MATTHEWS INTERNATIONAL CORP
Form 10-K
November 27, 2013

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

FORM 10-K

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

For the fiscal year ended September 30, 2013
Commission File Number 0-09115

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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. x

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

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

Yes x No o

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

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

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

The aggregate market value of the Class A Common Stock outstanding and held by non-affiliates of the registrant, based upon the closing sale price of the Class A Common Stock on the NASDAQ Global Select Market System on March 31, 2013, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $1.0 billion.

As of October 31, 2013, shares of common stock outstanding were: Class A Common Stock 27,282,093 shares

Documents incorporated by reference: Specified portions of the Proxy Statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

The index to exhibits is on pages 75-76.

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

Any forward-looking statements contained in this Annual Report on Form 10-K (specifically those contained in Item 1, "Business", Item 1A, “Risk Factors” and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations") are included in this report pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the actual results of Matthews International Corporation (“Matthews” or the “Company”) in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company’s products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered individually significant to consolidated sales, changes in the distribution of the Company’s products or the potential loss of one or more of the Company’s larger customers are also considered risk factors.

ITEM 1. BUSINESS.

Matthews, founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze and granite memorials and other memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, marking and fulfillment systems products, and merchandising solutions. In fiscal 2012 the Company changed the name of its Bronze, Casket and Marking Products segments to the Cemetery Products segment, the Funeral Home Products segment and the Marking and Fulfillment Systems segment, respectively. Also effective October 1, 2011, the Company’s cremation casket operations, previously included in the Cremation segment, are included in the Funeral Home Products segment. The Company's products and operations are comprised of six business segments: Cemetery Products (formerly Bronze), Funeral Home Products (formerly Casket), Cremation, Graphics Imaging, Marking and Fulfillment Systems (formerly Marking Products) and Merchandising Solutions. The Cemetery Products segment is a leading manufacturer of cast bronze and granite memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Funeral Home Products segment is a leading casket manufacturer and distributor in North America and produces a wide variety of wood, metal and cremation caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment in North America and Europe. The Graphics Imaging segment manufactures and provides brand management, printing plates, gravure cylinders, pre-press services and imaging services for the primary packaging and corrugated industries. The Marking and Fulfillment Systems segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, industrial automation products and order fulfillment systems that are used for identifying, tracking, picking and conveying consumer and industrial products. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

At October 31, 2013, the Company and its majority-owned subsidiaries had approximately 5,800 employees. The Company's principal executive offices are located at Two NorthShore Center, Pittsburgh, Pennsylvania 15212, its telephone number is

(412) 442-8200 and its internet website is www.matw.com. The Company files all required reports with the Securities and Exchange Commission ("SEC") in accordance with the Exchange Act. The Company's Annual Report on Form 10-K, Quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available free of charge on the Company's website as soon as reasonably practicable after being filed or furnished to the SEC. The reports filed with the SEC are also available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by contacting the SEC at 1-800-732-0330. All reports filed with the SEC can be found on its website at www.sec.gov.

The following table sets forth reported sales and operating profit for the Company's business segments for the past three fiscal years. Detailed financial information relating to business segments and to domestic and international operations is presented in Note 16 ("Segment Information") to the Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

ITEM 1. BUSINESS, (continued)

	Years Ended September 30,					
	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
Sales to unaffiliated customers:						
Memorialization:						
Cemetery Products	$226,586	23.0 %	$215,943	24.0 %	$224,773	25.0 %
Funeral Home Products	242,803	24.6	230,943	25.6	243,291	27.1
Cremation	48,522	4.9	45,981	5.1	39,278	4.4
	517,911	52.5	492,867	54.7	507,342	56.5
Brand Solutions:						
Graphics Imaging	294,571	29.9	259,865	28.9	268,975	29.9
Marking and Fulfillment Systems	93,505	9.5	74,621	8.3	61,938	6.9
Merchandising Solutions	79,370	8.1	72,964	8.1	60,566	6.7
	467,446	47.5	407,450	45.3	391,479	43.5
Total	$985,357	100.0 %	$900,317	100.0 %	$898,821	100.0 %
Operating profit:						
Memorialization:						
Cemetery Products	$32,571	34.0 %	$33,195	35.5 %	$52,474	44.3 %
Funeral Home Products	37,263	38.9	26,525	28.3	29,039	24.5
Cremation	3,097	3.2	3,869	4.1	3,479	2.9
	72,931	76.1	63,589	67.9	84,992	71.7
Brand Solutions:						
Graphics Imaging	9,724	10.2	14,843	15.9	22,427	18.9
Marking and Fulfillment Systems	8,862	9.2	10,061	10.8	7,819	6.6
Merchandising Solutions	4,275	4.5	5,084	5.4	3,278	2.8
	22,861	23.9	29,988	32.1	33,524	28.3
Total	$95,792	100.0 %	$93,577	100.0 %	$118,516	100.0 %

In fiscal 2013, approximately 63% of the Company's sales were made from the United States, and 33%, 2%, 1% and 1% were made from Europe, Asia, Australia and Canada, respectively. For further information on segments, see Note 16 (“Segment Information”) in Item 8 “Financial Statements and Supplementary Data” on pages 61 and 62 of this report. Cemetery Products segment products are sold throughout the world with the segment's principal operations located in the United States, Europe, Canada, and Australia. Funeral Home Products segment products are primarily sold in North America. Cremation segment products and services are sold primarily in North America, Europe, Asia, and Australia. Products and services of the Graphics Imaging segment are sold primarily in Europe, the United States and Asia. The Marking and Fulfillment Systems segment sells equipment and consumables directly to industrial consumers and distributors in the United States and internationally through the Company's subsidiaries in Canada, Sweden and China, and through other foreign distributors. Matthews owns a minority interest in Marking and Fulfillment Systems distributors in Asia, Australia and Europe. Merchandising Solutions segment products and services are sold principally in the United States.

ITEM 1. BUSINESS, (continued)

MEMORIALIZATION PRODUCTS AND MARKETS:

Cemetery Products:

The Cemetery Products segment manufactures and markets a full line of memorialization products used primarily in cemeteries. The segment's products, which are sold principally in the United States, Europe, Canada and Australia, include cast bronze memorials, granite memorials and other memorialization products. The segment also manufactures and markets architectural products that are produced from bronze, aluminum and other metals, which are used to identify or commemorate people, places, events and accomplishments.

Memorial products, which comprise the majority of the Cemetery Products segment's sales, include flush bronze and granite memorials, upright granite memorials and monuments, cremation memorialization products, granite benches, flower vases, crypt plates and letters, cremation urns, niche units, cemetery features and statues, along with other related products and services. Flush memorials are bronze plaques or granite memorials which contain personal information about a deceased individual (such as name, birth date, and death date), photos and emblems. Flush bronze and granite memorials are even or "flush" with the ground and therefore are preferred by many cemeteries for easier mowing and general maintenance. The segment's memorial products also include community and family mausoleums within North America. In addition, the segment’s other memorial products include bronze plaques, letters, emblems, vases, lights and photo ceramics that can be affixed to granite monuments, mausoleums, crypts and flush memorials. Principal customers for memorial products are cemeteries and memorial parks, which in turn sell the Company's products to the consumer.

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

The Cemetery products segment manufactures a full line of memorial products for cremation, including urns in a variety of sizes, styles and shapes as well as standard and custom designed granite cremation pedestals and benches. The segment also manufactures bronze and granite niche units, which are comprised of numerous compartments used to display cremation urns in mausoleums and churches. In addition, the Company also markets turnkey cremation gardens, which include the design and all related products for a cremation memorial garden. As part of the Memorialization group, the segment works with the Funeral Home Products and Cremation segments to provide a total solution to customers that own and operate businesses in both the cemetery and funeral home markets.

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

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

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

ITEM 1. BUSINESS, (continued)

Funeral Home Products:

The Funeral Home Products segment is a leading manufacturer and distributor of caskets and other funeral home products in North America. The segment produces and markets metal, wood and cremation caskets. Caskets are offered in a variety of colors, interior designs, handles and trim in order to accommodate specific religious, ethnic or other personal preferences. The segment also markets other funeral home products such as urns, jewelry, stationery and other funeral home products. The segment offers individually personalized caskets and urns through the Company-owned distribution network.

