

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

July 30, 2010

Table of Contents

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

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

For the quarterly period ended June 30, 2010

or

**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 July 26, 2010 was 246,810,831 (net of treasury shares).

**SERVICE CORPORATION INTERNATIONAL
INDEX**

| | Page |
|---|-------------|
| <u>Glossary</u> | 3 |
| <u>Part I. Financial Information</u> | |
| <u>Item 1. Financial Statements</u> | 4 |
| <u>Unaudited Condensed Consolidated Statement of Operations Three and Six Months Ended June 30, 2010 and 2009</u> | 4 |
| <u>Unaudited Condensed Consolidated Balance Sheet June 30, 2010 and December 31, 2009</u> | 5 |
| <u>Unaudited Condensed Consolidated Statement of Cash Flows Six Months Ended June 30, 2010 and 2009</u> | 6 |
| <u>Unaudited Condensed Consolidated Statement of Equity Six Months Ended June 30, 2010 and 2009</u> | 7 |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | 8 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 34 |
| <u>The Company</u> | 34 |
| <u>Financial Condition, Liquidity, and Capital Resources</u> | 35 |
| <u>Results of Operations Three and Six Months Ended June 30, 2010 and 2009</u> | 40 |
| <u>Critical Accounting Policies</u> | 47 |
| <u>Cautionary Statement on Forward-Looking Statements</u> | 47 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 49 |
| <u>Item 4. Controls and Procedures</u> | 49 |
| <u>Part II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 49 |
| <u>Item 1A. Risk Factors</u> | 49 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 50 |
| <u>Item 6. Exhibits</u> | 50 |
| <u>Signature</u> | 51 |
| <u>EX-12.1</u> | |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |
| <u>EX-32.2</u> | |
| <u>EX-101 INSTANCE DOCUMENT</u> | |
| <u>EX-101 SCHEMA DOCUMENT</u> | |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u> | |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u> | |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u> | |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u> | |

Table of Contents

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 a death occurring.

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)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|--------------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Revenues | \$ 555,273 | \$ 513,949 | \$ 1,086,136 | \$ 1,024,544 |
| Costs and expenses | (445,975) | (412,124) | (864,531) | (822,599) |
| Gross profit | 109,298 | 101,825 | 221,605 | 201,945 |
| General and administrative expenses | (26,974) | (26,466) | (53,175) | (48,252) |
| Gains (losses) on divestitures and impairment charges, net | 13,602 | (6,289) | 13,122 | 941 |
| Operating income | 95,926 | 69,070 | 181,552 | 154,634 |
| Interest expense | (32,483) | (32,386) | (64,784) | (64,056) |
| (Loss) gain on early extinguishment of debt | (291) | 1,830 | (291) | 3,440 |
| Other income, net | 4,273 | 1,388 | 2,389 | 545 |
| Income before income taxes | 67,425 | 39,902 | 118,866 | 94,563 |
| Provision for income taxes | (27,198) | (16,322) | (47,314) | (36,603) |
| Net income | 40,227 | 23,580 | 71,552 | 57,960 |
| Net loss (income) attributable to noncontrolling interests | 58 | (476) | (355) | (326) |
| Net income attributable to common stockholders | 40,285 | 23,104 | 71,197 | 57,634 |
| Basic earnings per share | \$.16 | \$.09 | \$.28 | \$.23 |
| Diluted earnings per share | \$.16 | \$.09 | \$.28 | \$.23 |
| Basic weighted average number of shares | 251,763 | 250,977 | 253,074 | 250,461 |
| Diluted weighted average number of shares | 253,583 | 251,130 | 254,862 | 250,672 |
| Dividends declared per share | \$.04 | \$.04 | \$.08 | \$.08 |

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)
(In thousands, except share amounts)

| | June 30, 2010 | December 31, 2009 |
|---|--------------------------|------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 152,242 | \$ 179,745 |
| Receivables, net | 83,646 | 92,189 |
| Deferred tax assets | 52,270 | 51,534 |
| Inventories | 33,155 | 31,117 |
| Current assets held for sale | 515 | 1,197 |
| Other | 23,909 | 21,640 |
| Total current assets | 345,737 | 377,422 |
| Preneed funeral receivables, net and trust investments | 1,335,778 | 1,356,353 |
| Preneed cemetery receivables, net and trust investments | 1,362,650 | 1,382,717 |
| Cemetery property, at cost | 1,500,550 | 1,489,065 |
| Property and equipment, net | 1,657,873 | 1,591,074 |
| Non-current assets held for sale | 234 | 80,901 |
| Goodwill | 1,284,114 | 1,201,332 |
| Deferred charges and other assets | 404,427 | 522,389 |
| Cemetery perpetual care trust investments | 914,664 | 889,689 |
| Total Assets | \$ 8,806,027 | \$ 8,890,942 |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 303,156 | \$ 314,277 |
| Current maturities of long-term debt | 26,838 | 49,957 |
| Current liabilities held for sale | | 501 |
| Income taxes | 4,018 | 2,236 |
| Total current liabilities | 334,012 | 366,971 |
| Long-term debt | 1,835,661 | 1,840,532 |
| Deferred preneed funeral revenues | 588,037 | 596,966 |
| Deferred preneed cemetery revenues | 826,757 | 817,543 |
| Deferred tax liability | 293,969 | 246,730 |
| Non-current liabilities held for sale | 649 | 68,332 |
| Other liabilities | 380,693 | 378,768 |
| Deferred preneed funeral and cemetery receipts held in trust | 2,147,443 | 2,201,403 |
| Care trusts corpus | 914,832 | 890,909 |
| Commitments and contingencies (Note 16) | | |
| Equity: | | |
| Common stock, \$1 per share par value, 500,000,000 shares authorized, 254,947,906 and 254,027,384 shares issued, respectively, and | 248,708 | 254,017 |

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248,707,810 and 254,017,384 shares outstanding, respectively

| | | |
|--|--------------|--------------|
| Capital in excess of par value | 1,672,942 | 1,735,493 |
| Accumulated deficit | (532,679) | (603,876) |
| Accumulated other comprehensive income | 94,637 | 97,142 |
| Total common stockholders' equity | 1,483,608 | 1,482,776 |
| Noncontrolling interests | 366 | 12 |
| Total equity | 1,483,974 | 1,482,788 |
| Total liabilities and equity | \$ 8,806,027 | \$ 8,890,942 |

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

| | Six Months Ended | |
|--|-------------------------|-------------|
| | June 30, | |
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 71,552 | \$ 57,960 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss (gain) on early extinguishment of debt | 291 | (3,440) |
| Depreciation and amortization | 58,343 | 55,438 |
| Amortization of intangible assets | 12,136 | 10,855 |
| Amortization of cemetery property | 14,366 | 13,940 |
| Amortization of loan costs | 2,286 | 1,694 |
| Provision for doubtful accounts | 1,640 | 5,905 |
| Provision for deferred income taxes | 32,420 | 32,924 |
| Gains on divestitures and impairment charges, net | (13,122) | (941) |
| Share-based compensation | 4,545 | 5,168 |
| Excess tax benefits from share-based awards | (695) | |
| Change in assets and liabilities, net of effects from acquisitions and divestitures: | | |
| Decrease in receivables | 11,034 | 12,642 |
| Decrease in other assets | 5,255 | 9,183 |
| (Decrease) increase in payables and other liabilities | (7,925) | 4,105 |
| Effect of preneed funeral production and maturities: | | |
| Decrease in preneed funeral receivables, net and trust investments | 32,095 | 11,019 |
| (Decrease) increase in deferred preneed funeral revenue | (5,805) | 4,752 |
| Decrease in deferred preneed funeral receipts held in trust | (26,897) | (15,838) |
| Effect of cemetery production and deliveries: | | |
| Increase in preneed cemetery receivables, net and trust investments | (20,321) | (5,369) |
| Increase in deferred preneed cemetery revenue | 17,536 | 20,794 |
| Decrease in deferred preneed cemetery receipts held in trust | (2,227) | (9,673) |
| Other | (477) | |
| Net cash provided by operating activities | 186,030 | 211,118 |
| Cash flows from investing activities: | | |
| Capital expenditures | (41,614) | (42,470) |
| Proceeds from divestitures and sales of property and equipment, net | 59,878 | 14,788 |
| Acquisitions | (281,792) | (219) |
| Net withdrawals of restricted funds and other | 26,441 | 129 |
| Net cash used in investing activities | (237,087) | (27,772) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 175,000 | |
| Debt issuance costs | (6,203) | |
| Payments of debt | (31,807) | (31,689) |
| Early extinguishment of debt | (23,091) | (69,540) |
| Principal payments on capital leases | (11,867) | (13,045) |

