

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

August 07, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-Q**

**þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2009**

**or**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-6402-1**

**SERVICE CORPORATION INTERNATIONAL**

**(Exact name of registrant as specified in its charter)**

**Texas**

**(State or other jurisdiction of incorporation or  
organization)**

**74-1488375**

**(I. R. S. employer identification number)**

**1929 Allen Parkway, Houston, Texas**

**(Address of principal executive offices)**

**77019**

**(Zip code)**

**713-522-5141**

**(Registrant's telephone number, including area code)**

**None**

**(Former name, former address, or former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated  
filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

**(Do not check if a smaller reporting company)**

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The number of shares outstanding of the registrant's common stock as of August 5, 2009 was 251,004,884 (net of treasury shares).



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**GLOSSARY**

The following terms are common to the deathcare industry, are used throughout this report, and have the following meanings:

**Atneed** Funeral and cemetery arrangements after a death has occurred.

**Burial Vaults** A reinforced container intended to house and protect the casket before it is placed in the ground.

**Cemetery Perpetual Care or Endowment Care Fund** A trust fund established for the purpose of maintaining cemetery grounds and property into perpetuity.

**Cremation** The reduction of human remains to bone fragments by intense heat.

**General Agency (GA) Revenues** Commissions we receive from third-party life insurance companies for life insurance policies or annuities sold to preneed customers for the purpose of funding preneed funeral arrangements. The commission rate paid is determined based on the product type sold, the length of payment terms, and the age of the insured/annuitant.

**Interment** The burial or final placement of human remains in the ground.

**Lawn Crypt** An underground outer burial receptacle constructed of concrete and reinforced steel, which is usually pre-installed in predetermined designated areas.

**Marker** A method of identifying a deceased person in a particular burial space, crypt, or niche. Permanent burial markers are usually made of bronze, granite, or stone.

**Maturity** When the underlying contracted service is performed or merchandise is delivered, typically at death. This is the point at which preneed contracts are converted to atneed contracts (note delivery of certain merchandise and services can occur prior to death).

**Mausoleum** An above ground structure that is designed to house caskets and cremation urns.

**Preneed** Purchase of products and services prior to use.

**Preneed Backlog** Future revenues from unfulfilled preneed funeral and cemetery contractual arrangements.

**Production** Sales of preneed funeral and preneed or atneed cemetery contracts.

As used herein, SCI, Company, we, our, and us refer to Service Corporation International and companies owned directly or indirectly by Service Corporation International, unless the context requires otherwise.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**SERVICE CORPORATION INTERNATIONAL**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**(UNAUDITED)**

**(In thousands, except per share amounts)**

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |              |
|---|--|-------------|--------------------------------------|--------------|
|   | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b>  |
| Revenues  | \$ 513,949                             | \$ 548,782  | \$ 1,024,544                         | \$ 1,122,233 |
| Costs and expenses  | (412,124)                              | (441,621)   | (822,599)                            | (877,475)    |
| Gross profit  | 101,825                                | 107,161     | 201,945                              | 244,758      |
| General and administrative expenses   | (26,466)                               | (21,655)    | (48,252)                             | (46,730)     |
| (Loss) gain on divestitures and impairment charges, net   | (6,289)                                | (3,858)     | 941                                  | (15,904)     |
| Other operating income, net   |  | 1,691       |                                      | 585          |
| Operating income  | 69,070                                 | 83,339      | 154,634                              | 182,709      |
| Interest expense  | (32,386)                               | (33,311)    | (64,056)                             | (67,380)     |
| Gain on early extinguishment of debt  | 1,830                                  |             | 3,440                                |              |
| Interest income   | 585                                    | 1,454       | 1,288                                | 3,374        |
| Other income (expense), net   | 803                                    | 687         | (743)                                | (61)         |
| Income from continuing operations before income taxes   | 39,902                                 | 52,169      | 94,563                               | 118,642      |
| Provision for income taxes  | (16,322)                               | (20,395)    | (36,603)                             | (45,364)     |
| Income from continuing operations   | 23,580                                 | 31,774      | 57,960                               | 73,278       |
| Loss from discontinued operations (net of income tax benefit of \$0, \$195, \$0, and \$195, respectively) |  | (377)       |                                      | (362)        |
| Net income  | 23,580                                 | 31,397      | 57,960                               | 72,916       |
| Net income attributable to noncontrolling interests   | (476)                                  |             | (326)                                |              |
| Net income attributable to common stockholders  | \$ 23,104                              | \$ 31,397   | \$ 57,634                            | \$ 72,916    |
| Basic earnings per share:   |  |             |                                      |              |
| Income from continuing operations attributable to common stockholders                                     | \$ .09                                 | \$ .12      | \$ .23                               | \$ .28       |
| Net income attributable to common stockholders  | \$ .09                                 | \$ .12      | \$ .23                               | \$ .28       |
| Diluted earnings per share:   |  |             |                                      |              |
| Income from continuing operations attributable to common stockholders                                     | \$ .09                                 | \$ .12      | \$ .23                               | \$ .28       |
| Net income attributable to common stockholders  | \$ .09                                 | \$ .12      | \$ .23                               | \$ .28       |
| Basic weighted average number of shares   | 250,977                                | 259,655     | 250,461                              | 260,565      |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Diluted weighted average number of shares | 251,130 | 263,132 | 250,672 | 264,228 |
| Dividends declared per share              | \$ .04  | \$ .04  | \$ .08  | \$ .08  |

(See notes to unaudited condensed consolidated financial statements)

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**SERVICE CORPORATION INTERNATIONAL**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**(UNAUDITED)**

(In thousands, except share amounts)

|  | June 30,<br>2009 | December 31,<br>2008 |
|--|------------------|----------------------|
| <b>Assets</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents                                    | \$ 170,389       | \$ 128,397           |
| Receivables, net   | 74,949           | 96,145               |
| Inventories  | 31,111           | 31,603               |
| Deferred tax asset   | 79,571           | 79,571               |
| Current assets held for sale                                 | 1,397            | 1,279                |
| Other  | 29,955           | 18,515               |
| Total current assets   | 387,372          | 355,510              |
| Preneed funeral receivables, net and trust investments       | 1,250,633        | 1,191,692            |
| Preneed cemetery receivables, net and trust investments      | 1,186,044        | 1,062,952            |
| Cemetery property, at cost                                   | 1,457,823        | 1,458,981            |
| Property and equipment, net                                  | 1,549,955        | 1,567,875            |
| Non-current assets held for sale                             | 100,375          | 97,512               |
| Goodwill   | 1,171,695        | 1,178,969            |
| Deferred charges and other assets                            | 363,294          | 452,634              |
| Cemetery perpetual care trust investments                    | 767,740          | 744,758              |
|  | \$ 8,234,931     | \$ 8,110,883         |
| <b>Liabilities &amp; Stockholders Equity</b>                 |                  |                      |
| Current liabilities:   |                  |                      |
| Accounts payable and accrued liabilities                     | \$ 288,823       | \$ 294,859           |
| Current maturities of long-term debt                         | 27,971           | 27,104               |
| Current liabilities held for sale                            | 659              | 465                  |
| Income taxes   | 2,092            | 4,354                |
| Total current liabilities                                    | 319,545          | 326,782              |
| Long-term debt   | 1,727,092        | 1,821,404            |
| Deferred preneed funeral revenues                            | 594,679          | 588,198              |
| Deferred preneed cemetery revenues                           | 811,496          | 771,117              |
| Deferred income taxes  | 319,374          | 288,677              |
| Non-current liabilities held for sale                        | 76,397           | 75,537               |
| Other liabilities  | 321,704          | 356,090              |
| Deferred preneed funeral and cemetery receipts held in trust | 1,936,470        | 1,817,665            |
| Care trusts corpus   | 767,981          | 772,234              |
| Commitments and contingencies (Note 15)                      |                  |                      |
| Stockholders equity:   |                  |                      |



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|  |              |              |
|--|--------------|--------------|
| Common stock, \$1 per share par value, 500,000,000 shares authorized,<br>251,414,517, and 249,953,075 shares issued, respectively, 251,004,884<br>and 249,472,075 shares outstanding, respectively | 251,005      | 249,472      |
| Capital in excess of par value   | 1,720,182    | 1,733,814    |
| Accumulated deficit  | (669,122)    | (726,756)    |
| Accumulated other comprehensive income   | 57,907       | 36,649       |
| Total common stockholders' equity  | 1,359,972    | 1,293,179    |
| Noncontrolling interests   | 221          |              |
| Total stockholders' equity   | 1,360,193    | 1,293,179    |
|  | \$ 8,234,931 | \$ 8,110,883 |

(See notes to unaudited condensed consolidated financial statements)

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**SERVICE CORPORATION INTERNATIONAL**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**  
**(In thousands)**

|  | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--------------------------------------|-------------|
|  | <b>2009</b>                          | <b>2008</b> |
| <b>Cash flows from operating activities:</b>   |                                      |             |
| Net income   | \$ 57,960                            | \$ 72,916   |
| Adjustments to reconcile net income to net cash provided by operating activities:    |                                      |             |
| Loss from discontinued operations  |                                      | 362         |
| Gain on early extinguishment of debt   | (3,440)                              |             |
| Depreciation and amortization  | 55,438                               | 55,675      |
| Amortization of intangible assets  | 10,855                               | 12,333      |
| Amortization of cemetery property  | 13,940                               | 16,526      |
| Amortization of loan costs   | 1,694                                | 1,863       |
| Provision for doubtful accounts  | 5,905                                | 3,915       |
| Provision for deferred income taxes  | 32,924                               | 28,079      |
| (Gain) loss on divestitures and impairment charges, net                              | (941)                                | 15,904      |
| Share-based compensation   | 5,168                                | 5,256       |
| Excess tax benefits from share-based awards  |                                      | (2,170)     |
| Change in assets and liabilities, net of effects from acquisitions and divestitures: |                                      |             |
| Decrease in receivables  | 12,642                               | 6,484       |
| Decrease (increase) in other assets  | 9,183                                | (10,069)    |
| Increase (decrease) in payables and other liabilities                                | 4,105                                | (128,320)   |
| Effect of preneed funeral production and maturities:                                 |                                      |             |
| Decrease in preneed funeral receivables, net and trust investments                   | 11,019                               | 15,098      |
| Increase in deferred preneed funeral revenue   | 4,752                                | 20,836      |
| Decrease in deferred preneed funeral receipts held in trust                          | (15,838)                             | (24,640)    |
| Effect of cemetery production and maturities:  |                                      |             |
| (Increase) decrease in preneed cemetery receivables, net and trust investments       | (5,369)                              | 24,206      |
| Increase in deferred preneed cemetery revenue  | 20,794                               | 20,421      |
| Decrease in deferred preneed cemetery receipts held in trust                         | (9,673)                              | (17,578)    |
| Other  |                                      | (585)       |
| Net cash provided by operating activities  | 211,118                              | 116,512     |
| <b>Cash flows from investing activities:</b>   |                                      |             |
| Capital expenditures   | (42,470)                             | (68,035)    |
| Proceeds from divestitures and sales of property and equipment, net                  | 14,788                               | 12,831      |
| Acquisitions   | (219)                                | (7,871)     |
| Net withdrawals (deposits) of restricted funds and other                             | 129                                  | (21,477)    |
| Net cash used in investing activities from continuing operations                     | (27,772)                             | (84,552)    |
| Net cash provided by investing activities from discontinued operations               |                                      | 858         |
| Net cash used in investing activities  | (27,772)                             | (83,694)    |
| <b>Cash flows from financing activities:</b>   |                                      |             |
| Proceeds from the issuance of long-term debt   |                                      | 72,000      |

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|   |            |            |
|---|------------|------------|
| Payments of debt  | (101,229)  | (54,367)   |
| Principal payments on capital leases                    | (13,045)   | (12,013)   |
| Purchase of Company common stock                        |            | (79,470)   |
| Proceeds from exercise of stock options                 | 2,363      | 3,596      |
| Excess tax benefits from share-based awards             |            | 2,170      |
| Payments of dividends                                   | (20,020)   | (20,879)   |
| Bank overdrafts and other                               | (13,394)   | (6,714)    |
| Net cash used in financing activities                   | (145,325)  | (95,677)   |
| Effect of foreign currency on cash and cash equivalents | 3,971      | (1,035)    |
| Net increase (decrease) in cash and cash equivalents    | 41,992     | (63,894)   |
| Cash and cash equivalents at beginning of period        | 128,397    | 168,594    |
| Cash and cash equivalents at end of period              | \$ 170,389 | \$ 104,700 |

(See notes to unaudited condensed consolidated financial statements)

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**SERVICE CORPORATION INTERNATIONAL**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**  
**(In thousands)**

|   | <b>Outstanding<br/>Shares</b> | <b>Common<br/>Stock</b> | <b>Capital in<br/>Excess of<br/>Par Value</b> | <b>Accumulated<br/>Deficit</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Noncontrolling<br/>Interests</b> | <b>Total</b> |
|---|-------------------------------|-------------------------|---|--------------------------------|---|-------------------------------------|--------------|
| Balance at<br>December 31,<br>2008                          | 249,472                       | \$ 249,472              | \$ 1,733,814                                  | \$ (726,756)                   | \$ 36,649   | \$                                  | \$ 1,293,179 |
| Net income  |                               |                         |   | 57,634                         |   | 326                                 | 57,960       |
| Other<br>comprehensive<br>income                            |                               |                         |   |                                | 21,258  |                                     | 21,258       |
| Dividends declared<br>on common stock<br>(\$0.08 per share) |                               |                         | (20,085)                                      |                                |   |                                     | (20,085)     |
| Employee<br>share-based<br>compensation<br>earned           |                               |                         | 5,168   |                                |   |                                     | 5,168        |
| Stock option<br>exercises                                   | 631                           | 631                     | 1,732   |                                |   |                                     | 2,363        |
| Restricted stock<br>awards, net of<br>forfeitures           | 830                           | 830                     | (830)   |                                |   |                                     |              |
| Issuance of shares<br>from treasury                         | 72                            | 72                      | 383   |                                |   |                                     | 455          |
| Other   |                               |                         |   |                                |   | (105)                               | (105)        |
| Balance at June 30,<br>2009                                 | 251,005                       | \$ 251,005              | \$ 1,720,182                                  | \$ (669,122)                   | \$ 57,907   | \$ 221                              | \$ 1,360,193 |

(See notes to unaudited condensed consolidated financial statements)

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**SERVICE CORPORATION INTERNATIONAL**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands, except per share amounts)**

**1. Nature of Operations**

We are a provider of deathcare products and services, with a network of funeral service locations and cemeteries primarily operating in the United States and Canada. Our operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses.

Funeral service locations provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles and preparation and embalming services. Funeral-related merchandise, including caskets, casket personalization products, burial vaults, cremation receptacles, cremation memorial products, flowers, and other ancillary products and services, is sold at funeral service locations. Cemeteries provide cemetery property interment rights, including mausoleum spaces, lots, and lawn crypts, and sell cemetery-related merchandise and services, including stone and bronze memorials, markers, merchandise installations, and burial openings and closings. We also sell preneed funeral and cemetery products and services whereby a customer contractually agrees to the terms of certain products and services to be provided in the future.

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation and Basis of Presentation*

Our unaudited condensed consolidated financial statements include the accounts of Service Corporation International and all subsidiaries in which we hold a controlling financial interest. Our financial statements also include the accounts of the funeral merchandise and service trusts, cemetery merchandise and service trusts, and cemetery perpetual care trusts in which we have a variable interest and are the primary beneficiary. Our interim unaudited condensed consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair presentation of our results for these periods. Our unaudited condensed consolidated financial statements have been prepared in a manner consistent with the accounting policies described in our annual report on Form 10-K for the year ended December 31, 2008, unless otherwise disclosed herein, and should be read in conjunction therewith. The accompanying year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year period.

We recorded several immaterial adjustments to correct errors related to prior accounting periods during the three and six months ended June 30, 2009. The net impact of these adjustments was a decrease to our pre-tax income and net income in the amount of \$5.4 million and \$3.2 million, respectively, for the three months ended June 30, 2009. The net impact of these adjustments was a decrease to our pre-tax income and net income in the amount of \$7.4 million and \$4.5 million, respectively, for the six months ended June 30, 2009. We do not believe these adjustments are qualitatively material to our unaudited condensed consolidated financial statements for the three and six months ended June 30, 2009, nor are they quantitatively or qualitatively material to our expected 2009 annual financial results. Additionally, such items are not quantitatively or qualitatively material to any of our prior annual or quarterly financial statements.

*Reclassifications*

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation with no effect on our previously reported results of operations, consolidated financial position, or cash flows.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as described in our Form 10-K for the year ended December 31, 2008. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. As a result, actual results could differ from these estimates.

*Business Combinations*

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS)

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No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired (including goodwill), the liabilities assumed, and any noncontrolling interest in the acquiree. Subsequently, on April 1, 2009, the FASB issued FASB Staff Position No. SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies* (FSP SFAS 141(R)-1), which amends and clarifies the previous statement in certain aspects of its guidance on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Per FASB guidance, we will apply the provisions provided in both SFAS 141(R) and FSP SFAS 141(R)-1 to all business combinations for which the acquisition date is on or after January 1, 2009 and certain future income tax effects related to our prior business combinations, should they arise. In these acquisitions, tangible and intangible assets acquired and liabilities assumed will be recorded at fair value and goodwill will be recognized for any difference between the price of the acquisition and our fair value determination.

*Noncontrolling Interests*

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160), which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as an unconsolidated investment, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. We adopted the provisions of SFAS 160 on January 1, 2009. As a result, we have modified our condensed consolidated statement of operations, condensed consolidated balance sheet, condensed consolidated statement of cash flows, and condensed consolidated statement of stockholders' equity to incorporate the required disclosure of noncontrolling interest information as required by SFAS 160.

During our examination of SFAS 160 and its impact on our current accounting, we determined that balances historically designated as non-controlling interest in our consolidated preneed funeral and cemetery trusts and our cemetery perpetual care trusts do not meet the criteria for non-controlling interest as prescribed by SFAS 160. SFAS 160 indicates that only a financial instrument classified as equity in the trusts' financial statements can be a noncontrolling interest in the consolidated financial statements. The interest related to our merchandise and service trusts is classified as a liability because the preneed contracts underlying these trusts are unconditionally redeemable upon the occurrence of an event that is certain to occur. In addition, since the earnings from our cemetery perpetual care trusts are used to support the maintenance of our cemeteries, the interest in these trusts also retains the characteristics of a liability. Accordingly, effective December 31, 2008, we re-characterized the amounts historically described as *Non-controlling interest in funeral and cemetery trusts* as either *Deferred preneed funeral receipts held in trust* or *Deferred preneed cemetery receipts held in trust*, as appropriate. Additionally, we re-characterized the amounts historically described as *Non-controlling interest in cemetery perpetual care trusts* as *Care trusts corpus*.

*Fair Value Measurements*

We measure the available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis in accordance with SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about instruments measured at fair value. SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certain available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts have been classified in Level 3 of the SFAS 157 hierarchy due to significant



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management judgment required as a result of the absence of quoted market prices, inherent lack of liquidity, or the long-term nature of the securities. For additional disclosures required by SFAS 157 for all of our available-for-sale securities, see Notes 4, 5, and 6.

In February 2008, the FASB issued FASB Staff Position (FSP) No. SFAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP SFAS 157-2 provided a one-year deferral of the effective date of SFAS 157 for non-financial assets and liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In accordance with FSP 157-2, we adopted the provisions of SFAS 157 for our non-financial assets and liabilities, such as goodwill and property and equipment, that we disclose or recognize at fair value on a non-recurring basis as of January 1, 2009. As none of our non-financial assets or liabilities within the scope of SFAS 157 experienced an event that required fair value measurement in the first half of 2009, our adoption for these assets and liabilities has had no impact on our results of operations, consolidated financial position, or cash flows.

### *Determination of the Useful Life of Intangible Assets*

In April 2008, the FASB issued FSP SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets* and requires enhanced related disclosures. FSP 142-3 must be applied prospectively to all intangible assets recognized as of or acquired subsequent to January 1, 2009. Our adoption of FSP 142-3 did not impact our unaudited condensed consolidated financial statements.

## **3. Recently Issued Accounting Standards**

### *Other-Than-Temporary Impairments*

In April 2009, the FASB issued FSP No. SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP SFAS 115-2), which modifies the requirements for recognizing other-than-temporary-impairment on debt securities and significantly changes the impairment model for such securities. The FSP also modifies the presentation of other-than-temporary impairment losses and increases related disclosure requirements. In addition, the SEC issued Staff Accounting Bulletin (SAB) No. 111, *Other Than Temporary Impairments of Certain Investments in Debt and Equity Securities (Topic 5 M.)* (SAB 111), which modified the SEC's rules related to other-than-temporary impairment to conform to the FSP. The FSP and SAB are effective for us in the second quarter of 2009. Our second quarter 2009 adoption of FSP SFAS 115-2 and SAB 111 did not have a material impact on our results of operations, consolidated financial position, or cash flows; however, we have included additional disclosures, as required, regarding our other-than-temporary impairments. See Notes 4, 5, and 6.