Metal caskets are made from various gauges of cold-rolled steel, stainless steel, copper and bronze. Metal caskets are generally categorized by whether the casket is non-gasketed or gasketed, and by material (i.e., bronze, copper, or steel) and in the case of steel, by the gauge (thickness) of the metal. Wood caskets are manufactured from nine different species of wood, as well as from veneer. The species of wood used are poplar, pine, ash, oak, pecan, maple, cherry, walnut and mahogany. The Funeral Home Products segment is a leading manufacturer of all-wood constructed caskets, which are manufactured using pegged and dowelled construction, and include no metal parts. All-wood constructed caskets are preferred by certain religious groups. Cremation caskets are made primarily from wood or cardboard covered with cloth or veneer. These caskets appeal primarily to cremation consumers, the environmentally concerned, and value buyers.

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

The segment provides product and service assortment planning, as well as merchandising and display products to funeral service businesses. These products assist funeral service professionals in providing information, value and satisfaction to their client families.

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

The segment markets its casket products in the United States through a combination of Company-owned and independent casket distribution facilities. The Company operates approximately 60 distribution centers in the United States. Over 70% of the segment’s casket products are currently sold through Company-owned distribution centers. As part of the Memorialization group, the segment works with the Cemetery Products and Cremation segments to provide a total solution to customers that own and operate businesses in both the cemetery and funeral home markets.

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

ITEM 1. BUSINESS, (continued)

Cremation:

The Cremation segment provides the following groups of products and services:

- Cremation Systems
- Waste Management/Incineration Systems
- Environmental and Energy Systems
- Service and Supplies
- Crematory Management/Operations
- Cremation Urns and Memorialization Products

Servicing the human, pet and specialized incineration markets, the segment's primary market areas are North America and Europe. The segment also sells into Latin America and the Caribbean, Australia and Asia.

Cremation systems includes both traditional flame-based and water-based bio-cremation systems for cremation of humans and pets, as well as equipment for processing the cremated remains and other related equipment (ventilated work stations, tables, cooler racks, vacuums). The principal markets for these products are funeral homes, cemeteries, crematories, pet crematories, animal disposers and veterinarians. These products are marketed mostly direct by segment personnel.

Waste management/incineration systems encompass both batch load and continuous feed, static and rotary systems for incineration of all waste types, as well as equipment for in-loading waste, out-loading ash and energy recovery. The principal markets for these products are medical waste disposal, oil and gas "work camp" wastes, industrial wastes and bio mass generators.

Environmental and energy systems include emissions filtration units, waste heat recovery equipment, waste gas treatment products, as well as energy recovery and renewable power generation. The principal markets are municipalities or public/state agencies, the cremation industry and waste to energy and other industries which utilize incinerators for waste reduction and energy production.

Service and supplies consists of operator training, preventative maintenance and "at need" service work performed on various makes and models of equipment. This work can be as simple as replacing defective bulbs or as complex as complete reconstruction and upgrading or retro-fitting on site. Supplies are consumable items associated with normal operations.

Crematory management/operations represent the actual operation and management of client-owned crematories. Currently the segment provides these services primarily to municipalities in Europe.

Cremation urns and memorialization products include urns which support various forms of memorialization (burial, niche, scattering, and home décor). Merchandise includes any other family-related products such as cremation jewelry, mementos, remembrance products and other assorted at-need merchandise.

Raw materials used by the Cremation segment consist principally of structural steel, sheet metal, electrical components, combustion devices and refractory materials. These are generally available in adequate supply from numerous suppliers.

The Company competes with several manufacturers in the cremation and accessory equipment market principally on the basis of product design, quality and price. The Cremation segment and its three largest global competitors account for a substantial portion of the U.S. and European cremation equipment market. As part of the Memorialization group, the segment works with the Cemetery Products and Funeral Home Products segments to provide a total solution to customers that own and operate businesses in both the cemetery and funeral home markets.

ITEM 1. BUSINESS, (continued)

BRAND SOLUTIONS PRODUCTS AND MARKETS:

Graphics Imaging:

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

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

The segment offers a wide array of value-added services and products. These include print process and print production management services; print engineering consultation; pre-press preparation, which includes computer-generated art, film and proofs; plate mounting accessories and various press aids; and press-side print production assurance. The segment also provides creative digital graphics services to brand owners and packaging markets.

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

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

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

The Graphics Imaging segment is one of several manufacturers of printing plates and cylinders and providers of pre-press services with an international presence. The segment competes in a fragmented industry consisting of a few multi-plant regional printing form suppliers and a large number of local single-facility companies located across Europe and the United States. The combination of the Company's Graphics Imaging business in Europe, the United

States and Asia is an important part of Matthews' strategy to become a worldwide leader in the graphics industry in providing consistent service to multinational customers on a global basis. Competition is on the basis of product quality, timeliness of delivery and price. The Company differentiates itself from the competition by consistently meeting these customer demands, its ability to service customers both nationally and globally, and its ability to provide a variety of value-added support services.

ITEM 1. BUSINESS, (continued)

Marking and Fulfillment Systems:

The Marking and Fulfillment Systems segment designs, manufactures and distributes a wide range of marking, coding and industrial automation technologies and solutions, and related consumables. Manufacturers, suppliers and distributors worldwide rely on Matthews' integrated systems to identify, track, control and pick their products.

Marking systems range from mechanical marking solutions to microprocessor-based ink-jet printing systems that integrate into a customer's manufacturing, inventory tracking and material handling control systems. The Company also manufactures and markets products and systems that employ different marking technologies, including contact printing, indenting, etching, laser and ink-jet printing. Customers frequently use a combination of these methods to achieve an appropriate mark. These technologies apply product information required for identification and traceability, as well as to facilitate inventory and quality control, regulatory compliance and brand name communication.

Fulfillment systems complement the tracking and distribution of a customer's products with automated order fulfillment technologies, motor-driven rollers for product conveyance and controls for material handling systems. Material handling customers include some of the largest automated assembly, distribution and mail sorting companies in the United States. The Company also engineers innovative, custom solutions to address specific customer requirements in a variety of industries, including oil exploration, precision computer numerical control (CNC) machining and security scanning.

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

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

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

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

Competitors in the marking and fulfillment systems industries are diverse, with some companies offering limited product lines for well-defined specialty markets, while others operate similarly to the Company, offering a broad product line and competing in multiple product markets and countries. Competition for marking and fulfillment systems products is based on product performance, ease of integration into the manufacturing and/or distribution process, service and price. The Company typically competes with specialty companies in specific brand marking solutions and traceability applications. The Company believes that, in general, it offers one of the broadest lines of products to address a wide variety of marking, coding and industrial automation applications.

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ITEM 1. BUSINESS, (continued)

Merchandising Solutions:

The Merchandising Solutions segment provides merchandising, retail graphics and printing solutions for brand owners and retailers. The segment designs, manufactures and installs merchandising and display systems, and provides total turnkey project management services. The segment also provides creative merchandising and marketing solutions services.

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

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

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

PATENTS, TRADEMARKS AND LICENSES:

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

BACKLOG:

Because the nature of the Company's Cemetery Products, Graphics Imaging and Merchandising Solutions businesses are primarily custom products made to order with short lead times, backlogs are not generally material except for mausoleums in the Cemetery Products segment and roto-gravure engineering projects in the Graphics Imaging segment. Backlogs vary in a range of approximately one year of sales for mausoleums and roto-gravure engineering projects. Backlogs for the Funeral Home Products segment are not material. Cremation equipment sales backlogs vary in a range of eight to ten months of sales. Backlogs for Marking and Fulfillment Systems segment sales generally vary in a range of up to six weeks for standard products and twelve weeks for custom systems. The Company's backlog is expected to be substantially filled in fiscal 2014.

REGULATORY MATTERS:

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

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate.

ITEM 1. BUSINESS, (continued)

At September 30, 2013, an accrual of approximately $5.3 million had been recorded for environmental remediation (of which $1.2 million was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

ITEM 1A. RISK FACTORS.