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| | | |
|---|------------|------------|
| Proceeds from exercise of stock options | 1,456 | 2,363 |
| Excess tax benefits from share-based awards | 695 | |
| Purchase of Company common stock | (55,225) | |
| Payments of dividends | (20,352) | (20,020) |
| Bank overdrafts and other | (7,336) | (13,394) |
| Net cash provided by (used in) financing activities | 21,270 | (145,325) |
| Effect of foreign currency on cash and cash equivalents | 2,284 | 3,971 |
| Net (decrease) increase in cash and cash equivalents | (27,503) | 41,992 |
| Cash and cash equivalents at beginning of period | 179,745 | 128,397 |
| Cash and cash equivalents at end of period | \$ 152,242 | \$ 170,389 |

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

| | Common Stock | Treasury Stock | Capital in Excess of Par Value | Accumulated Deficit | Accumulated Other Comprehensive Income | Noncontrolling Interests | Total |
|--|-----------------|-------------------|--------------------------------------|------------------------|---|-----------------------------|--------------|
| Balance at December 31, 2008 | \$ 249,953 | \$ (481) | \$ 1,733,814 | \$ (726,756) | \$ 36,649 | \$ | \$ 1,293,179 |
| Net income | | | | 57,634 | | 326 | 57,960 |
| Dividends declared on common stock (\$0.08 per share) | | | (20,085) | | | | (20,085) |
| Foreign currency translation | | | | | 21,258 | | 21,258 |
| Employee share-based compensation earned | | | 5,168 | | | | 5,168 |
| Stock option exercises | 631 | | 1,732 | | | | 2,363 |
| Restricted stock awards, net of forfeitures | 830 | | (830) | | | | |
| Noncontrolling interest payments | | | | | | (105) | (105) |
| Other | 1 | 71 | 383 | | | | 455 |
| Balance at June 30, 2009 | \$ 251,415 | \$ (410) | \$ 1,720,182 | \$ (669,122) | \$ 57,907 | \$ 221 | \$ 1,360,193 |
| Balance at December 31, 2009 | \$ 254,027 | \$ (10) | \$ 1,735,493 | \$ (603,876) | \$ 97,142 | 12 | \$ 1,482,788 |
| Net income | | | | 71,197 | | 355 | 71,552 |
| Dividends declared on common stock (\$0.08 per share) | | | (20,063) | | | | (20,063) |
| Foreign currency translation | | | | | (2,505) | (1) | (2,506) |
| Employee share-based | | | 4,545 | | | | 4,545 |

| | | | | | | | |
|---|------------|------------|--------------|--------------|-----------|--------|--------------|
| compensation earned | | | | | | | |
| Stock option exercises | 386 | | 1,070 | | | | 1,456 |
| Tax benefits related to share based awards | | | 875 | | | | 875 |
| Restricted stock awards, net of forfeitures | 532 | | (532) | | | | |
| Purchase of Company common stock | | (6,290) | (48,935) | | | | (55,225) |
| Other | 3 | 60 | 489 | | | | 552 |
| Balance at June 30, 2010 | \$ 254,948 | \$ (6,240) | \$ 1,672,942 | \$ (532,679) | \$ 94,637 | \$ 366 | \$ 1,483,974 |

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

1. Nature of Operations

We are North America's largest 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 memorialization 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, 2009, 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 have evaluated subsequent events for the six months ended June 30, 2010.

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.

We recorded several immaterial adjustments to correct errors related to prior accounting periods during the three and six months ended June 30, 2010. We do not believe these adjustments are quantitatively or qualitatively material to our unaudited condensed consolidated financial statements for the three and six months ended June 30, 2010, after considering our expected 2010 annual financial results nor were such items quantitatively or qualitatively material to any of our prior annual or quarterly financial statements. The net impact of these adjustments was a decrease to our pre-tax income and net income in the amount of \$2.6 million and \$1.6 million, respectively, for the three months ended June 30, 2010. The net impact of these adjustments was a decrease to our pre-tax income and net income in the amount of \$1.3 million and \$1.0 million, respectively, for the six months ended June 30, 2010.

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, 2009. 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.

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) amended its authoritative guidance to improve financial reporting by enterprises involved with variable interest entities (VIE). Specifically, the amended guidance addresses: (1) the impact resulting from the elimination of the qualifying special-purpose entity concept in previously issued guidance, and (2) constituent concerns about the application of certain key provisions of the existing guidance on the consolidation of variable interest entities, including those in which the accounting and disclosures under the existing guidance do not always provide timely and useful information about an enterprise s

Table of Contents

involvement in a VIE. The amended guidance was effective for us on January 1, 2010, and its adoption did not significantly impact our unaudited condensed consolidated financial statements.

In December 2009, the FASB issued additional guidance on improving financial reporting by enterprises involved with variable interest entities by clarifying the principal objectives of required disclosures, which include: (1) the significant judgments and assumptions made by a reporting unit, (2) the nature of restrictions on a consolidated VIE's assets reported by a reporting entity in its statement of financial position, including the carrying amounts of such assets and liabilities, (3) the nature of, and changes in, the risks associated with a reporting entity's involvement with the VIE, and (4) how a reporting entity's involvement with the VIE affects the reporting entity's financial position, financial performance, and cash flows. The amended guidance was effective for us on January 1, 2010, and its adoption did not significantly impact our unaudited condensed consolidated financial statements.

Fair Value Measurements

In January 2010, the FASB amended the Fair Value Measurements Topic of the Accounting Standards Codification (ASC) to require additional disclosures on (1) transfers between levels, (2) Level 3 activity presented on a gross basis, (3) valuation technique, and (4) inputs into the valuation. We adopted Items 1, 3, and 4 during the three months ended March 31, 2010, and the adoption did not impact our unaudited condensed consolidated financial statements. Item 2 will be effective for us in the first quarter of 2011, and we do not believe this guidance will have a significant impact on our unaudited condensed consolidated financial statements.

Equity

In January 2010, the FASB provided additional guidance under the Equity Topic of the ASC to eliminate multiple approaches to accounting for elective distributions to shareholders. The additional guidance clarifies that the stock performance of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in aggregate is considered a share in issuance. This guidance was effective for us on January 1, 2010, and retroactive application is required. The adoption did not significantly impact our unaudited condensed consolidated financial statements.

Consolidation

In January 2010, the FASB amended the guidance under the Consolidation Topic of the ASC to clarify the scope of a decrease in ownership of a subsidiary. The amended guidance was effective for us on January 1, 2010, and its adoption did not significantly impact our unaudited condensed consolidated financial statements.

3. Recently Issued Accounting Standards***Stock-Based Compensation***

In April 2010, the FASB issued additional guidance for the Compensation – Stock Compensation Topic of the ASC to clarify classification of an employee stock-based payment award when the exercise price is denominated in the currency of a market in which the underlying equity security trades. This guidance becomes effective for us on January 1, 2011. We do not believe this guidance will have any impact on our unaudited condensed consolidated financial condition or results of operations.

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 variable interest entities as defined in the Consolidation Topic of the ASC. In accordance with this guidance, 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 as variable interest entities. 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.

