

MATTHEWS INTERNATIONAL CORP  
Form 10-Q  
May 06, 2008

---

---

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

Form 10-Q

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

For The Quarterly Period Ended March 31, 2008

Commission File No. 0-9115

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

PENNSYLVANIA  
(State or other jurisdiction of  
Incorporation or organization)

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

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

15212-5851  
(Zip Code)

Registrant's telephone number, including area  
code

(412) 442-8200

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

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

Yes x No o

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

Edgar Filing: MATTHEWS INTERNATIONAL CORP - Form 10-Q

Large accelerated filer Accelerated filer Non-accelerated filer o  
x o

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

Yes o No x

As of April 30, 2008, shares of common stock outstanding were:

Class A Common Stock 31,186,524 shares

---

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

	March 31, 2008 (unaudited)	September 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 65,820	\$ 44,002
Short-term investments	73	105
Accounts receivable, net	118,594	120,882
Inventories	90,842	93,834
Deferred income taxes	1,647	1,666
Other current assets	10,528	6,025
<b>Total current assets</b>	<b>287,504</b>	<b>266,514</b>
Investments	15,935	12,044
Property, plant and equipment: Cost	226,420	218,921
Less accumulated depreciation	(140,921)	(129,995)
	85,499	88,926
Deferred income taxes	24,346	23,311
Other assets	12,771	10,670
Goodwill	327,643	318,298
Other intangible assets, net	49,611	51,306
<b>Total assets</b>	<b>\$ 803,309</b>	<b>\$ 771,069</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Long-term debt, current maturities	\$ 26,536	\$ 27,057
Accounts payable	25,248	22,859
Accrued compensation	29,455	31,205
Accrued income taxes	17,338	5,792
Other current liabilities	34,554	36,543
<b>Total current liabilities</b>	<b>133,131</b>	<b>123,456</b>
Long-term debt	124,888	142,273
Accrued pension	24,706	23,629
Postretirement benefits	21,125	20,743
Deferred income taxes	10,597	11,799
Environmental reserve	7,606	7,841
Other liabilities and deferred revenue	13,459	14,550
Shareholders' equity:		

Edgar Filing: MATTHEWS INTERNATIONAL CORP - Form 10-Q

Common stock	36,334	36,334
Additional paid-in capital	41,982	41,570
Retained earnings	501,826	467,846
Accumulated other comprehensive income	21,859	13,390
Treasury stock, at cost	(134,204)	(132,362)
	467,797	426,778
Total liabilities and shareholders' equity	\$ 803,309	\$ 771,069

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Sales	\$ 197,827	\$ 202,979	\$ 380,175	\$ 378,403
Cost of sales	(117,593)	(128,772)	(227,953)	(239,262)
Gross profit	80,234	74,207	152,222	139,141
Selling and administrative expenses	(45,842)	(42,562)	(91,052)	(83,312)
Operating profit	34,392	31,645	61,170	55,829
Investment income	491	439	1,003	850
Interest expense	(1,890)	(1,924)	(4,034)	(3,740)
Other income, net	123	79	368	210
Minority interest	(715)	(591)	(1,267)	(1,111)
Income before income taxes	32,401	29,648	57,240	52,038
Income taxes	(12,118)	(11,147)	(19,526)	(19,566)
Net income	\$ 20,283	\$ 18,501	\$ 37,714	\$ 32,472
Earnings per share:				
Basic	\$.66	\$.58	\$1.22	\$1.02
Diluted	\$.65	\$.58	\$1.21	\$1.02

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

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

	Six Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 37,714	\$ 32,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,250	10,274
Net loss (gain) on sale of assets	259	(1,525)
Minority interest	1,267	1,111
Stock-based compensation expense	2,547	1,720
Change in deferred taxes	(1,393)	331
Changes in working capital items	5,078	(19,333)
Increase in other assets	(2,346)	(963)
Increase in other liabilities	721	71
Increase in pension and postretirement benefits	1,708	2,664
<b>Net cash provided by operating activities</b>	<b>55,805</b>	<b>26,822</b>
Cash flows from investing activities:		
Capital expenditures	(4,472)	(10,679)
Proceeds from sale of assets	333	3,764
Acquisitions, net of cash acquired	(1,526)	(8,361)
Purchases of investments	(4,165)	(596)
Proceeds from disposition of investments	-	134
<b>Net cash used in investing activities</b>	<b>(9,830)</b>	<b>(15,738)</b>
Cash flows from financing activities:		
Proceeds from long-term debt	9,661	32,343
Payments on long-term debt	(29,803)	(22,184)
Proceeds from the sale of treasury stock	5,398	5,780
Purchases of treasury stock	(9,134)	(11,901)
Tax benefit of exercised stock options	911	1,469
Dividends	(3,734)	(3,486)
Distributions to minority interests	(1,173)	(895)
<b>Net cash (used in) provided by financing activities</b>	<b>(27,874)</b>	<b>1,126</b>
Effect of exchange rate changes on cash	3,717	1,580
<b>Net increase in cash and cash equivalents</b>	<b>\$ 21,818</b>	<b>\$ 13,790</b>

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

4

---

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

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

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

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, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008. 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, 2007. 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.

Note 3. Inventories



Inventories consisted of the following:

	March 31, 2008	September 30, 2007
Materials and finished goods	\$ 84,318	\$ 86,304
Labor and overhead in process	6,524	7,530
	\$ 90,842	\$ 93,834

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

Note 4. Debt

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. The maximum amount of borrowings available under the facility is \$225,000 and the facility's maturity is September 10, 2012. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from .40% to .80% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .15% to .25% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at March 31, 2008 were \$129,167. The weighted-average interest rate on outstanding borrowings at March 31, 2008 and 2007 was 4.60% and 5.14%, respectively.