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

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

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

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

Increased Prices for Raw Materials. The Company’s profitability is affected by the prices of the raw materials used in the manufacture of its products. These prices may fluctuate based on a number of factors, including changes in supply and demand, domestic and global economic conditions, and volatility in commodity markets, currency exchange rates, labor costs and fuel-related costs. If suppliers increase the price of critical raw materials, alternative sources of supply, or an alternative material, may not exist.

The Company has standard selling price structures (i.e., list prices) in several of its segments, which are reviewed for adjustment generally on an annual basis. In addition, the Company has established pricing terms with several of its customers through contracts or similar arrangements. Based on competitive market conditions and to the extent that the Company has established pricing terms with customers, the Company’s ability to immediately increase the price of its products to offset the increased costs may be limited. Significant raw material price increases that cannot be mitigated by selling price increases or productivity improvements will negatively affect the Company’s results of operations.

ITEM 1A. RISK FACTORS, (continued)

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable.

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ITEM 2. PROPERTIES.

Principal properties of the Company and its majority-owned subsidiaries as of October 31, 2013 were as follows (properties are owned by the Company except as noted):

Location	Description of Property	
Cemetery Products:		
Pittsburgh, PA	Manufacturing / Division Offices	
Elberton, GA	Manufacturing	
Kingwood, WV	Manufacturing	
Melbourne, Australia	Manufacturing	(1)
Monterrey, Mexico	Manufacturing	(1)
Parma, Italy	Manufacturing / Warehouse	(1)
Searcy, AR	Manufacturing	
Whittier, CA	Manufacturing	(1)
Funeral Home Products (2):		
Monterrey, Mexico	Manufacturing	(1)
Richmond, IN	Manufacturing	(1)
Richmond, IN	Manufacturing	(1)
Richmond, IN	Manufacturing / Metal Stamping	
Richmond, IN	Injection Molding	(1)
York, PA	Manufacturing	
Cremation:		
Apopka, FL	Manufacturing / Division Offices	
Manchester, England	Manufacturing	(1)
Manchester, England	Manufacturing	(1)
Udine, Italy	Manufacturing	(1)
Graphics Imaging:		
Pittsburgh, PA	Manufacturing / Division Offices	
Julich, Germany	Manufacturing / Division Offices	
Atlanta, GA	Manufacturing	
Woburn, MA	Manufacturing	(1)
Bristol, England	Manufacturing	
Goslar, Germany	Manufacturing	(1)
Leeds, England	Manufacturing	(1)
Monchengladbach, Germany	Manufacturing	
Munich, Germany	Manufacturing	(1)
Nuremberg, Germany	Manufacturing	(1)
Oakland, CA	Manufacturing	(1)
Poznan, Poland	Manufacturing	

St. Louis, MO	Manufacturing	
Shenzhen, China	Manufacturing	(1)
Vienna, Austria	Manufacturing	(1)
Vreden, Germany	Manufacturing	
Wan Chai, Hong Kong	Manufacturing	(1)
Izmir, Turkey	Manufacturing	
Grenzach-Wyhlen, Germany	Manufacturing	
Duchow, Poland	Manufacturing	
Budapest, Hungary	Manufacturing	

ITEM 2. PROPERTIES, (continued)

Location	Description of Property	
Marking and Fulfillment Systems:		
Pittsburgh, PA	Manufacturing / Division Offices	
Gothenburg, Sweden	Manufacturing / Distribution	(1)
Tualatin, OR	Manufacturing	(1)
Beijing, China	Manufacturing	(1)
Ixonia, WI	Manufacturing	(1)
Germantown, WI	Manufacturing	(1)
Cincinnati, OH	Manufacturing	(1)
Merchandising Solutions:		
East Butler, PA	Manufacturing / Division Offices	
Portland, OR	Sales Office	(1)
Corporate Office:		
Pittsburgh, PA	General Offices	

(1) These properties are leased by the Company under operating lease arrangements. Rent expense incurred by the Company for all leased facilities was approximately $17.7 million in fiscal 2013.

(2) In addition to the properties listed, the Funeral Home Products segment leases warehouse facilities totaling approximately 1.0 million square feet in 29 states under operating leases.

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

OFFICERS AND EXECUTIVE MANAGEMENT OF THE REGISTRANT

The following information is furnished with respect to officers and executive management as of October 31, 2013:

Name	Age	Positions with Registrant
Joseph C. Bartolacci	53	President and Chief Executive Officer
David F. Beck	61	Vice President and Controller
Jennifer A. Ciccone	46	Vice President, Human Resources
Brian J. Dunn	56	Group President, Brand Solutions
Steven D. Gackenbach	50	Group President, Memorialization
Steven F. Nicola	53	Chief Financial Officer, Secretary and Treasurer
Paul F. Rahill	56	President, Cremation Division
Brian D. Walters	44	Vice President and General Counsel

Joseph C. Bartolacci was appointed President and Chief Executive Officer effective October 1, 2006.

David F. Beck was appointed Vice President and Controller effective February 18, 2010. Prior thereto he had been Controller since September 15, 2003.

Jennifer A. Ciccone was appointed Vice President, Human Resources effective February 19, 2009. Prior thereto, Ms. Ciccone had been Director, Corporate Human Resources since 2006.

Brian J. Dunn was appointed Group President, Brand Solutions effective February 18, 2010. Prior thereto, he was appointed Group President, Graphics and Marking Products effective September 1, 2007 and had been President, Marking Products Division prior thereto.

Steven D. Gackenbach was appointed Group President, Memorialization effective October 31, 2011. Prior thereto he had been Chief Commercial Officer, Memorialization since January 3, 2011 when he joined the Company. Prior to joining the Company, Mr. Gackenbach served as the Senior Director of Strategy for Kraft Foods’ Cheese and Dairy Division from 2002 to 2010.

Steven F. Nicola was appointed Chief Financial Officer, Secretary and Treasurer effective December 1, 2003.

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

Brian D. Walters was appointed Vice President and General Counsel effective February 19, 2009. Mr. Walters joined the Company as Legal Counsel in 2005.

PART II

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

Market Information:

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

	High	Low	Close
Fiscal 2013:			
Quarter ended: September 30, 2013	$40.50	$36.27	$38.08
June 30, 2013	39.37	32.81	37.70
March 31, 2013	35.31	31.43	34.92
December 31, 2012	32.95	27.42	32.10
Fiscal 2012:			
Quarter ended: September 30, 2012	$32.90	$27.88	$29.82
June 30, 2012	32.63	28.95	32.49
March 31, 2012	34.36	30.00	31.64
December 31, 2011	37.65	28.59	31.43

The Company has a stock repurchase program. Under the current authorization, the Company's Board of Directors has authorized the repurchase of a total of 2,500,000 shares of Matthews’ common stock under the program, of which 1,194,670 shares remain available for repurchase as of September 30, 2013. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company’s Restated Articles of Incorporation.

All purchases of the Company’s common stock during fiscal 2013 were part of this repurchase program.

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

The following table shows the monthly fiscal 2013 stock repurchase activity:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan
October 2012	123,000	$29.12	123,000	1,691,651
November 2012	31,732	28.91	31,732	1,659,919
December 2012	1,000	30.72	1,000	1,658,919
January 2013	-	-	-	1,658,919
February 2013	41,200	32.67	41,200	1,617,719
March 2013	40,200	34.41	40,200	1,577,519
April 2013	16,691	33.85	16,691	1,560,828
May 2013	31,745	38.32	31,745	1,529,083
June 2013	119,548	37.54	119,548	1,409,535
July 2013	30,000	38.65	30,000	1,379,535
August 2013	25,000	37.43	25,000	1,354,535
September 2013	159,865	37.52	159,865	1,194,670
Total	619,981	$34.88	619,981	

Holders:

Based on records available to the Company, the number of registered holders of the Company's common stock was 469 at
October 31, 2013.