### *Interim Fair Value Disclosures*

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Statements* (FSP SFAS 107-1), which requires companies to disclose the fair value of financial instruments within interim financial statements, adding to the current requirement to provide those disclosures annually. The FSP is effective for us in the second quarter of 2009 and we have included additional disclosures as required.

### *Fair Value Measurements*

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides additional guidance on how to determine the fair value of assets and liabilities in an environment where the volume and level of activity for the asset or liability have significantly decreased and re-emphasizes that the objective of a fair value measurement remains an exit price. The FSP is effective for us in the second quarter of 2009. The adoption of FSP SFAS 157-4 did not have a material impact on our results of operations, consolidated financial position, or cash flows.

### *Subsequent Events*

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for us in the second quarter of 2009. We adopted SFAS 165 during the three months ended June 30, 2009 and evaluated subsequent events through August 6,

2009. SFAS 165 did not have an impact on our unaudited condensed consolidated financial statements.

**Table of Contents***Variable Interest Entities*

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 was issued to improve financial reporting by enterprises involved with variable interest entities, specifically to address: (1) the effects on certain provision of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, (FIN46(R)) as a result of the elimination of the qualifying special-purpose entity concept in SFAS No. 166, *Accounting for Transfers of Financial Assets*, and (2) constituent concerns about the application of certain key provisions of FIN46(R), including those in which the accounting and disclosures under FIN46(R) do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. SFAS 167 is effective for us on January 1, 2010, and we are still assessing the impact on our unaudited condensed consolidated financial statements.

*Accounting Standards Codification and Hierarchy*

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. Following FAS 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or EITF Abstracts. Instead, it will issue Accounting Standards Updates to update the Codification. SFAS 168 is effective for interim or annual financial periods ending after September 15, 2009. We expect to adopt SFAS 168 during the three months ended September 30, 2009 and it will not have an impact on our unaudited condensed consolidated financial statements.

**4. Preneed Funeral Activities**

*Preneed funeral receivables, net and trust investments* represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, related to unperformed, price-guaranteed preneed funeral contracts. Our funeral merchandise and service trusts are defined as variable interest entities pursuant to FIN46(R). In accordance with FIN46(R), we have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. Our cemetery trust investments detailed in Notes 5 and 6 are also accounted for in accordance with FIN46(R). When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from *Deferred preneed funeral revenues* into *Deferred preneed funeral and cemetery receipts held in trust*. Amounts are withdrawn from the trusts after the contract obligations are performed. Cash flows from preneed funeral contracts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

The table below sets forth the investment-related activities associated with our preneed funeral merchandise and service trusts:

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,           |           | June 30,         |           |
|   | 2009               | 2008      | 2009             | 2008      |
|   | (In thousands)     |           | (In thousands)   |           |
| Deposits  | \$ 23,271          | \$ 23,860 | \$ 40,387        | \$ 44,772 |
| Withdrawals   | 30,766             | 31,595    | 53,941           | 70,511    |
| Purchases of available-for-sale securities                  | 63,574             | 55,105    | 130,484          | 190,387   |
| Sales of available-for-sale securities                      | 110,484            | 134,117   | 175,545          | 234,837   |
| Realized gains from sales of available-for-sale securities  | 5,056              | 9,510     | 7,358            | 30,309    |
| Realized losses from sales of available-for-sale securities | (15,455)           | (11,892)  | (41,193)         | (26,890)  |

The components of *Preneed funeral receivables, net and trust investments* in our unaudited condensed consolidated balance sheet at June 30, 2009 and December 31, 2008 are as follows:

**June 30, 2009**

|  |    |                       | <b>December 31,<br/>2008</b> |
|--|----|-----------------------|------------------------------|
|  |    | <b>(In thousands)</b> |                              |
| Trust investments at market                            | \$ | 659,405               | \$ 636,712                   |
| Cash and cash equivalents                              |    | 165,181               | 125,657                      |
| Insurance-backed fixed income securities               |    | 207,890               | 216,394                      |
| Receivables from customers                             |    | 256,077               | 249,224                      |
| Unearned finance charge                                |    | (6,303)               | (6,316)                      |
|  |    | 1,282,250             | 1,221,671                    |
| Allowance for cancellation                             |    | (31,617)              | (29,979)                     |
| Preneed funeral receivables, net and trust investments | \$ | 1,250,633             | \$ 1,191,692                 |

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The cost and market values associated with our funeral merchandise and service trust investments recorded at fair market value at June 30, 2009 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments.

|   | <b>June 30, 2009</b>  |                             |                              | <b>Fair</b>             |
|---|-----------------------|-----------------------------|------------------------------|-------------------------|
|   | <b>Cost</b>           | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Market<br/>Value</b> |
|   | <b>(In thousands)</b> |                             |                              |                         |
| Fixed income securities:                              |                       |                             |                              |                         |
| U.S. Treasury   | \$ 34,215             | \$ 626                      | \$ (422)                     | \$ 34,419               |
| Canadian government                                   | 82,384                | 982                         | (146)                        | 83,220                  |
| Corporate   | 30,153                | 432                         | (112)                        | 30,473                  |
| Mortgage-backed                                       | 5,346                 | 51                          | (17)                         | 5,380                   |
| Asset-backed  | 147                   | 3                           |                              | 150                     |
| Equity securities:                                    |                       |                             |                              |                         |
| Common stock (based on investment objectives):        |                       |                             |                              |                         |
| Growth  | 150,361               | 12,019                      | (26,799)                     | 135,581                 |
| Value   | 166,106               | 7,240                       | (32,025)                     | 141,321                 |
| Mutual funds:   |                       |                             |                              |                         |
| Equity  | 126,267               | 1,390                       | (49,186)                     | 78,471                  |
| Fixed income  | 170,853               | 1,868                       | (32,510)                     | 140,211                 |
| Private equity  | 19,035                | 1,360                       | (9,378)                      | 11,017                  |
| Other   | 4,842                 | 93                          | (3,606)                      | 1,329                   |
| Trust investments                                     | \$ 789,709            | \$ 26,064                   | \$ (154,201)                 | \$ 661,572              |
| Less: Assets associated with businesses held for sale |                       |                             |                              | (2,167)                 |
|   |                       |                             |                              | \$ 659,405              |

|  | <b>December 31, 2008</b> |                             |                              | <b>Fair</b>             |
|--|--------------------------|-----------------------------|------------------------------|-------------------------|
|  | <b>Cost</b>              | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Market<br/>Value</b> |
|  | <b>(In thousands)</b>    |                             |                              |                         |
| Fixed income securities:                       |                          |                             |                              |                         |
| U.S. Treasury                                  | \$ 61,907                | \$ 569                      | \$ (17,533)                  | \$ 44,943               |
| Canadian government                            | 86,216                   | 951                         | (828)                        | 86,339                  |
| Corporate                                      | 21,144                   | 106                         | (670)                        | 20,580                  |
| Mortgage-backed                                | 26,230                   | 233                         | (7,728)                      | 18,735                  |
| Asset-backed                                   | 20                       |                             |                              | 20                      |
| Equity securities:                             |                          |                             |                              |                         |
| Common stock (based on investment objectives): |                          |                             |                              |                         |
| Growth   | 158,337                  | 1,497                       | (47,427)                     | 112,407                 |

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|   |            |           |              |            |
|---|------------|-----------|--------------|------------|
| Value   | 184,807    | 1,747     | (55,355)     | 131,199    |
| Mutual funds:   |            |           |              |            |
| Equity  | 98,499     | 691       | (33,276)     | 65,914     |
| Fixed income  | 156,393    | 2,475     | (40,380)     | 118,488    |
| Private equity  | 18,597     | 1,872     | (6,717)      | 13,752     |
| Other   | 29,261     | 825       | (2,958)      | 27,128     |
| Trust investments                                     | \$ 841,411 | \$ 10,966 | \$ (212,872) | \$ 639,505 |
| Less: Assets associated with businesses held for sale |            |           |              | (2,793)    |
|   |            |           |              | \$ 636,712 |

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy provided in SFAS 157.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or a fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status.

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The valuation of private equity and other investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity investments are valued using market appraisals or a discounted cash flow methodology depending on the nature of the underlying assets. The appraisals assess value based on a combination of replacement cost, comparative sales analysis, and discounted cash flow analysis.

Our investments classified as Level 1 securities include common stock and mutual funds. Level 2 securities include United States (U.S.) Treasury, Canadian government, corporate, mortgage-backed and asset-backed fixed income securities. Our private equity and other investments are classified as Level 3 securities.

The inputs into the fair value of our market-based funeral merchandise and service trust investments are categorized as follows:

|  | <b>Quoted<br/>Market<br/>Prices<br/>in Active<br/>Markets<br/><br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/><br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs (Level<br/>3)<br/><br/>(In thousands)</b> | <b>Fair Market<br/>Value</b> |
|--|--|---|--|------------------------------|
| Trust investments at June 30, 2009     | \$495,584  | \$ 153,642  | \$ 12,346  | \$661,572                    |
| Trust investments at December 31, 2008 | \$428,008  | \$ 170,617  | \$ 40,880  | \$639,505                    |

The change in our market-based funeral merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows (in thousands):

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
| Fair market value, beginning balance  | \$ 12,988                              | \$ 41,381   | \$ 40,880                            | \$ 37,865   |
| Net unrealized (losses) gains included in <i>Other comprehensive income</i> (1) | (1,594)                                | 5,610       | (7,210)                              | 9,249       |
| Net gains included in <i>Other income (expense), net</i> (2)                    |  |             | 19                                   |             |
| Purchases, sales, contributions, and distributions, net                         | 952                                    | 89          | 548                                  | (34)        |
| Transfers out of Level 3  |  |             | (21,891)                             |             |
| Fair market value, ending balance   | \$ 12,346                              | \$ 47,080   | \$ 12,346                            | \$ 47,080   |

(1) All (losses) gains recognized in *Other comprehensive income* for funeral merchandise and service trust investments are

attributable to  
our preneed  
customers and  
are offset by a  
corresponding  
reclassification  
in *Other  
comprehensive  
income* to  
*Deferred  
preneed funeral  
and cemetery  
receipts held in  
trust*. See Note  
7 for further  
information  
related to our  
*Deferred  
preneed funeral  
and cemetery  
receipts held in  
trust*.

- (2) All gains  
recognized in  
*Other income  
(expense), net*  
for our funeral  
merchandise  
and service trust  
investments are  
attributable to  
our preneed  
customers and  
are offset by a  
corresponding  
reclassification  
in *Other income  
(expense), net* to  
*Deferred  
preneed funeral  
and cemetery  
receipts held in  
trust*. See Note  
7 for further  
information  
related to our  
*Deferred  
preneed funeral  
and cemetery  
receipts held in*



*trust.*

Maturity dates of our fixed income securities range from 2009 to 2039. Maturities of fixed income securities (excluding mutual funds) at June 30, 2009 are estimated as follows:

|                          | <b>Fair Market<br/>Value<br/>(In<br/>thousands)</b> |
|--------------------------|---|
| Due in one year or less  | \$ 73,222   |
| Due in one to five years | 36,993  |
| Due in five to ten years | 32,100  |
| Thereafter               | 11,327  |
|                          | \$ 153,642  |

Earnings from all trust investments are recognized in funeral revenues when a service is performed or merchandise is delivered. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to our trust investments were \$5.0 million and \$9.9 million for the three months ended June 30, 2009 and 2008, respectively. Recognized earnings (realized and unrealized) related to our trust investments were \$10.9 million and \$21.1 million for the six months ended June 30, 2009 and 2008, respectively.

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We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges, resulting from this assessment, are recognized as investment losses in *Other income (expense), net* and a decrease to *Preneed funeral receivables, net and trust investments*. These investment losses, if any, are offset by a corresponding reclassification in *Other income (expense), net*, which reduces *Deferred preneed funeral and cemetery receipts held in trust*. See Note 7 for further information related to our *Deferred preneed funeral and cemetery receipts held in trust*. We recorded an impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain securities of \$3.7 million and \$10.4 million for the three and six months ended June 30, 2009, respectively. We did not record an impairment charge in the first half of 2008.

We have determined that the remaining unrealized losses in our funeral trust investments at June 30, 2009 are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. The unrealized losses reflect the effects of the current economic crisis. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our funeral trust investment unrealized losses, their associated fair market values and the duration of unrealized losses as of June 30, 2009 are shown in the following table:

|   | <b>In Loss Position</b>                              |                              | <b>June 30, 2009<br/>In Loss Position<br/>Greater Than 12<br/>Months</b> |                              | <b>Total</b>                 |                              |
|---|--|------------------------------|--|------------------------------|------------------------------|------------------------------|
|   | <b>Less Than 12 Months<br/>Fair<br/>Market Value</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market Value</b>   | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market Value</b> | <b>Unrealized<br/>Losses</b> |
|   | <b>(In thousands)</b>                                |                              |  |                              |                              |                              |
| Fixed income securities:                          |  |                              |  |                              |                              |                              |
| U.S. Treasury                                     | \$ 13,784  | \$ (406)                     | \$ 342   | \$ (16)                      | \$ 14,126                    | \$ (422)                     |
| Canadian government                               | 6,735  | (146)                        |  |                              | 6,735                        | (146)                        |
| Corporate   | 4,546  | (109)                        | 323  | (3)                          | 4,869                        | (112)                        |
| Mortgage-backed                                   | 2,696  | (13)                         | 460  | (4)                          | 3,156                        | (17)                         |
| Equity securities:                                |  |                              |  |                              |                              |                              |
| Common stock (based on<br>investment objectives): |  |                              |  |                              |                              |                              |
| Growth  | 57,238   | (16,308)                     | 16,072   | (10,491)                     | 73,310                       | (26,799)                     |
| Value   | 70,315   | (19,338)                     | 29,091   | (12,687)                     | 99,406                       | (32,025)                     |
| Mutual funds:                                     |  |                              |  |                              |                              |                              |
| Equity  | 52,806   | (38,397)                     | 16,778   | (10,789)                     | 69,584                       | (49,186)                     |
| Fixed income                                      | 74,203   | (31,009)                     | 6,234  | (1,501)                      | 80,437                       | (32,510)                     |
| Private equity                                    | 5,856  | (1,154)                      | 13,849   | (8,224)                      | 19,705                       | (9,378)                      |
| Other   | 1,824  | (359)                        | 3,895  | (3,247)                      | 5,719                        | (3,606)                      |
| Total temporarily<br>impaired securities          | \$ 290,003   | \$ (107,239)                 | \$ 87,044  | \$ (46,962)                  | \$ 377,047                   | \$ (154,201)                 |

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|   | <b>In Loss Position</b>          |                              | <b>December 31, 2008<br/>In Loss Position<br/>Greater Than 12<br/>Months</b> |                              | <b>Total</b>                     |                              |
|---|----------------------------------|------------------------------|--|------------------------------|----------------------------------|------------------------------|
|   | <b>Less Than 12 Months</b>       |                              | <b>Months</b>  |                              |                                  |                              |
|   | <b>Fair<br/>Market<br/>Value</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value</b>   | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
| <b>(In thousands)</b>                             |                                  |                              |  |                              |                                  |                              |
| Fixed income securities:                          |                                  |                              |  |                              |                                  |                              |
| U.S. Treasury                                     | \$ 18,750                        | \$ (7,944)                   | \$ 15,513  | \$ (9,589)                   | \$ 34,263                        | \$ (17,533)                  |
| Canadian government                               | 19,711                           | (828)                        |  |                              | 19,711                           | (828)                        |
| Corporate   | 9,751                            | (453)                        | 411  | (217)                        | 10,162                           | (670)                        |
| Mortgage-backed                                   | 8,118                            | (3,495)                      | 6,925  | (4,233)                      | 15,043                           | (7,728)                      |
| Equity securities:                                |                                  |                              |  |                              |                                  |                              |
| Common stock (based on<br>investment objectives): |                                  |                              |  |                              |                                  |                              |
| Growth  | 57,436                           | (24,296)                     | 41,992   | (23,131)                     | 99,428                           | (47,427)                     |
| Value   | 67,038                           | (28,356)                     | 49,011   | (26,999)                     | 116,049                          | (55,355)                     |
| Mutual funds:                                     |                                  |                              |  |                              |                                  |                              |
| Equity  | 33,709                           | (15,589)                     | 27,181   | (17,687)                     | 60,890                           | (33,276)                     |
| Fixed income                                      | 43,432                           | (19,348)                     | 33,975   | (21,032)                     | 77,407                           | (40,380)                     |
| Private equity                                    | 1,608                            | (691)                        | 12,850   | (6,026)                      | 14,458                           | (6,717)                      |
| Other   | 709                              | (304)                        | 5,659  | (2,654)                      | 6,368                            | (2,958)                      |
| Total temporarily<br>impaired securities          | \$ 260,262                       | \$ (101,304)                 | \$ 193,517   | \$ (111,568)                 | \$ 453,779                       | \$ (212,872)                 |

**5. Preneed Cemetery Activities**

*Preneed cemetery receivables, net and trust investments* represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, for contracts sold in advance of when the property interment rights, merchandise, or services are needed. Our cemetery merchandise and service trusts are defined as variable interest entities pursuant to FIN46(R). In accordance with FIN46(R), we have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. The trust investments detailed in Notes 4 and 6 are also accounted for in accordance with FIN46(R). When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from *Deferred preneed cemetery revenues* into *Deferred preneed funeral and cemetery receipts held in trust*. Amounts are withdrawn from the trusts when the contract obligations are performed. Cash flows from preneed cemetery contracts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

The table below sets forth the investment-related activities associated with our preneed cemetery merchandise and service trusts:

|             | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------|--|-------------|--------------------------------------|-------------|
|             | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
|             | <b>(In thousands)</b>                  |             | <b>(In thousands)</b>                |             |
| Deposits    | \$ 24,320                              | \$ 30,011   | \$ 43,663                            | \$ 55,312   |
| Withdrawals | 24,990                                 | 41,530      | 53,858                               | 72,739      |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Purchases of available-for-sale securities                  | 127,443  | 69,366   | 184,315  | 634,677  |
| Sales of available-for-sale securities                      | 94,259   | 143,073  | 147,921  | 247,341  |
| Realized gains from sales of available-for-sale securities  | 4,902    | 11,959   | 6,030    | 23,414   |
| Realized losses from sales of available-for-sale securities | (16,616) | (13,320) | (39,330) | (29,811) |

The components of *Preneed cemetery receivables, net and trust investments* in our unaudited condensed consolidated balance sheet at June 30, 2009 and December 31, 2008 are as follows:

|   | June 30, 2009  | December 31, 2008 |
|---|----------------|-------------------|
|   | (In thousands) |                   |
| Trust investments, at market                            | \$ 770,379     | \$ 659,149        |
| Cash and cash equivalents                               | 136,194        | 139,753           |
| Receivables from customers                              | 355,149        | 341,688           |
| Unearned finance charges                                | (45,653)       | (48,999)          |
|   | 1,216,069      | 1,091,591         |
| Allowance for cancellation                              | (30,025)       | (28,639)          |
| Preneed cemetery receivables, net and trust investments | \$ 1,186,044   | \$ 1,062,952      |

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The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair market value at June 30, 2009 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments.

|   | <b>June 30, 2009</b>  |                             |                              | <b>Fair<br/>Market<br/>Value</b> |
|---|-----------------------|-----------------------------|------------------------------|----------------------------------|
|   | <b>Cost</b>           | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> |                                  |
|   | <b>(In thousands)</b> |                             |                              |                                  |
| Fixed income securities:                              |                       |                             |                              |                                  |
| U.S. Treasury   | \$ 46,089             | \$ 600                      | \$ (1,028)                   | \$ 45,661                        |
| Canadian government                                   | 13,715                | 177                         | (39)                         | 13,853                           |
| Corporate   | 8,523                 | 317                         | (59)                         | 8,781                            |
| Mortgage-backed                                       | 14,072                | 14                          | (69)                         | 14,017                           |
| Equity securities:                                    |                       |                             |                              |                                  |
| Common stock (based on investment objectives):        |                       |                             |                              |                                  |
| Growth  | 210,984               | 15,230                      | (35,648)                     | 190,566                          |
| Value   | 244,771               | 9,060                       | (41,436)                     | 212,395                          |
| Mutual funds:   |                       |                             |                              |                                  |
| Equity  | 258,106               | 888                         | (89,342)                     | 169,652                          |
| Fixed income  | 195,882               | 1,236                       | (41,383)                     | 155,735                          |
| Private equity  | 10,519                | 30                          | (6,564)                      | 3,985                            |
| Other   | 4,647                 | 11                          | (3,255)                      | 1,403                            |
| Trust investments                                     | \$ 1,007,308          | \$ 27,563                   | \$ (218,823)                 | \$ 816,048                       |
| Less: Assets associated with businesses held for sale |                       |                             |                              | (45,669)                         |
|   |                       |                             |                              | \$ 770,379                       |

|  | <b>December 31, 2008</b> |                             |                              | <b>Fair<br/>Market<br/>Value</b> |
|--|--------------------------|-----------------------------|------------------------------|----------------------------------|
|  | <b>Cost</b>              | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> |                                  |
|  | <b>(In thousands)</b>    |                             |                              |                                  |
| Fixed income securities:                       |                          |                             |                              |                                  |
| U.S. Treasury                                  | \$ 60,699                | \$ 139                      | \$ (19,146)                  | \$ 41,692                        |
| Canadian government                            | 11,949                   | 466                         |                              | 12,415                           |
| Corporate                                      | 9,726                    | 130                         | (520)                        | 9,336                            |
| Mortgage-backed                                | 21,832                   | 50                          | (6,867)                      | 15,015                           |
| Equity securities:                             |                          |                             |                              |                                  |
| Common stock (based on investment objectives): |                          |                             |                              |                                  |
| Growth   | 194,429                  | 544                         | (57,876)                     | 137,097                          |
| Value  | 262,819                  | 735                         | (78,233)                     | 185,321                          |
| Mutual funds:                                  |                          |                             |                              |                                  |

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|   |            |          |              |            |
|---|------------|----------|--------------|------------|
| Equity  | 203,032    | 480      | (67,330)     | 136,182    |
| Fixed income  | 189,492    | 952      | (55,452)     | 134,992    |
| Private equity  | 11,795     | 678      | (3,538)      | 8,935      |
| Other   | 25,154     | 533      | (2,785)      | 22,902     |
| Trust investments                                     | \$ 990,927 | \$ 4,707 | \$ (291,747) | \$ 703,887 |
| Less: Assets associated with businesses held for sale |            |          |              | (44,738)   |
|   |            |          |              | \$ 659,149 |

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy provided in SFAS 157.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or a fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status.

