HFF, Inc.
Form DEF 14A
April 29, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

HFF, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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

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

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

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

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Date: May 29, 2008

Time: 10:30 a.m. Eastern Daylight Savings Time

Place: Rivers Club
One Oxford Centre (4th Floor)
301 Grant Street
Pittsburgh, Pennsylvania 15219

Purpose:

1. To elect three Class II directors to the Company s Board of Directors, each for a term of three years until their respective successors have been elected and qualified.

2. To ratify the appointment of Ernst & Young LLP as the Company s independent, registered certified public accountants.

3. To transact any other business that may properly come before the Annual Meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. Whether or not you plan to attend the Annual Meeting, please complete, sign, date and return the enclosed proxy promptly in the accompanying reply envelope.

You are entitled to vote if you were a stockholder at the close of business on April 18, 2008.

By Order of the Board of Directors

Nancy O. Goodson
Chief Operating Officer and Secretary

Pittsburgh, Pennsylvania
April 29, 2008

Admittance to the meeting will be limited to stockholders eligible to vote or their authorized representative(s). Beneficial owners holding shares through an intermediary such as a bank or broker will be admitted only upon proof of ownership.

HFF, INC.
ONE OXFORD CENTRE
301 GRANT STREET, SUITE 600
PITTSBURGH, PENNSYLVANIA 15219

PROXY STATEMENT

This Proxy Statement and the accompanying proxy card are being mailed, beginning on or about May 6, 2008, to owners of shares of HFF, Inc. (we , us or the Company) Class A common stock and Class B common stock in connection with the solicitation of proxies by the Board of Directors for the 2008 Annual Meeting of Stockholders. This proxy procedure is necessary to permit all common stockholders, many of whom live throughout the United States and in foreign countries and are unable to attend the Annual Meeting, to vote. The Board of Directors encourages you to read this document thoroughly and to take this opportunity to vote on the matters to be decided at the Annual Meeting.

CONTENTS	**Page**

Table of Contents

SPECIAL NOTE REGARDING THE REGISTRANT

In connection with our initial public offering of our Class A common stock in February 2007, we effected a reorganization of our business, which had previously been conducted through HFF Holdings LLC (HFF Holdings) and certain of its wholly owned subsidiaries, including Holliday Fenoglio Fowler, L.P. and HFF Securities L.P. (together, the Operating Partnerships) and Holliday GP Corp. (Holliday GP). In the reorganization, HFF, Inc., a newly-formed Delaware corporation, purchased from HFF Holdings all of the shares of Holliday GP, which is the sole general partner of each of the Operating Partnerships, and approximately 45% of the partnership units in each of the Operating Partnerships (including partnership units in the Operating Partnerships held by Holliday GP) in exchange for the net proceeds from the initial public offering and one share of Class B common stock of HFF, Inc. Following this reorganization and as of the closing of the initial public offering on February 5, 2007, HFF, Inc. is a holding company holding partnership units in the Operating Partnerships and all of the outstanding shares of Holliday GP. HFF Holdings and HFF, Inc., through their wholly-owned subsidiaries, are the only limited partners of the Operating Partnerships. We refer to these transactions collectively in this Proxy Statement as the Reorganization Transactions. Unless we state otherwise, the information in this Proxy Statement gives effect to these Reorganization Transactions.

Unless the context otherwise requires, references to (1) HFF Holdings refer solely to HFF Holdings LLC, a Delaware limited liability company that was previously the holding company for our consolidated subsidiaries, and not to any of its subsidiaries, (2) HFF LP refer to Holliday Fenoglio Fowler, L.P., a Texas limited partnership, (3) HFF Securities refer to HFF Securities L.P., a Delaware limited partnership and registered broker-dealer, (4) Holliday GP refer to Holliday GP Corp., a Delaware corporation and the general partner of HFF LP and HFF Securities, (5) HoldCo LLC refer to HFF Partnership Holdings LLC, a Delaware limited liability company and a wholly-owned subsidiary of HFF, Inc. and (6) Holdings Sub refer to HFF LP Acquisition LLC, a Delaware limited liability company and wholly-owned subsidiary of HFF Holdings. Our business operations are conducted by HFF LP and HFF Securities, which are sometimes referred to in this Proxy Statement as the Operating Partnerships. Also, except where specifically noted, references in this Proxy Statement to the Company, we or us mean HFF, Inc., the newly formed Delaware corporation and its consolidated subsidiaries after giving effect to the Reorganization Transactions.

Our internet website is www.hfflp.com. The information on our internet website is not incorporated by reference in this Proxy Statement.

VOTING PROCEDURES

Your vote is very important. Your shares can only be voted at the Annual Meeting if you are present or represented by proxy. Whether or not you plan to attend the Annual Meeting, you are encouraged to vote by proxy to assure that your shares will be represented. Stockholders may vote by means of completing a proxy card and mailing it in the postage-paid envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record.

You may revoke your proxy at any time before it is voted at the Annual Meeting by (a) giving written notice to the Secretary of the Company, (b) submitting a proxy bearing a later date, or (c) casting a ballot at the Annual Meeting. Properly executed proxies that are received before the Annual Meeting s adjournment will be voted in accordance with the directions provided. If no directions are given, your shares will be voted by one of the individuals named on your proxy card as recommended by the Board of Directors. If you wish to give a proxy to someone other than those named on the proxy card, you should cross out those names and insert the name(s) of the person(s), not more than three, to whom you wish to give your proxy.

Who can vote? Stockholders of record as of the close of business on April 18, 2008 are entitled to vote. On that day, 16,445,000 shares of Class A common stock and one share of Class B common stock were outstanding and eligible to vote. Each share of our Class A common stock will entitle its holder to one vote on all matters to be voted on by stockholders at the Annual Meeting. Class B common stock entitles its holder, HFF Holdings, to a number of votes that is equal to the total number of shares of Class A common stock for which the partnership units that HFF Holdings holds in the Operating Partnerships as of April 18, 2008 are exchangeable. A list of stockholders eligible to vote will be available at the headquarters of HFF, Inc. located at One Oxford Centre, 301 Grant Street, Suite 600, Pittsburgh, Pennsylvania 15219, beginning May 18, 2008. Stockholders may examine this list during normal business hours for any purpose relating to the Annual Meeting.

How does the Board of Directors recommend I vote? The Board of Directors recommends a vote **FOR** each Board of Directors nominee (Item 1), and **FOR** the ratification of the Board of Directors appointment of Ernst & Young LLP as the independent, registered certified public accountants of the Company for the upcoming year (Item 2).

What shares are included in the proxy card? The proxy card represents all the shares of common stock and common stock registered to your account. Each share is entitled to one vote on each matter presented at the Annual Meeting other than in the election of directors.

How do I vote by proxy? Stockholders may vote by proxy by returning the proxy card through the mail. To vote, sign and date each proxy card you receive, mark the boxes indicating how you wish to vote, and return the proxy card in the postage-paid envelope provided.

How are votes counted? The Annual Meeting will be held if a quorum, consisting of a majority of the outstanding shares of common stock entitled to vote, is represented. Broker non-votes, votes withheld and abstentions will be counted for purposes of determining whether a quorum has been reached. When nominees, such as banks and brokers, holding shares on behalf of beneficial owners do not receive voting instructions from the beneficial owners by the tenth day before the Annual Meeting, the nominees may vote those shares only on matters deemed routine by the New York Stock Exchange, such as the election of directors and ratification of the appointment of independent accountants. On non-routine matters, nominees cannot vote and there is a so-called broker non-vote on that matter. Abstentions are counted in tabulations of the votes cast by stockholders on the proposals and will have the effect of a negative vote.

Who will count the vote? The Company s transfer agent, American Stock Transfer & Trust Company, will tally the vote, which will be certified by an Inspector of Elections.

Who is soliciting this proxy? Solicitation of proxies is made on behalf of the Board of Directors. The Company will pay the cost of preparing, assembling and mailing the notice of Annual Meeting, this Proxy Statement and the accompanying proxy card. In addition to the use of mail, proxies may be solicited by directors, officers and regular employees of the Company, without additional compensation. Proxies may be solicited by mail, in person or by telephone or other electronic means. The Company will reimburse brokerage houses and other nominees for their expenses in forwarding proxy materials to beneficial owners of the Company s Class A common stock.

Table of Contents

CORPORATE GOVERNANCE

In accordance with Delaware General Corporation Law and the Company s Amended and Restated Certificate of Incorporation and Restated Bylaws, the Company s business, property and affairs are managed under the direction of the Board of Directors. Although directors are not involved in the day-to-day operating details, they are kept informed of the Company s business through written reports and documents provided to them regularly, as well as by operating, financial and other reports presented by the Chairman and officers of the Company at meetings of the Board of Directors and committees of the Board of Directors.

Meetings of the Board of Directors and its Committees. The Board of Directors had seven meetings during 2007. The incumbent directors in the aggregate attended at least 75% of the Board of Directors and assigned committee meetings.

Attendance at the Annual Meeting. The Company strongly encourages each of its directors to attend its Annual Meeting of Stockholders. In 2007, each of the directors of the Company attended the Annual Meeting of Stockholders.

Director Independence. The Board of Directors has determined that the following directors are independent under the independence standards promulgated by the New York Stock Exchange (NYSE): John Z. Kukral, Deborah H. McAneny, George L. Miles, Jr., Lenore M. Sullivan and McHenry T. Tichenor, Jr. In making its determinations regarding director and director nominee independence, the Board of Directors considered, among other things:

- any material relationships with the Company, its subsidiaries or its management, aside from such director s or director nominee s service as a director;

- transactions between the Company, on the one hand, and the directors and director nominees and their respective affiliates, on the other hand;

- transactions outside the ordinary course of business between the Company and companies at which some of its directors are or have been executive officers or significant stakeholders, and the amount of any such transactions with these companies; and

- relationships among the directors and director nominees with respect to common involvement with for-profit and non-profit organizations.

The independent directors of the Company meet periodically at regularly scheduled executive sessions without the non-independent directors. Mr. Kukral serves as the presiding director at such meetings.

Lead Independent Director. The role of lead independent director is to serve in a lead capacity to coordinate the activities of the other non-employee directors and to perform such other duties and responsibilities as the Board of Directors may determine. The Board of Directors has elected Mr. Kukral to serve as the Company s lead independent director.

Committees of the Board of Directors. The Board of Directors has established three standing committees.

Audit Committee In 2007, the Audit Committee had six meetings. The Audit Committee is responsible for, among other things, directly appointing, retaining, evaluating, compensating and terminating our independent, registered public accounting firm; discussing with our independent, registered public accounting firm their independence from management; reviewing with our independent, registered public accounting firm the scope and results of their audit; pre-approving all audit and permissible non-audit services to be performed by the independent, registered public accounting firm; overseeing the financial reporting process and discussing with management and our independent, registered public accounting firm the interim and annual financial statements that we file with the Securities and Exchange Commission; and reviewing and monitoring our accounting principles, policies and financial and accounting controls. The Board of Directors of the Company has adopted a written charter for the Audit Committee, which is publicly available at www.hfflp.com on the Investor Relations page and is also available in print to any stockholder who requests it. The members of the Audit Committee are George L. Miles, Jr., Deborah H. McAneny and McHenry T. Tichenor, Jr. The Board of Directors has determined that each of the members of the Audit Committee is independent under the listing standards promulgated by the NYSE and as that term is used in Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended. The Board of Directors has determined that Mr. Miles qualifies as an Audit Committee financial expert as that term is defined by applicable securities laws and Securities and Exchange Commission regulations, and has designated him as the Audit Committee s financial expert.

Compensation Committee There were four meetings of the Compensation Committee in 2007. The Compensation Committee is responsible for, among other things, reviewing and recommending director compensation policies to the Board of Directors; making recommendations, at least annually, to the Board of Directors regarding our policies relating to the amounts and terms of all compensation of our executive officers; and administering and discharging the authority of the Board of Directors with respect to our equity plans. A copy of the Compensation Committee s written charter is publicly available at www.hfflp.com on the Investor Relations page and is also available in print to any stockholder who requests it. The members of the Compensation Committee are John Z. Kukral, Lenore M. Sullivan and George L. Miles, Jr. The Board of Directors has determined that each of the members of the Compensation Committee is independent under the listing standards of the NYSE, and each member is an outside director within the meaning of the Treasury Regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Corporate Governance and Nominating Committee In 2007, the Corporate Governance and Nominating Committee met two times. The Corporate Governance and Nominating Committee is responsible for, among other things, selecting potential candidates to be nominated for election to the Board of Directors; recommending potential candidates for election to the Board of Directors; reviewing corporate governance matters; and making recommendations to the Board of Directors concerning the structure and membership of other Board of Directors committees. A copy of the Nominating and Governance Committee s written charter is publicly available www.hfflp.com on the Investor Relations page and is also available in print to any stockholder who requests it. The members of the Nominating and Governance Committee are Deborah H. McAneny, Lenore M. Sullivan, McHenry T. Tichenor, Jr. and John Z. Kukral. The Board of Directors has determined that each of the members of the Nominating and Governance Committee is independent under the listing standards of the NYSE.