Dividends:

A quarterly dividend of $.11 per share was paid for the fourth quarter of fiscal 2013 to shareholders of record on November 25, 2013. The Company paid quarterly dividends of $.10 per share for the first three quarters of fiscal 2013 and the fourth quarter of fiscal 2012. The Company paid quarterly dividends of $.09 per share for the first three quarters of fiscal 2012 and the fourth quarter of fiscal 2011. The Company paid quarterly dividends of $.08 per share for the first three quarters of fiscal 2011 and the fourth quarter of fiscal 2010.

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

Securities Authorized for Issuance Under Equity Compensation Plans:

See Equity Compensation Plans in Item 12 “Security Ownership of Certain Beneficial Owners and Management” on page 70 of this report.

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

PERFORMANCE GRAPH

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

* Total return assumes dividend reinvestment
** Fiscal year ended September 30

Note: Performance graph assumes $100 invested on October 1, 2008 in Matthews International Corporation Common Stock, Standard & Poor's (S&P) 500 Index, S&P MidCap 400 Index and S&P SmallCap 600 Index. The results are not necessarily indicative of future performance.

ITEM 6. SELECTED FINANCIAL DATA.

	Years Ended September 30,				
	2013(1)	2012(2)	2011(3)	2010(4)	2009(5)
	(Amounts in thousands, except per share data) (Not Covered by Report of Independent Registered Public Accounting Firm)				
Net sales	$985,357	$900,317	$898,821	$821,829	$780,908
Operating profit	95,792	93,577	118,516	116,581	101,011
Interest expense	12,925	11,476	8,241	7,419	12,053
Net income attributable to Matthews shareholders	54,888	55,843	72,372	69,057	57,732
Earnings per common share:					
Basic	$1.99	$1.98	$2.47	$2.32	$1.91
Diluted	1.98	1.98	2.46	2.31	1.90
Weighted-average common shares outstanding:					
Basic	27,255	27,753	28,775	29,656	30,245
Diluted	27,423	27,839	28,812	29,706	30,318
Cash dividends per share	$.410	$.370	$.330	$.290	$.265
Total assets	$1,214,927	$1,128,042	$1,097,455	$993,825	$949,653
Long-term debt, non-current	351,068	298,148	299,170	225,256	237,530

(1) Fiscal 2013 included net unusual charges of approximately $14,095 (pre-tax). Unusual charges primarily related to strategic cost reduction initiatives, incremental costs related to an ERP implementation in the Cemetery Products segment, acquisition related costs and an impairment charge related to the carrying value of a trade name. The unusual charges were partially offset by a gain on the final settlement of the purchase price of the remaining ownership interest in one of the Company's subsidiaries and the benefit of adjustments to contingent consideration.

(2) Fiscal 2012 included net unusual charges of approximately $7,850 (pre-tax), which primarily consisted of charges related to cost reduction initiatives and incremental costs related to an ERP implementation in the Cemetery Products segment. In addition, fiscal 2012 included the favorable effect of an adjustment of $528 to income tax expense primarily related to changes in estimated tax accruals for open tax periods.

(3) Fiscal 2011 included the favorable effect of an adjustment of $606 to income tax expense primarily related to changes in estimated tax accruals for open tax periods.

(4) Fiscal 2010 included the favorable effect of an adjustment of $838 to income tax expense primarily related to changes in estimated tax accruals for open tax periods.

(5)

Fiscal 2009 included pre-tax unusual charges of approximately $16,500, which primarily consisted of severance and other costs related to the consolidation of certain production operations within the Company's Cemetery Products segment, costs related to operational and systems improvements in several of the Company's other businesses, and asset adjustments resulting from current market conditions. In addition, fiscal 2009 earnings included the favorable effect of an adjustment of $1,255 to income tax expense primarily related to the Company's ability to utilize a European tax loss carryover generated in prior years and changes in the estimated tax accruals for open tax periods.

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

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

RESULTS OF OPERATIONS:

The following table sets forth sales and operating profit for the Company's Memorialization and Brand Solutions businesses for each of the last three fiscal years.

	Years Ended September 30,		
	2013	2012	2011
Sales:			
Memorialization	$517,911	$492,867	$507,342
Brand Solutions	467,446	407,450	391,479
Consolidated	$985,357	$900,317	$898,821
Operating Profit:			
Memorialization	$72,931	$63,589	$84,992
Brand Solutions	22,861	29,988	33,524
Consolidated	$95,792	$93,577	$118,516

Comparison of Fiscal 2013 and Fiscal 2012:

Sales for the year ended September 30, 2013 were $985.4 million, compared to $900.3 million for the year ended September 30, 2012. The increase in fiscal 2013 sales principally reflected higher sales in the Funeral Home Products and Merchandising Solutions segments and the benefit of recent acquisitions.

In the Memorialization businesses, Cemetery Products segment sales for fiscal 2013 were $226.6 million compared to $215.9 million for fiscal 2012. The increase primarily reflected the full year impact of the acquisition of Everlasting Granite Memorial Co., Inc. ("Everlasting Granite") in May 2012. Sales for the Funeral Home Products segment were $242.8 million for fiscal 2013 compared to $230.9 million for fiscal 2012. The increase principally resulted from higher unit volume and an improvement in product mix. Sales for the Cremation segment were $48.5 million for fiscal 2013 compared to $46.0 million a year ago. The increase principally resulted from higher sales of cremation equipment in the U.S. and the benefit of a small U.K. acquisition completed in fiscal 2012, partially offset by lower international sales. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in fiscal 2013 were $294.6 million, compared to $259.9 million a year ago. The increase resulted principally from the acquisition of Wetzel Holding AG, Wetzel GmbH and certain related affiliates (collectively, "Wetzel") in November 2012, partially offset by lower sales volume in the segment's principal markets due to soft economic conditions, particularly in Europe. Marking and Fulfillment Systems segment sales for the year ended September 30, 2013 were $93.5 million, compared to $74.6 million for fiscal 2012. The increase resulted principally from higher sales in the U.S. market and the acquisition of Pyramid Controls, Inc. and its affiliate, Pyramid Control Systems (collectively, "Pyramid") in December 2012. Sales for the Merchandising Solutions segment were $79.4 million for fiscal 2013, compared to $73.0 million a year ago. The improvement was attributable to an increase in sales to several large customers in fiscal 2013.

Gross profit for the year ended September 30, 2013 was $356.5 million, or 36.2% of sales, compared to $336.6 million, or 37.4% of sales, for fiscal 2012. The increase in fiscal 2013 consolidated gross profit compared to fiscal 2012 reflected higher sales and the benefit of recent acquisitions. The decrease in gross profit as a percentage of sales primarily reflected lower margins in the Brand Solutions businesses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

Selling and administrative expenses for the year ended September 30, 2013 were $260.7 million, or 26.5% of sales, compared to $243.0 million, or 27.0% of sales, for fiscal 2012. The increase in selling and administrative expenses was attributable to the impacts of recent acquisitions, unusual charges and higher sales in the Funeral Home Products segment. The reduction in selling and administrative costs as a percent of sales was due primarily to the benefit of adjustments to contingent consideration and the Company's cost containment efforts in fiscal 2013. Unusual charges primarily included costs related to strategic cost-structure initiatives, acquisition-related expenses and asset adjustments.

Operating profit for fiscal 2013 was $95.8 million, compared to $93.6 million for fiscal 2012. The increase in operating profit for fiscal 2013 reflected higher sales and the impact of recent acquisitions, partially offset by net unusual charges totaling approximately $14.1 million in fiscal 2013. Fiscal 2012 included net unusual charges of approximately $7.8 million.

