	6,012	14,825	12,343
	$ 31,645	$ 29,061	$ 55,829	$ 51,479

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

Note 9. Debt

The Company has a Revolving Credit Facility with a syndicate of financial institutions. On March 30, 2007, the maximum amount of borrowings available under the facility was increased from $150,000 to $175,000 in accordance with the terms of the facility. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $10,000) is available for the issuance of trade and standby letters of credit. As of March 31, 2007 outstanding borrowings on the Revolving Credit Facility were $137,500. The weighted-average interest rate on outstanding borrowings at March 31, 2007 and 2006 was 5.14% and 4.45%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of $50,000. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered effective. Equal quarterly principal payments of $2,500 plus interest are due on this $50,000 borrowing until its maturity in April 2009.

Effective September 30, 2005, the Company entered into an interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on additional borrowings in an initial amount of $50,000. The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility, which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges are considered effective. Equal quarterly principal payments of $3,333 plus interest are due on this $50,000 portion of the borrowing until its maturity in April 2009.

The fair value of the interest rate swaps reflected an unrealized gain of $996 ($608 after tax) at March 31, 2007 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2007, approximately $292 of the $608 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with a bank for borrowings up to 10.0 million Euros. At March 31, 2007, outstanding borrowings under the credit facility totaled 8.5 million Euros ($11,354). The weighted-average interest rate on outstanding borrowings of MIGmbH at March 31, 2007 and 2006 was 4.0% and 3.07%, respectively.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 7.5 million Euros ($10,076) at March 31, 2007. Caggiati S.p.A. also has three lines of credit totaling 8.4 million Euros ($11,181) with the same Italian banks. Outstanding borrowings on these lines were 120,500 Euros ($161) at March 31, 2007. The weighted-average interest rate on outstanding borrowings of Caggiati S.p.A. at March 31, 2007 and 2006 was 3.26% and 3.12%, respectively.

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

Note 10. Pension and Other Postretirement Benefit Plans

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

	Pension		Other Postretirement	
Three months ended March 31,	2007	2006	2007	2006
Service cost	$ 1,003	$ 1,037	$ 133	$ 158
Interest cost	1,640	1,487	297	307
Expected return on plan assets	(1,612)	(1,708)	-	-
Amortization:				
Prior service cost	3	(4)	(322)	(322)
Net actuarial loss	385	373	72	161
Net benefit cost	1,419	1,185	$ 180	$ 304

	Pension		Other Postretirement	
Six months ended March 31,	2007	2006	2007	2006
Service cost	$ 2,006	$ 2,164	$ 266	$ 316
Interest cost	3,280	2,962	594	614
Expected return on plan assets	(3,224)	(3,416)	-	-
Amortization:				
Prior service cost	6	(8)	(644)	(644)
Net actuarial loss	770	872	144	322
Net benefit cost	$ 2,838	$ 2,574	$ 360	$ 608

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating funds. Under IRS regulations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal 2007. As of March 31, 2007, contributions of $148 and $571 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional $329 and $441 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2007.

Note 11. Acquisitions

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

On February 23, 2006, the Company acquired The Doyle Group ("Doyle"), a provider of reprographic services to the packaging industry, located in Oakland, California. The transaction was structured as an asset purchase. The excess of purchase price over the fair market value of net assets acquired was allocated to goodwill. The acquisition was intended to expand the Company's graphics business in the Western United States.

In December 2006, the Company paid additional purchase consideration under the terms of the Milso Industries acquisition agreement. In October 2005, the Company paid for the acquisition of an additional 30% interest in S+T Gesellschaft fur Reprotechnik GmbH.

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

Note 12. Goodwill and Other Intangible Assets

Goodwill related to business combinations is not amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment the Company uses a combination of valuation techniques, including discounted cash flows. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets. The Company performed its annual impairment review in the second quarter of fiscal 2007 and determined that no additional adjustments to the carrying values of goodwill were necessary at March 31, 2007.

Changes to goodwill, net of accumulated amortization, for the six months ended March 31, 2007, were as follows.