Stockholder Communications. Stockholders and other parties interested in communicating directly with any of the individuals who are directors of the Company or the Board of Directors as a group may do so by writing to Investor Relations, HFF, Inc., One Oxford Centre, 301 Grant Street, Suite 600, Pittsburgh, Pennsylvania 15219. The Company s policy is to deliver such communications directly to the Board of Directors.

Code of Conduct and Ethics and Corporate Governance Guidelines. The Board of Directors is committed to ethical business practices. The Company adopted a Code of Conduct and Ethics in 2007. This code of conduct applies to all of the Company s employees and directors and includes the code of ethics for the Company s principal executive officer, principal financial officer, principal accounting officer or controller within the meaning of the Securities and Exchange Commission regulations adopted under the Sarbanes-Oxley Act of 2002, as amended. The Company s Code of Conduct and Ethics, as well as the Company s Corporate Governance Guidelines, is posted on the Company s website at http://www.hfflp.com on the Investor Relations page. Each of the Company s Code of Conduct and Ethics and the Company s Corporate Governance Guidelines is also available in print to any stockholder who requests it.

Director Compensation. Our policy is not to pay director compensation to directors who are also our employees. Each outside director is paid a base annual retainer of $50,000. Each outside director has received a grant of approximately 4,167 options to purchase shares of our Class A common stock, which will vest annually over three years. Each newly-elected outside director will receive an initial election grant of options to purchase shares of our Class A common stock with a Black-Scholes (or similar valuation method) value of $30,000, which will vest annually over three years. Because certain of our initial outside directors are subject to re-election prior to serving a full three-year term, each Class I outside directors re-elected at our annual meeting of stockholders in 2007 was granted options to purchase shares of our Class A common stock with a Black-Scholes (or similar valuation method) value of $10,000, vesting three years after grant, and, if re-elected at the Annual Meeting, each Class II outside director will receive similar options with a Black-Scholes (or similar valuation method) value of $20,000, half of which will vest after two years with the remainder vesting after three years. Thereafter, re-elected directors will receive grants of options to purchase Class A common stock identical to those granted to newly-elected directors. Each outside director will receive an annual grant of restricted stock units based upon our Class A common stock with a Black-Scholes (or similar valuation

Table of Contents

method) value of $40,000 on the grant date and not ratably over three years.

The chair of the Audit Committee receives an additional annual retainer of $10,000 and the chair of each of the Compensation Committee and Nominating and Corporate Governance Committee receives an additional annual retainer of $5,000.

We reimburse all non-employee directors for reasonable expenses incurred to attend meetings of our Board of Directors or committees. Other than as described above, we do not expect to provide any of our directors with any other compensation or perquisites.

In addition to the payments described above, we allow voluntary deferral by our directors of up to 100% of the cash retainer, committee fees and equity awards to a future date elected by the director. The deferred retainer and fees are deemed invested in an investment fund based upon our Class A common stock or another investment vehicle such as an interest-bearing cash account.

Certain Relationships and Related Transactions. We have a policy that the Board of Directors or a committee designated by the Board of Directors review any transaction in which the Company and its directors, executive officers or their immediate family members are participants to determine whether a related party has a direct or indirect material interest in the transaction. This policy has been stated orally and is complimented by the written conflict of interest policy in our Code of Conduct and Ethics.

Compensation Committee Interlocks and Insider Participation. During 2007, no member of the Compensation Committee was an officer or employee of the Company, or any of its subsidiaries, or was formerly an officer of the Company or any of its subsidiaries. No member of the Compensation Committee had any relationship requiring disclosure by the Company under any paragraph of Item 404 of Regulation S-K. Furthermore, no member of the Compensation Committee had a relationship that requires disclosure under Item 407(e)(4) of Regulation S-K.

Submission of Director Nominations. The Nominating and Governance Committee will consider director nominees submitted by stockholders to the Board of Directors in accordance with the procedures set forth in the Company s Amended and Restated Bylaws. Those procedures require a stockholder to deliver notice to the Company s Secretary or Assistant Secretary at the principal executive offices of the Company not less than 90 nor more than 120 days prior to the first anniversary of the preceding year s Annual Meeting of Stockholders, except that in the case where the size of the Board of Directors is increased without public announcement at least 80 days prior to the first anniversary of the preceding year s annual meeting, such notice shall be considered timely if made no later than the close of business on the tenth day following the public announcement of such by the Company (provided that if no public announcement is made at least 10 days before the meeting, such notice is not required). Such notice must be in writing and must include (i) the name and address of the nominating stockholder, as they appear on the Company s books, (ii) the class and number of shares of the Company s stock which are owned beneficially and of record by the nominating stockholder, (iii) certain representations, (iv) the nominee s written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and (iv) any information regarding the nominee that is required under Regulation 14A of the Securities Exchange Act of 1934, as amended, to be included in a proxy statement relating to the election of directors. Candidates for the Board of Directors are evaluated through a process that may include background and reference checks, personal interviews with members of the Nominating and Governance Committee and a review of the candidate s qualifications and other relevant characteristics. Candidates recommended by the stockholders of the Company are evaluated on the same basis as other candidates (other than directors standing for re-election) recommended by the Company s directors, officers, third party search firms or other sources. However, through its own resources, the Nominating and Governance Committee expects to be able to identify an ample number of qualified candidates.

5

ELECTION OF DIRECTORS
ITEM 1 ON PROXY CARD

The Company s directors are divided into three classes. The members of each class serve for a staggered, three-year term. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of stockholders in the year in which their term expires. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. The Company s Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws allow the Board of Directors to set the number of directors on the Board of Directors. The Board of Directors currently consists of nine Directors.

The term of office of one class of directors expires each year in rotation so that one class is elected at each annual meeting of stockholders for a three-year term. The term of the Class II directors will expire at the Annual Meeting. The other directors will remain in office for the remainder of their respective terms, as indicated below.

Director candidates are nominated by the Board of Directors upon the recommendation of the Nominating and Governance Committee. The Nominating and Governance Committee has recommended the three nominees below, each of whom is currently a director of the Company. Stockholders are also entitled to nominate director candidates for the Board of Directors in accordance with the procedures set forth on page 10 under the heading Submission of Director Nominations.

The person named on the accompanying form of proxy will vote the shares **FOR** the nominees, unless you instruct otherwise. Each nominee has consented to stand for election and the Board of Directors does not anticipate that any nominee will be unavailable to serve. In the event that one or more of the nominees should become unavailable to serve at the time of the Annual Meeting, the shares represented by proxy will be voted for the remaining nominees and any substitute nominee(s) designated by the Board of Directors.

Set forth below is information regarding each nominee for Class II director, as well as each Class I and Class III director, each of whose term will continue after the Annual Meeting.

NOMINEES FOR CLASS II DIRECTORS

Mark D. Gibson. Mr. Gibson is one of our founding partners having joined our predecessor firm, Holliday Fenoglio & Company, in 1984. He became a director of HFF, Inc. in November 2006 and has held the positions of Executive Managing Director and member of the operating committee of HFF Holdings since 2003. Mr. Gibson is an Assistant Chairman/Council Member of IOPC Gold in the Urban Land Institute; Chairman of the University of Texas Real Estate Finance & Investment Center; Member and Former Board of Directors Member of the Real Estate Council of Dallas; and is a member of International Council of Shopping Centers, Mortgage Bankers Association of America, and Young Presidents Organization. Mr. Gibson graduated in 1981 from the University of Texas at Austin with a BBA in Finance. Age: 49

George L. Miles, Jr. Mr. Miles is president and Chief Executive Officer of WQED Multimedia, the public broadcaster in southwestern Pennsylvania, and became a director of HFF, Inc. and Chairman of the Audit Committee in January 2007. He joined WQED in 1994 after serving ten years as Executive Vice President and Chief Operating Officer of WNET/Thirteen in New York. Prior to that he held executive positions at KDKA, Pittsburgh; WPCQ, Charlotte; the Westinghouse Television Group; and WBZ-TV, Boston. Earlier in Mr. Miles career he was a contract auditor at the U.S. Department of Defense and a manager at Touche Ross & Co. He earned his BA degree from Seton

Hall University and his MBA from Fairleigh Dickinson University. He serves on the Board of Directors of American International Group, Inc. (AIG) Audit Committee; WESCO International, Inc.; Equitable Resources, Inc.; Harley Davidson, Inc. Audit Committee; the University of Pittsburgh; and the UPMC Health System. He is the former Chairman of the Association for America s Public Television Stations and the Urban League of Pittsburgh, Inc. Age: 66

Table of Contents

Joe B. Thornton, Jr. Mr. Thornton became a director of HFF, Inc. in November 2006 and has held the position of Executive Managing Director and a member of the operating committee of HFF Holdings since 2003. Mr. Thornton operates from our Dallas office. Mr. Thornton joined HFF s predecessor firm, Holliday Fenoglio, Inc., in March 1992. He has held several senior positions with the firm, including Board of Directors Member and Principal. Prior to his employment with us, he was a Senior Vice President of The Joyner Mortgage Company, Inc., where he was responsible for the origination of commercial mortgage and equity transactions, and a Senior Accountant with the Audit Division of Peat Marwick Mitchel & Co. Mr. Thornton is a licensed Real Estate Salesman in the State of Texas. Mr. Thornton graduated from the University of Texas at Austin with a BBA in Accounting in 1982. Age: 47

The Board of Directors recommends a vote FOR each of the nominees listed above.

INCUMBENT CLASS I DIRECTORS TO CONTINUE IN OFFICE FOR TERMS EXPIRING IN 2010

John Z. Kukral. Mr. Kukral is currently President of Northwood Investors, a real estate investment company, and became a director on the Board of Directors of HFF, Inc. in January 2007. Mr. Kukral started his career at JMB Realty Corporation in 1982 and was most recently (1994 to 2005) with Blackstone Real Estate Advisors where he served as President and Chief Executive Officer from 2002 until 2005. Mr. Kukral graduated from Northwestern University and received an MBA from Harvard University. Mr. Kukral is a member of the Board of Directors of Aircastle Limited and is a Trustee of the Urban Land Institute and a Governor of the Urban Land Foundation. Age: 48

Deborah H. McAneny. Ms. McAneny is currently the Chief Operating Officer of Benchmark Assisted Living, LLC and became a director on the Board of Directors of HFF, Inc. in January 2007. Prior to this, Ms. McAneny was employed at John Hancock Financial Services for 20 years, including as Executive Vice President for Structured and Alternative Investments and a member of its Policy Committee from 2002 to 2004, as Senior Vice President for John Hancock s Real Estate Investment Group from 2000 to 2002 and as a Vice President of the Real Estate Investment Group from 1997 to 2000. She received a BS from the University of Vermont. Ms. McAneny is currently a member of the Board of Directors of KKR Financial Corp. and the Board of Directors of Trustees of the University of Vermont and The Rivers School. She is a past president of the Commercial Mortgage Securities Association. Age: 49

John H. Pelusi, Jr. Mr. Pelusi has served as a director and Chief Executive Officer of HFF, Inc. since its inception in November 2006. He is also currently an Executive Managing Director of HFF LP, a position he has held since 2001, and a member of the operating committee and the Managing Member of HFF Holdings since June 16, 2003. Mr. Pelusi has over 25 years of experience in commercial real estate, including investment sales, note sales, debt placement, equity, structured finance and loan servicing. Mr. Pelusi joined HFF LP in May 1998, and prior to that he was the Managing Partner of PNS Realty Partners, L.P. Mr. Pelusi is currently a member of the Board of Directors of Trustees for the University of Pittsburgh, the Board of Directors for the University of Pittsburgh Medical Center, the Board of Directors of Trustees for the Holy Family Foundation, and the Board of Directors for the Manchester Bidwell Corporation. He is also a member of the Real Estate Roundtable, the International Council of Shopping Centers (ICSC) and the Mortgage Bankers Association. Age: 53

INCUMBENT CLASS III DIRECTORS TO CONTINUE IN OFFICE FOR TERMS EXPIRING IN 2009

John P. Fowler. Mr. Fowler became a director of HFF, Inc. in November 2006. In addition, he has been an Executive Managing Director of HFF, L.P. and member of the operating committee of HFF Holdings since 2003. Mr. Fowler began his career in the real estate finance business in 1968 and spent four years in the Real Estate Department of John Hancock Mutual Life Insurance Company. In 1972 he joined a New England-based mortgage banking and development company, and in 1974 formed Fowler, Goedecke & Co., a predecessor to Fowler Goedecke Ellis &

O Connor, Inc., which was merged into our predecessor in 1998. Mr. Fowler is

Table of Contents

active in the Urban Land Institute, Real Estate Finance Association, Mortgage Bankers Association, International Council of Shopping Centers, National Association of Industrial & Office Properties, and Artery Business Committee. He received his BA from Brown University. Age: 62