Cemetery Products segment operating profit for fiscal 2013 was $32.6 million, compared to $33.2 million for fiscal 2012. The decrease in fiscal 2013 operating profit compared to fiscal 2012 resulted mainly from unusual charges of approximately $5.9 million related to strategic cost-structure initiatives, compared to similar unusual charges in fiscal 2012 of approximately $5.4 million. Operating profit for the Funeral Home products segment for fiscal 2013 was $37.3 million, compared to $26.5 million for fiscal 2012. The increase in Funeral Home Products segment operating profit for fiscal 2013 primarily reflected the impact of higher sales, the benefit of improved production and distribution efficiencies and the benefit of adjustments to contingent consideration. These increases were partially offset by unusual charges related to strategic cost-structure initiatives. Fiscal 2012 also included the benefit of adjustments to contingent consideration, partially offset by unusual charges for severance. Net unusual items for the Funeral Home Products segment were approximately the same aggregate amount in fiscal 2013 and 2012. Cremation segment operating profit for the year ended September 30, 2013 was $3.1 million, compared to $3.9 million a year ago. Fiscal 2013 operating profit reflected the impact of higher sales in the U.S. market, partially offset by lower sales in the European and U.K. markets. In addition, Cremation segment fiscal 2013 operating profit included unusual charges related to strategic cost-structure initiatives. Graphics Imaging segment operating profit for fiscal 2013 was $9.7 million, compared to $14.8 million for 2012. The decrease in fiscal 2013 reflected lower sales (excluding the Wetzel acquisition) and the unfavorable impact of unusual items of approximately $6.3 million. The unusual charges related to acquisition activities and strategic initiatives, and an impairment charge related to the carrying value of a trade name. Graphics Imaging segment operating profit in fiscal 2012 included net unusual charges of approximately $3.4 million primarily related to acquisition activities and severance costs, partially offset by the benefit of an adjustment to contingent consideration. Operating profit for the Marking and Fulfillment Systems segment for fiscal 2013 was $8.9 million, compared to $10.1 million a year ago. The decrease in Marking and Fulfillment Systems segment operating profit principally reflected the impact of unusual charges related to cost-structure strategic initiatives, partially offset by the benefit of the Pyramid acquisition and higher sales in the U.S. The Merchandising Solutions segment operating profit was $4.3 million for fiscal 2013, compared to $5.1 million for fiscal 2012. The decrease principally reflected the impact of higher sales, offset by an increase in employee-related costs and unusual charges related to strategic cost-structure initiatives.

Investment income for the year ended September 30, 2013 was $2.3 million, compared to $3.9 million for the year ended September 30, 2012. The decrease principally reflected lower rates of return on investments held in trust for certain of the Company's benefit plans. Interest expense for fiscal 2013 was $12.9 million, compared to $11.5 million last year. The increase in interest expense reflected higher average debt levels.

Other income (deductions), net, for the year ended September 30, 2013 represented a decrease in pre-tax income of $3.7 million, compared to a decrease in pre-tax income of $2.1 million in 2012. Other income and deductions generally include banking-related fees and the impact of currency gains or losses on certain intercompany debt.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

The Company's effective tax rate for fiscal 2013 was 32.7%, compared to 34.2% for fiscal 2012. Fiscal 2012 included the favorable impact of adjustments totaling $528,000 in income tax expense primarily related to changes in the estimated tax accruals for open tax periods. Excluding this adjustment from fiscal 2012, the Company’s effective tax rate was 34.8%. The decrease in the fiscal 2013 effective tax rate, compared to fiscal 2012 primarily reflected the impact of the Company’s European tax structure initiatives, including the fiscal 2013 benefit of a European tax loss carryback. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes, offset by lower foreign income taxes.

Net earnings attributable to noncontrolling interest represented a loss of $116,000 for fiscal 2013, compared to a loss of $639,000 in fiscal 2012. The decrease related principally to higher operating income recorded by the Company’s Turkish operation in fiscal 2013.

Comparison of Fiscal 2012 and Fiscal 2011:

Sales for the year ended September 30, 2012 were $900.3 million, compared to $898.8 million for the year ended September 30, 2011. Fiscal 2012 included the impact of recent acquisitions, and higher sales in the Cremation, Marking and Fulfillment Systems and Merchandising Solutions segments. These increases were offset by lower sales in the Cemetery Products, Funeral Home Products and Graphics Imaging segments, and by the unfavorable impact of changes in the values of foreign currencies of approximately $18.4 million compared to fiscal 2011. Sales in the Cemetery Products and Funeral Home Products segments were negatively impacted by a decline in the estimated number of casketed and in-ground burial (non-cremation) deaths.

In the Memorialization businesses, Cemetery Products segment sales for fiscal 2012 were $215.9 million compared to $224.8 million for fiscal 2011. The decrease primarily reflected lower sales of memorial products in North America, a decrease in mausoleum sales and the unfavorable impact of changes in foreign currencies against the U.S. dollar. These declines were partially offset by the acquisition of Everlasting Granite in May 2012. Sales for the Funeral Home Products segment were $230.9 million for fiscal 2012 compared to $243.3 million for fiscal 2011, which principally resulted from a reduction in sales volume. Lower sales volume of bronze memorials and caskets reflected the impact of a decline in the estimated number of casketed and in-ground burial (non-cremation) deaths compared to the prior year. Sales for the Cremation segment were $46.0 million for fiscal 2012 compared to $39.3 million for fiscal 2011. The increase principally resulted from higher sales of cremation equipment, primarily in the U.S., partially offset by the unfavorable impact of changes in foreign currency values. In the Company’s Brand Solutions businesses, sales for the Graphics Imaging segment in fiscal 2012 were $259.9 million, compared to $269.0 million for fiscal 2011. The decrease resulted principally from lower sales in the European market, and the unfavorable impact of changes in foreign currency values against the U.S. dollar. These declines were partially offset by the impact of the acquisition of Kroma Pre-Press Preparation Systems Industry & Trade, Inc. (“Kroma”) which was purchased in July 2011. Marking and Fulfillment Systems segment sales for the year ended September 30, 2012 were $74.6 million, compared to $61.9 million for fiscal 2011. The increase was principally due to higher equipment sales and the full year impact of two small acquisitions completed in fiscal 2011, partially offset by the unfavorable impact of changes in foreign currency values. Sales for the Merchandising Solutions segment were $73.0 million for fiscal 2012, compared to $60.6 million for fiscal 2011. The improvement was attributable to an increase in sales to several large customers in fiscal 2012.

Gross profit for the year ended September 30, 2012 was $336.6 million, or 37.4% of sales, compared to $351.7 million, or 39.1% of sales, for fiscal 2011. The decreases in fiscal 2012 consolidated gross profit and gross profit as a percentage of sales compared to fiscal 2011 reflected lower sales, higher commodity costs, and unusual charges in several of the Company's segments. The unusual charges related primarily to severance costs in several of the Company's businesses as a result of cost structure initiatives and incremental costs related to the Company's ERP implementation in the Cemetery Products segment.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

Selling and administrative expenses for the year ended September 30, 2012 were $243.0 million, or 27.0% of sales, compared to $233.1 million, or 25.9% of sales, for fiscal 2011. The increase in selling and administrative expenses was attributable to higher sales in the Cremation, Marking and Fulfillment Systems and Merchandising Solutions segments, and the impact of acquisitions in the Cemetery Products and Marking and Fulfillment Systems segments. In addition, fiscal 2012 selling and administrative expenses include net unusual charges in several segments. Unusual charges primarily included severance costs, incremental costs related to the Company’s ERP implementation in the Cemetery Products segment, acquisition-related expenses and asset adjustments. These charges were partially offset by unusual gains consisting of adjustments to contingent consideration liabilities, a favorable settlement on a claim related to the Company’s granite business and a gain on the sale of a business investment in China.

Operating profit for fiscal 2012 was $93.6 million, compared to $118.5 million for fiscal 2011. The decrease in operating profit for fiscal 2012 reflected the impact of lower consolidated sales, higher commodity costs, a $2.1 million unfavorable impact of changes in foreign currency values against the U.S. dollar and net unusual charges totaling approximately $7.8 million.