The valuation of private equity and other investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity investments are valued using market appraisals or a discounted cash flow methodology depending on the nature of the underlying assets. The appraisals assess value based on a combination of replacement cost, comparative sales analysis, and discounted cash flow analysis.

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Our investments classified as Level 1 securities include common stock and mutual funds. Level 2 securities include U.S. Treasury, Canadian government, corporate, and mortgage-backed fixed income securities. Our private equity and other investments are classified as Level 3 securities.

The inputs into the fair value of our market-based cemetery merchandise and service trust investments are categorized as follows:

|  | <b>Quoted<br/>Market<br/>Prices<br/>in Active<br/>Markets<br/><br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs (Level<br/>2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Fair Market<br/>Value</b> |
|--|--|--|--|------------------------------|
|  | <b>(In thousands)</b>  |  |  |                              |
| Trust investments at June 30, 2009     | \$728,348  | \$ 82,312  | \$ 5,388   | \$816,048                    |
| Trust investments at December 31, 2008 | \$593,592  | \$ 78,458  | \$ 31,837  | \$703,887                    |

The change in our market-based cemetery merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows (in thousands):

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
| Fair market value, beginning balance  | \$4,978                                | \$24,771    | \$ 31,837                            | \$ 21,809   |
| Net unrealized (losses) gains included in <i>Other comprehensive income</i> (1) | (620)                                  | 528         | (11,443)                             | 3,711       |
| Net realized gains included in <i>Other income (expense), net</i> (2)           |  |             | 18                                   |             |
| Purchases, sales, contributions, and distributions, net                         | 1,030                                  | (1,044)     | 569                                  | (1,265)     |
| Transfers out of Level 3  |  |             | (15,593)                             |             |
| Fair market value, ending balance   | \$5,388                                | \$24,255    | \$ 5,388                             | \$ 24,255   |

(1) All (losses) gains recognized in *Other comprehensive income* for cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding

reclassification  
in *Other*  
*comprehensive*  
*income* to  
*Deferred*  
*preneed funeral*  
*and cemetery*  
*receipts held in*  
*trust*. See Note  
7 for further  
information  
related to our  
*Deferred*  
*preneed funeral*  
*and cemetery*  
*receipts held in*  
*trust*.

- (2) All gains  
recognized in  
*Other income*  
*(expense), net*  
for our cemetery  
merchandise  
and service trust  
investments are  
attributable to  
our preneed  
customers and  
are offset by a  
corresponding  
reclassification  
in *Other income*  
*(expense), net* to  
*Deferred*  
*preneed funeral*  
*and cemetery*  
*receipts held in*  
*trust*. See Note  
7 for further  
information  
related to our  
*Deferred*  
*preneed funeral*  
*and receipts*  
*cemetery held in*  
*trust*.

Maturity dates of our fixed income securities range from 2009 to 2039. Maturities of fixed income securities (excluding mutual funds) at June 30, 2009 are estimated as follows:

**Fair Market**



|                          | <b>Value<br/>(In<br/>thousands)</b> |
|--------------------------|-------------------------------------|
| Due in one year or less  | \$ 688                              |
| Due in one to five years | 30,664                              |
| Due in five to ten years | 26,258                              |
| Thereafter               | 24,702                              |
|                          | \$ 82,312                           |

Earnings from all trust investments are recognized in cemetery revenues when a service is performed or merchandise is delivered. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to our trust investments were \$2.9 million and \$5.1 million for the three months ended June 30, 2009 and 2008, respectively. Recognized earnings (realized and unrealized) related to our trust investments were \$1.8 million and \$9.6 million for the six months ended June 30, 2009 and 2008, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges, resulting from this assessment, are recognized as investment losses in *Other income (expense), net* and a decrease to *Preneed cemetery receivables, net and trust investments*. These investment losses, if any, are offset by a corresponding reclassification in *Other income (expense), net*, which reduces *Deferred preneed funeral and cemetery receipts held in trust*. See Note 7 for further information related

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to our *Deferred preneed funeral and cemetery receipts held in trust*. We recorded an impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain securities of \$3.3 million and \$12.9 million for the three and six months ended June 30, 2009, respectively. We did not record an impairment charge in the first half of 2008.

We have determined that the remaining unrealized losses in our cemetery trust investments at June 30, 2009 are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. The unrealized losses reflect the effects of the current economic crisis. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery trust investment unrealized losses, their associated fair market values and the duration of unrealized losses as of June 30, 2009 are shown in the following table:

|   | <b>In Loss Position</b>                                  |                              | <b>June 30, 2009<br/>In Loss Position<br/>Greater Than 12<br/>Months</b> |                              | <b>Total</b>                     |                              |
|---|--|------------------------------|--|------------------------------|----------------------------------|------------------------------|
|   | <b>Less Than 12 Months<br/>Fair<br/>Market<br/>Value</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value<br/>(In thousands)</b>                      | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
| Fixed income securities:                          |  |                              |  |                              |                                  |                              |
| U.S. Treasury                                     | \$ 28,737  | \$ (992)                     | \$ 560   | \$ (36)                      | \$ 29,297                        | \$ (1,028)                   |
| Foreign government                                | 4,247  | (39)                         |  |                              | 4,247                            | (39)                         |
| Corporate   | 833  | (59)                         |  |                              | 833                              | (59)                         |
| Mortgage-backed                                   | 5,542  | (47)                         | 2,051  | (22)                         | 7,593                            | (69)                         |
| Equity securities:                                |  |                              |  |                              |                                  |                              |
| Common stock (based on<br>investment objectives): |  |                              |  |                              |                                  |                              |
| Growth  | 77,025   | (20,536)                     | 17,601   | (15,112)                     | 94,626                           | (35,648)                     |
| Value   | 101,080  | (29,561)                     | 32,667   | (11,875)                     | 133,747                          | (41,436)                     |
| Mutual funds:                                     |  |                              |  |                              |                                  |                              |
| Equity  | 107,560  | (59,843)                     | 36,213   | (29,499)                     | 143,773                          | (89,342)                     |
| Fixed income                                      | 91,202   | (35,146)                     | 22,701   | (6,237)                      | 113,903                          | (41,383)                     |
| Private equity                                    | 10,339   | (1,373)                      | 9,519  | (5,191)                      | 19,858                           | (6,564)                      |
| Other   | 3,390  | (466)                        | 3,083  | (2,789)                      | 6,473                            | (3,255)                      |
| Total temporarily<br>impaired securities          | \$ 429,955   | \$ (148,062)                 | \$ 124,395   | \$ (70,761)                  | \$ 554,350                       | \$ (218,823)                 |

|  | <b>In Loss Position</b>                                  |                              | <b>December 31, 2008<br/>In Loss Position<br/>Greater Than 12<br/>Months</b> |                              | <b>Total</b>                     |                              |
|--|--|------------------------------|--|------------------------------|----------------------------------|------------------------------|
|  | <b>Less Than 12 Months<br/>Fair<br/>Market<br/>Value</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value</b>   | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value</b> | <b>Unrealized<br/>Losses</b> |

**(In thousands)**

|  |            |              |            |             |            |              |
|--|------------|--------------|------------|-------------|------------|--------------|
| Fixed income securities:                       |            |              |            |             |            |              |
| U.S. Treasury                                  | \$ 34,817  | \$ (15,637)  | \$ 5,757   | \$ (3,509)  | \$ 40,574  | \$ (19,146)  |
| Corporate                                      | 4,204      | (435)        | 113        | (85)        | 4,317      | (520)        |
| Mortgage-backed                                | 12,491     | (5,610)      | 2,066      | (1,257)     | 14,557     | (6,867)      |
| Equity securities:                             |            |              |            |             |            |              |
| Common stock (based on investment objectives): |            |              |            |             |            |              |
| Growth   | 113,100    | (50,671)     | 18,104     | (7,205)     | 131,204    | (57,876)     |
| Value  | 152,885    | (68,495)     | 24,471     | (9,738)     | 177,356    | (78,233)     |
| Mutual funds:                                  |            |              |            |             |            |              |
| Equity   | 101,895    | (46,405)     | 29,282     | (20,925)    | 131,177    | (67,330)     |
| Fixed income                                   | 100,882    | (46,308)     | 15,045     | (9,144)     | 115,927    | (55,452)     |
| Private equity                                 | 660        | (231)        | 7,536      | (3,307)     | 8,196      | (3,538)      |
| Other  | 519        | (182)        | 5,933      | (2,603)     | 6,452      | (2,785)      |
| Total temporarily impaired securities          | \$ 521,453 | \$ (233,974) | \$ 108,307 | \$ (57,773) | \$ 629,760 | \$ (291,747) |

**Table of Contents****6. Cemetery Perpetual Care Trusts**

We are required by state or provincial law to pay into cemetery perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. Our cemetery perpetual care trusts are defined as variable interest entities pursuant to FIN46(R). In accordance with FIN46(R), we have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. The merchandise and service trust investments detailed in Notes 4 and 5 are also accounted for in accordance with FIN46(R). We consolidate our cemetery perpetual care trust investments with a corresponding amount recorded as *Care trusts corpus*. Cash flows from cemetery perpetual care contracts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

The table below sets forth the investment-related activities associated with our cemetery perpetual care trusts:

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
|   | <b>(In thousands)</b>                  |             | <b>(In thousands)</b>                |             |
| Deposits  | \$ 5,963                               | \$ 6,111    | \$ 11,330                            | \$ 11,935   |
| Withdrawals   | 5,962                                  | 9,280       | 15,107                               | 14,457      |
| Purchases of available-for-sale securities                  | 59,396                                 | 58,293      | 104,243                              | 117,078     |
| Sales of available-for-sale securities                      | 36,520                                 | 64,464      | 68,995                               | 125,897     |
| Realized gains from sales of available-for-sale securities  | 2,905                                  | 865         | 3,724                                | 10,352      |
| Realized losses from sales of available-for-sale securities | (1,508)                                | (638)       | (11,121)                             | (13,631)    |

The components of *Cemetery perpetual care trust investments* in our unaudited condensed consolidated balance sheet at June 30, 2009 and December 31, 2008 are as follows:

|   | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|--------------------------|------------------------------|
|   | <b>(In thousands)</b>    |                              |
| Trust investments, at market              | \$ 686,542               | \$ 673,237                   |
| Cash and cash equivalents                 | 81,198                   | 71,521                       |
| Cemetery perpetual care trust investments | \$ 767,740               | \$ 744,758                   |

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair market value at June 30, 2009 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities or cash held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments.

|                          | <b>June 30, 2009</b>  |                             |                              | <b>Fair<br/>Market<br/>Value</b> |
|--------------------------|-----------------------|-----------------------------|------------------------------|----------------------------------|
|                          | <b>Cost</b>           | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> |                                  |
|                          | <b>(In thousands)</b> |                             |                              |                                  |
| Fixed income securities: |                       |                             |                              |                                  |
| U.S. Treasury            | \$ 5,065              | \$ 843                      | \$ (120)                     | \$ 5,788                         |
| Canadian government      | 24,002                | 300                         | (69)                         | 24,233                           |
| Corporate                | 39,504                | 1,364                       | (2,220)                      | 38,648                           |

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|   |            |          |              |            |
|---|------------|----------|--------------|------------|
| Mortgage-backed                                       | 3,243      | 14       | (15)         | 3,242      |
| Equity securities:                                    |            |          |              |            |
| Preferred stock                                       | 5,609      | 1,133    | (617)        | 6,125      |
| Common stock (based on investment objectives):        |            |          |              |            |
| Growth  | 3,301      | 169      | (588)        | 2,882      |
| Value   | 115,985    | 3,050    | (31,062)     | 87,973     |
| Mutual funds:   |            |          |              |            |
| Equity  | 110,214    | 263      | (31,624)     | 78,853     |
| Fixed income  | 493,975    | 588      | (50,186)     | 444,377    |
| Private equity  | 21,678     | 287      | (13,917)     | 8,048      |
| Other   | 16,122     | 841      | (10,614)     | 6,349      |
| Cemetery perpetual care trust investments             | \$ 838,698 | \$ 8,852 | \$ (141,032) | \$ 706,518 |
| Less: Assets associated with businesses held for sale |            |          |              | (19,976)   |
|   |            |          |              | \$ 686,542 |

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|   | December 31, 2008 |                  |                   |                   |
|---|-------------------|------------------|-------------------|-------------------|
|   | Cost              | Unrealized Gains | Unrealized Losses | Fair Market Value |
|   | (In thousands)    |                  |                   |                   |
| Fixed income securities:                              |                   |                  |                   |                   |
| U.S. Treasury   | \$ 5,805          | \$ 769           | \$ (808)          | \$ 5,766          |
| Canadian government                                   | 20,837            | 773              |                   | 21,610            |
| Corporate   | 42,139            | 202              | (5,079)           | 37,262            |
| Mortgage-backed                                       | 4,376             | 1                | (835)             | 3,542             |
| Equity securities:                                    |                   |                  |                   |                   |
| Preferred stock                                       | 5,558             | 1                | (1,186)           | 4,373             |
| Common stock (based on investment objectives):        |                   |                  |                   |                   |
| Growth  | 5,744             | 70               | (1,200)           | 4,614             |
| Value   | 106,709           | 1,303            | (22,287)          | 85,725            |
| Mutual funds:   |                   |                  |                   |                   |
| Equity  | 90,044            | 25               | (20,931)          | 69,138            |
| Fixed income  | 519,132           | 233              | (106,187)         | 413,178           |
| Private equity  | 20,561            | 668              | (2,812)           | 18,417            |
| Other   | 32,482            | 816              | (3,439)           | 29,859            |
| Cemetery perpetual care trust investments             | \$ 853,387        | \$ 4,861         | \$ (164,764)      | \$ 693,484        |
| Less: Assets associated with businesses held for sale |                   |                  |                   | (20,247)          |
|   |                   |                  |                   | \$ 673,237        |

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy provided in SFAS 157.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or a fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status.

The valuation of private equity and other investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity investments are valued using market appraisals or a discounted cash flow methodology depending on the nature of the underlying assets. The appraisals assess value based on a combination of replacement cost, comparative sales analysis, and discounted cash flow analysis.

Our investments classified as Level 1 securities include common stock and mutual funds. Level 2 securities include U.S. Treasury, Canadian government, corporate, mortgage-backed fixed income securities, and preferred stock equity securities. Our private equity and other investments are classified as Level 3 securities.

The inputs into the fair value of our market-based cemetery perpetual care trust investments are categorized as follows:

**Quoted**

**Significant**

**Significant**

|  | <b>Market<br/>Prices</b>                   | <b>Other<br/>Observable<br/>Inputs (Level<br/>2)</b> | <b>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Fair Market<br/>Value</b> |
|--|--|--|--|------------------------------|
|  | <b>in Active<br/>Markets<br/>(Level 1)</b> |  |  |                              |
|  | <b>(In thousands)</b>                      |  |  |                              |
| Trust investments at June 30, 2009     | \$614,085                                  | \$ 78,036  | \$ 14,397                                    | \$706,518                    |
| Trust investments at December 31, 2008 | \$572,655                                  | \$ 72,553  | \$ 48,276                                    | \$693,484                    |

The change in our market-based cemetery perpetual care trust investments with significant unobservable inputs (Level 3) is as follows (in thousands):

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
| Fair market value, beginning balance  | \$ 15,689                              | \$ 33,261   | \$ 48,276                            | \$ 32,644   |
| Net unrealized (losses) gains included in <i>Other comprehensive income</i> (1) | (6,712)                                | 1,770       | (28,719)                             | 5,101       |
| Net realized losses included in <i>Other income (expense), net</i> (2)          |  |             | (5)                                  |             |
| Purchases, sales, contributions, and distributions, net                         | 5,420                                  | (1,712)     | 2,057                                | (4,426)     |
| Transfers out of Level 3  |  |             | (7,212)                              |             |
| Fair market value, ending balance   | \$ 14,397                              | \$ 33,319   | \$ 14,397                            | \$ 33,319   |

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(1) All  
(losses) gains  
recognized in  
*Other*  
*comprehensive*  
*income* for our  
cemetery  
perpetual care  
trust  
investments are  
offset by a  
corresponding  
reclassification  
in *Other*  
*comprehensive*  
*income* to our  
*Care trusts*  
*corpus*. See  
Note 7 for  
further  
information  
related to our  
*Care trusts*  
*corpus*.

(2) All losses  
recognized in  
*Other income*  
*(expense), net*  
for our cemetery  
perpetual care  
trust  
investments are  
offset by a  
corresponding  
reclassification  
in *Other income*  
*(expense), net* to  
*Care trusts*  
*corpus*. See  
Note 7 for  
further  
information  
related to our  
*Care trusts*  
*corpus*.

Maturity dates of our fixed income securities range from 2009 to 2039. Maturities of fixed income securities (excluding mutual funds) at June 30, 2009 are estimated as follows:



|                          | <b>Fair Market<br/>Value<br/>(In<br/>thousands)</b> |
|--------------------------|---|
| Due in one year or less  | \$ 2,473  |
| Due in one to five years | 36,575  |
| Due in five to ten years | 17,322  |
| Thereafter               | 15,541  |
|                          | \$ 71,911   |

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenues to the extent we incur qualifying cemetery maintenance costs. Recognized earnings related to these cemetery perpetual care trust investments were \$9.6 million and \$10.2 million for the three months ended June 30, 2009 and 2008, respectively. Recognized earnings related to these cemetery perpetual care trust investments were \$18.1 million and \$20.0 million for the six months ended June 30, 2009 and 2008, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges, resulting from this assessment, are recognized as investment losses, in *Other income (expense), net*, and a decrease to *Cemetery perpetual care trust investments*. These investment losses, if any, are offset by a corresponding reclassification in *Other income (expense), net*, which reduces *Care trusts corpus*. See Note 7 for further information related to our *Care trusts corpus*. We recorded an impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain securities of \$1.7 million and \$5.9 million for the three and six months ended June 30, 2009, respectively. We did not record an impairment charge in the first half of 2008.