	Bronze	Casket	Cremation	Graphics Imaging	Marking Products	Merchandising Solutions	Consolidated
Balance at September 30, 2006	$ 74,178	$ 115,982	$ 6,536	$ 86,269	$ 5,213	$ 9,947	$ 298,125
Additions during period	-	885	-	861	-	-	1,746
Translation and other adjustments	1,341	-	-	3,866	-	-	5,207
Balance at March 31, 2007	$ 75,519	$ 116,867	$ 6,536	$ 90,996	$ 5,213	$ 9,947	$ 305,078

The additions to Graphics Imaging goodwill relate to additional consideration paid in accordance with the purchase agreement related to a European Graphics business. The additions to Casket goodwill relate primarily to additional consideration paid in accordance with the acquisition of Royal Casket.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of March 31, 2007 and September 30, 2006, respectively.

	Carrying Amount	Accumulated Amortization	Net
March 31, 2007:			
Trade names	$ 24,370	$ - *	$ 24,370
Customer relationships	21,007	(3,326)	17,681
Copyrights/patents/other	6,246	(2,994)	3,252
	$ 51,623	$ (6,320)	$ 45,303
September 30, 2006:			
Trade names	$ 24,003	$ - *	$ 24,003
Customer relationships	20,900	(2,714)	18,186
Copyrights/patents/other	5,322	(2,546)	2,776
	$ 50,225	$ (5,260)	$ 44,965

* Not subject to amortization

The increase in intangible assets during the six-months ended March 31, 2007 was due to the addition of intellectual property in the Bronze and Marking Products segments and the impact of fluctuations in foreign currency exchange rates on intangible assets denominated in foreign currencies, offset by additional amortization.

Amortization expense on intangible assets was $421 and $545 for the three-month periods ended March 31, 2007 and 2006, respectively. For the six-month periods ended March 31, 2007 and 2006, amortization expense was $1,048 and $1,090, respectively. Amortization expense is estimated to be $1,908 in 2007, $1,996 in 2008, $1,934 in 2009, $1,694 in 2010 and $1,662 in 2011.

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

Note 13. Accounting Pronouncements

In June 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting
in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption will be reported as an adjustment to beginning retained earnings in the period of adoption. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" which amends SFAS 87, 88, 106 and 132(R). In February 2007, the FASB issued FSP FAS 158-1 providing additional guidance to Statement 158. SFAS No. 158 requires employers to recognize the over-funded or under-funded status of defined benefit postretirement plans on the balance sheet and to recognize the corresponding adjustment in other comprehensive income. In addition, the statement requires recognition in other comprehensive income of gains or loss and prior service costs or credits that are not included as components of periodic benefit expense. These provisions of the statement are effective for public companies for fiscal years ending after December 15, 2006. Accordingly, the Company will adopt this provision of SFAS No. 158 prospectively for the year-end financial statements dated September 30, 2007. If the Company had adopted SFAS No. 158 as of September 30, 2006, the liability for pension and postretirement benefits would have increased approximately $10,000, deferred tax assets would have increased approximately $3,900 and equity (other accumulated comprehensive income) would have decreased by approximately $6,100.

Further, SFAS No. 158 requires the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. This provision of the SFAS No. 158 is effective for public companies for fiscal years beginning after December 15, 2008. The Company currently measures plan assets and benefit obligations as of July 31 of each year. The Company is considering the implications of this provision and the feasibility of earlier adoption of this portion of the statement. Upon adoption, this provision is not expected to have a material effect on the financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

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

Cautionary Statement:

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation and related notes thereto included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended September 30, 2006. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company’s products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates or as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control. In addition, although the Company does not have any single customer that would be considered individually significant to consolidated sales, the potential loss of one or more of the Company’s larger customers could be considered a risk factor.

Results of Operations:

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

	Six months ended March 31,		Years ended September 30,	
	2007	2006	2006	2005
Sales	100.0%	100.0%	100.0%	100.0%
Gross profit	36.8%	36.5%	38.0%	34.9%
Operating profit	14.8%	14.7%	15.9%	15.4%
Income before taxes	13.8%	13.6%	14.7%	14.5%
Net income	8.6%	8.5%	9.3%	9.1%

Results of Operations:

Sales for the six months ended March 31, 2007 were $378.4 million, compared to $351.2 million for the six months ended March 31, 2006. The increase reflected higher sales in all of the Company’s six segments, and included the effect of higher foreign currency values against the U.S. dollar. These increases were offset by lower sales volume in the Graphics Imaging segment. For the six months ended March 31, 2007, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately $6.8 million on the Company’s consolidated sales compared to the six months ended March 31, 2006.