Lenore M. Sullivan. Ms. Sullivan became a director on the Board of Directors of HFF, Inc. in January 2007. Ms. Sullivan is currently a partner in Perella Weinberg Partners, a financial services firm. From 2002 through 2007, Ms. Sullivan served as the Associate Director for the Real Estate and Finance and Investment Center at the University of Texas at Austin. From 2000 to 2002, she was Vice President of Hunt Private Equity Group, Inc. and from 1992 to 2000 she was the President and co-owner of Stonegate Advisors, an investment banking firm. Ms. Sullivan graduated cum laude from Smith College with a degree in economics and government and a minor in urban studies. She holds a MBA from Harvard Business School. Ms. Sullivan is a member of the Board of Directors of Parkway Properties, Inc., where she also sits on the audit and corporate governance and nominating committees. She is a Charter Investor in the Texas Women Ventures Fund, and sits on the investment advisory and investment committees of the fund. She is a partner in Republic Holdings Texas, L.P., and sits on the investment committee of the fund. Ms. Sullivan has served as a member of the Advisory Board of Directors of Capstone Partners and is a full member of the Urban Land Institute and the Pension Real Estate Association. Age: 50

McHenry T. Tichenor, Jr. Mr. Tichenor became a director on the Board of Directors of HFF, Inc. in January 2007 and is currently a private investor and Executive Director of the WWWW Foundation. He was, until December 31, 2004, Executive Vice President of Univision Communications Inc. and was President of its radio division. From 1997 through 2003, Mr. Tichenor was Chairman, President and Chief Executive Officer of Hispanic Broadcasting Corporation prior to its merger with Univision in September 2003. From 1981 until February 1997, Mr. Tichenor was the President, Chief Executive Officer and a director of Tichenor Media System, Inc. He received a BA with Honors in 1977 and a MBA from the University of Texas at Austin in 1979. Mr. Tichenor currently serves as a member of the Board of Directors of 8e6 Technologies. Age: 52

RATIFICATION OF APPOINTMENT OF INDEPENDENT, REGISTERED CERTIFIED PUBLIC ACCOUNTANTS ITEM 2 ON PROXY CARD

The Board of Directors, acting upon the recommendation of the Audit Committee, asks that the stockholders ratify the selection of Ernst & Young LLP as the Company s independent, registered certified public accountants to audit and report upon the financial statements of the Company for the 2008 fiscal year. Ratification requires the affirmative vote of a majority of eligible shares present at the Annual Meeting, in person or by proxy, and voting thereon. Unless otherwise specified by the stockholders, the shares of stock represented by the proxy will be voted FOR ratification of the appointment of Ernst & Young LLP as the Company s independent, registered certified public accountants.

Although the submission to stockholders of the appointment of Ernst & Young LLP is not required by law or the Company s Restated By-Laws, the Audit Committee believes it is appropriate to submit this matter to stockholders to allow a forum for stockholders to express their views with regard to the Audit Committee s selection. In the event the stockholders fail to ratify the appointment, the Board of Directors will reconsider its selection. Even if the selection is ratified, the Board of Directors, in its discretion, may direct the appointment of a different independent accounting firm at any time during the year if the Board of Directors determines that such a change would be in the best interests of the Company and its stockholders.

One or more representatives of Ernst & Young LLP are expected to be at the Annual Meeting. They will have an opportunity to make a statement and will be available to respond to appropriate questions.

The Board of Directors recommends that the stockholders vote FOR the ratification of the selection of Ernst & Young LLP to serve as the Company s independent, registered certified public accountants for the 2008 fiscal year.

Table of Contents

SUBMISSION OF STOCKHOLDER PROPOSALS

The next stockholder meeting will be held on or about May 29, 2009. Stockholders wishing to have a proposal included in the Board of Directors 2009 Proxy Statement must submit the proposal so that the Secretary of the Company receives it no later than December 31, 2008 nor earlier than December 1, 2008, which is 120 days and 150 days prior to the first anniversary of the date this Proxy Statement was released to stockholders, respectively. The notice must describe various matters regarding the nominee or proposed business. The Securities and Exchange Commission rules set forth standards as to what stockholder proposals are required to be included in a proxy statement.

For any proposal that is not submitted for inclusion in next year s proxy statement (as described above) but is instead sought to be presented directly at next year s annual meeting, Securities and Exchange Commission rules permit management to vote proxies in its discretion if (a) the Company receives notice of the proposal before the close of business 45 days before the first anniversary of the mailing date of this Proxy Statement and advises stockholders in next year s proxy statement about the nature of the matter and how management intends to vote on such matter, or (b) the Company does not receive notice of the proposal prior to the close of business 45 days before the first anniversary of the mailing date of this Proxy Statement. Notices of intention to present proposals at the 2009 Annual Meeting should be addressed to the Chief Operating Officer and Secretary of HFF, Inc., One Oxford Centre, 301 Grant Street, Suite 600, Pittsburgh, Pennsylvania 15219. For further information regarding the submission of director nominations, see Corporate Governance Submission of Director Nominations in this Proxy Statement.

AUDIT COMMITTEE REPORT

Prior to our initial public offering, our business was conducted through HFF Holdings and the Operating Partnerships. In connection with our initial public offering, we completed the Reorganization Transactions in February 2007. The Audit Committee of the Company began operating in February 2007.

The information contained in this report shall not be deemed to be soliciting material or filed or incorporated by reference in future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Securities *Exchange Act of 1934, as amended.*

The Audit Committee appoints the independent accounting firm to be retained to audit the Company s financial statements, and once retained, the independent accounting firm reports directly to the Audit Committee. The Audit Committee consults with and reviews recommendations made by the accounting firm with respect to financial statements, financial records and financial controls of the Company and makes recommendations to the Board of Directors as it deems appropriate from time to time. The Audit Committee is responsible for pre-approving both audit and non-audit engagements with the independent accountants. The Board of Directors has adopted a written charter setting forth the functions the Audit Committee is to perform, and this report is made pursuant to that charter.

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors of HFF, Inc. Management is responsible for the Company s financial reporting process, including its system of internal controls, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles. The Company s independent accountants are responsible for auditing those financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America. The Committee s responsibility is to monitor and review these processes. It is not the Audit Committee s duty or responsibility to conduct auditing or accounting reviews.

The Audit Committee and the Chairman of the Audit Committee have met with management during fiscal year 2007 to consider the adequacy of the Company s internal controls, and discussed these matters and the overall scope and plans for the audit of the Company with the Company s independent, registered certified

Table of Contents

public accountants during that time period, Ernst & Young LLP. The Audit Committee also discussed with senior management and Ernst & Young LLP the Company s disclosure controls and procedures.

In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007 with management, including a review of the quality, in addition to the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with Ernst & Young LLP, who are responsible for expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States, their judgments as to the quality, not just the acceptability, of the Company s accounting principles and such other matters as are required to be discussed with the Audit Committee under auditing standards generally accepted in the United States, including the matters required to be discussed by Statement on Auditing Standards No. 61. The Audit Committee has received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board of Directors Standard No. 1. In addition, the Audit Committee reviewed with Ernst & Young LLP their independence, including the compatibility of non-audit services performed with the accountant s independence.

The Audit Committee discussed with the Company s independent accountants the overall scope and plans for their audit. The Audit Committee has met with the independent accountants, with and without management present, to discuss the results of their examination, their evaluation of the Company s internal controls, and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board of Directors approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission.

The Audit Committee has appointed the firm of Ernst & Young LLP, registered, certified public accountants, as independent accountants to audit and report upon the Company s financial statements for the fiscal year ending December 31, 2008. The Company is requesting stockholder ratification of the appointment of Ernst & Young LLP. In appointing Ernst & Young LLP as the Company s auditors for fiscal year 2008, the Audit Committee has considered whether Ernst & Young LLP s provision of services other than audit services are compatible with maintaining their independence.

AUDIT COMMITTEE

George L. Miles, Jr., Committee Chairman
Deborah H. McAneny
McHenry T. Tichenor, Jr.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (CD&A) provides an overview of the Company s executive compensation programs for the Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) (collectively, the named executive officers (NEOs)) together with a description of the material factors underlying the decisions which resulted in the 2007 compensation provided to the Company s NEOs as presented in the tables which follow this CD&A.

Compensation Committee

The Compensation Committee (the Committee) of the Board of Directors is composed of three non-employee directors, all of whom are independent directors under the listing standards of the New York Stock Exchange and the Securities and Exchange Commission rules. The Committee has responsibility for determining and implementing the Company s philosophy with respect to executive compensation. Accordingly, the Committee has overall responsibility for approving and evaluating the various components of the Company s executive compensation program. The Committee meets at least twice per year (and more often as necessary) to discuss and review the compensation of the NEOs. The Committee annually reviews and approves the compensation of the CEO. The Committee also reviews and approves the compensation of the other NEOs after considering the recommendations of the CEO. In establishing and reviewing compensation for the NEOs, the Committee considers, among other things, the financial results of the Company, recommendations of management and compensation data for comparable companies. The Committee did not engage a compensation consultant in fiscal 2007.

The Committee operates under a written charter adopted by the Board of Directors of the Company on January 30, 2007. A copy of this charter is posted on the Company s website at http://www.hfflp.com on the Investor Relations page.

The Committee was formed and became operational at the time of our initial public offering. Prior to that time, compensation matters were generally handled by the Operating Committee of HFF Holdings and, if related to the compensation of members, then voted on the members of HFF Holdings.

Compensation Philosophy Mission and Vision Statement

In connection with setting the compensation for executive officers, the Company has adopted the philosophy set forth in the Mission and Vision Statement (see below) of the Operating Partnerships. The Mission and Vision Statement reflects our pay for value-added performance philosophy. We believe this Mission and Vision Statement is critical to our continued success. The Mission and Vision Statement relies upon the concept that a client s interest must be placed ahead of ours or any individual working for us. Our goal is to hire and retain associates throughout the entire organization who have the highest ethical standards with the best reputation in the industry to preserve our culture of integrity, trust and respect. We endeavor to promote and encourage teamwork to ensure our clients have the best team on each transaction. Without the best people, we believe we cannot be the best firm and achieve superior results for our clients.

To enable us to achieve our goals, we must maintain a flexible compensation structure, including equity-based compensation awards, to appropriately recognize and reward our existing and future associates who profoundly affect our future success. The ability to reward superior performance is essential if we want to provide superior results for our clients.

The Committee s goals in structuring the Company s compensation program for its NEOs are to:

- provide incentives to achieve Company financial objectives;
- provide long-term incentives for the executive officers; and
- set compensation levels sufficiently competitive to retain and attract high quality executives and to motivate them to contribute to the Company s success.

The Committee has determined that to achieve these objectives, the Company s executive compensation program should reward both individual and Company short-term and long-term performance. To this end, the Committee believes that executive compensation packages provided by the Company to its executive officers should include both cash and stock-based compensation. However, the Committee does not rely on any policy or formula in determining the appropriate mix of cash and equity compensation**,** nor does it rely on any policy or formula in allocating long-term compensation to different forms of awards.

Setting Executive Compensation

In making compensation decisions, the Committee considers the recommendations of management. The Committee also considers corporate and executive performance, an executive s level of experience and responsibility, an executive s current compensation level and historical compensation practices. In addition, the Committee may look at market data for comparable companies. The Committee does not attempt to maintain a specific percentile with respect to the peer group companies in determining compensation for NEOs. However, the Committee does periodically review information regarding compensation trends and levels from a variety of sources in making compensation decisions.

Table of Contents

Prior to the Company s initial public offering, HFF Holdings retained the compensation consulting firm of Mercer Human Resource Consulting to evaluate its compensation practices and to assist in developing and implementing the executive compensation program and philosophy with respect to the COO and CFO. The CEO s compensation was not reviewed by Mercer due to the fact the Company had not yet established an independent Board of Directors or Compensation Committee prior to our initial public offering to review the CEO s compensation. The CEO, John H. Pelusi, Jr., did not want his compensation determined without the approval of an independent Board of Directors or Compensation Committee. In connection with its review of compensation for the COO and CFO as well as for outside directors, Mercer developed a competitive peer group comprised of 24 companies comparable in size to us which consummated an initial public offering in the past three years (2004 2006). Mercer performed analyses of competitive performance and compensation levels. It also met with senior management to learn about our business operations and strategy as a public company, key performance metrics and target goals, and the labor and capital markets in which we will compete. From time to time, our Board of Directors and/or Compensation Committee will evaluate the performance of our senior executives based on quantitative and qualitative performance criteria.

2007 Executive Compensation Components

The Company s executive compensation program is composed of three principal components:

- base salary;
- cash bonuses; and
- long-term incentives, consisting of equity awards.

In making decisions with respect to any element of a NEO s compensation, the Committee considers the total current compensation that such NEO may be awarded and any previously granted unvested equity awards. The Committee s goal is to award compensation that is reasonable in relation to the Company s compensation philosophy and objectives when all elements of potential compensation are considered.

Base Salaries

In General. The Company provides NEOs with base salaries to compensate them for services rendered during the fiscal year. In determining base salaries, the Committee reviews base salaries paid at comparable companies and considers other factors, including:

- historical information regarding compensation previously paid to NEOs;
- the individual s experience and level of responsibility; and
- the performance of the Company and the executive.

Generally, we believe that base salaries should be set at the low end to midrange of competitive levels, while providing somewhat higher bonuses based on the performance of the Company and the individual. Base salaries are reviewed annually; however, a decrease in base salary may be prohibited by an executive officer s employment agreement.