Table of Contents

Preneed funeral receivables, net and trust investments are reduced by the trust investment earnings (realized and unrealized) that we have been allowed to withdraw in certain states prior to maturity. These earnings are recorded in *Deferred preneed funeral revenues* until the service is performed or the merchandise is delivered.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Deposits | \$ 21,350 | \$ 23,271 | \$ 42,523 | \$ 40,387 |
| Withdrawals | 27,728 | 30,766 | 59,738 | 53,941 |
| Purchases of available-for-sale securities | 162,203 | 63,574 | 313,303 | 130,484 |
| Sales of available-for-sale securities | 136,713 | 110,484 | 314,499 | 175,545 |
| Realized gains from sales of available-for-sale securities | 9,005 | 5,056 | 20,498 | 7,358 |
| Realized losses from sales of available-for-sale securities | (15,212) | (15,455) | (33,657) | (41,193) |

The components of *Preneed funeral receivables, net and trust investments* in our unaudited condensed consolidated balance sheet at June 30, 2010 and December 31, 2009 are as follows:

| | June 30, 2010 | December 31, 2009 |
|---|------------------|----------------------|
| | (In thousands) | |
| Trust investments, at market | \$ 775,782 | \$ 771,945 |
| Cash and cash equivalents | 129,869 | 153,126 |
| Insurance-backed fixed income securities | 217,949 | 214,255 |
| Assets associated with businesses held for sale | | (377) |
| Trust investments | 1,123,600 | 1,138,949 |
| Receivables from customers | 252,323 | 256,009 |
| Unearned finance charge | (5,788) | (6,129) |
| | 1,370,135 | 1,388,829 |
| Allowance for cancellation | (34,357) | (32,476) |
| Preneed funeral receivables and trust investments | \$ 1,335,778 | \$ 1,356,353 |

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair market value at June 30, 2010 and December 31, 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 (including debt as well as the estimated fair value related to the contract holder's equity in majority-owned real estate investments). The fair market value of our funeral merchandise and service trust investments, in the aggregate, was 92% and 96% of the related cost basis of such investments as of June 30, 2010 and December 31, 2009, respectively.

June 30, 2010
Unrealized Unrealized

| | Cost | Gains | Losses | Fair Market Value |
|-----------------------------|-----------------------|--------------|---------------|----------------------------------|
| | (In thousands) | | | |
| Fixed income securities: | | | | |
| U.S. Treasury | \$ 69,772 | \$ 1,958 | \$ (261) | \$ 71,469 |
| Canadian government | 118,594 | 975 | (57) | 119,512 |
| Corporate | 33,429 | 967 | (1,050) | 33,346 |
| Residential mortgage-backed | 6,923 | 188 | (9) | 7,102 |
| Asset-backed | 3,071 | 106 | (1) | 3,176 |
| Equity securities: | | | | |
| Preferred stock | 2,022 | 6 | (169) | 1,859 |
| Common stock: | | | | |
| United States | 267,877 | 24,241 | (32,562) | 259,556 |

10

Table of Contents

| | June 30, 2010 | | | Fair Market Value |
|-----------------------------|--------------------------|-----------------------------|------------------------------|----------------------------------|
| | Cost | Unrealized Gains | Unrealized Losses | |
| | (In thousands) | | | |
| Canada | 22,795 | 2,663 | (1,597) | 23,861 |
| Other International | 17,997 | 351 | (5,204) | 13,144 |
| Mutual funds: | | | | |
| Equity | 122,338 | 422 | (35,927) | 86,833 |
| Fixed income | 141,919 | 4,399 | (10,101) | 136,217 |
| Private equity | 24,833 | 1,518 | (15,095) | 11,256 |
| Other | 8,950 | 376 | (875) | 8,451 |
| Trust investments | \$ 840,520 | \$ 38,170 | \$ (102,908) | \$ 775,782 |
| | | | | |
| | December 31, 2009 | | | Fair Market Value |
| | Cost | Unrealized Gains | Unrealized Losses | |
| | (In thousands) | | | |
| Fixed income securities: | | | | |
| U.S. Treasury | \$ 40,065 | \$ 1,258 | \$ (65) | \$ 41,258 |
| Canadian government | 104,713 | 1,430 | (47) | 106,096 |
| Corporate | 29,778 | 2,091 | (21) | 31,848 |
| Residential mortgage-backed | 6,573 | 119 | (10) | 6,682 |
| Asset-backed | 3,188 | 76 | | 3,264 |
| Equity securities: | | | | |
| Common stock: | | | | |
| United States | 284,392 | 37,212 | (22,811) | 298,793 |
| Canada | 25,535 | 2,707 | (873) | 27,369 |
| Other International | 17,336 | 1,324 | (2,686) | 15,974 |
| Mutual funds: | | | | |
| Equity | 118,018 | 2,277 | (27,153) | 93,142 |
| Fixed income | 151,918 | 2,135 | (18,586) | 135,467 |
| Private equity | 24,445 | 1,529 | (14,808) | 11,166 |
| Other | 1,503 | 359 | (976) | 886 |
| Trust investments | \$ 807,464 | \$ 52,517 | \$ (88,036) | \$ 771,945 |

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 as required by the Fair Value Measurements and Disclosures (FVM&D) Topic of the ASC.

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 an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These funds are classified as Level 2 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

The valuation of private equity and other alternative 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, which is an income approach for fair value model, 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. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of June 30, 2010, our unfunded commitment for our private equity and other investments was \$12.2 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

Table of Contents

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

| | Quoted Market Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Market Value |
|--|--|---|--|--|
| | (In thousands) | | | |
| Trust investments at June 30, 2010 | \$519,611 | \$ 236,464 | \$ 19,707 | \$775,782 |
| Trust investments at December 31, 2009 | \$570,745 | \$ 189,148 | \$ 12,052 | \$771,945 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Fair market value, beginning balance | \$ 12,117 | \$ 12,988 | \$ 12,052 | \$ 40,880 |
| Net unrealized losses included in <i>Accumulated other comprehensive income</i> (1) | (724) | (1,594) | (1,070) | (7,210) |
| Net realized (losses) gains included in <i>Other income, net</i> (2) | (11) | | (23) | 19 |
| Purchases, sales, contributions, and distributions, net | 8,325 | 952 | 8,748 | 548 |
| Transfers out of Level 3 | | | | (21,891) |
| Fair market value, ending balance | \$ 19,707 | \$ 12,346 | \$ 19,707 | \$ 12,346 |

(1) All losses recognized in *Accumulated other comprehensive income* for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a

corresponding reclassification in *Accumulated 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 (losses) gains recognized in *Other income, 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, 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 2010 to 2040. Maturities of fixed income securities at June 30, 2010 are estimated as follows:

| | Fair Market Value (In thousands) |
|--------------------------|---|
| Due in one year or less | \$ 134,679 |
| Due in one to five years | 44,336 |
| Due in five to ten years | 38,267 |
| Thereafter | 17,323 |
| | \$ 234,605 |

Earnings from all trust investments are recognized in current 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 these trust investments were \$7.7 million and \$5.0 million for the three months ended June 30, 2010 and 2009, respectively. Recognized earnings (realized and unrealized) related to these trust investments were \$15.8 million and \$10.9 million for the six months ended June 30, 2010 and 2009, respectively.

Table of Contents

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, net* and a decrease to *Preneed funeral receivables, net and trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other income, net*, which reduces *Deferred preneed funeral receipts held in trust*. See Note 7 for further information related to our *Deferred preneed funeral receipts held in trust*. We recorded a \$1.1 million and \$6.2 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities for the three and six months ended June 30, 2010, respectively. We recorded a \$3.7 million and \$10.4 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities for the three and six months ended June 30, 2009, respectively.