In the Memorialization businesses, Bronze segment sales for the first six months of fiscal 2007 were $106.6 million compared to $101.8 million for the first six months of fiscal 2006. The increase primarily reflected higher selling prices and increases in the value of foreign currencies against the U.S. dollar, partially offset by a decline in the volume of memorial products and lower mausoleum sales. The higher selling prices were generally related to increases in the cost of bronze ingot. Sales for the Casket segment were $112.7 million for the first six months of fiscal 2007 compared to $103.4 million for the same period in fiscal 2006. The increase reflected higher unit volume in territories served by Company-owned distribution, offset

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partially by lower unit volume in certain of the territories served through independent distributors. Sales for the Cremation segment were $13.3 million for the first half of fiscal 2007 compared to $12.4 million for the same period a year ago. The increase primarily reflected higher sales of cremation equipment and cremation caskets. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in the first half of fiscal 2007 were $70.6 million, compared to $67.5 million for the same period a year ago. The increase primarily reflected an increase in the value of foreign currencies against the U.S. dollar and higher sales in the German markets, partially offset by lower sales in the U.S. and U.K. markets. However, sales in the U.S. market during the second quarter of fiscal 2007 were slightly higher than in the second quarter of fiscal 2006. Marking Products segment sales for the six months ended March 31, 2007 were $27.8 million, compared to $25.3 million for the first six months of fiscal 2006. The increase primarily reflected higher domestic and international sales volume and an increase in the value of the foreign currencies against the U.S. dollar. Sales for the Merchandising Solutions segment were $47.4 million for the first half of fiscal 2007, compared to $40.7 million for the same period a year ago. The increase is attributable to a significant promotional program for one of the segment's customers.

Gross profit for the six months ended March 31, 2007 was $139.1 million, compared to $128.1 million for the six months ended March 31, 2006. Consolidated gross profit as of percent of sales increased from 36.5% for the first half of fiscal 2006 to 36.8% for the first six months of fiscal 2007. The increase in consolidated gross profit primarily reflected the impact of higher sales, higher foreign currency values against the U.S. dollar, productivity improvements in the Merchandising Solutions segment and the Casket segment's manufacturing facility in Mexico, and other manufacturing and cost reduction initiatives. These gains were partially offset by the impact of lower sales in the U.K. graphics market and the higher cost of bronze ingot in fiscal 2007 compared to fiscal 2006.

Selling and administrative expenses for the six months ended March 31, 2007 were $83.3 million, compared to $76.7 million for the first half of fiscal 2006. Consolidated selling and administrative expenses as a percent of sales were 22.0% for the six months ended March 31, 2007, compared to 21.8% for the same period last year. The increases in costs and percentage of sales primarily resulted from the expansion of the Casket segment's distribution capabilities and a provision for earn-out payments under the Milso Industries ("Milso") acquisition-related agreements.

Operating profit for the six months ended March 31, 2007 was $55.8 million, compared to $51.5 million for the six months ended March 31, 2006. The increase reflected higher operating income in five of the Company's six operating segments. Bronze segment operating profit for the first half of fiscal 2007 was $27.5 million, compared to $26.9 million for the same period in fiscal 2006. The increase reflected the impact of higher sales and an increase in the value of foreign currencies against the U.S. dollar. Bronze segment operating profit for the first six months of fiscal 2007 was slightly higher compared to the same period in fiscal 2006 with operating profit as a percentage of sales lower than a year ago. The reduction in operating margin is directly attributable to the increase in bronze metal costs. Operating profit for the Casket segment for the first six months of fiscal 2007 was $11.5 million, compared to $10.5 million for the first half of fiscal 2006. The increase resulted from higher sales and productivity improvements in the segment's manufacturing facility in Mexico, partially offset by an accrual related to the Milso earn-out and additional selling and administrative costs related to the expansion of the segment's distribution capabilities in certain territories. The Casket segment's operating profit for the second quarter of fiscal 2007 was $5.6 million, compared to $6.9 million for the second quarter of fiscal 2006. The decrease in profitability primarily reflected the continuing investment in distribution capabilities. Cremation segment operating profit for the six months ended March 31, 2007 was $2.0 million, compared $1.7 million for the same period a year ago. The increase primarily reflected the impact of higher sales. The Graphics Imaging segment operating profit for the six months ended March 31, 2007 was $5.5 million, compared to $7.6 million for the six months ended March 31, 2006. The decrease primarily reflected the impact of lower sales in the U.K. market, partially offset by higher foreign currency values against the U.S. dollar. Operating profit for the Marking Products segment for the first six months of fiscal 2007 was $4.5 million, compared to $4.4 million for the same period a year ago. The increase primarily reflected the impact of higher sales, partially offset by higher overhead costs during fiscal 2007. The Merchandising Solutions segment operating profit was $4.8 million for the six months ended March 31, 2007, compared to $369,000 for the same period in fiscal 2006. The increase primarily reflected the effects of the segment's facilities consolidation program and the impact of higher sales attributable to a significant promotional program by one of the segment's customers. For the six months ended March 31, 2007, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately $1.2 million on the Company's consolidated operating profit compared to the six months ended March 31, 2006.