Compensation for Executive Officers During 2007

During 2007, Mr. Pelusi was paid $400,000 in base salary. This was the amount that Mr. Pelusi was paid for his role as Executive Managing Director and Managing Member of HFF Holdings prior to the Company s initial public offering. For 2007, Mr. Pelusi continued at his 2006 salary in his capacity as CEO since the Committee did not complete a comprehensive review of Mr. Pelusi s compensation until late in 2007.

Mr. Pelusi is also employed as a transaction professional of HFF LP, one of the two partnerships through which we conduct our business. He is primarily paid for his service as a transaction professional. His payment as a transaction professional is based upon commissions he earns for the capital markets revenue that through his efforts he brings into HFF LP. Like our other transaction professionals, Mr. Pelusi is entitled to receive commission payments equal to 50% of the adjusted collected fee amount that he has generated for HFF LP.

Table of Contents

The adjusted collected fee amount is determined based upon the gross revenue actually received by HFF LP attributable to the efforts of Mr. Pelusi and after payment of all customary and appropriate fee splits with outside cooperating brokers or others. The adjusted collected fee amount is also reduced by related producer expenses, including all applicable management plan payments, bonus pool payments to analysts, splits with other producers and employees, and other similar compensation paid or payable to individuals involved in the generation of any commission revenue. In 2007, Mr. Pelusi earned commissions of $1,696,588. This is consistent with HFF LP s pay for performance policy, as the compensation earned by Mr. Pelusi as a transaction professional is directly related to the amount of revenue he generates for HFF LP. In addition, in order to attract and retain top producers, such as Mr. Pelusi, it is critical that they share in the revenue and certain other income that they generate for the Operating Partnerships.

During 2007, the COO, Nancy O. Goodson, was paid a base salary of $200,000 as set forth in her employment agreement with the Company. The Company entered into the employment agreement with Ms. Goodson in connection with our initial public offering. Her base salary for 2007 was established by the CEO and the Board of Directors. Among the factors considered in establishing her base salary were her skills and experience, historical base salary and the compensation consultant s report and recommendation.

The CFO, Gregory R. Conley, was hired in October 2006. In connection with his hiring, HFF LP set his base salary at $215,000. The Company entered into an employment agreement with Mr. Conley in connection with our initial public offering. In this employment agreement, the CEO and Board of Directors set his base salary for 2007 at $215,000. Among the factors considered in establishing his base salary were his skills and experience, historical base salary and the compensation consultant s report and recommendation.

Bonuses

In General. Annual cash bonuses are included as part of the executive compensation program because the Committee believes that a significant portion of each NEO s compensation should be contingent on the annual performance of the Company, as well as the individual contribution of the NEO. The Committee believes that this structure is appropriate because it aligns the interests of management and stockholders by rewarding executives for strong annual performance by the Company. Bonuses are intended to be on the high end of competitive levels to compensate for lower salaries.

In addition to our regular bonus program, our Chief Executive Officer will also be eligible for an annual bonus through our Profit Participation Bonus Plan.

2007 Performance Bonuses

In connection with determining the bonus amount for Mr. Pelusi, the Committee consulted with the Operating Committee of the operating partnerships. After considering the performance of the Company and Mr. Pelusi, historic compensation practices and generally the compensation levels of chief executive officers at other companies (CB Richard Ellis Group, Inc., Jones Lang LaSalle Incorporated and Trammell Crow Company) the Committee approved a bonus of $725,000 for Mr. Pelusi, or approximately 181% of his base salary. The Committee determined that this bonus amount was appropriate in light of the Company s performance, Mr. Pelusi s contributions to that performance and Mr. Pelusi s salary for 2007 (which was unchanged from 2006).

Mr. Pelusi also is eligible to participate in the HFF LP Profit Participation Bonus Plan. We believe the Profit Participation Bonus Plan rewards an office or line of business for an exceptionally productive year. In addition, the Profit Participation Bonus Plan rewards income generation as well as the ability of an office or line of business to control costs. This element of compensation is integral to HFF LP s compensation practices because it provides an understandable incentive to each of our offices and lines of business and allows us to reward superior performance.

The Profit Participation Bonus Plan, described in more detail in Profit Participation Bonus Plans below, provides that offices or lines of business that generate profit margins for their office or line of business of 14.5% or more are entitled to additional bonuses of an allocated share of 15% of net income from the office. The allocation of the profit participation bonus and how it is shared within

Table of Contents

the office are determined by the office head in consultation with the Managing Member. Mr. Pelusi received a profit participation bonus of $168,596 in 2007.

In connection with determining the bonus amounts for Ms. Goodson and Mr. Conley, the Committee consulted with the CEO. The Committee approved bonuses of $100,000 and $130,500 for Ms. Goodson and Mr. Conley, respectively, or approximately 50% and 61% of their respective base salaries. The Committee determined that these bonus amounts were appropriate in light of the respective performance of Ms. Goodson and Mr. Conley in their respective areas of responsibility.

Long-Term Incentive Program

Our Board of Directors believes that compensation paid to executive officers should be closely aligned with our performance on both a short-term and long-term basis, and that their compensation should assist us in recognizing and rewarding key executives who profoundly affect our future success through their value-added performances. Therefore, in January 2007 we adopted a new incentive compensation plan, the HFF, Inc. 2006 Omnibus Incentive Compensation Plan. That plan is designed to align management s performance objectives with the interests of our stockholders. Awards under our 2006 Omnibus Incentive Compensation Plan are administered by the Compensation Committee.

All grants of equity compensation to NEOs are made by the Committee. Whether grants are made and the type and size of any grants are based upon Company and individual performance, position held, years of service, level of experience and potential of future contribution to the Company s success. The Committee may also consider long-term incentive grants previously awarded to the NEOs, long-term incentive grants given to other executive officers throughout the Company s history and grant practices at comparable companies.

2007 Equity Grants

In connection with the initial public offering, the Committee granted each of Ms. Goodson and Mr. Conley $300,006 worth of restricted shares of the Company s Class A common stock, based on the closing price of such stock on the grant date. This resulted in the grant of 16,667 restricted shares to each executive, based on an initial public offering price of $18.00 per common share. These awards were granted to reward these executives for their contributions to the Company s pre-initial public offering performance and, in particular, their superior performance in implementing the Company s initial public offering. In addition, prior to the granting of those awards, none of these executives had significant holdings in the Company.

The restricted shares will vest, and the restrictions will cease to apply, in four equal tranches, on the second, third, fourth and fifth anniversaries of the grant date. The Committee believes that this vesting schedule serves to motivate and retain the recipients, providing continuing benefits to the Company beyond those achieved in the year of grant.

The Company has no formal program, plan or practice to time option grants to its executives in coordination with the release of material non-public information.

Stock Ownership. We have not yet developed a stock ownership policy, guidelines or requirements. The Committee is considering whether to adopt such a policy in the future for all or a select portion of our executive officers.

Employment Agreements

A description of the employment agreements of our current NEOs, Mr. Pelusi at HFF LP, Ms. Goodson and Mr. Conley at HFF, Inc., including a specific description of the components of each such executive officer s compensation, is set forth below.

Table of Contents

Other Compensation and Perquisite Benefits

In addition to the principal categories of compensation described above, the Company provides its NEOs with coverage under its broad-based health and welfare benefits plans, including medical, dental, disability and life insurance. The Company also sponsors a 401(k) plan. The 401(k) plan is a tax-qualified retirement savings plan pursuant to which all employees, including the NEOs, are able to contribute to the 401(k) plan up to the limit prescribed by the Internal Revenue Code on a before-tax basis. The Company makes a matching contribution of 50% of the first 6% of pay contributed by the employee, up to a maximum of $5,000, to the 401(k) plan. Annual salary subject to the Company match is capped at a maximum amount prescribed by the IRS each year. All contributions made by a participant vest immediately and matching contributions by the Company are fully vested after two years of service. These benefits are not tied to any individual or corporate performance objectives and are intended to be part of an overall competitive compensation program.

The NEOs are not generally entitled to benefits that are not otherwise available to all of our employees. In this regard it should be noted that the Company does not provide pension arrangements (other than the 401(k) Plan), post-retirement health coverage or similar benefits for its executives. The Company and the Committee believe that these benefits are consistent with the goal of attracting and retaining superior executive talent.

Tax and Accounting Implications

Deductibility of Certain Compensation

Section 162(m) of the Internal Revenue Code limits the deductions that may be claimed by a public company for compensation paid to certain individuals to $1,000,000 except to the extent that any excess compensation is performance-based compensation. In 2007, the NEOs base salary and bonuses were not considered performance-based under Section 162(m) and therefore all such compensation is subject to the $1,000,000 limit. The CEO s commission payments are exempt from the 162(m) limits and Profit Participation Bonus Plan amounts earned by the CEO, and paid by the Operating Partnerships, are not subject to the Section 162(m) limits. The Committee intends to maintain flexibility to pay compensation that is not entirely deductible when the best interests of the Company make that advisable. In approving the amount and form of compensation for the NEOs, the Committee will continue to consider all elements of cost to the Company of providing such compensation, including the potential impact of Section 162(m).

The Committee considers the accounting impact in connection with equity compensation matters, however, these considerations do not significantly affect decisions on grants of equity compensation.

COMPENSATION COMMITTEE REPORT

Prior to our initial public offering, our business was conducted through HFF Holdings and the Operating Partnerships. In connection with our initial public offering, we completed the Reorganization Transactions in February 2007. The Compensation Committee of the Company began operating in February 2007.

The Compensation Committee of the Company has reviewed and discussed the above Compensation Discussion and Analysis with our management and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE

John Z. Kukral, Committee Chairman
Lenore M. Sullivan
George L. Miles, Jr.

Table of Contents

OUR MISSION AND VISION STATEMENT

Our goal is to always put the client s interest ahead of the Firm and any individual within the Firm.

We will continue to strategically grow to achieve our objective of becoming the best and most dominant one-stop commercial real estate and capital markets intermediary offering the following:

- *Investment Banking and Advisory Services;*
- *Investment Sales Services;*
- *Notes Sales and Note Sale Advisory Services;*
- *Entity and Project Level Equity Services and Placements as well as all forms of Structured Finance Solutions;*
- *All forms of Debt Solutions and Services; and*
- *Commercial Loan Servicing (Primary and Sub-servicing).*

We will hire and retain associates throughout the Firm who have the highest ethical standards with the best reputation in the industry. By doing this, we will preserve our culture of integrity, trust and respect in order to promote and encourage teamwork, thus guaranteeing our clients have the best team on the field for each transaction. Simply stated, without the best people, we cannot be the best firm.

To ensure that we achieve our goals and aspirations and provide outstanding results for our stockholders, we must maintain a flexible compensation and ownership package to appropriately recognize and reward our existing and future associates who profoundly contribute to our success through their value-added performance. The ability to reward extraordinary performance is essential in providing superior results for our clients while appropriately aligning our interests with our stockholders.

SUMMARY COMPENSATION TABLE

Prior to our initial public offering of Class A common stock, we operated our business with a relatively small number of executive officers. In October 2006, Gregory R. Conley joined us as our Chief Financial Officer. The following table sets forth the compensation paid or accrued during fiscal 2006 and 2007 for our named executive officers: John H. Pelusi, Jr., our Chief Executive Officer; Gregory R. Conley, our Chief Financial Officer; and Nancy O. Goodson, our Chief Operating Officer.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
John H. Pelusi, Jr., Chief Executive Officer	2007	400,000	2,421,588(1)		175,028(2)(3)	2,996,616
	2006	400,000	2,190,552(1)		4,542,505(4)	7,133,057
	2007	215,000	130,500	55,000(6)	8,486(7)	408,986

Gregory R. Conley, Chief Financial Officer						
	2006(5)	44,792(5)	25,000		1,194(7)	70,986
Nancy O. Goodson, Chief Operating Officer	2007	200,000	100,000	55,000(6)	7,870(8)	362,870
	2006	165,000	200,000		17,858(8)	382,858

(1) Includes Mr. Pelusi s bonus of $500,000 and commissions of $1,690,552 for the fiscal year ended December 31, 2006 and a bonus of $725,000 and commissions of $1,696,588 for the fiscal year ended December 31, 2007.

(2) Includes $438 in life insurance premiums, $5,000 in a 401(k) match, $168,596 in profit participation and $994 in imputed income and a gross-up for taxes on parking expenses paid by us in 2007.

(3) Following the Reorganization Transactions, HFF, Inc. became a holding company. Through its wholly-owned subsidiary, HFF, Inc. s sole assets are partnership units in the Operating Partnerships and all of the

outstanding shares of Holliday GP. As the sole stockholder of Holliday GP, the sole general partner of the Operating Partnerships, HFF, Inc. operates and controls all of the business and affairs of the Operating Partnerships. HFF Holdings through its wholly-owned subsidiary, and HFF, Inc., through its wholly-owned subsidiaries, are the only partners of the Operating Partnerships. The holders of partnership units in the Operating Partnerships, including HFF Holdings and HFF, Inc., will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of the Operating Partnerships. The partnership agreements of the Operating Partnerships provide for cash distributions to the holders of partnership units of the Operating Partnerships if HFF, Inc. determines that the taxable income of the Operating Partnerships will give rise to taxable income for its partners. All other distributions from the Operating Partnerships will be made at the discretion of HFF, Inc. All distributions are made pro rata in accordance with the ownership of the partners. As a result, distributions from the Operating Partnerships to HFF Holdings (and any resulting distributions from HFF Holdings to Mr. Pelusi) after 2006 are not, and will not be going forward, considered compensation from the Company.