Cemetery Products segment operating profit for fiscal 2012 was $33.2 million, compared to $52.5 million for fiscal 2011. The decrease in fiscal 2012 operating profit compared to fiscal 2011 reflected lower sales, higher bronze ingot costs, the unfavorable impact of changes in foreign currency values and net unusual charges of approximately $5.4 million related to severance and ERP implementation costs. Operating profit for the Funeral Home products segment for fiscal 2012 was $26.5 million, compared to $29.0 million for fiscal 2011. The decrease in Funeral Home Products segment operating profit for fiscal 2012 primarily reflected the impact of lower sales, higher commodity (primarily fuel) costs and unusual charges of approximately $1.7 million related to severance costs. These declines were partially offset by the benefit of selling and distribution cost structure initiatives and an adjustment to the liability for contingent consideration. Cremation segment operating profit for the year ended September 30, 2012 was $3.9 million, compared to $3.5 million for fiscal 2011. Fiscal 2012 operating profit reflected higher sales in the U.S. market, partially offset by lower margins on sales in the European market. Graphics Imaging segment operating profit for fiscal 2012 was $14.8 million, compared to $22.4 million for fiscal 2011. The decrease in fiscal 2012 reflected lower sales, and unusual charges of approximately $5.1 million related to severance costs and the unfavorable impact of changes in foreign currency values. The unusual charges related primarily to severance and acquisition-related costs. The declines were partially offset by an adjustment to the liability for contingent consideration and a gain on the sale of a business investment in China. Operating profit for the Marking and Fulfillment Systems segment for fiscal 2012 was $10.1 million, compared to $7.8 million for fiscal 2011. The increase in Marking and Fulfillment Systems segment operating profit principally reflected the impact of acquisitions and higher sales. The Merchandising Solutions segment operating profit was $5.1 million for fiscal 2012, compared to $3.3 million for fiscal 2011. The increase principally reflected the impact of higher sales.

Investment income for the year ended September 30, 2012 was $3.9 million, compared to $1.4 million for the year ended September 30, 2011. The increase principally reflected increases in the market value of investments held in trust for certain of the Company’s benefit plans. Interest expense for fiscal 2012 was $11.5 million, compared to $8.2 million for fiscal 2011. The increase in interest expense reflected higher average debt levels.

Other income (deductions), net, for the year ended September 30, 2012 represented a decrease in pre-tax income of $2.1 million, compared to an increase in pre-tax income of $298,000 in fiscal 2011. Other income and deductions generally include banking-related fees and the impact of currency gains or losses on certain intercompany debt.

The Company's effective tax rate for fiscal 2012 was 34.2%, compared to 34.4% for fiscal 2011. Fiscal 2012 and 2011 included the favorable impact of adjustments totaling $528,000 and $606,000, respectively, in income tax expense primarily related to changes in the estimated tax accruals for open tax periods. Excluding these adjustments from both periods, the Company’s effective tax rate was 34.8% for fiscal year 2012 and 35.0% for fiscal 2011. The decrease in the fiscal 2012 effective tax rate, compared to fiscal 2011 primarily reflected the impact of the Company’s European tax structure initiatives. The difference between the Company's effective tax rate and the Federal statutory rate of 35.0% primarily reflected the impact of state taxes, offset by lower foreign income taxes.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

Net earnings attributable to noncontrolling interest was a loss of $639,000 for fiscal 2012, compared to net income of $1.1 million in fiscal 2011. The decrease related principally to the Company’s acquisition of the remaining 22% interest in Saueressig GmbH & Co. KG (“Saueressig”) in April 2011 and a net loss recorded by the Company’s Turkish operation in fiscal 2012.

LIQUIDITY AND CAPITAL RESOURCES:

Net cash provided by operating activities was $109.3 million for the year ended September 30, 2013, compared to $83.3 million and $97.8 million for fiscal 2012 and 2011, respectively. Operating cash flow for fiscal 2013 principally included net income adjusted for depreciation and amortization, stock-based compensation expense, and an increase in deferred taxes, partially offset by an increase in working capital items (primarily accounts receivable and inventory) and a cash contribution of $2.5 million to the Company’s principal pension plan. Operating cash flow for fiscal 2012 principally included net income adjusted for depreciation and amortization, stock-based compensation expense, and an increase in deferred taxes, partially offset by an increase in working capital items (primarily accounts receivable and inventory) and a cash contribution of $5.0 million to the Company’s principal pension plan. Operating cash flow for fiscal 2011 primarily reflected net income adjusted for depreciation and amortization, stock-based compensation expense, and an increase in deferred taxes, partially offset by a net increase in working capital items. In addition the Company made a cash contribution of $9.0 million to its principal pension plan.

Cash used in investing activities was $98.6 million for the year ended September 30, 2013, compared to $45.3 million and $106.8 million for fiscal years 2012 and 2011, respectively. Investing activities for fiscal 2013 primarily included payments (net of cash acquired) of $74.0 million for acquisitions and $24.9 million for capital expenditures. Investing activities for fiscal 2012 primarily reflected capital expenditures of $33.2 million and payments (net of cash acquired) of $12.5 million for acquisitions. Investing activities for fiscal 2011 primarily reflected payments (net of cash acquired) of $84.4 million for acquisitions and capital expenditures of $22.4 million.

Capital expenditures were $24.9 million for the year ended September 30, 2013, compared to $33.2 million and $22.4 million for fiscal 2012 and 2011, respectively. Capital expenditures in fiscal 2012 were higher due to new investments in gravure equipment in Germany and Turkey and investments in ERP and e-commerce systems. Capital expenditures in each of the last three fiscal years reflected reinvestments in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash.

Capital spending for property, plant and equipment has averaged $26.9 million for the last three fiscal years. Capital spending for fiscal 2014 is currently expected to be approximately $30.0 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash used in financing activities for the year ended September 30, 2013 was $11.8 million, reflecting proceeds, net of repayments, on long-term debt of $32.2 million, purchases of treasury stock of $21.6 million, payment of contingent consideration of $11.3 million and payment of dividends to the Company’s shareholders of $11.3 million ($0.41 per share). Cash used in financing activities for the year ended September 30, 2012 was $41.0 million, reflecting purchases of treasury stock of $31.0 million, and payment of dividends to the Company’s shareholders of $10.3 million ($0.37 per share). Cash provided by financing activities for the year ended September 30, 2011 was $10.4 million, reflecting proceeds, net of repayments, on long-term debt of $68.9 million, purchases of treasury stock of $44.6

million, proceeds from the sale of treasury stock (stock option exercises) of $1.9 million, payment of dividends to the Company's shareholders of $9.6 million ($0.33 per share) and distributions of $6.2 million to noncontrolling interests.

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. In July 2013, the maximum amount of borrowings available under the facility was increased from $400.0 million to $500.0 million and the facility's maturity was extended to July 2018. Borrowings under the amended facility bear interest at LIBOR plus a factor ranging from .75% to 1.25% 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $25.0 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at September 30, 2013 and 2012 were $305.0 million and $281.3 million, respectively. The weighted-average interest rate on outstanding borrowings at September 30, 2013 and 2012 was 2.81% and 2.83%, respectively.

The Company has entered into the following interest rate swaps:

Effective Date	Amount	Fixed Interest Rate	Interest Rate Spread at September 30, 2013	Maturity Date
May 2011	$25 million	1.37%	1.25%	May 2014
October 2011	25 million	1.67%	1.25%	October 2015
November 2011	25 million	2.13%	1.25%	November 2014
March 2012	25 million	2.44%	1.25%	March 2015
June 2012	40 million	1.88%	1.25%	June 2022
August 2012	35 million	1.74%	1.25%	June 2022
September 2012	25 million	3.03%	1.25%	December 2015
September 2012	25 million	1.24%	1.25%	March 2017
November 2012	25 million	1.33%	1.25%	November 2015

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

The fair value of the interest rate swaps reflected an unrealized loss, net of unrealized gains, of $908,000 ($554,000 after tax) and $9.1 million ($5.6 million after tax) at September 30, 2013 and 2012, respectively, that is included in equity as part of accumulated other comprehensive loss. Assuming market rates remain constant with the rates at September 30, 2013, a loss (net of tax) of approximately $1.6 million included in accumulated other comprehensive loss is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

In March 2013, the Company, through certain of its European subsidiaries, entered into a credit facility with a bank. The maximum amount of borrowings available under this facility is 25.0 million Euros ($33.8 million). Outstanding borrowings under the credit facility totaled 22.5 million Euros ($30.4 million) at September 30, 2013. The weighted-average interest rate on outstanding borrowings under the facility at September 30, 2013 was 1.37%.