Investment income for the six months ended March 31, 2007 was $850,000, compared to $571,000 for the six months ended March 31, 2006. The increase reflected higher average levels of invested funds and higher rates of return. Interest expense for the first half of fiscal 2007 was $3.7 million, compared to $3.0 million for the same period last year. The increase in interest expense primarily reflected a higher average level of debt and higher average interest rates during the fiscal 2007 six-month period compared to the same period in fiscal 2006.

Other income (deductions), net, for the six months ended March 31, 2007 represented an increase in pre-tax income of $210,000, compared to a reduction in pre-tax income of $51,000 for the same period last year. Minority interest deduction was $1.1 million for the first half of fiscal 2007, compared to $1.3 million for the same period in fiscal 2006. The reduction reflected the Company’s purchase of the remaining ownership interest in one of its less than wholly-owned German subsidiaries in September 2006.

The Company's effective tax rate for the six months ended March 31, 2007 was 37.6%, which is equivalent to the effective tax rate for the first six months of fiscal 2006, but is higher than the effective tax rate of 37.0% for the full fiscal year ended September 30, 2006. The fiscal 2006 full year effective tax rate reflected the favorable tax impact from the sale of property in the fourth quarter. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state and foreign income taxes.

Goodwill:

Goodwill related to business combinations is not amortized, but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a combination of valuation techniques, including discounted cash flows. The Company performed its annual impairment review in the second quarter of fiscal 2007 and determined that no additional adjustments to the carrying values of goodwill were necessary at March 31, 2007.

Liquidity and Capital Resources:

Net cash provided by operating activities was $26.8 million for the six months ended March 31, 2007, compared to $23.1 million for the first six months of fiscal 2006. Operating cash flow for both periods primarily reflected net income adjusted for non-cash charges (depreciation, amortization, stock-based compensation expense and an increase in minority interest), partially offset by working capital changes. Working capital changes during both periods primarily reflected the payment of year end bonus accruals and an increase in inventory resulting from the expansion of the Company’s casket distribution capabilities.

Cash used in investing activities was $15.7 million for the six months ended March 31, 2007, compared to $37.4 million for the six months ended March 31, 2006. Investing activities for the first six months of fiscal 2007 primarily included capital expenditures of $10.7 million, acquisition-related payments of $8.4 million and proceeds from the disposal of assets of $3.8 million. Investing activities for the first six months of fiscal 2006 primarily included capital expenditures of $7.5 million and acquisition-related payments of $29.9 million.

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 $19.3 million for the last three fiscal years. The capital budget for fiscal 2007 is $27.1 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash provided by financing activities for the six months ended March 31, 2007 was $1.1 million, reflecting net borrowings of long-term debt of $10.2 million, purchases of treasury stock of $11.9 million, proceeds of $5.8 million from the sale of treasury stock (stock option exercises), a tax benefit of $1.5 million from exercised stock options, payment of dividends of $3.5 million to the Company's shareholders and distributions of $895,000 to minority interests. Cash provided by financing activities for the six months ended March 31, 2006 was $12.1 million, reflecting net borrowings of long-term debt of $17.3 million, proceeds of $1.4 million from the sale of treasury stock (stock option exercises), a tax benefit of $506,000 from exercised stock options, payment of dividends of $3.2 million to the Company's shareholders and distributions of $3.9 million to minority interests.