(4) Includes participation in the cash distributions of HFF Holdings of Mr. Pelusi in the amount of $4,191,536. We have historically operated as two limited liability companies (HFF Holdings and Holdings Sub) and two limited partnerships (HFF LP and HFF Securities). Members of HFF Holdings, including Mr. Pelusi, are also transaction professionals who all receive commissions. Depending on positions and areas of responsibilities, some members of HFF Holdings, including Mr. Pelusi, also receive a salary and, in some cases, profit participation and a bonus. All members of HFF Holdings also received compensation in the form of participation in the earnings of HFF Holdings prior to the Reorganization Transactions. The amounts presented reflect estimates of distributions made by such entities in respect of the fiscal year ended December 31, 2006, including distributions to Mr. Pelusi in 2007 in respect of the prior fiscal year and excluding distributions to be made to him in 2006 in respect of the prior fiscal year. This amount also includes $12,277 in health benefits, $153 in life insurance premiums, $5,000 in a 401(k) match, $175,286 in profit participation, $1,193 of imputed income and a gross-up for taxes on parking expenses paid by us and $157,060 in a tax gross-up for self-employment taxes relating to compensatory payments received by Mr. Pelusi in his capacity as a member of HFF Holdings during 2006 (during 2006, Mr. Pelusi was paid $148,077 in a tax gross-up for self-employment taxes relating to compensatory payments during 2005).

(5) Mr. Conley joined the Company in October 2006.

(6) All grants were made under the 2006 Omnibus Incentive Compensation Plan. See Note 3 Stock Compensation to our interim financial statements included in our quarterly reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007, September 20, 2007 and Note 3 Stock Compensation to our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2007 for discussion regarding the valuation of our stock and option awards.

(7) This amount includes $12 in life insurance premiums, $1,019 in a 401(k) match and $163 of imputed income and a gross-up for taxes on parking expenses paid for by us in 2006 and $109 in life insurance premiums, $5,000 in a 401(k) match, $720 of imputed income and a gross-up for taxes on parking expenses paid by us and $2,657 in gift cards for 2007.

(8) This amount includes $12,705 in health benefits, $153 in life insurance premiums and $5,000 in a 401(k) match in 2006 and $133 in life insurance premiums, $5,000 in a 401(k) match and $2,737 in gift cards for 2007.

Employment Agreements

John H. Pelusi, Jr.

HFF LP has entered into an amended and restated employment agreement with Mr. Pelusi in respect of Mr. Pelusi s capacity as a transaction professional on terms and conditions substantially identical to the employment agreements between HFF LP and our other transaction professionals who were members of HFF Holdings. We believe that the compensation paid by HFF LP to these transaction professionals, including Mr. Pelusi, relates to such transaction professionals services to HFF LP and not to any executive services to HFF, Inc. Consequently, our Compensation Committee may not take into account the compensation HFF LP pays to those transaction professionals, including Mr. Pelusi, when determining our executive compensation policies, programs or awards for those individuals. This employment agreement would provide for salary, bonuses, commission sharing, draws against commissions, bonuses and other income allocations as established from time to time by Holliday GP at the direction of our Board of Directors after consideration of the recommendation and advice of the operating committee and managing member of HoldCo LLC. Mr. Pelusi would be provided with the welfare benefits and other fringe benefits to the same extent as those benefits are provided to our other similarly situated employees.

Gregory R. Conley and Nancy O. Goodson

We have employment agreements with each of Gregory R. Conley and Nancy O. Goodson. The terms of these employment agreements were determined in consultation with Mercer Human Resource Consulting and were also reviewed with the independent members of the Board of Directors following our initial public offering. Pursuant to the terms of these respective employment agreements with HFF, Inc., Mr. Conley serves as our Chief Financial Officer and Ms. Goodson serves as our Chief Operating Officer, in each case until such executive s employment is terminated by us or Mr. Conley or Ms. Goodson, as the case may be.

The compensation package of each of Mr. Conley and Ms. Goodson is comprised of the following elements:

Base Salary. Each employment agreement establishes a base salary for the first year of the agreement. The Compensation Committee, in consultation with our chief executive officer, will review an executive officer s base salary annually to ensure that the proper amount of compensation is being paid to such executive officer commensurate with his or her services performed for us. The Compensation Committee may increase, but not decrease, such base salary in its sole discretion.

Annual Cash Bonus. Mr. Conley and Ms. Goodson are each eligible to receive an annual cash bonus, in an amount up to 50% of his or her base salary, based upon the applicable executive officer s achievement of certain pre-determined financial or strategic performance goals established by the Company from time to time.

Long-Term Incentive Compensation. On the effective date of the employment agreement of Mr. Conley and Ms. Goodson, subject to the terms and conditions of the HFF, Inc. 2006 Omnibus Incentive Compensation Plan and the applicable award agreement with such executive officer under such plan, each executive officer received a grant of restricted Class A common stock with an aggregate fair market value on the date of grant of $300,006. This restricted stock grant will vest in four equal annual installments beginning on the second anniversary of the grant.

Other Benefits. Mr. Conley and Ms. Goodson have welfare benefits and other fringe benefits to the same extent as those benefits are provided to our other similarly situated employees.

Non-Competition, Non-Disclosure, Non-Solicitation and Other Restrictive Covenants

Pursuant to the employment agreement, we have entered into non-competition, non-disclosure, non-solicitation and other restrictive covenants with Mr. Pelusi and non-disclosure and other restrictive covenants with Mr. Conley and Ms. Goodson. The following are descriptions of the material terms of each covenant.

The non-competition, non-disclosure, non-solicitation and other restrictive covenants provide as follows:

Non-Competition. For a period of time until the earlier of (i) five years after the initial effective date of the employment agreement (March 29, 2006), and (ii) the second anniversary of the termination date of Mr. Pelusi s employment, Mr. Pelusi may not, directly or indirectly, own, operate, manage, participate in, invest in, render services for or otherwise assist any entity that engages in any competitive business that we or our affiliates are in or are actively considering conducting during a six month period preceding the termination date of Mr. Pelusi s employment. Mr. Pelusi is also prohibited by the terms of the non-competition covenant from directly or indirectly engaging in any activity that requires or would inevitably require the disclosure of confidential information of us or our affiliates. This non-competition covenant does not apply if Mr. Pelusi is terminated by us without cause (as defined in the employment agreement).

Table of Contents

Non-Disclosure. Each of Mr. Pelusi, Mr. Conley and Ms. Goodson is required, whether during or after his or her employment, to hold all confidential information in trust for us and is prohibited from using or disclosing such confidential information except as necessary in the regular course of our business or that of our affiliates.

Non-Solicitation. For a period of time until the earlier of (i) five years after the initial effective date of the employment agreement, and (ii) the second anniversary of the termination date of the Mr. Pelusi s employment, Mr. Pelusi may not, directly or indirectly, solicit the business of or perform duties for any client or prospective client of ours in respect of any service similar to a service performed by us or our affiliates. Prospective client means any person with which we or our affiliates were in active business discussions at any time within six months prior to the termination date of the Mr. Pelusi s employment. Mr. Pelusi is also prohibited from influencing or encouraging any of our clients or prospective clients from ceasing to do business with us during this same time period. This non-solicitation covenant does not apply if Mr. Pelusi is terminated by us without cause (as defined in the employment agreement).

Pursuant to the employment agreement, Mr. Pelusi also may not, directly or indirectly, knowingly solicit or encourage any of our employees or consultants to leave their employment with us, or hire any such employee or consultant until the earlier of (i) five years after the initial effective date of the employment agreement, and (ii) the second anniversary of the termination date of Mr. Pelusi s employment.

Non-Disparagement. Each of Mr. Pelusi, Mr. Conley and Ms. Goodson may not, except as legally compelled, make any statement to third parties that would have a material adverse impact on the business or business reputation of, as the case may be, Mr. Pelusi, Mr. Conley and Ms. Goodson or any of us or our affiliates.

Specific Performance. In the case of any breach of the employment agreement, including the non-competition, non-disclosure, non-solicitation and other restrictive covenants thereof, Mr. Pelusi, Mr. Conley, Ms. Goodson will each agree that, in addition to any other right we may have at law, equity or under any agreement, we will be entitled to immediate injunctive relief and may obtain a temporary or permanent injunction or other restraining order.

Potential Payments Upon Termination

Mr. Conley s and Ms. Goodson s respective employment agreements contain provisions providing for payments by us following the termination of his or her employment by us without cause or by such executive for good reason. Under the respective employment agreements, if Mr. Conley or Ms. Goodson s employment is terminated by us without cause or by such executive with good reason, he or she, as the case may be, will be entitled to receive his or her base salary through the date of termination and for a subsequent period of twelve months, the benefits provided under our employee benefit plans and programs, continuation of medical benefits for twelve months after the date of termination, vesting of 50% of his or her unvested restricted stock units or stock options, if any, and 90 days to exercise any vested stock options, if any. In addition, any restricted stock units or stock options granted will become 100% vested if his or her position is eliminated or compensation is reduced following a change in control. Cause is defined under the respective employment agreements as (i) gross misconduct or gross negligence in the performance of one s duties as our employee, (ii) conviction or pleading nolo contendre to a felony or a crime involving moral turpitude, (iii) significant nonperformance of an executive s duties as our employee, (iv) material violation of our established policies and procedures, or (v) material violation of the respective employment agreement. Good reason is defined under the respective employment agreements as (i) a significant reduction of duties or authority, (ii) a reduction in base salary without the executive s consent, (iii) a reduction in the executive s bonus opportunity, (iv) a significant change in the location of the executive s principal place of employment and (v) material violation of the respective employment agreements.

If the employment of Mr. Conley or Ms. Goodson, as the case may be, is terminated for any reason other than by us without cause or by such executive for good reason (including by us with cause, by such executive without good reason, or due to death or disability), such executive will only be entitled to all earned, unpaid base salary and the benefits provided under our employee benefit plans and programs. Mr. Conley or

Ms. Goodson, as the case may be, will be permitted to exercise vested stock options for a period of 30 days following termination due to a voluntary resignation for a period of 30 days and for a period of one year following a termination due to death or disability. For a termination due to cause, Mr. Conley or Ms. Goodson, as the case may be, will not be permitted to exercise any of their stock options following termination.

Unvested restricted stock units and stock options will be forfeited upon a termination for any reason.

Mr. Pelusi s employment agreement does not provide for any potential severance payments by us upon the termination of his employment.

	Continuation of Base Salary	Continuation of Medical Benefits
Gregory R. Conley		
Without cause or with good reason	$ 250,000	$ 21,926
Nancy O. Goodson		
Without cause or with good reason	$ 206,000	$ 25,538

GRANTS OF PLAN BASED AWARDS

The following table sets forth information concerning stock and cash awards during the fiscal year ended December 31, 2007 to the persons named in the table under Summary Compensation Table , each of which was granted pursuant to our 2006 Omnibus Incentive Compensation Plan. This plan is designed to align management s performance objectives with the interests of our stockholders. Awards under our 2006 Omnibus Incentive Compensation Plan are be administered by a committee appointed by our Board of Directors consisting of at least two non-employee, outside directors. That committee is authorized to, among other things, select the participants and determine the type of awards to be made to participants, the number of shares subject to awards and the terms, conditions, restrictions and limitations of the awards.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards
Gregory R. Conley	January 30, 2007	16,667	300,006(1)
Nancy O. Goodson	January 30, 2007	16,667	300,006(1)

(1) Reflects grants of 16,667 restricted stock units to Mr. Conley and 16,667 restricted stock units to Ms. Goodson, 25% of which restricted stock units will vest annually beginning at January 30, 2009, made in connection with our initial public offering. Commensurate with our initial public offering, our common stock began trading on January 31, 2007 on the NYSE at the price of $18.00 per share.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information concerning unexercised stock options or equity incentive plan awards granted during the fiscal year ended December 31, 2007 and stock that remains unvested as of December 31, 2007, to the persons named in the table under Summary Compensation Table.

	Stock Awards	
Name	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**
Gregory R. Conley	16,667(1)	129,007(2)
Nancy O. Goodson	16,667(1)	129,007(2)

(1) Reflects grants of 16,667 restricted stock units to Mr. Conley and 16,667 restricted stock units to Ms. Goodson, 25% of which restricted stock units will vest annually beginning at January 30, 2009, made in connection with our initial public offering.