We have determined that the remaining unrealized losses in our cemetery perpetual care trust investments at June 30, 2009, are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. The unrealized losses reflect the effects of the current economic crisis. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery perpetual care trust investment unrealized losses, their associated fair market values and the duration of unrealized losses as of June 30, 2009 are shown in the following table:

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|  | <b>In Loss Position</b>    |                   | <b>June 30, 2009<br/>In Loss Position<br/>Greater Than 12<br/>Months</b> |                   | <b>Total</b>  |                   |
|--|----------------------------|-------------------|--|-------------------|---------------|-------------------|
|  | <b>Less Than 12 Months</b> |                   | <b>Months</b>  |                   |               |                   |
|  | <b>Fair</b>                |                   | <b>Fair</b>  |                   | <b>Fair</b>   |                   |
|  | <b>Market</b>              | <b>Unrealized</b> | <b>Market</b>  | <b>Unrealized</b> | <b>Market</b> | <b>Unrealized</b> |
|  | <b>Value</b>               | <b>Losses</b>     | <b>Value</b>   | <b>Losses</b>     | <b>Value</b>  | <b>Losses</b>     |
|  | <b>(In thousands)</b>      |                   |  |                   |               |                   |
| Fixed income securities:                       |                            |                   |  |                   |               |                   |
| U.S. Treasury                                  | \$ 2,192                   | \$ (120)          | \$   | \$                | \$ 2,192      | \$ (120)          |
| Foreign government                             | 7,296                      | (69)              |  |                   | 7,296         | (69)              |
| Corporate                                      | 13,248                     | (1,868)           | 1,852  | (352)             | 15,100        | (2,220)           |
| Mortgage-backed                                | 1,262                      | (10)              | 546  | (5)               | 1,808         | (15)              |
| Equity securities:                             |                            |                   |  |                   |               |                   |
| Preferred stock                                | 350                        | (10)              | 1,268  | (607)             | 1,618         | (617)             |
| Common stock (based on investment objectives): |                            |                   |  |                   |               |                   |
| Growth   | 2,075                      | (559)             | 65   | (29)              | 2,140         | (588)             |
| Value  | 49,858                     | (23,626)          | 13,752   | (7,436)           | 63,610        | (31,062)          |
| Mutual funds:                                  |                            |                   |  |                   |               |                   |
| Equity   | 59,925                     | (21,302)          | 16,438   | (10,322)          | 76,363        | (31,624)          |
| Fixed income                                   | 304,364                    | (35,138)          | 125,950  | (15,048)          | 430,314       | (50,186)          |
| Private equity                                 | 5,534                      | (3,741)           | 10,370   | (10,176)          | 15,904        | (13,917)          |
| Other  | 3,900                      | (2,636)           | 7,293  | (7,978)           | 11,193        | (10,614)          |
| Total temporarily impaired securities          | \$ 450,004                 | \$ (89,079)       | \$ 177,534   | \$ (51,953)       | \$ 627,538    | \$ (141,032)      |

|  | <b>In Loss Position</b>    |                   | <b>December 31, 2008<br/>In Loss Position<br/>Greater Than 12<br/>Months</b> |                   | <b>Total</b>  |                   |
|--|----------------------------|-------------------|--|-------------------|---------------|-------------------|
|  | <b>Less Than 12 Months</b> |                   | <b>Months</b>  |                   |               |                   |
|  | <b>Fair</b>                |                   | <b>Fair</b>  |                   | <b>Fair</b>   |                   |
|  | <b>Market</b>              | <b>Unrealized</b> | <b>Market</b>  | <b>Unrealized</b> | <b>Market</b> | <b>Unrealized</b> |
|  | <b>Value</b>               | <b>Losses</b>     | <b>Value</b>   | <b>Losses</b>     | <b>Value</b>  | <b>Losses</b>     |
|  | <b>(In thousands)</b>      |                   |  |                   |               |                   |
| Fixed income securities:                       |                            |                   |  |                   |               |                   |
| U.S. Treasury                                  | \$ 2,729                   | \$ (435)          | \$ 1,358   | \$ (373)          | \$ 4,087      | \$ (808)          |
| Corporate                                      | 17,224                     | (2,997)           | 9,932  | (2,082)           | 27,156        | (5,079)           |
| Mortgage-backed                                | 1,705                      | (410)             | 1,507  | (425)             | 3,212         | (835)             |
| Equity securities:                             |                            |                   |  |                   |               |                   |
| Preferred stock                                | 2,335                      | (562)             | 2,085  | (624)             | 4,420         | (1,186)           |
| Common stock (based on investment objectives): |                            |                   |  |                   |               |                   |
| Growth   | 2,486                      | (661)             | 1,905  | (539)             | 4,391         | (1,200)           |
| Value  | 46,190                     | (12,276)          | 35,387   | (10,011)          | 81,577        | (22,287)          |
| Mutual funds:                                  |                            |                   |  |                   |               |                   |

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|  |            |             |            |             |            |              |
|--|------------|-------------|------------|-------------|------------|--------------|
| Equity                                   | 40,611     | (11,959)    | 28,635     | (8,972)     | 69,246     | (20,931)     |
| Fixed income                             | 231,564    | (53,735)    | 182,207    | (52,452)    | 413,771    | (106,187)    |
| Private equity                           | 8,764      | (1,564)     | 4,760      | (1,248)     | 13,524     | (2,812)      |
| Other                                    | 10,716     | (1,912)     | 5,822      | (1,527)     | 16,538     | (3,439)      |
| Total temporarily<br>impaired securities | \$ 364,324 | \$ (86,511) | \$ 273,598 | \$ (78,253) | \$ 637,922 | \$ (164,764) |

**7. Deferred Preneed Funeral and Cemetery Receipts Held in Trust and Care Trusts   Corpus**

***Deferred Preneed Funeral and Cemetery Receipts Held in Trust***

We consolidate the merchandise and service trusts associated with our preneed funeral and cemetery activities in accordance with FIN46(R). Although FIN46(R) requires the consolidation of the merchandise and service trusts, it does not change the legal relationships among the trusts, us, or our customers. The customers are the legal beneficiaries of these merchandise and service trusts, and therefore their interests in these trusts represent a liability.

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The components of *Deferred preneed funeral and cemetery receipts held in trust* in our unaudited condensed consolidated balance sheet at June 30, 2009 and December 31, 2008 are detailed below.

|  | <b>Preneed<br/>Funeral</b> | <b>June 30, 2009<br/>Preneed<br/>Cemetery<br/>(In thousands)</b> | <b>Total</b> |
|--|----------------------------|--|--------------|
| Trust investments, at market                                     | \$ 659,405                 | \$ 770,379   | \$ 1,429,784 |
| Cash and cash equivalents  | 165,181                    | 136,194  | 301,375      |
| Insurance-backed fixed income securities                         | 207,890                    |  | 207,890      |
| Accrued trust operating payables, deferred tax assets, and other | (1,018)                    | (1,561)  | (2,579)      |
| Deferred preneed funeral and cemetery receipts held in trust     | \$ 1,031,458               | \$ 905,012   | \$ 1,936,470 |

|  | <b>Preneed<br/>Funeral</b> | <b>December 31, 2008<br/>Preneed<br/>Cemetery<br/>(In thousands)</b> | <b>Total</b> |
|--|----------------------------|--|--------------|
| Trust investments, at market                                     | \$ 636,712                 | \$ 659,149   | \$ 1,295,861 |
| Cash and cash equivalents  | 125,657                    | 139,753  | 265,410      |
| Insurance-backed fixed income securities                         | 216,394                    |  | 216,394      |
| Accrued trust operating payables, deferred tax assets, and other | 16,816                     | 23,184   | 40,000       |
| Deferred preneed funeral and cemetery receipts held in trust     | \$ 995,579                 | \$ 822,086   | \$ 1,817,665 |

**Care Trusts Corpus**

The *Care trusts corpus* reflected in our unaudited condensed consolidated balance sheet represents the cemetery perpetual care trusts, including the related accrued expenses, deferred tax assets, and other long-term liabilities of our cemetery perpetual care trusts.

The components of *Care trusts corpus* in our unaudited condensed consolidated balance sheet at June 30, 2009 and December 31, 2008 are detailed below.

|  | <b>June 30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|--|--------------------------|----------------------------------|
|  | <b>(In thousands)</b>    |                                  |
| Trust investments, at market                                     | \$ 686,542               | \$ 673,237                       |
| Cash and cash equivalents  | 81,198                   | 71,521                           |
| Accrued trust operating payables, deferred tax assets, and other | 241                      | 27,476                           |
| Care trusts corpus   | \$ 767,981               | \$ 772,234                       |

**Other Income (Expense), Net**

The components of *Other income (expense), net* in our unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2009 and 2008 are detailed below. See Notes 4, 5, and 6 for further discussion of the amounts related to the funeral, cemetery, and cemetery perpetual care trusts.

**Three Months Ended June 30, 2009**

|   | <b>Funeral<br/>Trusts</b> | <b>Cemetery<br/>Trusts</b> | <b>Cemetery<br/>Perpetual<br/>Care<br/>Trusts<br/>(In thousands)</b> | <b>Other,<br/>Net</b> | <b>Total</b> |
|---|---------------------------|----------------------------|--|-----------------------|--------------|
| Realized gains  | \$ 5,056                  | \$ 4,902                   | \$ 2,905   | \$                    | \$ 12,863    |
| Realized losses and impairment charges  | (19,128)                  | (19,952)                   | (3,204)  |                       | (42,284)     |
| Interest, dividend, and other ordinary income   | 5,573                     | 3,722                      | 8,495  |                       | 17,790       |
| Trust expenses and income taxes   | (968)                     | (1,260)                    | (5,275)  |                       | (7,503)      |
| Net trust investment (loss) income  | (9,467)                   | (12,588)                   | 2,921  |                       | (19,134)     |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus | 9,467                     | 12,588                     | (2,921)  |                       | 19,134       |
| Other income, net   |                           |                            |  | 803                   | 803          |
| Total other income, net   | \$                        | \$                         | \$   | \$ 803                | \$ 803       |

**Table of Contents****Six Months Ended June 30, 2009**

|   | <b>Funeral</b> | <b>Cemetery</b> | <b>Cemetery<br/>Perpetual<br/>Care</b> | <b>Other,<br/>Net</b> | <b>Total</b> |
|---|----------------|-----------------|--|-----------------------|--------------|
|   | <b>Trusts</b>  | <b>Trusts</b>   | <b>Trusts</b>                          |                       |              |
|   |                |                 | <b>(In thousands)</b>                  |                       |              |
| Realized gains  | \$ 7,358       | \$ 6,030        | \$ 3,724                               | \$                    | \$ 17,112    |
| Realized losses and impairment charges  | (51,527)       | (52,248)        | (16,972)                               |                       | (120,747)    |
| Interest, dividend, and other ordinary income   | 10,858         | 11,505          | 20,872                                 |                       | 43,235       |
| Trust expenses and income taxes   | (978)          | (19)            | (5,690)                                |                       | (6,687)      |
| Net trust investment income (loss)  | (34,289)       | (34,732)        | 1,934                                  |                       | (67,087)     |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus | 34,289         | 34,732          | (1,934)                                |                       | 67,087       |
| Other expense, net  |                |                 |  | (743)                 | (743)        |
| Total other expense, net  | \$             | \$              | \$                                     | \$ (743)              | \$ (743)     |

**Three Months Ended June 30, 2008**

|   | <b>Funeral</b> | <b>Cemetery</b> | <b>Cemetery<br/>Perpetual<br/>Care</b> | <b>Other,<br/>Net</b> | <b>Total</b> |
|---|----------------|-----------------|--|-----------------------|--------------|
|   | <b>Trusts</b>  | <b>Trusts</b>   | <b>Trusts</b>                          |                       |              |
|   |                |                 | <b>(In thousands)</b>                  |                       |              |
| Realized gains  | \$ 9,510       | \$ 11,959       | \$ 865                                 | \$                    | \$ 22,334    |
| Realized losses   | (11,892)       | (13,320)        | (638)                                  |                       | (25,850)     |
| Interest, dividend, and other ordinary income   | 14,902         | 12,502          | 9,990                                  |                       | 37,394       |
| Trust expenses and income taxes   | (4,408)        | (10,972)        | (2,386)                                |                       | (17,766)     |
| Net trust investment income   | 8,112          | 169             | 7,831                                  |                       | 16,112       |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus | (8,112)        | (169)           | (7,831)                                |                       | (16,112)     |
| Other income, net   |                |                 |  | 687                   | 687          |
| Total other income, net   | \$             | \$              | \$                                     | \$ 687                | \$ 687       |

**Six Months Ended June 30, 2008**

|  | <b>Funeral</b> | <b>Cemetery</b> | <b>Cemetery<br/>Perpetual<br/>Care</b> | <b>Other,<br/>Net</b> | <b>Total</b> |
|--|----------------|-----------------|--|-----------------------|--------------|
|  | <b>Trusts</b>  | <b>Trusts</b>   | <b>Trusts</b>                          |                       |              |

|   | (In thousands) |           |           |         |           |
|---|----------------|-----------|-----------|---------|-----------|
| Realized gains  | \$ 30,309      | \$ 23,414 | \$ 10,352 | \$      | \$ 64,075 |
| Realized losses   | (26,890)       | (29,811)  | (13,631)  |         | (70,332)  |
| Interest, dividend, and other ordinary income   | 20,287         | 16,738    | 18,376    |         | 55,401    |
| Trust expenses and income taxes   | (9,071)        | (15,394)  | (2,922)   |         | (27,387)  |
| Net trust investment income (loss)  | 14,635         | (5,053)   | 12,175    |         | 21,757    |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus | (14,635)       | 5,053     | (12,175)  |         | (21,757)  |
| Other expense, net  |                |           |           | (61)    | (61)      |
| Total other expense, net  | \$             | \$        | \$        | \$ (61) | \$ (61)   |

## 8. Income Taxes

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items, which are recorded in the period in which they occur. Discrete items include, among others, such events as tax audit settlements, expiration of statute of limitations, and increases or decreases in valuation allowances due to changes in projected future earnings. For the three months ended June 30, 2009 and 2008, our effective tax rate was 40.9% and 39.1%, respectively. For the six months ended June 30, 2009 and 2008, our effective tax rate was 38.7% and 38.2%, respectively. The increase in the effective tax rate for both periods is primarily due to the increase in divestitures that include non-deductible goodwill.

We file numerous federal, state, and foreign income tax returns. A number of years may elapse before particular tax matters, for which we have unrecognized tax benefits, are audited and finally settled. In the United States, the Internal Revenue Service has recently completed its field work for tax years 1999 through 2002 and is currently auditing tax years 2003 through 2005. Various state and foreign jurisdictions are auditing years through 2005. It is reasonably possible that one or more of the multi-jurisdictional audits will be settled by December 31, 2009, and if favorably resolved could result in a significant reduction in the amount of our unrecognized tax benefits.

**Table of Contents****9. Debt**

Debt as of June 30, 2009 and December 31, 2008 was as follows:

|  | June 30,<br>2009 | December 31,<br>2008 |
|--|------------------|----------------------|
|  | (In thousands)   |                      |
| 7.7% Notes due April 2009                              | \$               | \$ 28,731            |
| 7.875% Debentures due February 2013                    | 32,127           | 55,627               |
| 7.375% Senior notes due October 2014                   | 250,000          | 250,000              |
| 6.75% Notes due April 2015                             | 160,250          | 200,000              |
| 6.75% Notes due April 2016                             | 245,500          | 250,000              |
| 7.0% Notes due June 2017                               | 295,000          | 300,000              |
| 7.625% Senior notes due October 2018                   | 250,000          | 250,000              |
| 7.5% Notes due April 2027                              | 200,000          | 200,000              |
| Series B senior notes due November 2011                | 150,000          | 150,000              |
| Obligations under capital leases                       | 115,605          | 109,782              |
| Mortgage notes and other debt, maturities through 2047 | 60,598           | 58,976               |
| Unamortized pricing discounts and other                | (4,017)          | (4,608)              |
| <br>Total debt   | <br>\$ 1,755,063 | <br>\$ 1,848,508     |
| Less current maturities                                | (27,971)         | (27,104)             |
| <br>Total long-term debt                               | <br>\$ 1,727,092 | <br>\$ 1,821,404     |

Current maturities of debt at June 30, 2009 were primarily comprised of our capital lease obligations. Our consolidated debt had a weighted average interest rate of 6.32% at June 30, 2009 and 6.70% at December 31, 2008. Approximately 82% and 87% of our total debt had a fixed interest rate at June 30, 2009 and December 31, 2008, respectively.

***Bank Credit Facility***

We entered into a five-year \$450 million bank credit facility in November 2006 with a syndicate of financial institutions, comprised of a \$300 million revolving credit facility and a \$150 million term loan facility, including a sublimit of \$175 million for letters of credit.

The bank credit facility matures in November 2011. As of June 30, 2009, we have used the facility to support \$52.6 million of letters of credit. The credit facility provides us with flexibility for working capital, if needed, and is guaranteed by our domestic subsidiaries. The subsidiary guaranty is a guaranty of payment of the outstanding amount of the total lending commitment, including letters of credit. The credit facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, and certain dividend and share repurchase restrictions. We pay a quarterly fee on the unused commitment, which ranges from 0.25% to 0.50%. As of June 30, 2009, we have no outstanding cash advances on the revolving credit facility.

***Debt Extinguishments and Reductions***

In the first half of 2009, we made debt payments of \$101.2 million, including the following scheduled payments and purchases on the open market:

\$28.7 million balance of our 7.7% Notes due April 2009;

\$23.5 million aggregate principal amount of our 7.875% Debentures due February 2013;

\$39.8 million aggregate principal amount of our 6.75% Notes due April 2015;

\$4.5 million aggregate principal amount of our 6.75% Notes due April 2016; and



\$5.0 million aggregate principal amount of our 7.0% Notes due June 2017.

Certain of the above transactions resulted in the recognition of a \$3.4 million gain recorded in *Gain on early extinguishment of debt* in the first half of 2009, which represents the write-off of unamortized deferred loan costs of \$1.0 million and a \$4.4 million discount on the purchase of the notes.

In the first half of 2008, we repaid \$45.2 million aggregate principal amount of our 6.50% Notes due March 2008. There was no gain or loss recognized as a result of this repayment.

**Table of Contents*****Capital Leases***

During the six months ended June 30, 2009 and 2008, we acquired \$12.6 million and \$14.3 million, respectively, of transportation equipment using capital leases.

**10. Fair Value of Financial Instruments*****Fair Value Estimates***

The fair value estimates of the following financial instruments have been determined using available market information and appropriate valuation methodologies. The carrying values of cash and cash equivalents, trade receivables, and trade payables approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of receivables on preneed funeral contracts and cemetery contracts are impracticable to estimate because of the lack of a trading market and the diverse number of individual contracts with varying terms.

The fair value of our debt instruments at June 30, 2009 and December 31, 2008 was as follows:

|  | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|--|--------------------------|------------------------------|
|  | <b>(In thousands)</b>    |                              |
| 7.7% Notes due April 2009                              | \$                       | 27,869                       |
| 7.875% Debentures due February 2013                    | 30,922                   | 49,441                       |
| 7.375% Senior notes due October 2014                   | 240,000                  | 215,000                      |
| 6.75% Notes due April 2015                             | 143,424                  | 154,500                      |
| 6.75% Notes due April 2016                             | 222,178                  | 190,000                      |
| 7.0% Notes due June 2017                               | 270,294                  | 234,000                      |
| 7.625% Senior notes due October 2018                   | 233,125                  | 194,750                      |
| 7.5% Notes due April 2027                              | 160,000                  | 129,750                      |
| Series B senior notes due November 2011                | 126,404                  | 106,222                      |
| Mortgage notes and other debt, maturities through 2047 | 51,907                   | 43,674                       |
| Total fair value of debt instruments                   | \$ 1,478,254             | \$ 1,345,206                 |

The fair values of our long-term, fixed rate securities were estimated using market prices for those securities, and therefore they are classified within Level 1 of the SFAS 157 hierarchy discussed in Note 2. The Series B senior notes due 2011 and the mortgage and other debt fall within Level 3 of the SFAS 157 hierarchy. The fair values of these instruments have been estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements.

**Table of Contents****11. Share-Based Compensation***Stock Benefit Plans*

We utilize the Black-Scholes option valuation model for estimating the fair value of our stock options. This model allows the use of a range of assumptions related to volatility, the risk-free interest rate, the expected life, and the dividend yield. The expected volatility utilized in the valuation model is based on the historical volatility of our stock price. The dividend yield and expected holding period are based on historical experience and management's estimate of future events. The risk-free interest rate is derived from the U.S. Treasury yield curve based on the expected life of the option in effect at the time of the grant. The fair values of our stock options are calculated using the following weighted average assumptions for the six months ended June 30, 2009:

|                         | <b>Six Months<br/>Ended<br/>June 30, 2009</b> |
|-------------------------|---|
| <b>Assumptions</b>      |   |
| Dividend yield          | 3.5%  |
| Expected volatility     | 32.3%   |
| Risk-free interest rate | 1.8%  |
| Expected holding period | 5.0 years                                     |

*Stock Options*

The following table sets forth stock option activity for the six months ended June 30, 2009:

|                                  | <b>Options</b> | <b>Weighted-Average<br/>Exercise Price</b> |
|----------------------------------|----------------|--|
| Outstanding at December 31, 2008 | 10,861,889     | \$ 7.77                                    |
| Granted                          | 3,995,080      | 4.19                                       |
| Exercised                        | (631,000)      | 3.75                                       |
| Canceled                         | (539,287)      | 6.81                                       |
| Outstanding at June 30, 2009     | 13,686,682     | \$ 6.95                                    |
| Exercisable at June 30, 2009     | 8,152,874      | \$ 7.43                                    |

As of June 30, 2009, the unrecognized compensation expense related to stock options of \$8.1 million is expected to be recognized over a weighted average period of 1.3 years.