The Company has a Revolving Credit Facility with a syndicate of financial institutions. On March 30, 2007, the maximum amount of borrowings available under the facility was increased from $150.0 million to $175.0 million in accordance with the terms of the facility. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $10.0 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at March 31, 2007 were $137.5 million. The weighted-average interest rate on outstanding borrowings at March 31, 2007 and 2006 was 5.14% and 4.45%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of $50.0 million. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered highly effective. Equal quarterly principal payments of $2.5 million plus interest are due on this $50.0 million borrowing until its maturity in April 2009.

Effective September 30, 2005, the Company entered into an additional interest rate swap that fixed, for the period through maturity of the Revolving Credit Facility, the interest rate on additional borrowings in an initial amount of $50.0 million. The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at March 31, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered highly effective. Equal quarterly principal payments of $3.3 million plus interest are due on this $50.0 million borrowing until its maturity in April 2009.

The fair value of the interest rate swaps reflected an unrealized gain of $1.0 million ($608,000 after tax) at March 31, 2007 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2007, approximately $292,000 of the $608,000 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with a bank for borrowings up to 10.0 million Euros. At March 31, 2007, outstanding borrowings under the credit facility totaled 8.5 million Euros ($11.4 million). The weighted-average interest rate on outstanding MIGmbH related borrowings at March 31, 2007 and 2006 was 4.00% and 3.07%, respectively.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 7.5 million Euros ($10.1 million) at March 31, 2007. Caggiati S.p.A. also has three lines of credit totaling approximately 8.4 million Euros ($11.2 million) with the same Italian banks. Outstanding borrowings on these lines were 120,500 Euros ($161,000) at March 31, 2007. The weighted-average interest rate on outstanding borrowings of Caggiati S.p.A. at March 31, 2007 and 2006 was 3.26% and 3.12%, respectively.

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors had authorized the repurchase of a total of 10,000,000 shares (adjusted for stock splits) of Matthews common stock, of which 9,486,846 shares have been repurchased as of March 31, 2007. On April 20, 2007, the Company announced that its Board of Directors authorized the continuance of the repurchase program and increased the total authorization for stock repurchase to 12,500,000 shares. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company’s Articles of Incorporation.

Consolidated working capital of the Company was $145.8 million at March 31, 2007, compared to $105.6 million at September 30, 2006. Cash and cash equivalents were $43.5 million at March 31, 2007, compared to $29.7 million at September 30, 2006. The Company's current ratio was 2.2 at March 31, 2007, compared to 1.8 at September 30, 2006.

Environmental Matters:

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

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

At March 31, 2007, an accrual of $9.4 million was recorded for environmental remediation (of which $924,000 has been classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

Acquisitions:

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

On February 23, 2006, the Company acquired The Doyle Group (“Doyle”), a provider of reprographic services to the packaging industry, located in Oakland, California. The transaction was structured as an asset purchase. The excess of purchase price over the fair market value of net assets acquired was allocated to goodwill. The acquisition was intended to expand the Company’s graphics business in the Western United States.

In December 2006, the Company paid additional purchase consideration under the terms of the Milso Industries acquisition agreement. In October 2006, the Company paid for the acquisition of an additional 30% interest in S+T Gesellschaft fur Reprotechnik GmbH.

Forward-Looking Information:

The Company’s objective with respect to operating performance is to increase annual earnings per share in the range of 12% to 15% annually. For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of 16.3%. Matthews has a three-pronged strategy to attain the annual growth rate objective, which has remained unchanged from the prior year. This strategy consists of the following: internal growth (which includes productivity improvements, new product development and the expansion into new markets with existing products), acquisitions and share repurchases under the Company’s stock repurchase program.

Significant factors impacting the Company’s fiscal 2007 financial results included the cost of bronze ingot, recent actions in the casket business relating to manufacturing capacity and product distribution, and continuing weakness in the U.K. graphics market. As a result of these factors, the predictability of near-term earnings has become more difficult.

Based on the Company’s growth strategy and factors discussed above, the Company currently expects to achieve fiscal 2007 diluted earnings per share growth in the range of its long-term growth objective of 12% to 15% over fiscal 2006 earnings per share. This earnings expectation excludes the net favorable impact of the gain of the sale of property and the impairment of assets and related costs on the fiscal 2006 fourth quarter. In addition, this expectation does not include the impact of any unusual items in fiscal 2007, such as any payouts that may be earned in fiscal 2007 under the Milso acquisition-related agreements.