(2) These amounts represent the fair value of the restricted stock unit awards made in 2007 valued in accordance with the guidelines in SFAS No. 123(R), Share Based Payment. For further details about the valuations of restricted stock and the related performance shares, refer to Note 3, Stock Compensation to the Company s consolidated financial statements in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

DIRECTOR COMPENSATION

The following table provides compensation information for the fiscal year ended December 31, 2007 for each member of our Board of Directors other than Messrs. Pelusi, Gibson, Thornton, and Fowler, who are our employee directors. Compensation information for Messr. Pelusi, who is also an executive officer of the Company, is described beginning on page 25 under Executive Compensation Compensation Discussion and Analysis . For stock and option awards, the dollar amounts set forth in the table below reflect the dollar amounts recognized by us for financial statement reporting purposes with respect to the fiscal year ended December 31, 2007 in accordance with Statement of Financial Accounting Standards, or FAS, 123R. For further information regarding our director compensation policy, see Corporate Governance Director Compensation in this Proxy Statement.

Name	Fees Earned or Paid in Cash(1) ($)	Stock Awards(2) ($)	Option Awards (3)(4)(5) ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
John Z. Kukral	$ 55,000	$ 39,996	$ 14,626	$	$	$ 109,622
Deborah H. McAneny	55,000	39,996	14,626			109,622
George L. Miles, Jr.	60,000	39,996	12,682			112,678
Lenore M. Sullivan	50,000	39,996	12,682			102,678
McHenry T. Tichenor, Jr.	50,000	39,996	12,682			102,678

(1) Includes the base annual retainer of $50,000 and an additional retainer for chairing a committee of the Board of Directors.

(2) Each of Ms. McAneny, Ms. Sullivan and Messrs. Kukral, Miles and Tichenor was awarded 2,222 restricted shares of our Class A common stock pursuant to our director compensation policy, valued at the fair market value of our common stock ($18.00) on the award date of January 30, 2007, for a total value of $39,996. As of December 31, 2007, all of these restricted shares are fully vested.

(3) Each of Ms. McAneny, Ms. Sullivan and Messrs. Kukral, Miles and Tichenor was awarded a grant of an option to purchase 4,167 shares of our Class A common stock pursuant to our director compensation policy, valued at the per share fair value ($9.96) on the award date of January 30, 2007.

(4) Each of Ms. McAneny and Mr. Kukral was awarded a grant of an option to purchase 1,171 shares of our Class common stock pursuant to our director compensation policy and in connection with their re-election to the Board of Directors at the Company s 2007 annual meeting of stockholders, valued at the per share fair value ($8.54) on the award date of June 5, 2007.

(5) At December 31, 2007, each of Ms. Sullivan and Messrs. Miles and Tichenor held unexercised options to purchase an aggregate 4,167 shares of our Class A common stock and Ms. McAneny and Mr. Kukral each held unexercised options to purchase an aggregate 5,338 shares of our Class A common stock.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL

OWNERS AND DIRECTORS AND OFFICERS

The following table sets forth information regarding the beneficial ownership of our Class A common stock and Class B common stock, and of partnership units in the Operating Partnerships, by (1) each person known to us to beneficially own more than 5% of our voting securities, (2) each of our directors, (3) each of our named executive officers and (4) all directors and executive officers as a group. Unless otherwise specified, the information is as of April 1, 2008 and all shares are directly held.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission.

	Class A Common Stock		Partnership Units in Each of the Operating Partnerships(2)		Class B Common Stock(3)		Cumulative Voting Power
Beneficial Owner(1)	Number	Percentage	Number	Percentage	Number	Percentage	
HFF Holdings LLC(4)			20,355,000	55.3%	1	100%	55.3%
John P. Fowler(4)	44,050	*					
Mark D. Gibson(4)							
John Z. Kukral(5)	7,560	*					*
Deborah H. McAneny(5)	7,560	*					*
George L. Miles, Jr.(5)	6,389	*					*
John H. Pelusi, Jr.(4)	82,437	*					
Lenore M. Sullivan(5)	6,389	*					*
Joe B. Thornton, Jr.(4)							
McHenry T. Tichenor, Jr.(5)	6,389	*					*
Gregory R. Conley(6)	19,667	*					
Nancy O. Goodson(6)	18,167	*					*
Directors and executive officers as a group	198,608	1.2					*
J.P. Morgan Investment Management Inc. and its affiliates(New York)(7)	1,712,370	10.4%					4.7%
WS Capital, L.L.C. and its affiliates(8)	1,132,700	6.9%					3.1%
Baron Capital Management, Inc. and its affiliates(9)	959,180	5.8%			<)	(180)	
Increase (decrease) in other liabilities	253	(359)					
Increase (decrease) in pension and	(1,382)	3,766					

postretirement benefits		
Net cash provided by operating activities	42,510	34,589
Cash flows from investing activities:		
Capital expenditures	(14,198)	(11,978)
Proceeds from sale of assets	3,970	190
Acquisitions, net of cash acquired	(11,851)	(29,946)
Purchases of investments	(1,064)	(166)
Proceeds from disposition of investments	137	11
Net cash used in investing activities	(23,006)	(41,889)
Cash flows from financing activities:		
Proceeds from long-term debt	49,950	52,433
Payments on long-term debt	(40,091)	(41,394)
Proceeds from the sale of treasury stock	16,054	1,869
Purchases of treasury stock	(36,726)	(877)
Tax benefit of exercised stock options	3,801	580
Dividends	(5,222)	(4,815)
Distributions to minority interests	(1,367)	(4,254)
Net cash (used in) provided by financing activities	(13,601)	3,542
Effect of exchange rate changes on cash	1,370	1,154
Net increase (decrease) in cash and cash equivalents	$ 7,273	$ (2,604)

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

4

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

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

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

Note 2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2006. The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. All intercompany accounts and transactions have been eliminated.

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

Reclassifications and restatements:

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

5

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

Note 3. Share-Based Payments

The Company has a stock incentive plan that provides for grants of incentive stock options, non-statutory stock options and restricted share awards in an aggregate number not to exceed 15% of the outstanding shares of the Company's common stock (4,725,011 at June 30, 2007). The plan is administered by the Compensation Committee of the Board of Directors. The option price for each stock option that may be granted under the plan may not be less than the fair market value of the Company's common stock on the date of grant. Outstanding stock options are exercisable in one-third increments upon the attainment of 10%, 33% and 60% appreciation in the market value of the Company's Class A Common Stock. In addition, options generally vest in one-third increments after three, four and five years, respectively, from the grant date (but, in any event, not until the attainment of the market value thresholds). The options expire on the earlier of ten years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death. The Company generally settles employee stock option exercises with treasury shares.

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

For the three-month periods ended June 30, 2007 and 2006, stock-based compensation cost totaled $858 and $741, respectively. For the nine-month periods ended June 30, 2007 and 2006, stock-based compensation cost totaled $2,578 and $3,189, respectively. The associated future income tax benefit recognized was $335 and $289 for the three-month periods ended June 30, 2007 and 2006, respectively, and was $1,005 and $1,243 for the nine-month periods ended June 30, 2007 and 2006, respectively.

The amount of cash received from the exercise of stock options was $10,274 and $448 for the three-month periods ended June 30, 2007 and 2006, respectively, and $16,054 and $1,869 for the nine-month periods ended June 30, 2007 and 2006, respectively. In connection with these exercises, the tax benefits realized by the Company were $3,660 and $106 for the three-month periods ended June 30, 2007 and 2006, respectively, and $5,892 and $816 for the nine-month periods ended June 30, 2007 and 2006, respectively.

The transactions for shares under options for the nine-months ended June 30, 2007 were as follows:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding, September 30, 2006	2,529,451	$ 28.75		
Granted	392,650	40.59		
Exercised	(753,744)	21.29		
Expired or forfeited	(36,081)	31.53		
Outstanding, June 30, 2007	2,132,276	$ 33.52	7.4	$ 21,509
Exercisable, June 30, 2007	493,243	$ 27.03	5.9	$ 8,180
Shares reserved for future options	2,578,451			

The weighted-average grant date fair value of options granted for the nine-month periods ended June 30, 2007 and 2006 was $12.29 and $9.47, respectively. The fair value of shares vested was $1,217 during the three-month periods ended June 30, 2007 and no shares were earned in the three months ended June 30, 2006. The fair value of shares vested was $4,518 and $3,594 during the nine-month periods ended June 30, 2007 and 2006, respectively. The intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the nine-month periods ended June 30, 2007 and 2006 was $15,127 and $2,157, respectively.

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

Note 3. Share-Based Payments (continued)

The transactions for non-vested shares for the nine months ended June 30, 2007 were as follows:

Non-vested shares	Shares		Weighted-average grant-date fair value
Non-vested at September 30, 2006	1,814,878	$	9.84
Granted	392,650		12.29
Vested	(533,830)		8.46
Expired or forfeited	(34,665)		9.93
Non-vested at June 30, 2007	1,639,033	$	10.87

As of June 30, 2007 the total unrecognized compensation cost related to non-vested stock options was approximately $6,304. This cost is expected to be recognized over a weighted-average period of 3.7 years in accordance with the vesting periods of the options.

As of October 1, 2005, the fair value of each option grant is estimated on the date of grant using a binomial lattice valuation model. The following table indicates the assumptions used in estimating fair value for the nine-month periods ended June 30, 2007 and 2006.

	June 30,	
	2007	2006
Expected volatility	24.0%	24.0%
Dividend yield	.6%	.6%
Average risk free interest rate	4.7%	4.4%
Average expected term (years)	6.3	5.5

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

In the first quarter of fiscal 2007, 15,209 shares of restricted stock were granted to certain employees. The shares generally vest based upon certain service and performance criteria. At June 30, 2007, 14,284 shares of restricted stock were outstanding. The unrecognized compensation cost related to the unvested shares was approximately $341 at June 30, 2007.

Under the Company’s Director Fee Plan, directors who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to $30. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. Directors may also elect to receive the common stock equivalent of meeting fees credited to a deferred stock account. The value of deferred shares is recorded in other liabilities. A total of 48,697 shares had been deferred under the Director Fee Plan at June 30, 2007. Directors who are not also officers of the Company each received an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of $50 in fiscal 2007 and $40 in fiscal 2006. A total of 22,300 stock options have been granted under the plan. At June 30, 2007, 21,300 options were outstanding, of which 16,500 are vested. Additionally, 13,200 shares of restricted stock have been granted under the plan, all of which are unvested at June 30, 2007. A total of 500,000 shares have been authorized to be issued under the Director Fee Plan.

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

Note 4. Income Taxes

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

Note 5. Earnings Per Share

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Nine Months Ended June 30, 2007	Nine Months Ended June 30, 2006
Net income	$ 12,029	$ 17,706	$ 44,501	$ 47,465
Weighted-average common shares outstanding	31,649,972	32,110,431	31,690,309	32,076,674
Dilutive securities, primarily stock options	65,618	184,699	163,328	255,494
Diluted weighted-average common shares outstanding	31,715,590	32,295,130	31,853,637	32,332,168
Basic earnings per share	$.38	$.55	$1.40	$1.48
Diluted earnings per share	$.38	$.55	$1.40	$1.47

Note 6. Comprehensive Income

Comprehensive income consists of net income adjusted for changes, net of the related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and minimum pension liability. For the three-months ended June 30, 2007 and 2006, comprehensive income was $14,685 and $24,367, respectively. For the nine-months ended June 30, 2007 and 2006, comprehensive income was $53,490 and $53,673, respectively.

Note 7. Inventories:

Inventories consisted of the following:

	June 30, 2007	September 30, 2006
Materials and finished goods	$ 84,908	$ 79,715
Labor and overhead in process	8,202	5,700
	$ 93,110	$ 85,415

8

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

Note 8. Segment Information

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

Information about the Company's segments follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Sales to external customers:				
Memorialization:				
Bronze	$ 61,738	$ 57,365	$ 168,325	$ 159,187
Casket	49,262	49,790	161,930	153,188
Cremation	6,212	6,907	19,507	19,289
	117,212	114,062	349,762	331,664
Brand Solutions:				
Graphics Imaging	36,725	35,919	107,366	103,467
Marking Products	14,149	13,130	41,926	38,418
Merchandising Solutions	17,391	18,693	64,826	59,432
	68,265	67,742	214,118	201,317
	$ 185,477	$ 181,804	$ 563,880	$ 532,981
Operating profit:				
Memorialization:				
Bronze	$ 19,093	$ 17,032	$ 46,618	$ 43,983
Casket	(3,820)	5,100	7,668	15,597
Cremation	970	1,019	2,961	2,707
	16,243	23,151	57,247	62,287
Brand Solutions:				
Graphics Imaging	2,540	3,938	8,065	11,556
Marking Products	2,375	2,240	6,844	6,596
Merchandising Solutions	(29)	1,194	4,802	1,563
	4,886	7,372	19,711	19,715
	$ 21,129	$ 30,523	$ 76,958	$ 82,002

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

Note 9. Debt

The Company has a Revolving Credit Facility with a syndicate of financial institutions. On June 30, 2007, the maximum amount of borrowings available under the facility was $175,000. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company’s leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company’s leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $10,000) is available for the issuance of trade and standby letters of credit. As of June 30, 2007 outstanding borrowings on the Revolving Credit Facility were $141,667. The weighted-average interest rate on outstanding borrowings at June 30, 2007 and 2006 was 5.24% and 4.94%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of $50,000. The interest rate was fixed at 2.66% plus a factor based on the Company’s leverage ratio (the factor was .50% at June 30, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company’s assessment, all of the critical terms of the hedge matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered effective. Equal quarterly principal payments of $2,500 plus interest are due on this $50,000 borrowing until its maturity in April 2009.