The Company, through its German subsidiary, Saueressig, has several loans with various European banks. Outstanding borrowings on these loans totaled 1.7 million Euros ($2.3 million) and 8.2 million Euros ($10.5 million) at September 30, 2013 and 2012, respectively. The weighted-average interest rate on outstanding borrowings of Saueressig at September 30, 2013 and 2012 was 4.04% and 6.10%, 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 5.1 million Euros ($6.9 million) and 6.3 million Euros ($8.1 million) at September 30, 2013 and 2012, respectively. Matthews International S.p.A. also has four lines of credit totaling 11.4 million Euros ($15.4 million) with the same Italian banks. Outstanding borrowings on these lines were 5.6 million Euros ($7.6 million) and 3.4 million Euros ($4.3 million) at September 30, 2013 and 2012, respectively. The weighted-average interest rate on outstanding Matthews International S.p.A. borrowings at September 30, 2013 and 2012 was 3.16% and 3.08%, respectively.

The Company has a stock repurchase program. Under the current authorization, the Company's Board of Directors has authorized the repurchase of a total of 2,500,000 shares of Matthews' common stock under the program, of which 1,194,670 shares remain available for repurchase as of September 30, 2013. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

At September 30, 2013, approximately $46.6 million of cash and cash equivalents were held by international subsidiaries whose undistributed earnings are considered permanently reinvested. The Company's intent is to reinvest these funds in our international operations and current plans do not demonstrate a need to repatriate them to fund U.S. operations. If the Company decides at a later date to repatriate these funds to the U.S., it would be required to provide taxes on these amounts based on the applicable U.S. tax rates net of credits for foreign taxes already paid.

Consolidated working capital was $222.0 million at September 30, 2013, compared to $212.5 million at September 30, 2012. The increase in working capital at September 30, 2013 primarily reflected higher accounts receivable, an increase in accrued compensation and a decrease in the current portion of estimated contingent consideration related to acquisitions. Cash and cash equivalents were $58.0 million at September 30, 2013, compared to $58.3 million at September 30, 2012. The Company's current ratio was 2.2 at September 30, 2013 and 2012.

ENVIRONMENTAL MATTERS:

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

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate.

At September 30, 2013, an accrual of approximately $5.3 million had been recorded for environmental remediation (of which $1.2 million was classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. Changes in the accrued environmental remediation obligation from the prior fiscal year reflect payments charged against the accrual.

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

ACQUISITIONS:

Fiscal 2013:

Acquisition spending, net of cash acquired, during the year ended September 30, 2013 totaled $74.0 million. The acquisitions were not individually significant to the Company's consolidated financial position or results of operations, and primarily included the following:

In April 2013, the Company completed the purchase of the remaining 20% interest in Tact Group Limited (“Tact”). The Company had acquired an 80% interest in Tact in July 2009.

In March 2013, the Company completed the purchase of the remaining 38.5% interest in Kroma, completing the option arrangement in connection with the July 2011 acquisition of a 61.5% interest in Kroma.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

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

In December 2012, the Company acquired Pyramid, a provider of warehouse control systems and conveyor control solutions for distribution centers. The acquisition is designed to expand Matthews' fulfillment products and services in the warehouse management market. The initial purchase price for the transaction was $26.2 million, plus potential additional consideration up to $3.7 million based on future operating results.

In November 2012, the Company acquired Wetzel, a leading European provider of pre-press services and gravure printing forms, with manufacturing operations in Germany and Poland. Wetzel’s products and services are sold primary within Europe, and the acquisition is designed to expand Matthews' products and services in the global graphics imaging market. The purchase price for Wetzel was 42.6 million Euros ($54.7 million) on a cash-free, debt-free basis.

The Company has completed the allocation of purchase price for all acquisitions.

Fiscal 2012:

Acquisition spending, net of cash acquired, during the year ended September 30, 2012 totaled $12.5 million. The acquisitions were not individually material to the Company’s consolidated financial position or results of operations, and primarily included the following:

In May 2012, the Company acquired Everlasting Granite, a supplier of granite memorials, columbariums and private mausoleum estates. The transaction is intended to expand the Company’s presence and product breadth in the granite memorial business.

Fiscal 2011:

Acquisition spending, net of cash acquired, during the year ended September 30, 2011 totaled $84.4 million. The acquisitions were not individually material to the Company’s consolidated financial position or results of operations, and primarily included the following:

In August 2011, the Company acquired Lightning Pick Technologies, Inc. (“LPT”), a manufacturer that develops, installs and supports paperless order fulfillment solutions. The transaction is intended to expand the Company’s presence and product breadth in the fulfillment systems industry.

In July 2011, the Company purchased a 61.5% interest in Kroma, a leading provider of pre-press services and roto-gravure printing cylinders in Turkey. The acquisition is designed to further extend Matthews' presence as the leading provider of reprographic pre-press products and services to the European packaging and tobacco markets.

In April 2011, the Company completed the purchase of the remaining 22% interest in Saueressig for 19.3 million Euros ($27.4 million), completing the option agreement in connection with the May 2008 acquisition of a 78% interest in Saueressig.

In March 2011, the Company acquired Innovative Picking Technologies, Inc. (“IPTI”), a manufacturer of paperless order fulfillment systems. The transaction is intended to expand the Company’s presence into the fulfillment systems industry.

In October 2010, the Company acquired Freeman Metal Products, Inc. and its affiliated companies (collectively, “Freeman”), a manufacturer and distributor of caskets. The purchase price for the acquisition was $22.8 million, plus additional consideration up to $6.0 million contingent on operating performance over the next three years. The transaction is intended to provide synergies in the manufacturing and distribution of caskets and expand the Company’s market presence in the Southeast and South Central regions of the United States.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

In October 2010, the Company acquired the remaining 25% interest in Rudolf Reproflex GmbH & Co. KG (“Reproflex”). The Company acquired a 75% interest in Reproflex in 2001.

FORWARD-LOOKING INFORMATION:

Matthews has a three-pronged strategy to attain annual growth in earnings per share. This strategy consists of the following: internal growth (which includes organic growth, cost structure and productivity improvements, new product development and the expansion into new markets with existing products), acquisitions and share repurchases under the Company’s stock repurchase program (see "Liquidity and Capital Resources").

In developing the Company’s expectations for fiscal 2014, the following significant factors were considered.

- Strategic cost-structure initiatives, particularly with respect to lean and sourcing, will continue, as will the unusual costs associated with the initiatives. Benefits related to strategic initiatives began to be realized late in fiscal 2013 and the Company expects such benefits to continue in fiscal 2014.
- The increase in the number of U.S. deaths that impacted the Memorialization businesses in fiscal 2013 are expected to moderate, suggesting a flat to slightly lower casketed death rate for fiscal 2014.
- Challenges resulting from the European economic weakness are expected to continue which will impact the Company’s European businesses.
- Recent acquisitions are expected to contribute to fiscal 2014 results.

Based on the aforementioned, excluding unusual costs, the Company is projecting growth in fiscal 2014 earnings per share over fiscal 2013. With respect to quarterly earnings projections, we expect lower earnings for the fiscal 2014 first quarter, with year-over-year growth projected for the remainder of the fiscal year.

CRITICAL ACCOUNTING POLICIES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Therefore, the determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, economic conditions, and in some cases, actuarial techniques. Actual results may differ from those estimates. A discussion of market risks affecting the Company can be found in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Annual Report on Form 10-K.

The Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. Management believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the Company's operating results and financial condition. The following accounting policies involve significant estimates, which were considered critical to the preparation of the Company's consolidated financial statements for the year ended September 30, 2013.

Trade Receivables and Allowance for Doubtful Accounts:

Trade receivables are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest, although a finance charge may be applied to such receivables that are more than 30 days past due. The allowance for doubtful accounts is based on an evaluation of specific customer accounts for which available facts and circumstances indicate collectibility may be uncertain. In addition, the allowance includes a reserve for all customers based on historical collection experience.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

Long-Lived Assets:

Property, plant and equipment, goodwill and other intangible assets are carried at cost. Depreciation on property, plant and equipment is computed primarily on the straight-line method over the estimated useful lives of the assets. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets is determined by evaluating the estimated undiscounted net cash flows of the operations to which the assets relate. An impairment loss would be recognized when the carrying amount of the assets exceeds the fair value which is based on a discounted cash flow analysis.