Critical Accounting Policies:

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

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2006. 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, 2007, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

		Payments due in fiscal year:			
	Total	2007 Remainder	2008 to 2009	2010 to 2011	After 2012
Contractual Cash Obligations:	(Dollar amounts in thousands)				
Revolving credit facilities	$ 148,854	$ 11,667	$ 137,187	$ -	$ -
Notes payable to banks	10,076	660	2,739	2,739	3,938

Short-term borrowings		188		188		-		-		-
Capital lease obligations		1,103		398		682		23		-
Non-cancelable operating leases		30,112		4,284		12,585		7,345		5,898
Total contractual cash obligations	$	190,333	$	17,197	$	153,193	$	10,107	$	9,836

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A significant portion of the loans included in the table above bear interest at variable rates. At March 31, 2007, the weighted-average interest rate was 5.14% on the Company's domestic Revolving Credit Facility, 4.0% on the credit facility through the Company's wholly-owned German subsidiary, and 3.26% on bank loans to the Company's wholly-owned subsidiary, Caggiati S.p.A.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company does not currently expect to make any significant contributions to its principal retirement plan in fiscal 2007. As of March 31, 2007, contributions of $148,000 and $571,000 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional $329,000 and $441,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2007.

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

Accounting Pronouncements:

In June 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption will be reported as an adjustment to beginning retained earnings in the period of adoption. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" which amends SFAS 87, 88, 106 and 132(R). In February 2007, the FASB issued FSP FAS 158-1 providing additional guidance to Statement 158. SFAS No. 158 requires employers to recognize the over-funded or under-funded status of defined benefit postretirement plans on the balance sheet and to recognize the corresponding adjustment in other comprehensive income. In addition, the statement requires recognition in other comprehensive income of gains or loss and prior service costs or credits that are not included as components of periodic benefit expense. These provisions of the statement are effective for public companies for fiscal years ending after December 15, 2006. Accordingly, the Company will adopt this provision of SFAS No. 158 prospectively for the year-end financial statements dated September 30, 2007. If the Company had adopted SFAS No. 158 as of September 30, 2006, the liability for pension and postretirement benefits would have increased approximately $10.0 million deferred tax assets would have increased approximately $3.9 million and equity (other accumulated comprehensive income) would have decreased by approximately $6.1 million.

Further, SFAS No. 158 requires the Company to measure the plan assets and benefit obligations of defined benefit postretirement plans as of the date of its year-end balance sheet. This provision of the SFAS No. 158 is effective for public companies for fiscal years beginning after December 15, 2008. The Company currently measures plan assets and benefit obligations as of July 31 of each year. The Company is considering the implications of this provision and the feasibility of earlier adoption of this portion of the statement. Upon adoption, this provision is not expected to have a material effect on the financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rates - The Company’s most significant long-term debt instrument is the domestic Revolving Credit Facility which bears interest at variable rates based on LIBOR. In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of $50.0 million ($22.5 million outstanding at March 31, 2007). The interest rate was fixed at 2.66% plus a factor based on the Company’s leverage ratio (the factor was .50% at March 31, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Effective September 30, 2005, the Company entered into an additional interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on the additional borrowings in an initial amount of $50.0 million ($30.0 million outstanding at March 31, 2007). The interest rate was fixed at 4.14% plus a factor based on the Company’s leverage ratio (the factor was .50% at March 31, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. The fair value of the interest rate swaps reflected an unrealized gain of $1.0 million ($608,000 after tax) at March 31, 2007, that is included in equity as part of accumulated other comprehensive income. A decrease of 10% in market interest rates (i.e. a decrease from 3.5% to 3.15%) would result in a decrease of approximately $179,000 in the fair value of the interest rate swaps.

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

Foreign Currency Exchange Rates - The Company is subject to changes in various foreign currency exchange rates, including the Euro, the British Pound, Canadian dollar, Australian dollar and Swedish Krona, in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of $8.7 million and a decrease in operating income of $1.1 million for the six months ended March 31, 2007.

Item 4. Controls and Procedures

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

There have been no changes in the Company’s internal controls over financial reporting that occurred during the fiscal quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

In October 2005, York filed a complaint and a motion for a special and/or preliminary injunction in the Court of Common Pleas of Allegheny County, Pennsylvania against Yorktowne Caskets, Inc. (“Yorktowne”), the shareholders of Yorktowne, Batesville Casket Company, Inc. and Batesville Services. This action was taken in response to the announcement that Batesville Casket Company, Inc. and/or Batesville Services (collectively “Batesville”) had entered into a definitive agreement to acquire the outstanding stock of Yorktowne, York’s largest independent distributor of wood and metal caskets. The causes of action alleged by York involve the distributor agreement between York and Yorktowne originally executed on April 15, 2005.