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

The fair value of the interest rate swaps reflected an unrealized gain of $918 ($560 after tax) at June 30, 2007 that is included in shareholders’ equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2007, approximately $306 of the $560 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

The Company, through its wholly-owned subsidiary, Matthews International GmbH (“MIGmbH”), has a credit facility with a bank for borrowings up to 10.0 million Euros. At June 30, 2007, outstanding borrowings under the credit facility totaled 6.5 million Euros ($8,798). The weighted-average interest rate on outstanding borrowings of MIGmbH at June 30, 2007 and 2006 was 4.2% and 3.35%, respectively.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 5.3 million Euros ($7,168) at June 30, 2007. Caggiati S.p.A.

also has three lines of credit totaling 8.4 million Euros ($11,329) with the same Italian banks. Outstanding borrowings on these lines were 1.2 million Euros ($1,633) at June 30, 2007. The weighted-average interest rate on outstanding borrowings of Caggiati S.p.A. at June 30, 2007 and 2006 was 3.26% and 3.16%, respectively.

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

Note 10. Pension and Other Postretirement Benefit Plans

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

	Pension		Other Postretirement	
Three months ended June 30,	2007	2006	2007	2006
Service cost	$ 1,003	$ 1,082	$ 133	$ 158
Interest cost	1,640	1,481	297	307
Expected return on plan assets	(1,612)	(1,708)	-	-
Amortization:				
Prior service cost	3	(4)	(322)	(322)
Net actuarial loss	385	436	72	161
Net benefit cost	1,419	1,287	$ 180	$ 304

	Pension		Other Postretirement	
Nine months ended June 30,	2007	2006	2007	2006
Service cost	$ 3,009	$ 3,246	$ 399	$ 474
Interest cost	4,920	4,443	891	921
Expected return on plan assets	(4,836)	(5,124)	-	-
Amortization:				
Prior service cost	9	(12)	(966)	(966)
Net actuarial loss	1,155	1,308	216	483
Net benefit cost	$ 4,257	$ 3,861	$ 540	$ 912

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating funds. Under IRS regulations, the Company is not required to make any significant contributions to its principal retirement plan in fiscal 2007. In June 2007, the Company made a $5,000 contribution to its principal retirement plan. For the nine months ended June 30, 2007, contributions of $239 and $865 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional $261 and $290 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2007.

Note 11. Acquisitions

Acquisition spending, net of cash acquired, during the nine months ended June 30, 2007 totaled $11,851, and primarily included the following:

In June 2007, the Company acquired a 60% interest in Beijing Kenuohua Electronic Technology Co., Ltd. ("Kenuohua"), a marking products manufacturer, located in Beijing, China. The acquisition was structured as a stock purchase. The excess of purchase price over the fair market value of net assets acquired was allocated to goodwill. The acquisition was intended to expand Matthews' marking products manufacturing and distribution capabilities in Asia.

In December 2006, the Company paid additional purchase consideration under the terms of the Milso Industries acquisition agreement.

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

Note 11. Acquisitions (continued)

Acquisition spending, net of cash acquired, during the nine months ended June 30, 2006 totaled $29,946, and primarily included the following:

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

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

In October 2005, the Company paid for the acquisition of an additional 30% interest in S+T Gesellschaft fur Reprotechnik GmbH.

Note 12. Goodwill and Other Intangible Assets

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

Changes to goodwill, net of accumulated amortization, for the nine months ended June 30, 2007, were as follows.

	Bronze	Casket	Cremation	Graphics Imaging	Marking Products	Merchandising Solutions	Consolidated
Balance at September 30, 2006	$ 74,178	$ 115,982	$ 6,536	$ 86,269	$ 5,213	$ 9,947	$ 298,125
Additions during period	-	885	-	885	3,744	-	5,514
Translation and other adjustments	1,783	-	-	5,062	-	-	6,845
Balance at June 30, 2007	$ 75,961	$ 116,867	$ 6,536	$ 92,216	$ 8,957	$ 9,947	$ 310,484

The additions to Graphics Imaging goodwill relate to additional consideration paid in accordance with the purchase agreement related to a European Graphics business. The additions to Casket goodwill relate primarily to additional consideration paid in accordance with the acquisition of Royal. The addition to Marking Products goodwill related to the purchase of a 60% interest in Kenuohua.

12

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

Note 12. Goodwill and Other Intangible Assets (continued)

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

	Carrying Amount	Accumulated Amortization	Net
June 30, 2007:			
Trade names	$ 24,524	$ -*	$ 24,524
Customer relationships	21,052	(3,633)	17,419
Copyrights/patents/other	6,765	(3,264)	3,501
	$ 52,341	$ (6,897)	$ 45,444
September 30, 2006:			
Trade names	$ 24,003	$ -*	$ 24,003
Customer relationships	20,900	(2,714)	18,186
Copyrights/patents/other	5,322	(2,546)	2,776
	$ 50,225	$ (5,260)	$ 44,965

* Not subject to amortization

The increase in intangible assets during the nine-months ended June 30, 2007 was due to the addition of intellectual property in the Bronze and Marking Products segments and the impact of fluctuations in foreign currency exchange rates on intangible assets denominated in foreign currencies, offset by additional amortization.

Amortization expense on intangible assets was $554 and $545 for the three-month periods ended June 30, 2007 and 2006, respectively. For the nine-month periods ended June 30, 2007 and 2006, amortization expense was $1,490 and $1,635, respectively. Amortization expense is estimated to be $2,022 in 2007, $2,233 in 2008, $2,170 in 2009, $1,931 in 2010 and $1,899 in 2011.

Note 13. Subsequent Event

On July 20, 2007, the Company's wholly-owned subsidiary, The York Group, Inc.("York"), reached a settlement agreement with Yorktowne Caskets, Inc. and its shareholders ("Yorktowne") with respect to all outstanding litigation between the parties. In exchange for the mutual release, the principal terms of the settlement included the assignment by Yorktowne of certain customer-related contracts to York and the purchase by York of certain assets, including York-product inventory, of Yorktowne. The purchase price for the assets was $7,700, plus the value of inventory acquired.

Note 14. Accounting Pronouncements

In June 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." In May 2007, the FASB issued FSP FIN 48-1 which provides additional guidance to FIN 48. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption will be reported as an adjustment to beginning retained earnings in the period of adoption. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of the adoption of FIN 48.

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

Note 14. Accounting Pronouncements (continued)

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

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

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

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

Cautionary Statement:

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation and related notes thereto included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended September 30, 2006. Any forward-looking statements contained herein are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company’s products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, 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 single customer that would be considered individually significant to consolidated sales, the potential loss of one or more of the Company’s larger customers is also considered a risk factor.

Results of Operations:

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

	Nine months ended June 30,		Years ended September 30,	
	2007	2006	2006	2005
Sales	100.0%	100.0%	100.0%	100.0%
Gross profit	37.0%	37.2%	38.0%	34.9%
Operating profit	13.6%	15.4%	15.9%	15.4%
Income before taxes	12.6%	14.3%	14.7%	14.5%
Net income	7.9%	8.9%	9.3%	9.1%

Results of Operations:

Sales for the nine months ended June 30, 2007 were $563.9 million, compared to $533.0 million for the nine months ended June 30, 2006. The increase reflected higher sales in all of the Company’s six segments, and included the effect of higher foreign currency values against the U.S. dollar. For the nine months ended June 30, 2007, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately $9.7 million on the Company’s consolidated sales compared to the nine months ended June 30, 2006.

In the Memorialization businesses, Bronze segment sales for the first nine months of fiscal 2007 were $168.3 million compared to $159.2 million for the first nine months of fiscal 2006. The increase primarily reflected higher selling prices and increases in the value of foreign currencies against the U.S. dollar. The higher selling prices were generally related to increases in the cost of bronze ingot. Sales for the Casket segment were $161.9 million for the first nine months of fiscal 2007 compared to $153.2 million for the same period in fiscal 2006. The increase primarily reflected the segment's transition to Company-owned distribution and higher selling prices. Casket sales for the third quarter of fiscal 2007 were impacted by the expiration of the distributor agreement with the segment's largest independent distributor in April 2007. Sales for the Cremation segment were $19.5 million for the first nine months of fiscal 2007 compared to $19.3 million for the same period a year ago. The increase primarily reflected higher sales of cremation caskets. The timing of delivery of several cremation equipment units impacted the segment's third quarter 2007 sales. In the Company's Brand Solutions businesses, sales for the Graphics Imaging segment in the first nine months of fiscal 2007 were $107.4 million, compared to $103.5 million for the same period a year ago. The increase primarily reflected an increase in the value of foreign currencies against the U.S. dollar and higher sales in the German markets, partially offset by lower sales in the U.S. and U.K. markets. Marking Products segment sales for the nine months ended June 30, 2007 were $41.9 million, compared to $38.4 million for the first nine months of fiscal 2006. The increase primarily reflected higher domestic and international sales volume, the acquisition of an interest in a small manufacturing operation in June 2007 and an increase in the value of foreign currencies against the U.S. dollar. Sales for the Merchandising Solutions segment were $64.8 million for the first nine months of fiscal 2007, compared to $59.4 million for the same period a year ago. The increase is attributable to a significant project completed in the second quarter for one of the segment's customers. Third quarter sales in fiscal 2007 were $17.4 million, compared to $18.7 million in fiscal 2006, reflecting weak market conditions during the quarter.

Gross profit for the nine months ended June 30, 2007 was $208.6 million, compared to $198.4 million for the nine months ended June 30, 2006. The increase in consolidated gross profit primarily reflected the impact of higher sales, higher foreign currency values against the U.S. dollar, productivity improvements in the Casket segment's manufacturing facility in Mexico, and other manufacturing and cost reduction initiatives. These gains were partially offset by the impact of lower sales in the U.S. and U.K. graphics markets, the higher cost of bronze ingot in fiscal 2007 compared to fiscal 2006 and the impact of a portion of special charges incurred by several of the Company's segments. Consolidated gross profit as of percent of sales decreased from 37.2% for the first nine months of fiscal 2006 to 37.0% for the first nine months of fiscal 2007, principally resulting from the impact of the special charges.

Selling and administrative expenses for the nine months ended June 30, 2007 were $131.6 million, compared to $116.4 million for the first nine months of fiscal 2006. Consolidated selling and administrative expenses as a percent of sales were 23.3% for the nine months ended June 30, 2007, compared to 21.8% for the same period last year. The increases in costs and percentage of sales primarily resulted from the expansion of the Casket segment's distribution capabilities and special charges incurred in several of the Company's segments, the most significant of which was a Casket segment charge related to the acceleration of earn-out payments in the resolution of employment agreements from the fiscal 2005 acquisition of Milso Industries ("Milso").

Operating profit for the nine months ended June 30, 2007 was $77.0 million, compared to $82.0 million for the nine months ended June 30, 2006. Operating profit reflected the positive impact of higher sales, increases in the values of foreign currencies against the U.S. dollar, and productivity improvements and cost reduction initiatives in several of the Company's segments. However, these increases were offset by the impact of special charges of approximately $12.9 million during the first nine months of fiscal 2007. The most significant portion of these charges related to the acceleration of earn-out payments in the resolution of employment agreements from the Milso acquisition. Bronze segment operating profit for the first nine months of fiscal 2007 was $46.6 million, compared to $44.0 million for the same period in fiscal 2006. The increase reflected the impact of higher sales and an increase in the value of foreign currencies against the U.S. dollar. Operating profit for the Casket segment for the first nine months of fiscal 2007 was $7.7 million, compared to $15.6 million for the first nine months of fiscal 2006. Casket segment operating profit for the nine months ended June 30, 2007 reflected special charges of approximately $10.0 million, including costs related to the resolution of employment agreements from the Milso acquisition and severance costs related to cost reduction initiatives in certain operations. Total special charges for the segment were approximately $8.4 million for the fiscal 2007 third quarter. In addition, the segment's results reflected additional selling and administrative costs related to the expansion of the segment's distribution capabilities in certain territories. The decrease was mitigated by the impact of manufacturing improvements in the segment's manufacturing facility in Mexico. Cremation segment operating profit for the nine months ended June 30, 2007 was $3.0 million, compared to $2.7 million for the same period a year ago. The increase primarily reflected the impact of higher sales and improved margins. The Graphics Imaging segment operating profit for the nine months ended June 30, 2007 was $8.1 million, compared to $11.6 million for the nine months ended June 30, 2006. The decrease primarily reflected the impact of lower sales in the U.S. and U.K. markets, special charges (principally severance) of approximately $2.2 million related to cost reduction initiatives in the segment's U.S. and U.K. operations, partially offset by higher sales in the German markets and the increase in foreign currency values against the U.S. dollar. Operating profit for the Marking Products segment for the first nine months of fiscal 2007 was $6.8 million, compared to $6.6 million for the same period a year ago. The increase primarily reflected the impact of higher sales and the acquisition made in June 2007, partially offset by higher overhead costs during fiscal 2007. The Merchandising Solutions segment operating profit was $4.8 million for the nine months ended June 30, 2007, compared to $1.6 million for the same period in fiscal 2006. The increase primarily reflected the effects of the segment’s facilities consolidation program and the impact of higher sales attributable to a significant project completed in the second quarter for one of the segment’s customers. The Merchandising Solutions segment operated at approximately a breakeven level during the third fiscal quarter of 2007 compared to an operating profit of $1.2 million for the comparable period in fiscal 2006. The decline principally reflected lower sales during the fiscal 2007 quarter and special charges incurred in connection with the segment’s cost reduction activities. For the nine months ended June 30, 2007, changes in foreign currency values against the U.S. dollar had a favorable impact of approximately $1.6 million on the Company’s consolidated operating profit compared to the nine months ended June 30, 2006.