We have determined that the remaining unrealized losses in our funeral merchandise and service trust investments 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. 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 merchandise and service trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of June 30, 2010 and December 31, 2009, respectively, are shown in the following tables.

| | In Loss Position | | June 30, 2010 In Loss Position Greater Than 12 Months | | Total | |
|--|----------------------------------|------------------------------|--|------------------------------|----------------------------------|------------------------------|
| | Less Than 12 Months | | Months | | | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| | | | (In thousands) | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | \$ 2,934 | \$ (236) | \$ 661 | \$ (25) | \$ 3,595 | \$ (261) |
| Canadian government | 15,510 | (57) | | | 15,510 | (57) |
| Corporate | 13,534 | (1,050) | | | 13,534 | (1,050) |
| Residential | | | | | | |
| mortgage-backed | 388 | (5) | 154 | (4) | 542 | (9) |
| Asset-backed | 205 | (1) | | | 205 | (1) |
| Equity securities: | | | | | | |
| Preferred Stock | 1,522 | (169) | | | 1,522 | (169) |
| Common stock: | | | | | | |
| United States | 120,576 | (19,057) | 31,538 | (13,505) | 152,114 | (32,562) |
| Canada | 5,639 | (1,156) | 1,821 | (441) | 7,460 | (1,597) |
| Other International | 8,153 | (2,758) | 3,301 | (2,446) | 11,454 | (5,204) |
| Mutual funds: | | | | | | |
| Equity | 24,427 | (3,863) | 52,485 | (32,064) | 76,912 | (35,927) |
| Fixed income | 33,656 | (1,713) | 10,284 | (8,388) | 43,940 | (10,101) |
| Private equity | 5,655 | (959) | 19,144 | (14,136) | 24,799 | (15,095) |
| Other | 7,964 | (234) | 696 | (641) | 8,660 | (875) |
| Total temporarily impaired securities | \$ 240,163 | \$ (31,258) | \$ 120,084 | \$ (71,650) | \$ 360,247 | \$ (102,908) |

Table of Contents

| | In Loss Position | | December 31, 2009 | | Total | |
|---------------------------------------|---------------------|-------------------|------------------------|-------------------|-------------------|-------------------|
| | | | In Loss Position | | | |
| | Less Than 12 Months | | Greater Than 12 Months | | | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| (In thousands) | | | | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | \$ 2,707 | \$ (40) | \$ 2,296 | \$ (25) | \$ 5,003 | \$ (65) |
| Canadian government | 5,367 | (47) | | | 5,367 | (47) |
| Corporate | 1,517 | (21) | | | 1,517 | (21) |
| Residential mortgage-backed | 1,494 | (10) | | | 1,494 | (10) |
| Equity securities: | | | | | | |
| Common stock: | | | | | | |
| United States | 67,044 | (6,031) | 56,926 | (16,780) | 123,970 | (22,811) |
| Canada | 4,153 | (480) | 2,879 | (393) | 7,032 | (873) |
| Other International | 3,491 | (362) | 6,115 | (2,324) | 9,606 | (2,686) |
| Mutual funds: | | | | | | |
| Equity | 60,413 | (24,928) | 20,945 | (2,225) | 81,358 | (27,153) |
| Fixed income | 46,542 | (10,471) | 22,684 | (8,115) | 69,226 | (18,586) |
| Private equity | 9,657 | (1,743) | 16,454 | (13,065) | 26,111 | (14,808) |
| Other | 585 | (203) | 765 | (773) | 1,350 | (976) |
| Total temporarily impaired securities | \$ 202,970 | \$ (44,336) | \$ 129,064 | \$ (43,700) | \$ 332,034 | \$ (88,036) |

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 variable interest entities as defined in the Consolidation Topic of the ASC. In accordance with this guidance, 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 as variable interest entities. 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.

Preneed cemetery receivables, net and trust investments are reduced by the trust investment earnings (realized and unrealized) that we have been allowed to withdraw in certain states prior to maturity. These earnings are recorded in *Deferred preneed cemetery revenues* until the service is performed or the merchandise is delivered.

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

**Three Months Ended
June 30,**

**Six Months Ended
June 30,**

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| | 2010 | 2009 | 2010 | 2009 |
|---|-----------------------|-------------|-------------|-------------|
| | (In thousands) | | | |
| Deposits | \$ 27,188 | \$ 24,320 | \$ 49,419 | \$ 43,663 |
| Withdrawals | 28,879 | 24,990 | 52,777 | 53,858 |
| Purchases of available-for-sale securities | 210,886 | 127,443 | 465,204 | 184,315 |
| Sales of available-for-sale securities | 191,911 | 94,259 | 412,360 | 147,921 |
| Realized gains from sales of available-for-sale securities | 13,808 | 4,902 | 25,061 | 6,030 |
| Realized losses from sales of available-for-sale securities | (19,744) | (16,616) | (37,265) | (39,330) |
| | 14 | | | |

Table of Contents

The components of *Preneed cemetery receivables, net and trust investments* in our unaudited condensed consolidated balance sheet at June 30, 2010 and December 31, 2009 are as follows:

| | June 30, 2010 | December 31, 2009 |
|--|--------------------------|----------------------------------|
| | (In thousands) | |
| Trust investments, at market | \$ 900,764 | \$ 957,608 |
| Cash and cash equivalents | 116,600 | 145,668 |
| Insurance backed fixed income securities | 9,358 | 10,492 |
| Assets associated with businesses held for sale | (585) | (47,726) |
| Trust investments | 1,026,137 | 1,066,042 |
| Receivables from customers | 420,212 | 396,918 |
| Unearned finance charges | (42,719) | (41,517) |
| | 1,403,630 | 1,421,443 |
| Allowance for cancellation | (40,980) | (38,726) |
| Preneed cemetery receivables and trust investments | \$ 1,362,650 | \$ 1,382,717 |

The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair market value at June 30, 2010 and December 31, 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 by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments (including debt as well as the estimated fair value related to the contract holder's equity in majority-owned real estate investments). The fair market value of our cemetery merchandise and service trust investments, in the aggregate, was 91% and 95% of the related cost basis of such investments as of June 30, 2010 and December 31, 2009, respectively.

| | June 30, 2010 | | | |
|-----------------------------|-----------------------|-----------------------------|------------------------------|----------------------------------|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Market Value |
| | (In thousands) | | | |
| Fixed income securities: | | | | |
| U.S. Treasury | \$ 44,805 | \$ 2,101 | \$ (311) | \$ 46,595 |
| Canadian government | 15,295 | 337 | (26) | 15,606 |
| Corporate | 40,855 | 838 | (1,605) | 40,088 |
| Residential mortgage-backed | 4,556 | 127 | | 4,683 |
| Asset-backed | 6,323 | 254 | (3) | 6,574 |
| Equity securities: | | | | |
| Preferred Stock | 3,185 | 1 | (270) | 2,916 |
| Common stock: | | | | |
| United States | 378,324 | 30,535 | (42,356) | 366,503 |
| Canada | 19,374 | 1,626 | (2,337) | 18,663 |
| Other International | 25,117 | 234 | (7,408) | 17,943 |
| Mutual funds: | | | | |
| Equity | 206,457 | 241 | (46,398) | 160,300 |

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| | | | | |
|-------------------|------------|-----------|--------------|------------|
| Fixed income | 227,543 | 4,496 | (16,076) | 215,963 |
| Private equity | 16,366 | 31 | (11,886) | 4,511 |
| Other | 1,180 | 55 | (816) | 419 |
| Trust investments | \$ 989,380 | \$ 40,876 | \$ (129,492) | \$ 900,764 |

Table of Contents

| | December 31, 2009 | | | |
|-----------------------------|--------------------------|-----------------------------|------------------------------|----------------------------------|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Market Value |
| | (In thousands) | | | |
| Fixed income securities: | | | | |
| U.S. Treasury | \$ 32,084 | \$ 1,169 | \$ (81) | \$ 33,172 |
| Canadian government | 15,664 | 224 | (53) | 15,835 |
| Corporate | 9,065 | 438 | (3) | 9,500 |
| Residential mortgage-backed | 1,460 | 19 | (2) | 1,477 |
| Asset-backed | 6,476 | 193 | | 6,669 |
| Equity securities: | | | | |
| Common stock: | | | | |
| United States | 403,208 | 47,040 | (26,962) | 423,286 |
| Canada | 18,653 | 2,021 | (1,183) | 19,491 |
| Other International | 26,567 | 1,433 | (3,841) | 24,159 |
| Mutual funds: | | | | |
| Equity | 241,763 | 4,028 | (38,093) | 207,698 |
| Fixed income | 233,999 | 2,699 | (24,718) | 211,980 |
| Private equity | 14,968 | 8 | (11,000) | 3,976 |
| Other | 1,230 | 34 | (899) | 365 |
| Trust investments | \$ 1,005,137 | \$ 59,306 | \$ (106,835) | \$ 957,608 |

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 as required by the FVM&D Topic of the ASC.