*Restricted Shares*

Restricted share activity for the six months ended June 30, 2009 was as follows:

|  | <b>Restricted<br/>shares</b> | <b>Weighted-Average<br/>Grant-Date<br/>Fair Value</b> |
|--|------------------------------|---|
| Nonvested restricted shares at December 31, 2008 | 591,941                      | \$ 10.69  |
| Granted  | 829,400                      | 4.19  |
| Vested   | (319,901)                    | 9.94  |
| Nonvested restricted shares at June 30, 2009     | 1,101,440                    | \$ 6.01   |

As of June 30, 2009, the unrecognized compensation expense related to restricted shares of \$5.2 million is expected to be recognized over a weighted average period of 1.5 years.

**Table of Contents****12. Stockholders Equity**

Our components of *Accumulated other comprehensive income* are as follows:

|   | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustment</b> | <b>Unrealized<br/>Gains and<br/>Losses<br/>(In thousands)</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> |
|---|--|---|---|
| Balance at December 31, 2008  | \$ 36,649  | \$  | \$ 36,649   |
| Foreign currency translation effects  | 21,258   |   | 21,258  |
| Increase in net unrealized gains associated with<br>available-for-sale securities of the trusts, net of taxes of<br>\$(75,417)  |  | 121,855   | 121,855   |
| Reclassification of net unrealized gains activity attributable to<br>the deferred preneed funeral and cemetery receipts held in trust<br>and care trusts corpus, net of taxes of \$75,417 |  | (121,855)   | (121,855)   |
| Balance at June 30, 2009  | \$ 57,907  | \$  | \$ 57,907   |

The assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. The U.S. dollar amount that arises from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the foreign currency translation adjustment in *Accumulated other comprehensive income*. Income taxes are generally not provided on foreign currency translation adjustments.

Our components of comprehensive income are as follows for the three and six months ended June 30, 2009 and 2008:

|                                   | <b>Three Months Ended<br/>June 30,<br/>2009      2008<br/>(In thousands)</b> |           | <b>Six Months Ended<br/>June 30,<br/>2009      2008<br/>(In thousands)</b> |           |
|-----------------------------------|--|-----------|--|-----------|
| Comprehensive income:             |  |           |  |           |
| Net income                        | \$ 23,580  | \$ 31,397 | \$ 57,960  | \$ 72,916 |
| Other comprehensive income (loss) | 29,011   | 4,959     | 21,258   | (17,147)  |
| Comprehensive income              | \$ 52,591  | \$ 36,356 | \$ 79,218  | \$ 55,769 |

***Cash Dividends***

On May 13, 2009, our Board of Directors approved a cash dividend of \$.04 per common share. At June 30, 2009, this dividend totaling \$10.0 million was recorded in *Accounts payable and accrued liabilities* and *Capital in excess of par value* in our unaudited condensed consolidated balance sheet. This dividend was paid on July 31, 2009.

***Share Repurchase Program***

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our stock repurchase program. We did not repurchase any shares of our common stock during the six months ended June 30, 2009. During the six months ended June 30, 2008, we purchased 7.0 million shares of common stock at an aggregate cost of \$79.5 million and an average cost per share of \$11.34. The remaining dollar value of shares authorized to be purchased under the share repurchase program was \$123.4 million at June 30, 2009.

**13. Segment Reporting**

Our operations are both product based and geographically based, and the reportable operating segments presented below include our funeral and cemetery operations. Our geographic areas include the United States, Canada, and Germany.

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Our reportable segment information is as follows:

|                                   | <b>Funeral</b> | <b>Cemetery<br/>(In thousands)</b> | <b>Reportable<br/>Segments</b> |
|-----------------------------------|----------------|------------------------------------|--------------------------------|
| Three months ended June 30,       |                |                                    |                                |
| Revenues from external customers: |                |                                    |                                |
| 2009                              | \$ 342,705     | \$ 171,244                         | \$ 513,949                     |
| 2008                              | \$ 363,262     | \$ 185,520                         | \$ 548,782                     |
| Gross profit:                     |                |                                    |                                |
| 2009                              | \$ 71,169      | \$ 30,656                          | \$ 101,825                     |
| 2008                              | \$ 72,258      | \$ 34,903                          | \$ 107,161                     |
| Six months ended June 30,         |                |                                    |                                |
| Revenues from external customers: |                |                                    |                                |
| 2009                              | \$ 707,614     | \$ 316,930                         | \$ 1,024,544                   |
| 2008                              | \$ 768,841     | \$ 353,392                         | \$ 1,122,233                   |
| Gross profit:                     |                |                                    |                                |
| 2009                              | \$ 155,241     | \$ 46,704                          | \$ 201,945                     |
| 2008                              | \$ 180,891     | \$ 63,867                          | \$ 244,758                     |

The following table reconciles gross profit from reportable segments to our consolidated income from continuing operations before income taxes:

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
|   | <b>(In thousands)</b>                  |             |                                      |             |
| Gross profit from reportable segments                   | \$ 101,825                             | \$ 107,161  | \$ 201,945                           | \$ 244,758  |
| General and administrative expenses                     | (26,466)                               | (21,655)    | (48,252)                             | (46,730)    |
| (Loss) gain on divestitures and impairment charges, net | (6,289)                                | (3,858)     | 941                                  | (15,904)    |
| Other operating income, net                             |  | 1,691       |                                      | 585         |
| Operating income  | 69,070                                 | 83,339      | 154,634                              | 182,709     |
| Interest expense  | (32,386)                               | (33,311)    | (64,056)                             | (67,380)    |
| Gain on early extinguishment of debt                    | 1,830                                  |             | 3,440                                |             |
| Interest income   | 585                                    | 1,454       | 1,288                                | 3,374       |
| Other income (expense), net                             | 803                                    | 687         | (743)                                | (61)        |
| Income from continuing operations before income taxes   | \$ 39,902                              | \$ 52,169   | \$ 94,563                            | \$ 118,642  |

Our geographic area information is as follows:

|                                   | <b>United<br/>States</b> | <b>Canada</b> | <b>Germany</b> | <b>Total</b> |
|-----------------------------------|--------------------------|---------------|----------------|--------------|
|                                   | <b>(In thousands)</b>    |               |                |              |
| Three months ended June 30,       |                          |               |                |              |
| Revenues from external customers: |                          |               |                |              |
| 2009                              | \$ 469,765               | \$ 42,652     | \$ 1,532       | \$ 513,949   |

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|                                   |             |           |         |             |
|-----------------------------------|-------------|-----------|---------|-------------|
| 2008                              | \$ 492,297  | \$ 54,617 | \$1,868 | \$ 548,782  |
| Six months ended June 30,         |             |           |         |             |
| Revenues from external customers: |             |           |         |             |
| 2009                              | \$ 937,241  | \$ 84,067 | \$3,236 | \$1,024,544 |
| 2008                              | \$1,011,344 | \$107,058 | \$3,831 | \$1,122,233 |
|                                   | 29          |           |         |             |

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**Table of Contents****14. Supplementary Information**

The detail of certain income statement accounts as presented in the unaudited condensed consolidated statement of operations is as follows:

|                                 | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |              |
|---------------------------------|--|-------------|--------------------------------------|--------------|
|                                 | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b>  |
|                                 | <b>(In thousands)</b>                  |             | <b>(In thousands)</b>                |              |
| Merchandise revenues:           |  |             |                                      |              |
| Funeral                         | \$ 110,858                             | \$ 118,312  | \$ 229,265                           | \$ 252,533   |
| Cemetery                        | 116,787                                | 129,021     | 208,648                              | 237,453      |
| Total merchandise revenues      | 227,645                                | 247,333     | 437,913                              | 489,986      |
| Services revenues:              |  |             |                                      |              |
| Funeral                         | 216,180                                | 229,537     | 450,893                              | 489,048      |
| Cemetery                        | 46,255                                 | 47,862      | 91,414                               | 98,912       |
| Total services revenues         | 262,435                                | 277,399     | 542,307                              | 587,960      |
| Other revenues                  | 23,869                                 | 24,050      | 44,324                               | 44,287       |
| Total revenues                  | \$ 513,949                             | \$ 548,782  | \$ 1,024,544                         | \$ 1,122,233 |
| Merchandise costs and expenses: |  |             |                                      |              |
| Funeral                         | \$ 55,207                              | \$ 61,262   | \$ 117,210                           | \$ 129,925   |
| Cemetery                        | 50,165                                 | 58,320      | 91,908                               | 104,696      |
| Total cost of merchandise       | 105,372                                | 119,582     | 209,118                              | 234,621      |
| Services costs and expenses:    |  |             |                                      |              |
| Funeral                         | 106,149                                | 113,534     | 209,632                              | 225,591      |
| Cemetery                        | 25,534                                 | 28,176      | 51,028                               | 55,355       |
| Total cost of services          | 131,683                                | 141,710     | 260,660                              | 280,946      |
| Overhead and other expenses     | 175,069                                | 180,329     | 352,821                              | 361,908      |
| Total costs and expenses        | \$ 412,124                             | \$ 441,621  | \$ 822,599                           | \$ 877,475   |

**15. Commitments and Contingencies*****Representations and Warranties***

As of June 30, 2009, we have contingent obligations of \$10.7 million (of which \$4.5 million is reflected in our unaudited condensed consolidated financial statements as a liability) resulting from our previous international asset sales and joint venture transactions. In some cases, we have agreed to guarantee certain representations and warranties made in such divestiture transactions with letters of credit or interest-bearing cash investments. We have interest-bearing cash investments of \$23.3 million included in *Deferred charges and other assets* collateralizing certain of these contingent obligations. We believe it is remote that we will ultimately be required to fund third-party claims against these representations and warranties above the carrying value of the liability.

In 2004, we disposed of our funeral operations in France to a newly formed, third-party company. As a result of this sale, we recognized certain Euro-denominated contractual obligations related to representations, warranties, and



other indemnifications. The remaining obligation related to these indemnifications was 1.6 million, or \$2.2 million at June 30, 2009.

During the first half of 2009, we released certain value-added tax (VAT) and social security indemnifications related to our former French operations as a result of the expiration of the statutory period of limitations. In addition, we reduced our related litigation reserves as a result of recent favorable court rulings. These transactions, after consideration of related foreign currency translation effects, resulted in a \$3.6 million and \$17.7 million reduction of the carrying value of our obligation for the three and six months ended June 30, 2009, respectively. These indemnification reserve reductions were recorded in *(Loss) gain on divestitures and impairment charges, net* in the first half of 2009.

***Insurance Loss Reserves***

We purchase comprehensive general liability, morticians and cemetery professional liability, automobile liability, and workers compensation insurance coverage structured with high deductibles. The high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. As of June 30, 2009 and December 31, 2008, we have self-insurance reserves of \$66.3 million and \$63.6 million, respectively.

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### ***Litigation***

We are a party to various litigation matters, investigations, and proceedings. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. We intend to vigorously defend ourselves in the lawsuits described herein; however, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these litigation matters. We accrue such insurance recoveries when they become probable of being paid and can be reasonably estimated.

*Conley Investment Counsel v. Service Corporation International, et al.*; Civil Action 04-MD-1609; In the United States District Court for the Southern District of Texas, Houston Division (the 2003 Securities Lawsuit ). The 2003 Securities Lawsuit resulted from the transfer and consolidation by the Judicial Panel on Multidistrict Litigation of three lawsuits *Edgar Neufeld v. Service Corporation International, et al.*; Cause No. CV-S-03-1561-HDM-PAL; in the United States District Court for the District of Nevada; and *Rujira Srisythemp v. Service Corporation International, et al.*; Cause No. CV-S-03-1392-LDG-LRL; in the United States District Court for the District of Nevada; and *Joshua Ackerman v. Service Corporation International, et al.*; Cause No. 04-CV-20114; in the United States District Court for the Southern District of Florida. The 2003 Securities Lawsuit names as defendants SCI and several of SCI's current and former executive officers or directors. The 2003 Securities Lawsuit is a purported class action alleging that the defendants failed to disclose the unlawful treatment of human remains and burial sites at two cemeteries in Fort Lauderdale and West Palm Beach, Florida. No discovery has occurred, and we cannot quantify our ultimate liability, if any, for the payment of damages.

*Burial Practices Claims.* We are named as a defendant in various lawsuits alleging improper burial practices at certain of our cemetery locations. These lawsuits include the *Valls* and *Garcia* lawsuits described in the following paragraphs.

*Maria Valls, Pedro Valls, and Roberto Valls, on behalf of themselves and all other similarly situated v. SCI Funeral Services of Florida, Inc. d/b/a Memorial Plan a/k/a Flagler Memorial Park, John Does and Jane Does* ; Case No. 23693CA08; in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida ( *Valls Lawsuit* ). The *Valls Lawsuit* was filed December 5, 2005, and named a subsidiary of SCI as a defendant. Plaintiffs have requested that the court certify this matter as a class action. The plaintiffs allege the defendants improperly handled remains, did not keep adequate records of interments, and engaged in various other improprieties in connection with the operation of the cemetery. Although the plaintiffs seek to certify as a class all family members of persons buried at the cemetery, the court has dismissed plaintiffs' class action allegations on two occasions; however, the dismissals were without prejudice. Plaintiffs filed a third amended complaint and we again moved to dismiss the class action allegations. The court dismissed the class allegations with prejudice, and the plaintiffs appealed the ruling. The appellate court has affirmed the dismissal of plaintiffs' class action claims with prejudice and the time to appeal the dismissal of the class action claims has expired. Since the class allegations in this case have been dismissed, we will remove this case from our future litigation reports.

*Reyvis Garcia and Alicia Garcia v. Alderwoods Group, Inc., Osiris Holding of Florida, Inc, a Florida corporation, d/b/a Graceland Memorial Park South, f/k/a Paradise Memorial Gardens, Inc.*, was filed in December 2004, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, Case No.: 04-25646 CA 32. Plaintiffs are the son and sister of the decedent, Eloisa Garcia, who was buried at Graceland Memorial Park South in March 1986, when the cemetery was owned by Paradise Memorial Gardens, Inc. Initially, the suit sought damages on the individual claims of the plaintiffs relating to the burial of Eloisa Garcia. Plaintiffs claimed that due to poor record keeping, spacing issues and maps, and the fact that the family could not afford to purchase a marker for the grave, the burial location of the decedent could not be readily located. Subsequently, the decedent's grave was located and verified. In July 2006, plaintiffs amended their complaint, seeking to certify a class of all persons buried at this cemetery whose burial sites cannot be located, claiming that this was due to poor record keeping, maps, and surveys at the cemetery. Plaintiffs subsequently filed a third amended class action complaint and added two additional named plaintiffs. The plaintiffs are seeking unspecified monetary damages, as well as equitable and injunctive relief. No class has been certified in this matter. Since the action is in its preliminary stages, we cannot quantify our ultimate liability,

if any, for the payment of any damages.

*Funeral Regulations Lawsuits.* We are named as a defendant in various lawsuits alleging violations of federal and state funeral related regulations and/or statutes, including the *Sanchez* lawsuit described in the following paragraph.

*Richard Sanchez et al v. Alderwoods Group, Inc. et al.*, was filed in February 2005 in the Superior Court of the State of California, for the County of Los Angeles, Central District; Case No. BC328962. Plaintiffs seek to certify a nationwide class on behalf of all consumers who purchased funeral goods and services from Alderwoods. Plaintiffs allege in essence that the Federal Trade Commission's Funeral Rule requires Alderwoods to disclose its markups on all items obtained from third-parties in connection with funeral service contracts. Plaintiffs allege further that Alderwoods has failed to make such disclosures. Plaintiffs seek to recover an unspecified amount of monetary damages, attorney's fees, costs, and unspecified injunctive and declaratory relief. This case is

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substantially similar to the lawsuit styled *Mary Louise Baudino, et al. v. Service Corporation International, et al.*, in which we prevailed as reported in our Form 10-K for the year ended December 31, 2008. In June 2009, the plaintiffs dismissed this case with prejudice, thereby ending the case.

**Antitrust Claims.** We are named as a defendant in a class action antitrust case filed in 2005. The case is Cause No 4:05-CV-03394; *Funeral Consumers Alliance, Inc. v. Service Corporation International, et al.*; in the United States District Court for the Southern District of Texas – Houston (Funeral Consumers Case). This is a purported class action on behalf of casket consumers throughout the United States alleging that we and several other companies involved in the funeral industry violated federal antitrust laws and state consumer laws by engaging in various anti-competitive conduct associated with the sale of caskets.

The Funeral Consumers Case seeks injunctions, monetary damages, and treble damages. The plaintiffs filed an expert report indicating that the damages sought from all defendants range from approximately \$950 million to \$1.5 billion, before trebling. We deny that we engaged in anticompetitive practices related to our casket sales and we have filed reports of our experts, which vigorously dispute the validity of the plaintiffs' damages theories and calculations. We intend to vigorously contest the plaintiffs' claims and damages report but we cannot quantify our ultimate liability, if any, for the payment of damages.

In November 2008, the Magistrate Judge issued recommendations that motions for class certification be denied in the Funeral Consumers Case. In March 2009, the District Court affirmed the Magistrate Judge's recommendations and denied class certification. The plaintiffs appealed.

In June 2009, the Fifth Circuit Court of Appeals denied the plaintiffs' motion requesting permission to appeal the District Court's ruling denying class certification. The plaintiffs in the case have filed a motion requesting that the appellate court reconsider its ruling.

In addition to the Funeral Consumers Case, we received Civil Investigative Demands, dated August 2005 and February 2006, from the Attorney General of Maryland on behalf of itself and other state attorneys general, who have commenced an investigation of alleged anticompetitive practices in the funeral industry. We have also received similar Civil Investigative Demands from the Attorneys General of Florida and Connecticut. In June 2009, we received a letter from the Attorney General of Connecticut stating that his office has closed its investigation.

**Wage and Hour Claims.** We are named a defendant in various lawsuits alleging violations of federal and state laws regulating wage and hour overtime pay, including the *Prise, Bryant, Bryant, Stickle*, and *Welch* lawsuits described in the following paragraphs.

*Prise, et al., v. Alderwoods Group, Inc., and Service Corporation International*; Cause No. 06-164; in the United States District Court for the Western District of Pennsylvania (the Wage and Hour Lawsuit). The Wage and Hour Lawsuit was filed by two former Alderwoods (Pennsylvania), Inc., employees in December 2006 and purports to have been brought under the Fair Labor Standards Act (FLSA) on behalf of all Alderwoods and SCI-affiliated employees who performed work for which they were not fully compensated, including work for which overtime pay was owed. The court has conditionally certified a class of claims as to certain job positions for Alderwoods employees.

Plaintiffs allege causes of action for violations of the FLSA, failure to maintain proper records, breach of contract, violations of state wage and hour laws, unjust enrichment, fraud and deceit, quantum meruit, negligent misrepresentation, and negligence. Plaintiffs seek injunctive relief, unpaid wages, liquidated, compensatory, consequential and punitive damages, attorneys' fees and costs, and pre- and post-judgment interest. We cannot quantify our ultimate liability, if any, in this lawsuit.

*Bryant, et al. v. Alderwoods Group, Inc., Service Corporation International, et al.*; Case No. 3:07-CV-5696-SI; in the U.S. District Court for the Northern District of California. This lawsuit was filed on November 8, 2007 against SCI and various subsidiaries and individuals. It too is related to the Wage and Hour Lawsuit, raising similar claims and brought by the same attorneys. This lawsuit has been transferred to the U.S. District Court for the Western District of Pennsylvania and is now Case No. 08-CV-00891-JFC. We cannot quantify our ultimate liability, if any, in this lawsuit.

*Bryant, et al. v. Service Corporation International, et al.*; Case No. RG-07359593; and *Helm, et al. v. AWGI & SCI*; Case No. RG-07359602; In the Superior Court of the State of California, County of Alameda. These cases were filed on December 5, 2007 by counsel for plaintiffs in the Wage and Hour Lawsuit. These cases assert state law claims

like those previously dismissed in the Wage and Hour Lawsuit. These cases were removed to federal court in the U.S. District Court for the Northern District of California, San Francisco/Oakland Division. The *Bryant* case is now Case No. 3:08-CV-01190-SI and the *Helm* case is now Case No. 2:-CV-01184- SI. We cannot quantify our ultimate liability, if any, in these lawsuits.

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*Stickle, et al. v. Service Corporation International, et al.*; Case No. 08-CV-83; in the U.S. District Court for Arizona, Phoenix Division. Counsel for plaintiffs in the Wage and Hour Lawsuit filed this case on January 17, 2008, against SCI and various related entities and individuals asserting FLSA and other ancillary claims based on the alleged failure to pay for overtime. Plaintiffs seek the same class notice to SCI and related entities that were rejected by the Court in the Wage and Hour Lawsuit. We cannot quantify our ultimate liability, if any, in this lawsuit.