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

In March 2007, the Superior Court of Pennsylvania circulated a Decision and Order dismissing the appeal filed by the defendants and concluding that the evidence of record established reasonable grounds to sustain the injunction against Batesville and the individual shareholders of Yorktowne based on their intentional interference with the distributor agreement between York and Yorktowne. As a result of the favorable Superior Court ruling, the preliminary injunction issued on November 9, 2005 remained in force through the expiration of the distributor agreement on April 15, 2007. However, it is possible that the defendants may attempt once again to pursue additional appellate remedies.

In February 2006, Yorktowne and its shareholders filed a complaint in the Court of Common Pleas of Allegheny County, Pennsylvania against the Company, York and Milso Industries, Inc. (“Milso”) alleging, in part, that the Company, York and Milso breached York’s distributor agreement with Yorktowne dated April 15, 2005, as well as tortuously interfered with Yorktowne’s contractual and prospective contractual relations. Yorktowne alleges entitlement to various monetary damages, including a specific claim for $58 million.

In March 2007, Harry Pontone and Scott Pontone filed a Complaint in the Supreme Court of the State of New York County of New York with respect to their employment agreements, including the earn-out provisions which provide for a potential payment of up to $8 million.

It is possible that resolution of the foregoing matters, individually or in the aggregate, could be unfavorable and material to the business, financial position, result of operations or cash flow of the Company. The Company intends to vigorously defend against the allegations set forth in the pending matters and the Company does not presently believe that the ultimate resolution will have a material adverse impact on the Company.

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

Stock Repurchase Plan

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors had authorized the repurchase of a total of 10,000,000 shares (adjusted for stock splits) of Matthews common stock, of which 9,486,846 shares have been repurchased as of March 31, 2007. All purchases of the Company’s common stock during the first six months of fiscal 2007 were part of the repurchase program.

The following table shows the monthly fiscal 2007 stock repurchase activity:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan (1)
October 2006	-	-	-	864,854
November 2006	60,000	$ 38.00	60,000	804,854
December 2006	-	-	-	804,854
January 2007	11,500	39.64	11,500	793,354
February 2007	8,300	40.30	8,300	785,054
March 2007	271,900	39.54	271,900	513,154
Total	351,700	$ 39.30	351,700	

(1) In April 2007, the Company’s Board of Directors authorized the purchase of an additional 2,500,000 shares of Matthews common stock, bringing the total authorization for stock repurchases to 12,500,000 shares.

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

The Annual Meeting of the Shareholders of Matthews International Corporation was held on February 15, 2007. A total of 31,703,347 shares of Class A Common Stock were eligible to vote at such meeting.

The matters voted upon at such meeting were as follows:

1. Election of Directors:

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

Nominee	Term Expiration	Votes For	Votes Withheld
David J. DeCarlo	2010	19,247,172	8,746,614
John P. O’Leary, Jr.	2010	21,380,536	6,613,250

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

The terms of the following additional directors continued after the meeting: D.M. Kelly, R.G. Neubert, J.D. Turner, J.C. Bartolacci, G. R. Mahone, and W.J. Stallkamp.

2. Selection of Auditors:

The shareholders voted to ratify the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as independent registered public accountants to audit the records of the Company for the fiscal year ending September 30, 2007.

Votes For	Votes Against	Votes Abstained
27,732,542	242,315	18,929

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
31.1	Certification of Principal Executive Officer for Joseph C. Bartolacci
31.2	Certification of Principal Financial Officer for Steven F. Nicola
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Joseph C. Bartolacci.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Steven F. Nicola.

(b) Reports on Form 8-K

On January 18, 2007, Matthews filed a Current Report on Form 8-K under Item 2.02 in connection with a press release announcing its earnings for the first fiscal quarter of 2007.

SIGNATURES

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

MATTHEWS INTERNATIONAL CORPORATION
(Registrant)

Date: April 30, 2007	/s/ Joseph C. Bartolacci Joseph C. Bartolacci, President and Chief Executive Officer
Date: April 30, 2007	/s/ Steven F. Nicola Steven F. Nicola, Chief Financial Officer, Secretary and Treasurer