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 an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These funds are classified as Level 2 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

The valuation of private equity and other alternative 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, which is an income approach fair value model, 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. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of June 30, 2010, our unfunded commitment for our private equity and other investments was \$11.2 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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

Table of Contents

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

| | Quoted Market Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Market Value |
|--|--|---|---|------------------------------|
| | (In thousands) | | | |
| Trust investments at June 30, 2010 | \$779,372 | \$ 116,462 | \$ 4,930 | \$ 900,764 |
| Trust investments at December 31, 2009 | \$886,614 | \$ 66,653 | \$ 4,341 | \$ 957,608 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Fair market value, beginning balance | \$ 4,425 | \$ 4,978 | \$ 4,341 | \$ 31,837 |
| Net unrealized losses included in <i>Accumulated other comprehensive income</i> (1) | (87) | (620) | (365) | (11,443) |
| Net realized (losses) gains included in <i>Other income, net</i> (2) | (12) | | (23) | 18 |
| Purchases, sales, contributions, and distributions, net | 604 | 1,030 | 977 | 569 |
| Transfers out of Level 3 | | | | (15,593) |
| Fair market value, ending balance | \$ 4,930 | \$ 5,388 | \$ 4,930 | \$ 5,388 |

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

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 (losses) gains recognized in *Other income, 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, 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 2010 to 2040. Maturities of fixed income securities at June 30, 2010 are estimated as follows:

Fair Market

| | Value (In thousands) |
|--------------------------|-------------------------------------|
| Due in one year or less | \$ 3,462 |
| Due in one to five years | 49,582 |
| Due in five to ten years | 35,675 |
| Thereafter | 24,827 |
| | \$ 113,546 |

Earnings from all our cemetery merchandise and service trust investments are recognized in current cemetery revenues when the service is performed or the 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 cemetery merchandise and service trust investments were \$3.2 million and \$2.9 million for the three months ended June 30, 2010 and 2009, respectively. Recognized earnings (realized and unrealized) related to our cemetery merchandise and service trust investments were \$6.6 million and \$1.8 million for the six months ended June 30, 2010 and 2009, 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, net* and a decrease to *Preneed cemetery receivables, net and trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other income, net*, which reduces *Deferred preneed cemetery receipts held in trust*. See Note 7 for further information related to our *Deferred preneed cemetery receipts*

Table of Contents

held in trust. We recorded a \$1.2 million and \$3.4 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities for the three and six months ended June 30, 2010, respectively. We recorded a \$3.3 million and \$12.9 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities for the three and six months ended June 30, 2009, respectively.

We have determined that the remaining unrealized losses in our cemetery merchandise and service trust investments 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. 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 merchandise and service trust investment unrealized losses, their associated fair market value, and the duration of unrealized losses as of June 30, 2010 are shown in the tables below.

| | In Loss Position | | June 30, 2010 | | Total | |
|---------------------------------------|----------------------------------|------------------------------|--|------------------------------|----------------------------------|------------------------------|
| | Less Than 12 Months | | In Loss Position Greater Than 12 Months | | | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | \$ 4,411 | \$ (293) | \$ 985 | \$ (18) | \$ 5,396 | \$ (311) |
| Canadian government | 1,541 | (26) | | | 1,541 | (26) |
| Corporate | 20,766 | (1,605) | | | 20,766 | (1,605) |
| Asset-backed | 303 | (3) | | | 303 | (3) |
| Equity securities: | | | | | | |
| Preferred Stock | 2,713 | (270) | | | 2,713 | (270) |
| Common stock: | | | | | | |
| United States | 171,182 | (26,252) | 39,561 | (16,104) | 210,743 | (42,356) |
| Canada | 7,875 | (1,638) | 1,753 | (699) | 9,628 | (2,337) |
| Other International | 11,515 | (3,876) | 4,660 | (3,532) | 16,175 | (7,408) |
| Mutual funds: | | | | | | |
| Equity | 76,879 | (9,705) | 71,761 | (36,693) | 148,640 | (46,398) |
| Fixed income | 59,071 | (3,262) | 14,121 | (12,814) | 73,192 | (16,076) |
| Private equity | 11,287 | (4,144) | 12,935 | (7,742) | 24,222 | (11,886) |
| Other | 455 | (186) | 798 | (630) | 1,253 | (816) |
| Total temporarily impaired securities | \$ 367,998 | \$ (51,260) | \$ 146,574 | \$ (78,232) | \$ 514,572 | \$ (129,492) |

| | In Loss Position | | December 31, 2009 | | Total | |
|--|----------------------------------|-------------------|--|-------------------|----------------------------------|-------------------|
| | Less Than 12 Months | | In Loss Position Greater Than 12 Months | | | |
| | Fair Market Value | Unrealized | Fair Market Value | Unrealized | Fair Market Value | Unrealized |

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| | Value | Losses | Value | Losses | Value | Losses |
|---------------------------------------|----------------|-------------|------------|-------------|------------|--------------|
| | (In thousands) | | | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | \$ 2,624 | \$ (65) | \$ 1,171 | \$ (16) | \$ 3,795 | \$ (81) |
| Canadian government | 5,262 | (53) | | | 5,262 | (53) |
| Corporate | 212 | (3) | | | 212 | (3) |
| Residential mortgage-backed | 267 | (2) | | | 267 | (2) |
| Equity securities: | | | | | | |
| Common stock | | | | | | |
| United States | 106,741 | (7,151) | 69,731 | (19,811) | 176,472 | (26,962) |
| Canada | 4,445 | (407) | 2,587 | (776) | 7,032 | (1,183) |
| Other International | 7,453 | (830) | 9,177 | (3,011) | 16,630 | (3,841) |
| Mutual funds: | | | | | | |
| Equity | 123,439 | (33,152) | 44,463 | (4,941) | 167,902 | (38,093) |
| Fixed income | 131,246 | (16,036) | 28,203 | (8,682) | 159,449 | (24,718) |
| Private equity | 14,048 | (4,056) | 9,204 | (6,944) | 23,252 | (11,000) |
| Other | 863 | (252) | 552 | (647) | 1,415 | (899) |
| Total temporarily impaired securities | \$ 396,600 | \$ (62,007) | \$ 165,088 | \$ (44,828) | \$ 561,688 | \$ (106,835) |

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

We are required by state and 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 variable interest entities as defined in the Consolidation Topic of the ASC. In accordance with this guidance, 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 as variable interest entities. We consolidate our cemetery perpetual care trust investments with a corresponding amount recorded as *Care trusts corpus*. Cash flows from cemetery perpetual care trusts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

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

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Deposits | \$ 6,528 | \$ 5,963 | \$ 11,901 | \$ 11,330 |
| Withdrawals | 7,723 | 5,962 | 19,277 | 15,107 |
| Purchases of available-for-sale securities | 116,245 | 59,396 | 180,442 | 104,243 |
| Sales of available-for-sale securities | 83,221 | 36,520 | 109,771 | 68,995 |
| Realized gains from sales of available-for-sale securities | 2,634 | 2,905 | 4,693 | 3,724 |
| Realized losses from sales of available-for-sale securities | (3,783) | (1,508) | (5,456) | (11,121) |

The components of *Cemetery perpetual care trust investments* in our unaudited condensed consolidated balance sheet at June 30, 2010 and December 31, 2009 are as follows:

| | June 30, | December 31, |
|---|-----------------------|---------------------|
| | 2010 | 2009 |
| | (In thousands) | |
| Trust investments, at market | \$ 849,090 | \$ 814,640 |
| Cash and cash equivalents | 65,788 | 92,153 |
| Assets associated with businesses held for sale | (214) | (17,104) |
| Cemetery perpetual care trust investments | \$ 914,664 | \$ 889,689 |