Goodwill is not amortized, but is subject to periodic review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a combination of valuation techniques, including discounted cash flows. Intangible assets are amortized over their estimated useful lives, unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets. The Company performed its annual impairment reviews in the second quarters of fiscal 2013, 2012 and 2011 and determined that no adjustments to the carrying values of goodwill were necessary at those times. As discussed under “Results of Operations”, recent economic conditions in Europe have unfavorably impacted the operating results of the Graphics Imaging segment. Consequently, the Graphics Imaging reporting unit’s implied fair value is approaching the unit’s carrying value. If the segment’s operating results deteriorate further, an impairment charge could be required in future periods.

The Company also performed its annual impairment review of other intangible assets in the second quarter of fiscal 2013. Based on this assessment, the Company recorded an impairment charge of approximately $1.6 million related to the carrying value of a trade name of one of its European Graphics businesses. The impairment was determined based upon a comparison of the carrying value of the trade name to its implied fair market value.

Share-Based Payment:

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period. A binomial lattice model is utilized to determine the fair value of awards.

Pension and Postretirement Benefits:

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

The Company's principal pension plan maintains a substantial portion of its assets in equity securities in accordance with the investment policy established by the Company’s pension board. Based on an analysis of the historical performance of the plan's assets and information provided by its independent investment advisor, the Company set the long-term rate of return assumption for these assets at 8.0% at September 30, 2013 for purposes of determining pension cost and funded status. The Company’s discount rate assumption used in determining the present value of the projected benefit obligation is based upon published indices as of September 30, 2013 and September 30, 2012 for the fiscal year end valuation. The discount rate was 5.00%, 4.00% and 4.75% in fiscal 2013, 2012 and 2011, respectively.

Environmental:

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

Income Taxes:

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

Revenue Recognition:

Revenues are generally recognized when title and risk of loss pass to the customer, which is typically at the time of product shipment. For pre-need sales of memorials and vases, revenue is recognized when the memorial has been manufactured to the customer’s specifications (e.g., name and birth date), title has been transferred to the customer and the memorial and vase are placed in storage for future delivery. A liability has been recorded for the estimated costs of finishing pre-need bronze memorials and vases that have been manufactured and placed in storage prior to July 1, 2003 for future delivery. Beginning July 1, 2003, revenue is deferred by the Company on the portion of pre-need sales attributable to the final finishing and storage of the pre-need merchandise. Deferred revenue for final finishing is recognized at the time the pre-need merchandise is finished and shipped to the customer. Deferred revenue related to storage is recognized on a straight-line basis over the estimated average time that pre-need merchandise is held in storage. At September 30, 2013, the Company held 323,708 memorials and 228,936 vases in its storage facilities under the pre-need sales program.

Construction revenues are recognized under the percentage-of-completion method of accounting using the cost-to-cost method.

The Company offers rebates to certain customers participating in volume purchase programs. Rebates are estimated and recorded as a reduction in sales at the time the Company’s products are sold.

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company’s contractual obligations at September 30, 2013, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

	Payments due in fiscal year:				
	Total	2014	2015 to 2016	2017 to 2018	After 2018
Contractual Cash Obligations:	(Dollar amounts in thousands)				
Revolving credit facility	$335,420	$-	$30,420	$305,000	$-
Notes payable to banks	21,530	13,068	6,997	1,465	-
Short-term borrowings	7,639	7,639	-	-	-
Capital lease obligations	10,658	2,160	2,799	1,859	3,840
Non-cancelable operating leases	24,325	10,048	10,147	2,284	1,846

Total contractual cash obligations	$399,572	$32,915	$50,363	$310,608	$5,686

A significant portion of the loans included in the table above bear interest at variable rates. At September 30, 2013, the weighted-average interest rate was 2.81% on the Company's domestic Revolving Credit Facility, 1.37% on the credit facility through the Company's European subsidiaries, 4.04% on bank loans to its wholly-owned subsidiary, Saueressig, and 3.16% on bank loans to the Company's wholly-owned subsidiary, Matthews International S.p.A.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. Under I.R.S. regulations, the Company was not required to make any significant contributions to its principal retirement plan in fiscal 2013, however, in fiscal 2013, the Company made a contribution of $2.5 million to its principal retirement plan.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS, (continued)

The Company is not required to make any significant cash contributions to its principal retirement plan in fiscal 2014. The Company estimates that benefit payments to participants under its retirement plans (including its supplemental retirement plan) and postretirement benefit payments will be approximately $7.1 million and $926,000, respectively, in fiscal 2014. The amounts are expected to increase incrementally each year thereafter, to $9.1 million and $1.2 million, respectively, in 2018. The Company believes that its current liquidity sources, combined with its operating cash flow and borrowing capacity, will be sufficient to meet its capital needs for the foreseeable future.

In connection with several recent acquisitions, the Company has recorded contingent consideration of approximately $3.7 million. The fair value of the contingent consideration is expected to be settled in fiscal 2014.

Unrecognized tax benefits are positions taken, or expected to be taken, on an income tax return that may result in additional payments to tax authorities. If a tax authority agrees with the tax position taken, or expected to be taken, or the applicable statute of limitations expires, then additional payments will not be necessary. As of September 30, 2013, the Company had unrecognized tax benefits, excluding penalties and interest, of approximately $4.5 million. The timing of potential future payments related to the unrecognized tax benefits is not presently determinable.

INFLATION:

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

On February 5, 2013, the Financial Accounting Standard Board issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”). ASU 2013-02 requires companies to present information about reclassification adjustments from accumulated other comprehensive income, including the amount of the reclassification and the income statement line items affected by the reclassification. The information must be presented in the financial statements in a single note or on the face of the financial statements. ASU 2013-02 is effective for annual periods beginning after December 15, 2012, and interim periods within those annual periods. This standard will be adopted by the Company for the quarter ended December 31, 2013.

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

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

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

The Company has entered into the following interest rate swaps:

Effective Date	Amount

		Fixed Interest Rate	Interest Rate Spread at September 30, 2013	Maturity Date
May 2011	$25 million	1.37%	1.25%	May 2014
October 2011	25 million	1.67%	1.25%	October 2015
November 2011	25 million	2.13%	1.25%	November 2014
March 2012	25 million	2.44%	1.25%	March 2015
June 2012	40 million	1.88%	1.25%	June 2022
August 2012	35 million	1.74%	1.25%	June 2022
September 2012	25 million	3.03%	1.25%	December 2015
September 2012	25 million	1.24%	1.25%	March 2017
November 2012	25 million	1.33%	1.25%	November 2015

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK, (continued)

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

The fair value of the interest rate swaps reflected an unrealized net loss of $908,000 ($554,000 after tax) at September 30, 2013 that is included in equity as part of accumulated other comprehensive loss. A decrease of 10% in market interest rates (e.g. a decrease from 5.0% to 4.5%) would result in an increase of approximately $926,000 in the fair value liability of the interest rate swaps.

Commodity Price Risks - In the normal course of business, the Company is exposed to commodity price fluctuations related to the purchases of certain materials and supplies (such as bronze ingot, steel, fuel and wood) used in its manufacturing operations. The Company obtains competitive prices for materials and supplies when available. In addition, based on competitive market conditions and to the extent that the Company has established pricing terms with customers through contracts or similar arrangements, the Company's ability to immediately increase the price of its products to offset the increased costs may be limited.

Foreign Currency Exchange Rates - The Company is subject to changes in various foreign currency exchange rates, primarily including the Euro, British Pound, Canadian Dollar, Australian Dollar, Swedish Krona, Chinese Yuan, Hong Kong Dollar, Polish Zloty, Turkish Lira and Vietnamese Dong in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. An adverse change (strengthening dollar) of 10% in exchange rates would have resulted in a decrease in reported sales of $38.2 million and a decrease in reported operating income of $2.9 million for the year ended September 30, 2013.

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

Impact of Changes in Actuarial Assumptions

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

Increae (decrease) in funded status	23,348	(30,054)			6,219		(6,219)	
				-		-		-
			-	-				