*Shauna Welch v. California Cemetery & Funeral Services, LLC*; Case No. BC 396793; in the Superior Court of the State of California, for the County of Los Angeles. In August 2008, the plaintiff filed a class action on behalf of employees of a subsidiary in California for alleged violations of the California Labor Code and the Business & Professions Code. The plaintiff specifically alleges that she and the putative class are unable to negotiate their paychecks without paying a fee and/or without being subject to a waiting period since paychecks are issued from an out-of-state bank. We cannot quantify our ultimate liability, if any, in this lawsuit.

The ultimate outcome of the matters described above cannot be determined at this time. We intend to vigorously defend all of the above lawsuits; however, an adverse decision in one or more of such matters could have a material effect on us, our financial condition, results of operations, and cash flows.

**16. Earnings Per Share**

Basic earnings per common share (EPS) excludes dilution and is computed by dividing *Net income attributable to common stockholders* by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common shares that then shared in our earnings.

A reconciliation of the numerators and denominators of the basic and diluted EPS computations is presented below:

|   | Three Months Ended<br>June 30,<br>20092008<br>(In thousands, except<br>per<br>share amounts) |           | Six Months Ended<br>June 30,<br>20092008<br>(In thousands, except<br>per<br>share amounts) |           |
|---|--|-----------|--|-----------|
| Amounts attributable to common stockholders:  |  |           |  |           |
| Income from continuing operations:            |  |           |  |           |
| Income from continuing operations basic       | \$ 23,104  | \$ 31,774 | \$ 57,634  | \$ 73,278 |
| After-tax interest on convertible debt        |  | 13        | 25   | 25        |
| Income from continuing operations diluted     | \$ 23,104  | \$ 31,787 | \$ 57,659  | \$ 73,303 |
| Loss from discontinued operations, net of tax | \$   | \$ (377)  | \$   | \$ (362)  |
| Net income:                                   |  |           |  |           |
| Net income basic                              | \$ 23,104  | \$ 31,397 | \$ 57,634  | \$ 72,916 |
| After tax interest on convertible debt        |  | 13        | 25   | 25        |
| Net income diluted                            | \$ 23,104  | \$ 31,410 | \$ 57,659  | \$ 72,941 |
| Weighted average shares:                      |  |           |  |           |
| Weighted average shares basic                 | 250,977  | 259,655   | 250,461  | 260,565   |
| Stock options                                 | 153  | 3,356     | 90   | 3,542     |
| Convertible debt                              |  | 121       | 121  | 121       |
| Weighted average shares diluted               | 251,130  | 263,132   | 250,672  | 264,228   |

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Income from continuing operations per share:

|         |    |     |    |     |    |     |    |     |
|---------|----|-----|----|-----|----|-----|----|-----|
| Basic   | \$ | .09 | \$ | .12 | \$ | .23 | \$ | .28 |
| Diluted | \$ | .09 | \$ | .12 | \$ | .23 | \$ | .28 |

Net income per share:

|         |    |     |    |     |    |     |    |     |
|---------|----|-----|----|-----|----|-----|----|-----|
| Basic   | \$ | .09 | \$ | .12 | \$ | .23 | \$ | .28 |
| Diluted | \$ | .09 | \$ | .12 | \$ | .23 | \$ | .28 |

The computation of diluted EPS excludes outstanding stock options and convertible debt in certain periods in which the inclusion of such options and debt would be antidilutive in the periods presented. Total options and convertible debentures not currently included in the computation of dilutive EPS are as follows (in shares):

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|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
|  | <b>(In thousands)</b>                  |             | <b>(In thousands)</b>                |             |
| Antidilutive options                                     | 9,697                                  | 3,526       | 9,576                                | 1,544       |
| Antidilutive convertible debentures                      | 121                                    | 52          |                                      | 52          |
| Total common stock equivalents excluded from computation | 9,818                                  | 3,578       | 9,576                                | 1,596       |

We adopted the provision of FSP No. Emerging Issues Task Force (EITF) 03-6-1 *Determining Whether Instruments Granted in Share-based Payment Transactions are Participating Securities*, on January 1, 2009. Our adoption had no material impact on our reported EPS as reflected in these unaudited condensed consolidated financial statements.

**17. Divestiture-Related Activities**

As divestitures occur in the normal course of business, gains or losses on the sale of such businesses are recognized in the income statement line item *(Loss) gain on divestitures and impairment charges, net*. Additionally, as divestitures occur pursuant to our ongoing asset sale programs, adjustments are made through this income statement line item to reflect the difference between actual proceeds received from the sale compared to the original estimates.

*(Loss) gain on divestitures and impairment charges, net* consists of the following:

|                                  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|----------------------------------|--|-------------|--------------------------------------|-------------|
|                                  | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
|                                  | <b>(In thousands)</b>                  |             | <b>(In thousands)</b>                |             |
| Gain (loss) on divestitures, net | \$ 960                                 | \$ 604      | \$ 11,825                            | \$ (8,471)  |
| Impairment losses                | (7,249)                                | (4,462)     | (10,884)                             | (7,433)     |
|                                  | \$ (6,289)                             | \$ (3,858)  | \$ 941                               | \$ (15,904) |

In the second quarter of 2009, we recognized \$9.9 million in impairment charges and asset divestitures partially offset by a \$3.6 million gain due to the release of social security indemnifications related to our former French operations. In the first half of 2009, we recognized \$16.8 million in impairment charges and asset divestitures offset by a \$17.7 million gain due to the release of VAT and social security indemnifications and a reduction of certain litigation indemnifications related to our former French operations. See Note 15 for further discussion of the indemnification liability.

***Assets Held for Sale***

Net assets held for sale were as follows:

|   | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|--------------------------|------------------------------|
|   | <b>(In thousands)</b>    |                              |
| Assets:   |                          |                              |
| Current assets  | \$ 1,397                 | \$ 1,279                     |
| Preneed funeral receivables, net and trust investments  | 2,055                    | 3,099                        |
| Preneed cemetery receivables, net and trust investments | 50,894                   | 49,985                       |
| Cemetery property, at cost                              | 10,190                   | 11,047                       |
| Property and equipment, net                             | 6,040                    | 1,386                        |



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|   |           |           |
|---|-----------|-----------|
| Deferred charges and other assets         | 11,220    | 11,748    |
| Cemetery perpetual care trust investments | 19,976    | 20,247    |
| Total assets                              | 101,772   | 98,791    |
| Liabilities:                              |           |           |
| Accounts payable and accrued liabilities  | 659       | 465       |
| Deferred preneed funeral revenues         | 2,380     | 2,640     |
| Deferred preneed cemetery revenues        | 53,111    | 51,730    |
| Other liabilities                         | 930       | 920       |
| Care trusts corpus                        | 19,976    | 20,247    |
| Total liabilities                         | 77,056    | 76,002    |
| Net assets held for sale                  | \$ 24,716 | \$ 22,789 |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**The Company**

We are North America's leading provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At June 30, 2009, we operated 1,264 funeral service locations and 365 cemeteries (including 207 combination locations) in North America, which are geographically diversified across 43 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral segment also includes the operations of 12 funeral homes in Germany that we intend to exit when economic values and conditions are conducive to a sale. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We sell cemetery property and funeral and cemetery products and services at the time of need and on a preneed basis.

Our financial stability is further enhanced by our \$6.5 billion backlog of future revenues from both trust and insurance-funded sales at June 30, 2009, which is the result of preneed funeral and cemetery sales. We believe we have the financial strength and flexibility to reward shareholders through dividends while maintaining a prudent capital structure and pursuing new opportunities for profitable growth.

**Financial Condition, Liquidity and Capital Resources*****Recent Volatility in Financial Markets***

The weakened economy has negatively impacted our preneed cemetery property sales. In the first half of 2009, preneed and atneed comparable cemetery property production declined 12.5%, which significantly decreased our cemetery revenue. However, in the second quarter of 2009, we did see some recovery, with preneed and atneed comparable cemetery property production declining only 9.2% from the prior year second quarter, which was better than expectations. See Item 1A of our Form 10-K for the fiscal year ended December 31, 2008 for further discussion of risks presented by the weakening economy.

Our funeral, cemetery merchandise and service, and cemetery perpetual care trusts have been and continue to be impacted by adverse conditions in the U.S. and global financial markets. The fair market value of our trust investments declined sharply in the second half of 2008. In the first half of 2009, we realized aggregate net losses (excluding impairments) of \$67.1 million in our preneed funeral and cemetery merchandise and service trusts. In addition, we realized aggregate net losses (excluding impairments) of \$7.4 million in our cemetery perpetual care trusts.

As of June 30, 2009, we have cumulative net unrealized losses of \$319.4 million in our preneed funeral and cemetery merchandise and service trusts, and cumulative net unrealized losses of \$132.2 million in our cemetery perpetual care trusts, as discussed in Notes 4, 5, and 6 in Part I, Item 1, Financial Statements. In the second quarter of 2009, we experienced some recovery in our trust investments. During the second quarter of 2009, we had investment activity that reduced the net unrealized losses by \$181.4 million in our preneed funeral and cemetery merchandise and service trusts, and net unrealized losses by \$57.1 million in our cemetery perpetual care trusts. At June 30, 2009, these net unrealized losses represented 17% of our original cost basis of \$2.6 billion. As explained in Critical Accounting Policies, Fair Value Measurements in our 2008 Annual Report on Form 10-K, changes in unrealized gains and/or losses related to these securities are reflected in *Other comprehensive income (loss)* and offset by the *Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts' corpus* interests in those unrealized gains and/or losses. Therefore, the majority of these significant net unrealized losses are not reflected in our consolidated statement of operations for the six months ended June 30, 2009. We do, however, rely on our trust investments to provide funding for the various contractual obligations that arise upon maturity of the underlying preneed contracts. Because of the long-term relationship between the establishment of trust investments and the required performance of the underlying contractual obligations, the impact of current market conditions that may exist at any given time is not necessarily indicative of our ability to generate profit on our future performance obligations.

***Trust Investments***

In addition to selling our products and services to client families at the time of need, we sell price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery services and merchandise. Since preneed funeral and cemetery services or merchandise will not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery

contracts be paid into trusts until the merchandise is delivered or the service is performed. Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery services and merchandise in the future for the prices that were guaranteed at the time of sale.

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Also, we are required by state or provincial law to pay a portion of the proceeds from the sale of cemetery property interment rights into perpetual care trusts. For these investments, the original corpus remains in the trust in perpetuity and the net ordinary earnings are intended to offset the expense to maintain the cemetery property. The majority of states require that net gains or losses are retained and added to the corpus, but certain states allow the net realized gains and losses to be included in the income that is distributed.

Independent trustees manage and invest all of the funds deposited into the funeral and cemetery merchandise and service trusts as well as the cemetery perpetual care trusts. The trustees are selected based on their respective geographic footprint and qualifications per state regulations. All of the trustees engage the same independent investment advisor. The investment guidelines are governed by state and provincial legislation. The trustees, with input from the investment advisor, establish an investment policy that serves as an operating document to guide the investment activities of the trusts including asset allocation and manager selection. Asset allocation is based on regulatory guidelines and matched to the liability structure of each trust.

The investment advisor recommends investment managers to the trustees that are selected on the basis of various criteria set forth in the investment policy. The primary investment objectives for the funeral and cemetery merchandise and service trusts include (1) achieving growth of principal over time sufficient to preserve and increase the purchasing power of the assets; (2) producing current income to support the specific objectives of each trust type; and (3) preserving capital within acceptable levels of volatility. Preneed funeral and cemetery contracts generally take years to mature. Therefore, the funds associated with these contracts are often invested for several market cycles. While cemetery perpetual care trusts share the same investment objectives as listed above, these trusts emphasize providing a steady stream of investment income with some capital appreciation. The trusts seek to control risk and volatility through a combination of asset class, manager, and security level diversification.

The market values of our trust investments at June 30, 2009 are detailed below (in thousands).

|   | <b>Funeral<br/>Merchandise<br/>and Service</b> | <b>Cemetery<br/>Merchandise<br/>and<br/>Service</b> | <b>Total<br/>Funeral<br/>and<br/>Cemetery<br/>Merchandise<br/>and Service</b> | <b>Cemetery<br/>Perpetual<br/>Care<br/>Funds</b> | <b>Total</b> |
|---|--|---|---|--|--------------|
| Fixed income securities:                          |  |   |   |  |              |
| U.S. Treasury                                     | \$ 34,419                                      | \$ 45,661   | \$ 80,080   | \$ 5,788   | \$ 85,868    |
| Canadian government                               | 83,220   | 13,853  | 97,073  | 24,233   | 121,306      |
| Corporate   | 30,473   | 8,781   | 39,254  | 38,648   | 77,902       |
| Mortgage-backed                                   | 5,380  | 14,017  | 19,397  | 3,242  | 22,639       |
| Asset-backed                                      | 150  |   | 150   |  | 150          |
| Equity securities:                                |  |   |   |  |              |
| Preferred stock                                   |  |   |   | 6,125  | 6,125        |
| Common stock (based on<br>investment objectives): |  |   |   |  |              |
| Growth  | 135,581  | 190,566   | 326,147   | 2,882  | 329,029      |
| Value   | 141,321  | 212,395   | 353,716   | 87,973   | 441,689      |
| Mutual funds:                                     |  |   |   |  |              |
| Equity  | 78,471   | 169,652   | 248,123   | 78,853   | 326,976      |
| Fixed income                                      | 140,211  | 155,735   | 295,946   | 444,377  | 740,323      |
| Private equity                                    | 11,017   | 3,985   | 15,002  | 8,048  | 23,050       |
| Other   | 1,329  | 1,403   | 2,732   | 6,349  | 9,081        |
|   | 661,572  | 816,048   | 1,477,620   | 706,518  | 2,184,138    |

|   |              |            |              |            |              |
|---|--------------|------------|--------------|------------|--------------|
| Assets associated with businesses held for sale | (2,167)      | (45,669)   | (47,836)     | (19,976)   | (67,812)     |
| Cash and cash equivalents                       | 165,181      | 136,194    | 301,375      | 81,198     | 382,573      |
| Insurance-backed fixed income securities        | 207,890      |            | 207,890      |            | 207,890      |
| Total trust assets                              | \$ 1,032,476 | \$ 906,573 | \$ 1,939,049 | \$ 767,740 | \$ 2,706,789 |

As of the end of the quarter, 95% of our trusts were under the control and custody of four preferred trustees. The three large U.S. trustees primarily use common trust fund structures as the investment vehicle for their trusts. Through the common trust fund structure, each respective trustee manages the allocation of assets through individual managed accounts or institutional mutual funds. In the event a particular state prohibits the use of a common trust fund as a qualified investment, the trustee utilizes institutional mutual funds. The U.S. trusts include a modest allocation to alternative investments, which are comprised primarily of private equity and real estate investments. These investments are structured as limited liability companies (LLCs) and are managed by certain trustees. The trusts that are eligible to allocate a portion of their investments to alternative investments purchase units of the respective LLCs.

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### *Fixed Income Securities*

Fixed income investments are intended to preserve principal, provide a source of current income, and reduce overall portfolio volatility. The SCI trusts have direct investments primarily in government fixed income securities.

Canadian government fixed income securities are investments in Canadian federal and provincial government instruments. In many cases, regulatory restrictions mandate that the funds from the sales of preneed funeral and cemetery products sold in certain Canadian jurisdictions must be invested in these instruments.

### *Equity Securities*

Equity investments have historically provided long-term capital appreciation in excess of inflation. The SCI trusts have direct investments primarily in domestic equity portfolios that include large, mid and small capitalization companies of different investment objectives (i.e., growth and value). The majority of the equity portfolio is managed by multiple institutional investment managers that specialize in an objective-specific area of expertise. Our equity securities are exposed to market risk; however, these securities are well diversified. As of June 30, 2009, the largest single equity position represented less than 1% of the total equity securities portfolio.

### *Mutual Funds*

The SCI trust funds employ institutional mutual funds where operationally or economically efficient. Institutional mutual funds are utilized to invest in various asset classes including US equities, non-US equities, convertible bonds, corporate bonds, government bonds, Treasury inflation protected securities (TIPS), high yield bonds, real estate investment trusts (REITs), and commodities. The mutual funds are governed by guidelines outlined in their individual prospectuses.

### *Private Equity*

The objective of these investments is to provide high rates of return with controlled volatility. These investments are typically long-term in duration. These investments are diversified by strategy, sector, manager, and vintage year. Private equity exposure is accessed through LLCs established by certain preferred trustees. These LLCs invest in numerous limited partnerships, including private equity, fund of funds, distressed debt, real estate, and mezzanine financing. The trustees that have oversight of their respective LLCs work closely with the investment advisor in making all current investments.

### *Outlook for Trust Investments*

The trust fund income recognized from these investment assets continues to be volatile. During the recent economic downturn, the SCI trusts outperformed the broad market due to their diversified investment strategy. During the twelve months ended June 30, 2009, the Standard and Poor's 500 Index decreased approximately 26% and the combined SCI trusts decreased approximately 13%. During the three months ended June 30, 2009, the combined SCI trusts increased approximately 12%. As the capital markets continue to improve, the SCI trusts should participate in the recovery.

SCI, its trustees and the investment advisor continue to monitor the capital markets and the trusts on an ongoing basis. The trustees, with input from the investment advisor, will take prudent action as needed to achieve the investment goals and objectives of the trusts.

### *Capital Allocation Considerations*

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided \$211.1 million in the first half of 2009. Our current cash and cash equivalents balance is approximately \$190 million as of July 31, 2009. In addition, we have approximately \$250 million in excess borrowing capacity under our revolving credit facility.

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Our credit facility requires us to maintain certain leverage and interest coverage ratios. As of June 30, 2009, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of June 30, 2009 are as follows:

|                         | <b>Per credit agreement</b> | <b>Actual</b> |
|-------------------------|-----------------------------|---------------|
| Leverage ratio          | 4.25 (Max)                  | 3.63          |
| Interest coverage ratio | 2.75 (Min)                  | 3.50          |

Our financial covenant requirements under our credit facility become more restrictive over time. The future leverage and interest coverage ratios are as follows:

|            | <b>Leverage ratio (max)</b> |
|------------|-----------------------------|
| 2009       | 4.25                        |
| 2010       | 3.75                        |
| Thereafter | 3.50                        |

  

|                     | <b>Interest coverage ratio (min)</b> |
|---------------------|--------------------------------------|
| 2009 thru June 2010 | 2.75                                 |
| Thereafter          | 3.00                                 |

We currently have no significant maturities of long-term debt until November 2011. We believe these sources of liquidity can be supplemented by our ability to access the capital markets for additional debt or equity securities. However, given the current environment, interest rates on new borrowings are significantly higher than levels experienced in recent history. We believe that our cash on hand, future operating cash flows, and the available capacity under our credit facility will be adequate to meet our financial obligations over the next 12 months.

***Cash Flow***

We believe our ability to generate strong operating cash flow is one of our fundamental financial strengths and provides us with substantial flexibility in meeting operating and investing needs.

***Operating Activities***

Net cash provided by operating activities increased \$94.6 million in the first half of 2009 compared to the first half of 2008, which was primarily due to a \$90.0 million United States Federal transaction-related tax payment in 2008. We did experience declines in atneed customer cash receipts in both the funeral and cemetery segments which we believe primarily relates to the decrease in the number of deaths in our markets. However, customer collection rates related to our funeral and cemetery preneed contracts was in line with our expectations. These preneed cash collections, coupled with a \$26.5 million decrease in incentive compensation payments, a decrease in payroll cost of \$16.5 million primarily related to cost control initiatives, and \$14.4 million of lower variable merchandise costs resulted in operating cash flows that were in line with our expectations and comparable to prior year.

***Investing Activities*** Net cash used in investing activities decreased \$55.9 million in the first half of 2009 compared to the first half of 2008, primarily due to a decrease of \$25.6 million in capital expenditures, a \$21.6 million decrease in deposits of restricted funds, and a \$7.7 million decrease in acquisition activity.

***Financing Activities*** Net cash used in financing activities increased by \$49.6 million in the first half of 2009 compared to the first half of 2008, primarily due to a \$47.9 million increase in debt payments in 2009 to early extinguish certain of our debt.

***Financial Assurances***

In support of our operations, we have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance and/or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been used to support our preneed funeral and cemetery sales activities. The obligations

underlying these surety bonds are recorded on the unaudited condensed consolidated balance sheet as *Deferred preneed funeral revenues* and *Deferred preneed cemetery revenues*. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.