Investment income for the nine months ended June 30, 2007 was $1.7 million, compared to $937,000 for the nine months ended June 30, 2006. The increase reflected higher average levels of invested funds and higher rates of return. Interest expense for the first nine months of fiscal 2007 was $5.8 million, compared to $4.9 million for the same period last year. The increase in interest expense primarily reflected a higher average level of debt and higher average interest rates during the fiscal 2007 nine-month period compared to the same period in fiscal 2006.

Other income, net, for the nine months ended June 30, 2007 represented an increase in pre-tax income of $298,000, compared to an increase in pre-tax income of $79,000 for the same period last year. Minority interest deduction was $1.8 million for the first nine months of fiscal 2007, compared to $2.0 million for the same period in fiscal 2006. The reduction reflected the Company’s purchase of the remaining ownership interest in one of its less than wholly-owned German subsidiaries in September 2006.

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

Goodwill:

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

Liquidity and Capital Resources:

Net cash provided by operating activities was $42.5 million for the nine months ended June 30, 2007, compared to $34.6 million for the first nine months of fiscal 2006. Operating cash flow for both periods primarily reflected net income adjusted for non-cash charges (depreciation, amortization, stock-based compensation expense and an increase in minority interest), partially offset by working capital changes. Working capital changes during both periods reflected an increase in inventory resulting from the expansion of the Company’s casket distribution capabilities.

Cash used in investing activities was $23.0 million for the nine months ended June 30, 2007, compared to $41.9 million for the nine months ended June 30, 2006. Investing activities for the first nine months of fiscal 2007 primarily included capital expenditures of $14.2 million, acquisition-related payments of $11.9 million, purchases of investments of $1.1 million and proceeds from the disposal of assets of $3.9 million. Investing activities for the first nine months of fiscal 2006 primarily included capital expenditures of $12.0 million and acquisition-related payments of $29.9 million.

Capital expenditures reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged $19.3 million for the last three fiscal years. The capital budget for fiscal 2007 is $27.1 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash used in financing activities for the nine months ended June 30, 2007 was $13.6 million, reflecting net borrowings of long-term debt of $9.9 million, purchases of treasury stock of $36.7 million, proceeds of $16.1 million from the sale of treasury stock (stock option exercises), a tax benefit of $3.8 million from exercised stock options, payment of dividends of $5.2 million to the Company's shareholders and distributions of $1.4 million to minority interests. Cash provided by financing activities for the nine months ended June 30, 2006 was $3.5 million, reflecting net borrowings of long-term debt of $11.0 million, proceeds of $1.9 million from the sale of treasury stock (stock option exercises), a tax benefit of $580,000 from exercised stock options, treasury stock purchases of $877,000, payment of dividends of $4.8 million to the Company's shareholders and distributions of $4.3 million to minority interests.

The Company has a Revolving Credit Facility with a syndicate of financial institutions. On June 30, 2007, the maximum amount of borrowings available under the facility was $175,000. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $10.0 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at June 30, 2007 were $141.7 million. The weighted-average interest rate on outstanding borrowings at June 30, 2007 and 2006 was 5.24% and 4.94%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of $50.0 million. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at June 30, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered highly effective. Equal quarterly principal payments of $2.5 million plus interest are due on this $50.0 million borrowing until its maturity in April 2009.

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

The fair value of the interest rate swaps reflected an unrealized gain of $918,000 ($560,000 after tax) at June 30, 2007 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at June 30, 2007, approximately $306,000 of the $560,000 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

The Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), has a credit facility with a bank for borrowings up to 10.0 million Euros. At June 30, 2007, outstanding borrowings under the credit facility totaled 6.5 million Euros ($8.8 million). The weighted-average interest rate on outstanding MIGmbH related borrowings at June 30, 2007 and 2006 was 4.20% and 3.35%, respectively.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 5.3 million Euros ($7.2 million) at June 30, 2007. Caggiati S.p.A. also has three lines of credit totaling approximately 8.4 million Euros ($11.3 million) with the same Italian banks. Outstanding borrowings on

18

these lines were 1.2 million Euros ($1.6 million) at June 30, 2007. The weighted-average interest rate on outstanding borrowings of Caggiati S.p.A. at June 30, 2007 and 2006 was 3.26% and 3.16%, respectively.

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors has authorized the repurchase of a total of 12,500,000 shares (adjusted for stock splits) of Matthews common stock, of which 10,049,197 shares have been repurchased as of June 30, 2007. On April 20, 2007, the Company announced that its Board of Directors authorized the continuance of the repurchase program and increased the total authorization for stock repurchase from 10,000,000 shares to 12,500,000 shares. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Articles of Incorporation.

Consolidated working capital of the Company was $138.3 million at June 30, 2007, compared to $105.6 million at September 30, 2006. Cash and cash equivalents were $37.0 million at June 30, 2007, compared to $29.7 million at September 30, 2006. The Company's current ratio was 2.1 at June 30, 2007, compared to 1.8 at September 30, 2006.

Environmental Matters:

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

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

At June 30, 2007, an accrual of $9.3 million was recorded for environmental remediation (of which $925,000 has been classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

Acquisitions:

Acquisition spending, net of cash acquired, during the nine months ended June 30, 2007 totaled $11,851, and primarily included the following:

In June 2007, the Company acquired a 60% interest in Beijing Kenuohua Electronic Technology Co., Ltd., a marking products manufacturer, located in Beijing, China. The acquisition was structured as a stock purchase. The excess of purchase price over the fair market value of net assets acquired was allocated to goodwill. The acquisition was intended to expand Matthews' marking products manufacturing and distribution capabilities in Asia.

In December 2006, the Company paid additional purchase consideration under the terms of the Milso Industries acquisition agreement.

Acquisition spending, net of cash acquired, during the nine months ended June 30, 2006 totaled $29,946, and primarily included the following:

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

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

In October 2005, the Company paid for the acquisition of an additional 30% interest in S+T Gesellschaft fur Reprotechnik GmbH.

Forward-Looking Information:

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

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

Based on the Company's growth strategy and factors discussed above, the Company currently expects to achieve diluted earnings per share in the range of $0.55 to $0.58 in the fiscal 2007 fourth quarter. For fiscal 2008, the Company's current estimates project growth within the long-term objective of 12% to 15%. These expectations do not include the impact of any unusual items, if any.

Critical Accounting Policies:

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

A summary of the Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2006. Management believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the company's operating results and financial condition.

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company's contractual obligations at June 30, 2007, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

	Payments due in fiscal year:				
	Total	2007 Remainder	2008 to 2009	2010 to 2011	After 2011
Contractual Cash Obligations:	(Dollar amounts in thousands)				
Revolving credit facilities	$ 150,464	$ 5,833	$ 144,631	$ -	$ -
Notes payable to banks	7,168	334	2,775	1,951	2,108
Short-term borrowings	1,658	1,658	-	-	-
Capital lease obligations	943	208	717	18	-
Non-cancelable operating leases	29,464	2,383	13,124	7,899	6,058
Total contractual cash obligations	$ 189,697	$ 10,416	$ 161,247	$ 9,868	$ 8,166

A significant portion of the loans included in the table above bear interest at variable rates. At June 30, 2007, the weighted-average interest rate was 5.24% on the Company's domestic Revolving Credit Facility, 4.2% on the credit facility through the Company's wholly-owned German subsidiary, and 3.26% on bank loans to the Company's wholly-owned subsidiary, Caggiati S.p.A.

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. In June 2007, the Company made a $5.0 million contribution to its principal retirement plan. For the nine months ended June 30, 2007, contributions of $239,000 and $865,000 have been made under the supplemental retirement plan and postretirement plan, respectively. The Company currently anticipates contributing an additional $261,000 and $290,000 under the supplemental retirement plan and postretirement plan, respectively, for the remainder of fiscal 2007.

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

Accounting Pronouncements:

In June 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." In May 2007, the FASB issued FSP FIN 48-1 which provides additional guidance to FIN 48. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption will be reported as an adjustment to beginning retained earnings in the period of adoption. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of the adoption of FIN 48.

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

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rates - The Company's most significant long-term debt instrument is the domestic Revolving Credit Facility which bears interest at variable rates based on LIBOR. In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of $50.0 million ($20.0 million outstanding at June 30, 2007). The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at June 30, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Effective September 30, 2005, the Company entered into an additional interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on the additional borrowings in an initial amount of $50.0 million ($26.7 million outstanding at June 30, 2007). The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at June 30, 2007). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. The fair value of the interest rate swaps reflected an unrealized gain of $918,000 ($560,000 after tax) at June 30, 2007, that is included in equity as part of accumulated other comprehensive income. A decrease of 10% in market interest rates (i.e. a decrease from 5.0% to 4.5%) would result in a decrease of approximately $172,000 in the fair value of the interest rate swaps.

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

Foreign Currency Exchange Rates - The Company is subject to changes in various foreign currency exchange rates, including the Euro, British Pound, Canadian Dollar, Australian Dollar, Swedish Krona and Chinese Yuan in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of $13.5 million and a decrease in operating income of $1.8 million for the nine months ended June 30, 2007.

Item 4. Controls and Procedures

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

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

23

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

On May 30, 2007, York resolved the legal claim filed by Harry Pontone and Scott Pontone (the “Pontones”) concerning their employment agreements. Under the resolution, York agreed to accelerate the timing of scheduled payments totaling $8,000,000 as originally contemplated at the time of the acquisition of Milso Industries and consistent with the earn-out provisions of the Pontones’ employment agreements.

On July 20, 2007, York reached a settlement agreement with Yorktowne Caskets, Inc. (“Yorktowne”) and its shareholders finally resolving all outstanding litigation between the parties. In exchange for the mutual releases, the principal terms of the settlement included the assignment by Yorktowne of certain customer-related contracts to York and the purchase by York of certain assets, including York-product inventory, of Yorktowne. The purchase price for the assets was $7.7 million, plus the value of the inventory.

On July 30, 2007, Batesville Casket Company, Inc. (“Batesville”) filed a complaint for damages and injunctive relief in the United States District Court for the Southern District of Ohio against York alleging, in part, that York’s settlement with Yorktowne resulted in the commission of the tort of intentional interference of Batesville’s supply agreement with Yorktowne dated April 15, 2007 (the “Complaint”). The Company intends to vigorously defend against the allegations set forth in the pending Complaint and the Company does not presently believe that the ultimate resolution of this matter will have a material adverse impact on the Company’s financial position or results of operations.

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

Stock Repurchase Plan

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors had authorized the repurchase of a total of 12,500,000 shares (adjusted for stock splits) of Matthews common stock, of which 10,049,197 shares have been repurchased as of June 30, 2007. All purchases of the Company's common stock during the first nine months of fiscal 2007 were part of the repurchase program.

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan (1)
October 2006	-	-	-	864,854
November 2006	60,000	$ 38.00	60,000	804,854
December 2006	-	-	-	804,854
January 2007	11,500	39.64	11,500	793,354
February 2007	8,300	40.30	8,300	785,054
March 2007	271,900	39.54	271,900	513,154
April 2007	130,000	41.95	130,000	2,883,154
May 2007	335,604	43.22	335,604	2,547,550
June 2007	96,747	43.28	96,747	2,450,803
Total	914,051	$ 41.54	914,051	

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

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

None

25

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On April 19, 2007, Matthews filed a Current Report on Form 8-K under Item 2.02 in connection with a press release announcing its earnings for the second fiscal quarter of 2007.

On April 20, 2007, Matthews filed a Current Report on Form 8-K under Item 8.01 in connection with a press release announcing that its Board of Directors approved the continuation of the stock repurchase program and increased the total authorization for stock repurchases by an additional 2.5 million shares.

On May 30, 2007, Matthews filed a Current Report on Form 8-K under Item 7.01 in connection with a press release announcing the resolution of a legal claim filed by Harry and Scott Pontone concerning their employment agreements.

SIGNATURES

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

MATTHEWS INTERNATIONAL CORPORATION
(Registrant)

Date: August 6, 2007	/s/ Joseph C. Bartolacci Joseph C. Bartolacci, President and Chief Executive Officer
Date: August 6, 2007	/s/ Steven F. Nicola Steven F. Nicola, Chief Financial Officer, Secretary and Treasurer

27