The Company has entered into the following interest rate swaps:

Date	Initial Amount	Fixed Interest Rate	Interest Rate Spread at March 31, 2008	Equal Quarterly Payments	Maturity Date
April 2004	\$50,000	2.66%	.40%	\$2,500	April 2009
September 2005	50,000	4.14	.40	3,333	April 2009
August 2007	15,000	5.07	.40	-	April 2009
August 2007	10,000	5.07	.40	-	April 2009
September 2007	25,000	4.77	.40	-	September 2012

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

The fair value of the interest rate swaps reflected an unrealized loss of \$2,838 (\$1,731 after tax) at March 31, 2008 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at March 31, 2008, approximately \$819 of the \$1,731 loss included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with National Westminster Bank Plc for borrowings up to 10.0 million Euros (\$15,787). On May 2, 2008, the maximum amount of borrowings available under this facility was increased to 25.0 million Euros (\$39,000). Outstanding borrowings under the credit facility totaled 8.0 million Euros (\$12,630) at March 31, 2008. The weighted-average interest rate on outstanding borrowings of MIGmbH at March 31, 2008 and 2007 was 5.11% and 4.0%, respectively.

The Company, through its wholly-owned subsidiary, Matthews International S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 4.7 million Euros (\$7,496) at March 31, 2008. Matthews International S.p.A. also has three lines of credit totaling 8.4 million Euros (\$13,214) with the same Italian banks. Outstanding borrowings on these lines were 1.1 million Euros (\$1,768) at March 31, 2008. The weighted-average interest rate on outstanding borrowings of Matthews International S.p.A. at March 31, 2008 and 2007 was 3.26%.

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

Note 5. 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 pension and postretirement liabilities. For the three months ended March 31, 2008 and 2007, comprehensive income was \$28,894 and \$20,091, respectively. For the six months ended March 31, 2008 and 2007, comprehensive income was \$46,181 and \$38,805, respectively.

Note 6. Share-Based Payments

The Company maintains a stock incentive plan (the "1992 Incentive Stock Plan") that provided for grants of stock options, restricted shares and certain other types of stock-based awards. In February 2008, the Company's shareholders approved the adoption of a new plan, the 2007 Equity Incentive Plan ("the 2007 Plan"), that provides for the grants of stock options, restricted shares, stock-based performance units and certain other types of stock-based awards. Under the 2007 Plan, which has a ten-year term, the maximum number of shares available for grants or awards is an aggregate of 2,200,000. There will be no further grants under the 1992 Incentive Stock Plan. At March 31, 2008, there were 2,200,000 shares reserved for future issuance under the 2007 Plan. Both plans are administered by the Compensation Committee of the Board of Directors.

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

For the three-month periods ended March 31, 2008 and 2007, total stock-based compensation cost totaled \$1,432 and \$848, respectively. For the six-month periods ended March 31, 2008 and 2007, total stock-based compensation cost totaled \$2,547 and \$1,720, respectively. The associated future income tax benefit recognized was \$558 and \$331 for the three-month periods ended March 31, 2008 and 2007, respectively, and was \$993 and \$671 for the six-month periods ended March 31, 2008 and 2007, respectively.

For the three-month periods ended March 31, 2008 and 2007, the amount of cash received from the exercise of stock options was \$4,685 and \$3,659, respectively. For the six-month periods ended March 31, 2008 and 2007, the amount of cash received from the exercise of stock options was \$5,398 and \$5,780, respectively. In connection with these exercises, the tax benefits realized by the Company for the three-month periods ended March 31, 2008 and 2007 were \$1,499 and \$1,335, respectively, and the tax benefits realized by the Company for the six-month periods ended March

31, 2008 and 2007 were \$1,669 and \$2,332, respectively.

7

---

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

## Note 6. Share-Based Payments (continued)

Changes to restricted stock for the six months ended March 31, 2008 were as follows:

Non-vested restricted stock	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2007	9,249	\$ 40.56
Granted	132,069	38.83
Vested	-	-
Expired or forfeited	(1,990)	38.56
Non-vested at March 31, 2008	139,328	\$ 38.95

As of March 31, 2008, the total unrecognized compensation cost related to unvested restricted stock was \$3,540 and is expected to be recognized over a weighted average period of 2.3 years.

The transactions for shares under options for the six months ended March 31, 2008 were as follows:

Option shares	Shares	Weighted- average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value
Outstanding, September 30, 2007	2,100,577	\$ 33.60		
Granted	-	-		
Exercised	(214,568)	28.01		
Expired or forfeited	(85,595)	37.65		
Outstanding, March 31, 2008	1,800,414	\$ 34.07	6.8	\$ 25,527
Exercisable, March 31, 2008	624,105	\$ 27.94	5.4	\$ 12,677

The weighted-average grant date fair value of options granted for the six-months ended March 31, 2007 was \$12.29. The fair value of shares earned during the three-month periods ended March 31, 2008 and 2007 was \$640 and \$1,481, respectively, and \$3,594 and \$3,301 during the six-month periods ended March 31, 2008 and 2007, 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, 2008 and 2007 was \$4,347 and \$5,742, respectively.

The transactions for non-vested options for the six months ended March 31, 2008 were as follows:

Non-vested shares	Shares	Weighted-average grant-date fair value
Non-vested at September 30, 2007	1,642,201	\$ 10.87