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|   | <b>June<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|------------------------------|------------------------------|
|   | <b>(Dollars in millions)</b> |                              |
| Preneed funeral   | \$ 126.8                     | \$ 130.6                     |
| Preneed cemetery:   |                              |                              |
| Merchandise and service                                       | 126.5                        | 132.4                        |
| Pre-construction  | 2.2                          | 2.9                          |
| <br>Bonds supporting preneed funeral and cemetery obligations | <br>255.5                    | <br>265.9                    |
| <br>Bonds supporting preneed business permits                 | <br>4.9                      | <br>5.1                      |
| Other bonds   | 19.3                         | 17.7                         |
| <br>Total surety bonds outstanding                            | <br>\$ 279.7                 | <br>\$ 288.7                 |

When selling preneed funeral and cemetery contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law. For the three months ended June 30, 2009 and 2008, we had \$6.3 million and \$7.9 million, respectively, of cash receipts attributable to bonded sales. For the six months ended June 30, 2009 and 2008, we had \$12.6 million and \$15.8 million, respectively, of cash receipts attributable to bonded sales. These amounts do not consider reductions associated with taxes, obtaining costs, or other costs.

Surety bond premiums are paid annually and are automatically renewable until maturity of the underlying preneed contracts, unless we are given prior notice of cancellation. Except for cemetery pre-construction bonds (which are irrevocable), the surety companies generally have the right to cancel the surety bonds at any time with appropriate notice. In the event a surety company were to cancel the surety bond, we are required to obtain replacement surety assurance from another surety company or fund a trust for an amount generally less than the posted bond amount. Management does not expect that we will be required to fund material future amounts related to these surety bonds because of lack of surety capacity or surety company non-performance.

***Preneed Funeral and Cemetery Activities and Backlog of Contracts***

Since preneed funeral and cemetery services or merchandise will not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into merchandise and service trusts until the merchandise is delivered or the service is performed. These trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. In certain situations, as described above, where permitted by state or provincial laws, we post a surety bond as financial assurance for a certain amount of the preneed funeral or cemetery contract in lieu of placing funds into trust accounts.

The tables below detail our results of preneed funeral and cemetery production and maturities, excluding insurance contracts, for the three and six months ended June 30, 2009 and 2008.

| <b>North America</b>         |             |                              |             |
|------------------------------|-------------|------------------------------|-------------|
| <b>Three Months Ended</b>    |             | <b>Six Months Ended</b>      |             |
| <b>June 30,</b>              |             | <b>June 30,</b>              |             |
| <b>2009</b>                  | <b>2008</b> | <b>2009</b>                  | <b>2008</b> |
| <b>(Dollars in millions)</b> |             | <b>(Dollars in millions)</b> |             |

**Funeral:**

Preneed trust-funded (including bonded):

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Sales production                           | \$ 37.8  | \$ 40.5  | \$ 76.0  | \$ 78.4  |
| Sales production (number of contracts)     | 7,022    | 8,464    | 14,358   | 15,973   |
| Maturities                                 | \$ 43.4  | \$ 51.7  | \$ 89.2  | \$ 108.2 |
| Maturities (number of contracts)           | 10,964   | 11,651   | 22,522   | 23,940   |
| <b>Cemetery:</b>                           |          |          |          |          |
| Sales production:                          |          |          |          |          |
| Preneed                                    | \$ 106.7 | \$ 110.5 | \$ 187.7 | \$ 200.5 |
| Atneed                                     | 62.0     | 63.4     | 121.7    | 131.2    |
| Total sales production                     | \$ 168.7 | \$ 173.9 | \$ 309.4 | \$ 331.7 |
| Sales production deferred to backlog:      |          |          |          |          |
| Preneed                                    | \$ 45.6  | \$ 46.2  | \$ 78.8  | \$ 80.8  |
| Atneed                                     | 47.7     | 48.8     | 94.1     | 99.9     |
| Total sales production deferred to backlog | \$ 93.3  | \$ 95.0  | \$ 172.9 | \$ 180.7 |
| Revenue recognized from backlog:           |          |          |          |          |
| Preneed                                    | \$ 37.3  | \$ 59.1  | \$ 67.9  | \$ 89.2  |
| Atneed                                     | 46.9     | 52.8     | 92.2     | 101.5    |
| Total revenue recognized from backlog      | \$ 84.2  | \$ 111.9 | \$ 160.1 | \$ 190.7 |

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*Insurance-Funded Preneed Funeral Contracts:* Where permitted by state or provincial law, customers may arrange their preneed funeral contract by purchasing a life insurance or annuity policy from third-party insurance companies, for which we earn a commission as general sales agent for the insurance company. The policy amount of the insurance contract between the customer and the third-party insurance company generally equals the amount of the preneed funeral contract. We do not reflect the unfulfilled insurance-funded preneed funeral contract amounts in our unaudited condensed consolidated balance sheet.

The table below details the results of insurance-funded preneed funeral production and maturities for the three and six months ended June 30, 2009 and 2008, and the number of contracts associated with those transactions.

|  | North America                  |         |                              |          |
|--|--------------------------------|---------|------------------------------|----------|
|  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |          |
|  | 2009                           | 2008    | 2009                         | 2008     |
|  | (Dollars in millions)          |         | (Dollars in millions)        |          |
| Preneed funeral insurance-funded (1):  |                                |         |                              |          |
| Sales production                       | \$ 82.0                        | \$ 81.6 | \$ 151.6                     | \$ 150.4 |
| Sales production (number of contracts) | 13,706                         | 13,610  | 25,665                       | 25,203   |
| General agency revenue                 | \$ 14.8                        | \$ 14.7 | \$ 26.6                      | \$ 26.2  |
| Maturities                             | \$ 59.3                        | \$ 58.9 | \$ 124.3                     | \$ 126.7 |
| Maturities (number of contracts)       | 11,104                         | 11,329  | 23,175                       | 24,941   |

(1) Amounts are not included in our unaudited condensed consolidated balance sheet.

*Backlog of Preneed Funeral and Cemetery Contracts:* The following table reflects our backlog of trust-funded deferred preneed funeral and cemetery contract revenues, including amounts related to *Deferred preneed funeral and cemetery receipts held in trust*, as of June 30, 2009. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our unaudited condensed consolidated balance sheet) at June 30, 2009. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on historical experience.

The table also reflects our preneed funeral and cemetery receivables and trust investments (market and cost bases) associated with the backlog of deferred preneed funeral and cemetery contract revenues, net of the estimated cancellation allowance. We believe that the table below is meaningful because it sets forth the aggregate amount of future revenues we expect to recognize as a result of preneed sales, as well as the amount of assets associated with those revenues. Because the future revenues exceed the asset amounts, future revenues will exceed the cash distributions actually received from the associated trusts.

|                                   | June 30, 2009         |         |
|-----------------------------------|-----------------------|---------|
|                                   | Market                | Cost    |
|                                   | (Dollars in billions) |         |
| Deferred preneed funeral revenues | \$ 0.59               | \$ 0.59 |

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|  |         |         |
|--|---------|---------|
| Deferred preneed funeral receipts held in trust  | 1.03    | 1.15    |
|  | \$ 1.62 | \$ 1.74 |
| Allowance for cancellation on trust investments  | (0.11)  | (0.11)  |
| Backlog of trust-funded deferred preneed funeral revenues  | \$ 1.51 | \$ 1.63 |
| Backlog of insurance-funded preneed funeral revenues   | 3.41    | 3.41    |
| Total backlog of preneed funeral revenues  | \$ 4.92 | \$ 5.04 |
| Preneed funeral receivables and trust investments  | \$ 1.25 | \$ 1.37 |
| Allowance for cancellation on trust investments  | (0.10)  | (0.10)  |
| Assets associated with backlog of trust-funded deferred preneed funeral revenues, net of estimated allowance for cancellation      | \$ 1.15 | \$ 1.27 |
| Insurance policies associated with insurance-funded deferred preneed funeral revenues, net of estimated allowance for cancellation | 3.41    | 3.41    |
| Total assets associated with backlog of preneed funeral revenues   | \$ 4.56 | \$ 4.68 |
| Deferred preneed cemetery revenues   | \$ 0.81 | \$ 0.81 |
| Deferred preneed cemetery receipts held in trust   | 0.91    | 1.10    |
|  | \$ 1.72 | \$ 1.91 |

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|   | <b>June 30, 2009</b>         |             |
|---|------------------------------|-------------|
|   | <b>Market</b>                | <b>Cost</b> |
|   | <b>(Dollars in billions)</b> |             |
| Allowance for cancellation on trust investments   | (0.14)                       | (0.14)      |
| Backlog of deferred cemetery revenues   | \$ 1.58                      | \$ 1.77     |
| Preneed cemetery receivables and trust investments  | \$ 1.19                      | \$ 1.38     |
| Allowance for cancellation on trust investments   | (0.12)                       | (0.12)      |
| Assets associated with backlog of deferred cemetery revenues, net of estimated allowance for cancellation | \$ 1.07                      | \$ 1.26     |

The difference between the backlog and asset amounts represents the contracts for which we have posted surety bonds as financial assurance in lieu of trusting, the amounts collected from customers that were not required to be deposited into trust, and allowable cash distributions from trust assets. The table also reflects the amounts expected to be received from insurance companies through the assignment of policy proceeds related to insurance-funded funeral contracts.

**Results of Operations Three Months Ended June 30, 2009 and 2008*****Management Summary***

Key highlights in the second quarter of 2009 were as follows:

Funeral gross profit decreased \$1.2 million or 1.7%, due to the impact of lower funeral services performed and a decrease in funeral trust fund income, which were partially offset by lower variable merchandise costs and a decline in personnel costs related to work-force initiatives; and

Cemetery gross profit decreased \$4.2 million due to revenue declines, which were largely offset by lower variable selling compensation and merchandise expenses and a decline in personnel costs related to work-force initiatives.

***Results of Operations***

In the second quarter of 2009, we reported net income attributable to common stockholders of \$23.1 million (\$.09 per diluted share) compared to net income in the second quarter of 2008 of \$31.4 million (\$.12 per diluted share).

These results were impacted by the following items:

a net after-tax loss on asset sales of \$5.7 million in the second quarter of 2009, primarily due to an impairment charge on various locations in North America partially offset by a reduction in indemnifications related to our former French operations, as compared to an after-tax loss on asset sales of \$3.4 million in the second quarter of 2008;

change in certain tax reserves of \$2.4 million in the second quarter of 2009 as compared to \$1.2 million in the second quarter of 2008;

an after-tax gain from the early extinguishment of debt of \$1.2 million in the second quarter of 2009; and

an after-tax loss from discontinued operations of \$0.4 million in the second quarter of 2008.

**Consolidated Versus Comparable Results**

The table below reconciles our consolidated GAAP results to our comparable, or same store, results for the three months ended June 30, 2009 and 2008. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2008 and ending June 30, 2009.

The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

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| Three Months Ended          |              | Less:<br>Results<br>Associated<br>with<br>Acquisition/<br>New | Less:<br>Results<br>Associated<br>with<br>Divestitures |    |            |
|-----------------------------|--------------|---|--|----|------------|
| June 30, 2009               | Consolidated | Construction  |  |    | Comparable |
|                             |              | (Dollars in millions)   |  |    |            |
| North America Revenue       |              |   |  |    |            |
| Funeral revenue             | \$ 341.2     | \$ 1.1  | \$ 4.9   | \$ | 335.2      |
| Cemetery revenue            | 171.2        |   | 2.2  |    | 169.0      |
|                             | 512.4        | 1.1   | 7.1  |    | 504.2      |
| Germany revenue             | 1.5          |   |  |    | 1.5        |
| Total revenue               | \$ 513.9     | \$ 1.1  | \$ 7.1   | \$ | 505.7      |
| North America Gross Profits |              |   |  |    |            |
| Funeral gross profits       | \$ 71.2      | \$ 0.4  | \$ 0.3   | \$ | 70.5       |
| Cemetery gross profits      | 30.7         |   | 1.3  |    | 29.4       |
|                             | 101.9        | 0.4   | 1.6  |    | 99.9       |
| Germany gross profits       | (0.1)        |   |  |    | (0.1)      |
| Total gross profits         | \$ 101.8     | \$ 0.4  | \$ 1.6   | \$ | 99.8       |

| Three Months Ended          |              | Less:<br>Results<br>Associated<br>with<br>Acquisition/<br>New<br>Construction | Less:<br>Results<br>Associated<br>with<br>Divestitures |     | Comparable |
|-----------------------------|--------------|---|--|-----|------------|
| June 30, 2008               | Consolidated | (Dollars in millions)   |  |     |            |
| North America Revenue       |              |   |  |     |            |
| Funeral revenue             | \$ 361.4     | \$  | 0.1  | \$  | 356.7      |
| Cemetery revenue            | 185.5        |   |  | 0.6 | 184.9      |
|                             | 546.9        |   | 0.1  | 5.2 | 541.6      |
| Germany revenue             | 1.9          |   |  |     | 1.9        |
| Total revenue               | \$ 548.8     | \$  | 0.1  | \$  | 543.5      |
| North America Gross Profits |              |   |  |     |            |
| Funeral gross profits       | \$ 72.2      | \$  | 0.3  | \$  | 72.9       |
| Cemetery gross profits      | 34.9         |   |  | 0.1 | 34.8       |

|                       |          |    |     |    |       |    |       |
|-----------------------|----------|----|-----|----|-------|----|-------|
|                       | 107.1    |    | 0.3 |    | (0.9) |    | 107.7 |
| Germany gross profits | 0.1      |    |     |    |       |    | 0.1   |
| Total gross profits   | \$ 107.2 | \$ | 0.3 | \$ | (0.9) | \$ | 107.8 |

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the three months ended June 30, 2009 and 2008. We calculate average revenue per funeral service by dividing consolidated funeral revenue, excluding General Agency (GA) revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the consolidated number of funeral services performed during the period.

|  | <b>Three Months Ended<br/>June 30,</b>   |             |
|--|--|-------------|
|  | <b>2009</b>  | <b>2008</b> |
|  | <b>(Dollars in millions, except<br/>average revenue per<br/>funeral<br/>service)</b> |             |
| Consolidated funeral revenue                     | \$ 342.7   | \$ 363.3    |
| Less: consolidated GA revenue                    | 14.8   | 14.7        |
| Less: other revenue                              | 2.4  | 2.6         |
| Adjusted consolidated funeral revenue            | \$ 325.5   | \$ 346.0    |
| Consolidated funeral services performed          | 63,749   | 67,919      |
| Consolidated average revenue per funeral service | \$ 5,106   | \$ 5,094    |

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the three months ended June 30, 2009 and 2008. We calculate average revenue per funeral service by dividing comparable funeral revenue, excluding comparable GA revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the comparable number of funeral services performed during the period.



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|  | <b>Three Months Ended<br/>June 30,</b>   |             |
|--|--|-------------|
|  | <b>2009</b>  | <b>2008</b> |
|  | <b>(Dollars in millions, except<br/>average revenue per<br/>funeral<br/>service)</b> |             |
| Comparable funeral revenue                     | \$ 336.7   | \$ 358.6    |
| Less: comparable GA revenue                    | 14.7   | 14.7        |
| Less: other revenue                            | 2.4  | 2.5         |
| Adjusted comparable funeral revenue            | \$ 319.6   | \$ 341.4    |
| Comparable funeral services performed          | 62,433   | 67,169      |
| Comparable average revenue per funeral service | \$ 5,119   | \$ 5,083    |

***Funeral Results******Funeral Revenue***

Consolidated revenues from funeral operations were \$342.7 million in the second quarter of 2009 compared to \$363.3 million in the same period in 2008. This decrease is due to a 6.1% decline in funeral services performed, an unfavorable Canadian currency impact of \$5.3 million, and \$4.9 million in decreased trust fund income.

***Funeral Services Performed***

Our consolidated funeral services performed decreased 6.1% in the second quarter of 2009 compared to the same period in 2008. Our comparable funeral services performed decreased 7.1% in the second quarter of 2009 compared to the same period in 2008. We believe the decline in deaths in our markets is consistent with trends experienced by other funeral service providers and industry vendors. Our comparable cremation rate of 42.9% in the second quarter of 2009 increased slightly from 42.7% in 2008.

***Average Revenue Per Funeral***

Our consolidated average revenue per funeral service increased \$12, or 0.2% in the second quarter of 2009 compared to the same period in 2008. Our comparable average revenue per funeral service increased \$36, or 0.7%, in the second quarter of 2009 over the same period in 2008. Excluding an unfavorable Canadian currency impact of \$5.3 million and decreased trust fund income, the comparable average revenue per funeral service grew approximately 4%.

***Funeral Gross Profit***

Consolidated funeral gross profits decreased \$1.2 million in the second quarter of 2009 compared to same period in 2008. The consolidated gross margin percentage increased to 20.7% from 19.9%. Comparable funeral gross profits decreased \$2.6 million, or 3.6%, when compared to the same period in 2008. This decrease is due to the impact of lower funeral services performed and a decrease in funeral trust fund income, which were partially offset by lower variable merchandise costs and a decline in personnel costs related to work-force initiatives.

***Cemetery Results******Cemetery Revenue***

Consolidated revenues from our cemetery operations decreased \$14.3 million, or 7.7%, in the second quarter of 2009 compared to the same period in 2008. Comparable cemetery revenues declined \$15.9 million, or 8.6%, when compared with the same period in 2008. This decrease was primarily driven by a \$7.7 million decline in property production as well as a \$4.2 million decline in merchandise revenue, which was in line with our expectations and continued to be impacted by negative consumer sentiment resulting from the difficult economic environment. Other revenue decreased \$2.8 million as cemetery trust fund income recognized from our preneed merchandise and service trusts declined \$2.0 million due to negative market returns experienced in late 2008 and early 2009.



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### *Cemetery Gross Profits*

Consolidated cemetery gross profit decreased \$4.2 million, or 12.0%, in the second quarter of 2009 compared to the same period in 2008. Our consolidated cemetery gross margin percentage was 17.9% compared to 18.8% in the same period in 2008. These decreases reflect the revenue declines discussed above, which were partially offset by lower variable selling compensation expenses and a decline in personnel costs related to work-force initiatives. The cemetery gross profit in the quarter exceeded our expectations as cost control initiatives and higher-than-expected property production more than offset lower-than-expected at need revenues due to a reduced number of deaths in our markets.

### ***Other Financial Statement Items***

#### *General and Administrative Expenses*

*General and administrative expenses* were \$26.5 million in the second quarter of 2009 compared to \$21.7 million in the second quarter of 2008 primarily due to increases in certain legal and investigative fees and higher compensation expenses, including life insurance benefits related to prior periods as discussed in Part I, Item 1. Financial Statements, Note 2.

#### *Gain (Loss) on Divestitures and Impairment Charges, Net*

We recognized a \$6.3 million net pre-tax loss on divestitures and impairment in the second quarter of 2009. This loss was due primarily to a \$9.9 million impairment charge on various locations in North America partially offset by a \$3.6 million release of social security indemnifications related to our former French operations. In the second quarter of 2008, we recognized a \$3.9 million net pretax loss from impairment charges and asset divestitures primarily associated with non-strategic funeral and cemetery businesses in the United States and Canada.

#### *Interest Expense*

Interest expense decreased to \$32.4 million in the second quarter of 2009, compared to \$33.3 million in the second quarter of 2008. The decrease was primarily due to recent debt repayments. For additional information see Part I, Item 1. Financial Statements, Note 9.

#### *Gain on Early Extinguishment of Debt*

During the second quarter of 2009, we purchased \$64.7 million of our senior notes and debentures on the open market. As a result of these transactions, we recognized a gain of \$1.8 million, which represents the write-off of unamortized deferred loan costs of \$0.8 million and a \$2.6 million discount to early extinguish the debt. For additional information regarding these debt payments, see Part I, Item 1. Financial Statements, Note 9.

#### *Provision for Income Taxes*

The income tax rate was 40.9% in the second quarter of 2009 as compared to 39.1% in the second quarter of 2008.

#### *Weighted Average Shares*

The diluted weighted average number of shares outstanding was 251.1 million in the second quarter of 2009, compared to 263.1 million in the second quarter of 2008, reflecting share repurchases under our Board-approved share repurchase program.

## **Results of Operations Six Months Ended June 30, 2009 and 2008**

### ***Management Summary***

Key highlights in the first half of 2009 were as follows:

Funeral gross profit decreased \$25.7 million or 14.2%, due to the impact of lower funeral services performed and a decrease in funeral trust fund income, which were partially offset by lower variable merchandise costs and a decline in personnel costs related to work-force initiatives; and

Cemetery gross profit decreased \$17.2 million due to revenue declines, which were largely offset by lower variable selling

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compensation and merchandise expenses and a decline in personnel costs related to work-force initiatives.

***Results of Operations***

In the first half of 2009, we reported net income attributable to common stockholders of \$57.6 million (\$.23 per diluted share) compared to net income in the first half of 2008 of \$72.9 million (\$.28 per diluted share). These results were impacted by the following items:

a net after-tax loss on asset sales of \$3.0 million in the first half of 2009 partially offset by a reduction in indemnifications related to our former French operations, as compared to an after-tax loss on asset sales of \$11.6 million in the first half of 2008;

change in certain tax reserves of \$2.4 million in the second quarter of 2009 as compared to \$2.6 million in the second quarter of 2008;

an after-tax gain from the early extinguishment of debt of \$2.1 million in the first half of 2009;

an after-tax expense related to our acquisition and integration of Alderwoods of \$0.7 million in the first half of 2008; and

an after-tax loss from discontinued operations of \$0.4 million in the first half of 2008.