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair market value at June 30, 2010 and December 31, 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. The fair market value of our cemetery perpetual care trust investments was 97% and 95% of the related cost basis of such investments as of June 30, 2010 and December 31, 2009, respectively.

| | June 30, 2010 | | | Fair Market Value |
|--------------------------|-----------------------|-------------------------|--------------------------|--------------------------|
| | Cost | Unrealized Gains | Unrealized Losses | |
| | (In thousands) | | | |
| Fixed income securities: | | | | |

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| | | | | |
|-----------------------------|----------|--------|----------|----------|
| U.S. Treasury | \$ 4,825 | \$ 873 | \$ | \$ 5,698 |
| Canadian government | 26,945 | 598 | (45) | 27,498 |
| Corporate | 49,776 | 2,475 | (1,211) | 51,040 |
| Residential mortgage-backed | 3,100 | 114 | (3) | 3,211 |
| Asset-backed | 360 | 8 | | 368 |
| Equity securities: | | | | |
| Preferred stock | 3,487 | 380 | (213) | 3,654 |
| Common stock: | | | | |
| United States | 114,631 | 4,789 | (14,739) | 104,681 |
| Canada | 11,729 | 615 | (1,368) | 10,976 |
| Other International | 15,438 | 328 | (3,202) | 12,564 |
| Mutual funds: | | | | |
| Equity | 66,292 | 2,015 | (15,444) | 52,863 |
| Fixed income | 549,122 | 18,606 | (5,400) | 562,328 |
| | 19 | | | |

Table of Contents

| | June 30, 2010 | | | Fair Market Value |
|---|-----------------------|-----------------------------|------------------------------|----------------------------------|
| | Cost | Unrealized Gains | Unrealized Losses | |
| | (In thousands) | | | |
| Private equity | 21,259 | 388 | (12,738) | 8,909 |
| Other | 11,362 | 834 | (6,896) | 5,300 |
| Cemetery perpetual care trust investments | \$ 878,326 | \$ 32,023 | \$ (61,259) | \$ 849,090 |

| | December 31, 2009 | | | Fair Market Value |
|---|--------------------------|-----------------------------|------------------------------|----------------------------------|
| | Cost | Unrealized Gains | Unrealized Losses | |
| | (In thousands) | | | |
| Fixed income securities: | | | | |
| U.S. Treasury | \$ 5,031 | \$ 852 | \$ (9) | \$ 5,874 |
| Canadian government | 26,688 | 378 | (92) | 26,974 |
| Corporate | 40,703 | 3,079 | (367) | 43,415 |
| Residential mortgage-backed | 1,923 | 35 | (9) | 1,949 |
| Asset-backed | 520 | 8 | | 528 |
| Equity securities: | | | | |
| Preferred stock | 5,803 | 1,389 | (259) | 6,933 |
| Common stock: | | | | |
| United States | 113,147 | 7,348 | (12,016) | 108,479 |
| Canada | 10,016 | 677 | (970) | 9,723 |
| Other International | 12,558 | 1,237 | (2,450) | 11,345 |
| Mutual funds: | | | | |
| Equity | 69,376 | 2,023 | (15,598) | 55,801 |
| Fixed income | 534,137 | 4,384 | (9,845) | 528,676 |
| Private equity | 28,853 | 394 | (18,235) | 11,012 |
| Other | 8,568 | 748 | (5,385) | 3,931 |
| Cemetery perpetual care trust investments | \$ 857,323 | \$ 22,552 | \$ (65,235) | \$ 814,640 |

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 as required by the FVM&D Topic of the ASC.

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 an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These funds are classified as Level 2 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

The valuation of private equity and other alternative 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, which is an income approach fair value model, 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. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of June 30, 2010, our unfunded commitment for our private equity and other investments was \$11.2 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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 alternative investments are classified as Level 3 securities.

Table of Contents

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

| | Quoted Market Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Market Value |
|--|--|---|---|------------------------------|
| | (In thousands) | | | |
| Trust investments at June 30, 2010 | \$743,412 | \$ 91,469 | \$ 14,209 | \$ 849,090 |
| Trust investments at December 31, 2009 | \$714,024 | \$ 85,673 | \$ 14,943 | \$ 814,640 |

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

| | Three Months Ended June 30, 2010 | | Six Months Ended June 30, 2010 | |
|---|---|-------------|---|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Fair market value, beginning balance | \$ 15,211 | \$ 15,689 | \$ 14,943 | \$ 48,276 |
| Net unrealized gains (losses) included in <i>Accumulated other comprehensive income</i> (1) | 3,539 | (6,712) | 4,125 | (28,719) |
| Net realized losses included in <i>Other income, net</i> (2) | (52) | | (77) | (5) |
| Purchases, sales, contributions, and distributions, net | (4,489) | 5,420 | (4,782) | 2,057 |
| Transfers out of Level 3 | | | | (7,212) |
| Fair market value, ending balance | \$ 14,209 | \$ 14,397 | \$ 14,209 | \$ 14,397 |

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

to our *Care trusts corpus*.

- (2) All losses recognized in *Other income, net* for our cemetery perpetual care trust investments are offset by a corresponding reclassification in *Other income, 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 2010 to 2040. Maturities of fixed income securities at June 30, 2010 are estimated as follows:

| | Fair Market Value (In thousands) |
|--------------------------|---|
| Due in one year or less | \$ 6,410 |
| Due in one to five years | 44,337 |
| Due in five to ten years | 21,873 |
| Thereafter | 15,195 |
| | \$ 87,815 |

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 \$9.2 million and \$9.6 million for the three months ended June 30, 2010 and 2009, respectively. Recognized earnings related to these cemetery perpetual care trust investments were \$18.8 million and \$18.1 million for the six months ended June 30, 2010 and 2009, 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, net* and a decrease to *Cemetery perpetual care trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other income, net*, which reduces *Care trusts corpus*. See Note 7 for further information related to our *Care trusts corpus*. We recorded a \$0.1 million and \$1.6 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities for the three and six months ended June 30, 2010, respectively. We recorded a \$1.7 million and \$5.9 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities for the three and six months ended June 30, 2009, respectively.

We have determined that the remaining unrealized losses in our cemetery perpetual care trust investments 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. 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,

Table of Contents

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, 2010, are shown in the following tables.

| | In Loss Position | | June 30, 2010 In Loss Position Greater Than 12 Months | | Total | |
|--|----------------------------------|------------------------------|--|------------------------------|----------------------------------|------------------------------|
| | Less Than 12 Months | | Months | | | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| | | | (In thousands) | | | |
| Fixed income securities: | | | | | | |
| Canadian government | 2,720 | (45) | | | 2,720 | (45) |
| Corporate | 16,525 | (983) | 1,026 | (228) | 17,551 | (1,211) |
| Residential mortgage-backed | 126 | (3) | | | 126 | (3) |
| Equity securities: | | | | | | |
| Preferred stock | 587 | (97) | 541 | (116) | 1,128 | (213) |
| Common stock | | | | | | |
| United States | 41,959 | (4,716) | 22,022 | (10,023) | 63,981 | (14,739) |
| Canada | 5,366 | (651) | 1,411 | (717) | 6,777 | (1,368) |
| Other International | 7,767 | (1,168) | 1,913 | (2,034) | 9,680 | (3,202) |
| Mutual funds: | | | | | | |
| Equity | 11,381 | (1,024) | 26,202 | (14,420) | 37,583 | (15,444) |
| Fixed income | 20,271 | (372) | 56,413 | (5,028) | 76,684 | (5,400) |
| Private equity | 3,410 | (2,831) | 17,744 | (9,907) | 21,154 | (12,738) |
| Other | 1,698 | (1,410) | 8,811 | (5,486) | 10,509 | (6,896) |
| Total temporarily impaired securities | \$ 111,810 | \$ (13,300) | \$ 136,083 | \$ (47,959) | \$ 247,893 | \$ (61,259) |

| | In Loss Position | | December 31, 2009 In Loss Position Greater Than 12 Months | | Total | |
|--------------------------------|----------------------------------|------------------------------|--|------------------------------|----------------------------------|------------------------------|
| | Less Than 12 Months | | Months | | | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| | | | (In thousands) | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | \$ 1,029 | \$ (9) | \$ | \$ | \$ 1,029 | \$ (9) |
| Canadian Government | 9,053 | (92) | | | 9,053 | (92) |
| Corporate | 4,739 | (92) | 2,780 | (275) | 7,519 | (367) |
| Residential mortgage-backed | 1,426 | (9) | | | 1,426 | (9) |
| Equity securities: | | | | | | |
| Preferred stock | 511 | (47) | 734 | (212) | 1,245 | (259) |

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| | | | | | | |
|--|------------|-------------|------------|-------------|------------|-------------|
| Common stock | | | | | | |
| United States | 19,069 | (1,529) | 31,553 | (10,487) | 50,622 | (12,016) |
| Canada | 1,253 | (229) | 2,637 | (741) | 3,890 | (970) |
| Other International | 1,102 | (17) | 3,086 | (2,433) | 4,188 | (2,450) |
| Mutual funds: | | | | | | |
| Equity | 21,152 | (9,290) | 16,051 | (6,308) | 37,203 | (15,598) |
| Fixed income | 285,936 | (7,512) | 36,141 | (2,333) | 322,077 | (9,845) |
| Private equity | 8,973 | (7,249) | 12,689 | (10,986) | 21,662 | (18,235) |
| Other | 2,497 | (2,017) | 3,519 | (3,368) | 6,016 | (5,385) |
| Total temporarily impaired securities | \$ 356,740 | \$ (28,092) | \$ 109,190 | \$ (37,143) | \$ 465,930 | \$ (65,235) |

Table of Contents**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 the Consolidation Topic of the ASC. Although the guidance 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 to us.

The components of *Deferred preneed funeral and cemetery receipts held in trust* in our unaudited condensed consolidated balance sheet at June 30, 2010 and December 31, 2009 are detailed below.

| | June 30, 2010 | | | December 31, 2009 | | |
|--|--------------------|---------------------------------------|--------------|--------------------|---------------------------------------|--------------|
| | Preneed Funeral | Preneed Cemetery (In thousands) | Total | Preneed Funeral | Preneed Cemetery (in thousands) | Total |
| Trust investments | \$ 1,123,600 | \$ 1,026,137 | \$ 2,149,737 | \$ 1,138,949 | \$ 1,066,042 | \$ 2,204,991 |
| Accrued trust operating payables and other | (927) | (1,367) | (2,294) | (1,449) | (2,139) | (3,588) |
| Deferred preneed funeral and cemetery receipts held in trust | \$ 1,122,673 | \$ 1,024,770 | \$ 2,147,443 | \$ 1,137,500 | \$ 1,063,903 | \$ 2,201,403 |

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.

The components of *Care trusts corpus* in our unaudited condensed consolidated balance sheet at June 30, 2010 and December 31, 2009 are detailed below.

| | June 30, 2010 | December 31, 2009 |
|--|------------------|----------------------|
| | (In thousands) | |
| Cemetery perpetual care trust investments | \$ 914,664 | \$ 889,689 |
| Accrued trust operating payables and other | 168 | 1,220 |
| Care trusts corpus | \$ 914,832 | \$ 890,909 |

Other Income, Net

The components of *Other income, net* in our unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2010 and 2009 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, 2010 | | | | Total |
|----------------|----------------------------------|--------------------|--|---------------|-----------|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts (In thousands) | Other, Net | |
| Realized gains | \$ 9,005 | \$ 13,808 | \$ 2,634 | \$ | \$ 25,447 |

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| | | | | | |
|---|----------|----------|---------|----------|----------|
| Realized losses and impairment charges | (16,256) | (20,896) | (3,878) | | (41,030) |
| Interest, dividend, and other ordinary income | 6,805 | 4,753 | 8,428 | | 19,986 |
| Trust expenses and income taxes | (777) | (2,079) | (1,788) | | (4,644) |
| Net trust investment (loss) income | (1,223) | (4,414) | 5,396 | | (241) |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus | 1,223 | 4,414 | (5,396) | | 241 |
| Other income, net | | | | 4,273 | 4,273 |
| Total other income, net | \$ | \$ | \$ | \$ 4,273 | \$ 4,273 |

Six Months Ended June 30, 2010

| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts (In thousands) | Other, Net | Total |
|---|-------------------|--------------------|--|---------------|-----------|
| Realized gains | \$ 20,498 | \$ 25,061 | \$ 4,693 | \$ | \$ 50,252 |
| Realized losses and impairment charges | (39,826) | (40,648) | (7,029) | | (87,503) |
| Interest, dividend, and other ordinary income | 9,932 | 9,423 23 | 16,075 | | 35,430 |

Table of Contents**Six Months Ended June 30, 2010**

| | Funeral | Cemetery | Cemetery Perpetual | Other, Net | Total |
|---|----------------|-----------------|---------------------------------------|-----------------------|--------------|
| | Trusts | Trusts | Care Trusts (In thousands) | | |
| Trust expenses and income taxes | (1,826) | (4,469) | (1,547) | | (7,842) |
| Net trust investment (loss) income | (11,222) | (10,633) | 12,192 | | (9,663) |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus | 11,222 | 10,633 | (12,192) | | 9,663 |
| Other income, net | | | | 2,389 | 2,389 |
| Total other income, net | \$ | \$ | \$ | \$ 2,389 | \$ 2,389 |

Three Months Ended June 30, 2009

| | Funeral | Cemetery | Cemetery Perpetual | Other, Net | Total |
|---|----------------|-----------------|---------------------------------------|-----------------------|--------------|
| | Trusts | Trusts | Care Trusts (In thousands) | | |
| 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 | | | | 1,388 | 1,388 |
| Total other income, net | \$ | \$ | \$ | \$ 1,388 | \$ 1,388 |

Six Months Ended June 30, 2009

| | Funeral | Cemetery | Cemetery Perpetual | Other, Net | Total |
|--|----------------|-----------------|---------------------------------------|-----------------------|--------------|
| | Trusts | Trusts | Care Trusts (In thousands) | | |
| 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 (loss) income | (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 income, net | | | | 545 |
| Total other income, net | \$ | \$ | \$ | \$ 545 |

8. Keystone Acquisition

On March 26, 2010, pursuant to a tender offer, we acquired approximately 91% of the outstanding common stock of Keystone North America, Inc. (Keystone) for C\$8.07 per share in cash, resulting in a purchase price of \$288.9 million, which includes the refinancing of \$80.7 million of Keystone's debt and a liability for the expected cost of the remaining shares of \$17.5 million at the C\$8.07 share offered price (using currency conversion rates as of March 31, 2010). This liability was recorded because we acquired all of the Keystone common shares that were not deposited in the tender offer pursuant to the compulsory acquisition provisions of the Ontario Business Corporations Act in April 2010. During the second quarter of 2010, we settled this liability using available cash balance.

We incurred acquisition costs of \$6.4 million of which \$1.1 million and \$3.0 million is included in *General and Administrative Expenses* for the three and six months ended June 30, 2010, respectively, and the remainder was incurred in prior periods.

The primary reasons for the merger and the principal factors that contributed to the recognition of goodwill in this acquisition were:

- the acquisition of Keystone enhances our network footprint, enabling us to serve a number of new, complementary areas;

- combining the two companies' operations provides synergies and related cost savings through the elimination of duplicate home office functions and economies of scale; and

- the acquisition of Keystone's preneed backlog of deferred revenues enhances our long-term stability.