**Consolidated Versus Comparable Results**

The table below reconciles our consolidated GAAP results to our comparable, or same store, results for the six months ended June 30, 2009 and 2008. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2008 and ending June 30, 2009. The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

| Six Months Ended            |              | Less:<br>Results<br>Associated<br>with<br>Acquisition/<br>New<br>Construction | Less:<br>Results<br>Associated<br>with<br>Divestitures |            |
|-----------------------------|--------------|---|--|------------|
| June 30, 2009               | Consolidated | (Dollars in millions)   | Comparable   |            |
| North America Revenue       |              |   |  |            |
| Funeral revenue             | \$ 704.4     | \$ 1.7  | \$ 10.6  | \$ 692.1   |
| Cemetery revenue            | 316.9        |   | 4.3  | 312.6      |
|                             | 1,021.3      | 1.7   | 14.9   | 1,004.7    |
| Germany revenue             | 3.2          |   |  | 3.2        |
| Total revenue               | \$ 1,024.5   | \$ 1.7  | \$ 14.9  | \$ 1,007.9 |
| North America Gross Profits |              |   |  |            |
| Funeral gross profits       | \$ 155.0     | \$ 0.5  | \$ (1.5)   | \$ 156.0   |
| Cemetery gross profits      | 46.7         |   | 1.7  | 45.0       |
|                             | 201.7        | 0.5   | 0.2  | 201.0      |
| Germany gross profits       | 0.2          |   |  | 0.2        |

|                     |    |       |    |     |    |     |    |       |
|---------------------|----|-------|----|-----|----|-----|----|-------|
| Total gross profits | \$ | 201.9 | \$ | 0.5 | \$ | 0.2 | \$ | 201.2 |
|---------------------|----|-------|----|-----|----|-----|----|-------|

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| <b>Six Months Ended</b>     |                     | <b>Less:<br/>Results<br/>Associated<br/>with<br/>Acquisition/<br/>New<br/>Construction</b> | <b>Less:<br/>Results<br/>Associated<br/>with<br/>Divestitures</b> | <b>Comparable</b> |
|-----------------------------|---------------------|--|---|-------------------|
| <b>June 30, 2008</b>        | <b>Consolidated</b> | <b>(Dollars in millions)</b>   |   |                   |
| North America Revenue       |                     |  |   |                   |
| Funeral revenue             | \$ 765.0            | \$ 0.1   | \$ 10.4   | \$ 754.5          |
| Cemetery revenue            | 353.4               | 0.1  | 1.5   | 351.8             |
|                             | 1,118.4             | 0.2  | 11.9  | 1,106.3           |
| Germany revenue             | 3.8                 |  |   | 3.8               |
| Total revenue               | \$ 1,122.2          | \$ 0.2   | \$ 11.9   | \$ 1,110.1        |
| North America Gross Profits |                     |  |   |                   |
| Funeral gross profits       | \$ 180.6            | \$ 0.3   | \$ (1.0)  | \$ 181.3          |
| Cemetery gross profits      | 63.9                |  |   | 63.9              |
|                             | 244.5               | 0.3  | (1.0)   | 245.2             |
| Germany gross profits       | 0.3                 |  |   | 0.3               |
| Total gross profits         | \$ 244.8            | \$ 0.3   | \$ (1.0)  | \$ 245.5          |

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the six months ended June 30, 2009 and 2008. We calculate average revenue per funeral service by dividing consolidated funeral revenue, excluding GA revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the consolidated number of funeral services performed during the period.

|  | <b>Six Months Ended<br/>June 30,</b>   |             |
|--|--|-------------|
|  | <b>2009</b>  | <b>2008</b> |
|  | <b>(Dollars in millions, except<br/>average revenue per<br/>funeral<br/>service)</b> |             |
| Consolidated funeral revenue                     | \$ 707.6   | \$ 768.8    |
| Less: consolidated GA revenue                    | 26.6   | 26.2        |
| Less: other revenue                              | 4.1  | 4.9         |
| Adjusted consolidated funeral revenue            | \$ 676.9   | \$ 737.7    |
| Consolidated funeral services performed          | 133,078  | 145,305     |
| Consolidated average revenue per funeral service | \$ 5,086   | \$ 5,077    |

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the six months ended June 30, 2009 and 2008. We calculate average revenue per funeral service by dividing

comparable funeral revenue, excluding comparable GA revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the comparable number of funeral services performed during the period.

|  | Six Months Ended<br>June 30,   |          |
|--|--|----------|
|  | 2009   | 2008     |
|  | (Dollars in millions, except<br>average revenue per<br>funeral<br>service) |          |
| Comparable funeral revenue                     | \$ 695.3   | \$ 758.3 |
| Less: comparable GA revenue                    | 26.4   | 26.3     |
| Less: other revenue                            | 4.3  | 4.7      |
| Adjusted comparable funeral revenue            | \$ 664.6   | \$ 727.3 |
| Comparable funeral services performed          | 130,148  | 143,412  |
| Comparable average revenue per funeral service | \$ 5,106   | \$ 5,071 |

### ***Funeral Results***

#### ***Funeral Revenue***

Consolidated revenues from funeral operations were \$707.6 million in the first half of 2009 compared to \$768.8 million in the same period in 2008. This decrease is due to an 8.4% decline in funeral services performed, an unfavorable Canadian currency impact of \$13.3 million, and \$10.2 million in decreased trust fund income.

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### *Funeral Services Performed*

Our consolidated funeral services performed decreased 8.4% in the first half of 2009 compared to the same period in 2008. Our comparable funeral services performed decreased 9.2% in the first half of 2009 compared to the same period in 2008. We believe the decline in deaths in our markets is consistent with trends experienced by other funeral service providers and industry vendors and was due in part to a relatively mild influenza season compared to the first half of 2008 and an additional day due to a leap year in the prior year quarter. Our comparable cremation rate of 42.9% in the first half of 2009 increased from 41.9% in 2008.

### *Average Revenue Per Funeral*

Our consolidated average revenue per funeral service increased \$9, or 0.2% in the first half of 2009 compared to the same period in 2008. Our comparable average revenue per funeral service increased \$35, or 0.7%, in the first half of 2009 over the same period in 2008. Excluding an unfavorable Canadian currency impact of \$13.3 million and decreased trust fund income, the comparable average revenue per funeral service grew approximately 4%.

### *Funeral Gross Profit*

Consolidated funeral gross profits decreased \$25.7 million in the first half of 2009 compared to same period in 2008. The consolidated gross margin percentage decreased to 21.9% from 23.5%. Comparable funeral gross profits decreased \$25.4 million, or 14.0%, when compared to the same period in 2008. This decrease is due to the impact of lower funeral services performed and a decrease in funeral trust fund income, which were partially offset by lower variable merchandise costs and a decline in personnel costs related to work-force initiatives.

### ***Cemetery Results***

#### *Cemetery Revenue*

Consolidated revenues from our cemetery operations decreased \$36.5 million, or 10.3%, in the first half of 2009 compared to the same period in 2008. Comparable cemetery revenues declined \$39.2 million, or 11.1%, when compared with the same period in 2008. This decrease was primarily driven by a \$15.4 million decline in comparable recognized preneed revenues as well as a \$12.6 million decline in atneed revenues, which was in line with our expectations and continued to be impacted by negative consumer sentiment resulting from the difficult economic environment. Other revenue decreased \$8.9 million as cemetery trust fund income recognized from our preneed merchandise and service trusts declined \$7.5 million due to negative market returns experienced in late 2008 and early 2009.

#### *Cemetery Gross Profits*

Consolidated cemetery gross profit decreased \$17.2 million, or 26.9%, in the first half of 2009 compared to the same period in 2008. Our consolidated cemetery gross margin percentage was 14.7% compared to 18.1% in the same period in 2008. These decreases reflect the revenue declines discussed above, which were partially offset by lower variable selling compensation expenses and a decline in personnel costs related to work-force initiatives. The cemetery gross profit in the first half of 2009 exceeded our expectations as cost control initiatives helped to offset lower-than-expected atneed revenues due to a reduced number of deaths in our markets.

### ***Other Financial Statement Items***

#### *General and Administrative Expenses*

General and administrative expenses were \$48.3 million in the first half of 2009 compared to \$46.7 million in the first half of 2008 primarily due to increases in certain legal and investigative fees.

#### *Gain (Loss) on Divestitures and Impairment Charges, Net*

We recognized a \$0.9 million net pre-tax gain on divestitures and impairment in the first half of 2009. This gain was due to a \$16.8 million impairment charge and asset divestitures offset by a \$17.7 million release of VAT, social security, and litigation



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indemnifications related to our former French operations. In the first half of 2008, we recognized a \$15.9 million net pretax loss from impairment charges and asset divestitures primarily associated with non-strategic funeral and cemetery businesses in the United States and Canada.

### *Interest Expense*

Interest expense decreased to \$64.1 million in the first half of 2009, compared to \$67.4 million in the first half of 2008. The decrease was primarily due to repayment and maturity of our senior notes and debentures, and lower rates associated with floating rate debt. For additional information see Part I, Item 1. Financial Statements, Note 9.

### *Gain on Early Extinguishment of Debt*

During the first half of 2009, we purchased \$74.0 million of our senior notes and debentures on the open market. As a result of these transactions, we recognized a gain of \$3.4 million, which represents the write-off of unamortized deferred loan costs of \$1.0 million and a \$4.4 million discount to early extinguish the debt. For additional information regarding the debt payments, see Part I, Item 1. Financial Statements, Note 9.

### *Provision for Income Taxes*

The income tax rate was 38.7% in the first half of 2009 as compared to 38.2% in the first half of 2008.

### *Weighted Average Shares*

The diluted weighted average number of shares outstanding was 250.7 million in the first half of 2009, compared to 264.2 million in the first half of 2008, reflecting share repurchases under our Board-approved share repurchase program.

## **Critical Accounting Policies**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Except as described below, our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

### *Noncontrolling Interests*

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (SFAS 160), which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as an unconsolidated investment, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. We adopted the provisions of SFAS 160 on January 1, 2009. As a result, we have modified our condensed consolidated statement of operations, condensed consolidated balance sheet, condensed consolidated statement of cash flows, and condensed consolidated statement of stockholders' equity to incorporate the required disclosure of noncontrolling interest information as required by SFAS 160.

During our examination of SFAS 160 and its impact on our current accounting, we determined that balances historically designated as *non-controlling interest* in our consolidated preneed funeral and cemetery trusts and our cemetery perpetual care trusts do not meet the criteria for non-controlling interest as prescribed by SFAS 160. SFAS 160 indicates that only a financial instrument classified as equity in the trusts' financial statements can be a non-controlling interest in the consolidated financial statements. The interest related to our merchandise and service trusts is classified as a liability because the preneed contracts underlying these trusts are unconditionally redeemable upon the occurrence of an event that is certain to occur. In addition, since the earnings from our cemetery perpetual care trusts are used to support the maintenance of our cemeteries, the interest in these trusts also retains the characteristics of a liability. Accordingly, effective December 31, 2008, we re-characterized the amounts historically described as *Non-controlling interest in funeral and cemetery trusts* as either *Deferred preneed funeral receipts held in trust* or *Deferred preneed cemetery receipts held in trust*, as appropriate. Additionally we re-characterized the amounts historically described as *Non-controlling interest in cemetery perpetual care trusts* as *Care trusts corpus*.



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### *Fair Value Measurements*

We measure the available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis in accordance with SFAS No. 157,

*Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about instruments measured at fair value. SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certain available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts have been classified in Level 3 of the SFAS 157 hierarchy due to significant management judgment required as a result of the absence of quoted market prices, inherent lack of liquidity, or the long-term nature of the securities. For additional disclosures required by SFAS 157 for all of our available-for-sale securities, see Part I, Item 1. Financial Statements, Notes 4, 5, and 6.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP 157-2 provided a one-year deferral of the effective date of SFAS 157 for non-financial assets and liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In accordance with FSP 157-2, we adopted the provisions of SFAS 157 for our non-financial assets and liabilities, such as goodwill and property and equipment, that we disclose or recognize at fair value on a nonrecurring basis as of January 1, 2009. As none of our non-financial assets or liabilities within the scope of SFAS 157 experienced an event that required fair value measurement in the first half of 2009, our adoption of SFAS 157 for these assets and liabilities has had no impact on our results of operations, consolidated financial position, or cash flows.

### ***Recent Accounting Pronouncements and Accounting Changes***

For discussion of recent accounting pronouncements and accounting changes, see Part I, Item 1. Financial Statements, Note 3.

### ***Cautionary Statement on Forward-Looking Statements***

The statements in this Form 10-Q that are not historical facts are forward-looking statements made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. These statements may be accompanied by words such as believe, estimate, project, expect, anticipate, or predict, that convey the uncertainty of future events or outcomes. These statements are based on assumptions that we believe are reasonable; however, many important factors could cause our actual results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by us, or on our behalf. Important factors, which could cause actual results to differ materially from those in forward-looking statements include, among others, the following:

Changes in general economic conditions, both domestically and internationally, impacting financial markets (e.g., marketable security values, access to capital markets, as well as currency and interest rate fluctuations) that could negatively affect us, particularly, but not limited to, levels of trust fund income, interest expense, and negative currency translation effects.

Changes in operating conditions such as supply disruptions and labor disputes.

Our inability to achieve the level of cost savings, productivity improvements or earnings growth anticipated by management, whether due to significant increases in energy costs (e.g., electricity, natural gas, and fuel oil), costs of other materials, employee-related costs or other factors.

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Inability to complete acquisitions, divestitures or strategic alliances as planned or to realize expected synergies and strategic benefits.

The outcomes of pending lawsuits, proceedings, and claims against us and the possibility that insurance coverage is deemed not to apply to these matters or that an insurance carrier is unable to pay any covered amounts to us.

Allegations regarding compliance with laws, regulations, industry standards, and customs regarding funeral or burial procedures and practices.

The amounts payable by us with respect to our outstanding legal matters exceed our established reserves.

Amounts that we may be required to replenish into our affiliated funeral and cemetery trust funds to meet minimal funding requirements.

The outcome of pending Internal Revenue Service audits. We maintain accruals for tax liabilities that relate to uncertain tax matters. If these tax matters are unfavorably resolved, we will make any required payments to tax authorities. If these tax matters are favorably resolved, the accruals maintained by us will no longer be required, and these amounts will be released through the tax provision at the time of resolution.

Our ability to manage changes in consumer demand and/or pricing for our products and services due to several factors, such as changes in numbers of deaths, cremation rates, competitive pressures, and local economic conditions.

Changes in domestic and international political and/or regulatory environments in which we operate, including potential changes in tax, accounting, and trusting policies.

Changes in credit relationships impacting the availability of credit and the general availability of credit in the marketplace.

Our ability to successfully access surety and insurance markets at a reasonable cost.

Our ability to successfully leverage our substantial purchasing power with certain of our vendors.

The effectiveness of our internal control over financial reporting, and our ability to certify the effectiveness of the internal controls and to obtain an unqualified attestation report of our auditors regarding the effectiveness of our internal control over financial reporting.

The possibility that restrictive covenants in our credit agreement and privately placed debt securities may prevent us from engaging in certain transactions.

Our ability to buy our common stock under our share repurchase programs, which could be impacted by, among others, restrictive covenants in our bank agreements, unfavorable market conditions, the market price of our common stock, the nature of other investment opportunities presented to us from time to time, and the availability of funds necessary to continue purchasing common stock.

The financial condition of third-party insurance companies that fund our preneed funeral contracts may impact our future revenues.

Continued economic crisis and financial market declines could reduce future potential earnings and cash flows and could result in future goodwill impairment.

The weakening economy may cause customers to reassess preneed funeral or cemetery arrangements or decrease the amounts atneed customers are willing to pay or consider cremation as opposed to burial.

Changes in our funeral and cemetery trust funds, investments in equity securities, fixed income securities, and mutual funds could be significantly negatively impacted by the weakening economy.

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2008 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at

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www.sci-corp.com. We assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Marketable Equity and Debt Securities Price Risk**

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices.

Cost and market values as of June 30, 2009 are presented in Part I, Item 1. Financial Statements and Notes 4, 5, and 6 of this Form 10-Q. Also, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, *Financial Conditions, Liquidity and Capital Resources*, for discussion of recent volatility in financial markets.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

As of June 30, 2009, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission ( SEC ) reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In light of the material weakness set forth below, these officers have concluded that our disclosure controls and procedures were not effective as of June 30, 2009. To address the material weakness described below, we performed additional review and analysis and other post-closing procedures to ensure that our income tax provision and related tax disclosures were prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Based on the additional procedures performed, management has concluded that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, result of operations and cash flows for the periods presented in conformity with US GAAP.

#### **Material Weaknesses in Internal Control over Financial Reporting and Status of Remediation Efforts**

As reported in our Form 10-K as of December 31, 2008, we did not maintain effective internal control over financial reporting as of December 31, 2008 as a result of the material weakness in accounting for income taxes. Specifically, we did not maintain effective controls over the completeness and accuracy of our quarterly and year-end tax provision calculations and related deferred income taxes and income taxes payable in accordance with US GAAP.

In response to the identified material weakness, our management, with oversight from our Audit Committee, has dedicated significant resources to enhance our internal control over financial reporting and to remedy the identified material weakness. However, this material weakness continues to exist as of June 30, 2009. Management is in the process of conducting an assessment of the Company's accounting for income tax processes with the assistance of an outside Big Four public accounting firm. This assessment will identify areas for process and technological improvements to integrate tax information, optimize the tax organization structure, and reduce manual processes. Additionally, management has implemented, or will implement, the remediation steps listed in Item 9A of our Annual Report on Form 10-K to enhance our internal controls over the calculation of our income tax provision and related balance sheet accounts.

We believe these remediation steps, once implemented, will address the material weakness in our accounting for income taxes, and will enhance our internal control over financial reporting and our disclosure controls and procedures.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over

financial reporting.



**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

Information regarding legal proceedings is set forth in Note 15 in Item 1 of Part I of this Form 10-Q, which information is hereby incorporated by reference herein.

**Item 1A. Risk Factors**

There have been no material changes in our Risk Factors as set forth in Item 1A of our Form 10-K for the fiscal year ended December 31, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On April 30, 2009, we issued 1,732 deferred common stock equivalents, or units, pursuant to provisions regarding dividends under the Amended and Restated Director Fee Plan to four non-employee directors. We did not receive any monetary consideration for the issuances. These issuances were unregistered because they did not constitute a sale within the meaning of Section 2(3) of the Securities Act of 1933, as amended.

As of June 30, 2009, the aggregate purchases pursuant to our share repurchase program totaled \$1.0 billion. As of June 30, 2009, the remaining authorized dollar value of shares that may yet be purchased under our share repurchase program was approximately \$123.4 million. No shares were repurchased in the first half of 2009.

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

On May 13, 2009, we held our annual meeting of shareholders and elected four directors. The shares voting on the director nominees were cast as follows:

|  | <b>Nominee</b>     | <b>Votes for</b> | <b>Abstentions or<br/>votes<br/>withheld</b> |
|--|--------------------|------------------|--|
|  | R. L. Waltrip      | 220,224,367      | 4,229,103                                    |
|  | Anthony L. Coelho  | 190,930,715      | 33,522,756                                   |
|  | A. J. Foyt, Jr.    | 220,223,279      | 4,230,191                                    |
|  | Edward E. Williams | 182,760,338      | 41,693,132                                   |

In addition, the shareholders approved the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009. The shares voting were cast as follows:

| <b>Votes for</b> | <b>Votes against</b> | <b>Abstentions or votes withheld</b> | <b>Broker non-votes</b> |
|------------------|----------------------|--------------------------------------|-------------------------|
| 222,653,528      | 1,493,123            | 306,818                              | 0                       |

**Item 6. Exhibits**

10.1 Executive Deferred Compensation Plan

12.1 Ratio of earnings to fixed charges for the three and six months ended June 30, 2009 and 2008.

31.1 Certification of Thomas L. Ryan as Chief Executive Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Periodic Financial Reports by Thomas L. Ryan as Chief Executive Officer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Periodic Financial Reports by Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002.

Undertaking

We hereby undertake, pursuant to Regulation S-K, Item 601(b), paragraph (4) (iii), to furnish to the U.S. Securities and Exchange Commission, upon request, all constituent instruments defining the rights of holders of our long-term debt not filed herewith for the reason that the total amount of securities authorized under any of such instruments does not exceed 10 percent of our total consolidated assets.

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**SIGNATURE**

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.

August 6, 2009

SERVICE CORPORATION  
INTERNATIONAL

By: /s/ Tammy R. Moore  
Tammy R. Moore  
Corporate Controller  
(Chief Accounting Officer)

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Index to Exhibits

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