Table of Contents

The following table summarizes the adjusted fair values of the assets acquired and liabilities assumed as of March 26, 2010, for various purchase price allocation adjustments made subsequent to our first quarter results:

| | (In thousands) |
|---|---------------------------|
| Accounts receivable | \$ 5,312 |
| Other current assets | 20,816 |
| Cemetery property | 19,918 |
| Property and equipment, net | 105,888 |
| Preneed funeral and cemetery receivables and trust investments | 67,154 |
| Intangible assets | 69,147 |
| Deferred charges and other assets | 5,827 |
| Goodwill | 102,631 |
| | |
| Total assets acquired | 396,693 |
| Current liabilities | 10,394 |
| Long-term debt | 2,548 |
| Deferred preneed funeral and cemetery revenues and deferred receipts held in trusts | 63,565 |
| Deferred tax liability | 17,823 |
| Other liabilities | 13,501 |
| | |
| Total liabilities assumed | 107,831 |
| | |
| Net assets acquired | \$ 288,862 |

The allocation of the purchase price, as reflected above, has not been adjusted for divestitures as described in Note 18.

We have not finalized our assessment of the fair values as there has been insufficient time between the acquisition date and the issuance of this Form 10-Q to complete our review of individual contracts, agreements, and accounting records of Keystone. However, we have completed our analysis of certain intangible assets and related liabilities, as reflected in the above table. This analysis resulted in a \$12.7 million reduction in goodwill associated with the acquisition from our initial assessment reported in our Form 10-Q as of March 31, 2010.

The gross amount of accounts receivable is \$8.4 million, of which \$3.1 million is not expected to be collected. Included in Preneed funeral and cemetery receivables and trust investments are receivables under preneed contracts with a fair value of \$5.4 million. The gross amount due under the contracts is \$5.7 million, of which \$0.3 million is not expected to be collected.

Goodwill, land, and certain identifiable intangible assets recorded in the acquisition are not subject to amortization; however, the goodwill and intangible assets will be tested periodically for impairment as required by the Intangible Assets Topic of the ASC. Of the \$102.6 million in goodwill recognized, \$4.1 million was allocated to our cemetery segment and \$98.5 million was allocated to our funeral segment. As a result of the carryover of Keystone's tax basis, \$26.0 million of this goodwill is deductible for tax purposes. The \$69.1 million in identified intangible assets consists of the following:

| | Useful life | Fair Value (In thousands) |
|--|------------------------|--------------------------------------|
| Preneed customer relationships related to insurance claims | 10 years | \$ 15,200 |
| Preneed deferred revenue | 10-14 years | 2,802 |

| | | |
|--------------------------|-----------------|-----------|
| Covenants-not-to-compete | 5 - 15 years | 13,405 |
| Operating leases | 5 - 15 years | 440 |
| Tradenames | 5 years | 3,600 |
| Tradenames | Indefinite | 33,200 |
| Licenses and permits | Indefinite | 500 |
| Total intangible assets | | \$ 69,147 |

Included in our results of operations for the three and six months ended June 30, 2010 is revenue of \$30.0 million and \$31.7 million, respectively, and net income of \$6.2 million and \$6.5 million, respectively, for the period from the acquisition date (March 26, 2010)

Table of Contents

through June 30, 2010. The following unaudited pro forma summary presents financial information as if the acquisition had occurred at the beginning of each year presented:

| | Three months ended | | Six months ended | |
|------------|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Revenue | \$555,273 | \$543,906 | \$1,115,788 | \$1,087,634 |
| Net income | \$ 40,227 | \$ 28,618 | \$ 74,521 | \$ 68,026 |

9. 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 changes in estimates, tax audit settlements, expiration of statute of limitations, and increases or decreases in valuation allowances. Our effective tax rate was 40.3% and 40.9% for the three months ended June 30, 2010 and 2009, respectively. Our effective tax rate was 39.8% and 38.7% for the six months ended June 30, 2010 and 2009, respectively. The decrease in the effective tax rate for the three months ended is due to additional state tax planning and lower foreign income taxes. This increase in the effective tax rate for the six months ended is due to an increase in permanent non-deductible goodwill associated with dispositions and non-deductible acquisition expenses associated with the acquisition of Keystone, partially offset by lower foreign income taxes.

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 tax years 1999 through 2002 remain under examination by the Internal Revenue Service and we are at the IRS Appeals administrative level on certain disputed issues that came out of its examination of tax years 2003 through 2005. Various state and foreign jurisdictions are auditing years through 2008. The outcome of each of these audits cannot be predicted at this time. It is reasonably possible that changes to our global unrecognized tax benefits could be significant; however, due to the uncertainty regarding the timing of completion of audits and possible outcomes, a current estimate of the range of increases or decreases that may occur within the next twelve months cannot be made.

10. Debt

Debt as of June 30, 2010 and December 31, 2009 was as follows:

| | June 30, | December 31, |
|--|-----------------------|---------------------|
| | 2010 | 2009 |
| | (In thousands) | |
| 7.875% Debentures due February 2013 | \$ 32,127 | \$ 32,127 |
| 7.375% Senior Notes due October 2014 | 245,000 | 245,000 |
| 6.75% Notes due April 2015 | 157,250 | 160,250 |
| 6.75% Notes due April 2016 | 212,927 | 233,143 |
| 7.0% Notes due June 2017 | 295,000 | 295,000 |
| 7.625% Senior Notes due October 2018 | 250,000 | 250,000 |
| 8.0% Notes due November 2021 | 150,000 | 150,000 |
| 7.5% Notes due April 2027 | 200,000 | 200,000 |
| Bank credit facility due November 2013 | 145,000 | 150,000 |
| Obligations under capital leases | 142,515 | 142,946 |
| Mortgage notes and other debt, maturities through 2047 | 38,972 | 38,631 |
| Unamortized pricing discounts and other | (6,292) | (6,608) |
| Total debt | 1,862,499 | 1,890,489 |
| Less current maturities | (26,838) | (49,957) |

| | | | |
|----------------------|--------------|----|-----------|
| Total long-term debt | \$ 1,835,661 | \$ | 1,840,532 |
|----------------------|--------------|----|-----------|

Current maturities of debt at June 30, 2010 were primarily comprised of our capital leases. Our consolidated debt had a weighted average interest rate of 6.55% and 6.52% at June 30, 2010 and December 31, 2009, respectively. Approximately 85% of our total debt had a fixed interest rate at June 30, 2010 and December 31, 2009.

Table of Contents**Bank Credit Facility**

As of June 30, 2010, we have \$145 million in outstanding cash advances under our bank credit facility and have used it to support \$44.3 million of letters of credit. The bank 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 bank 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. As of June 30, 2010, we have \$210.7 million in borrowing capacity under the facility.

Debt Issuances and Additions

In November 2009, we issued \$150.0 million of unsecured 8.0% Senior Notes due 2021, which were held in escrow at December 31, 2009. On March 26, 2010, the net proceeds of these notes were released from escrow and used in connection with the closing of the Keystone acquisition. As a result, the proceeds were classified as *Proceeds from issuance of long-term debt* in our unaudited condensed consolidated Statement of Cash Flows for the six months ended June 30, 2010. The notes are subject to the provisions of the Company's Senior Indenture dated as of February 1, 1993, as amended, which includes covenants limiting, among other things, the creation of liens securing indebtedness and sale-leaseback transactions.

In addition to the funds from escrow, we drew down \$25.0 million on our bank credit facility to finance our Keystone acquisition in the first quarter of 2010.

Debt Extinguishments and Reductions

During the first half of 2010, we repaid \$30.0 million of amounts drawn on our bank credit facility, \$3.0 million aggregate principal amount of our 6.75% Note due 2015 and \$20.2 million aggregate principal amount of our 6.75% Notes due 2016. As a result of these transactions, we recognized a loss of \$0.3 million recorded in *(Loss) gain on early extinguishment of debt* in our unaudited condensed statement of operations, which represents the write-off of unamortized deferred loan costs of \$0.4 million and \$0.1 million in discount received to extinguish the debt.

In the first half of 2009, we made debt payments of \$101.2 million which included scheduled payments and repurchases of debt on the open market. Certain of the above transactions resulted in the recognition of a \$3.4 million gain recorded in *(Loss) 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.

Capital Leases

During the six months ended June 30, 2010 and 2009, we acquired \$11.7 million and \$12.6 million, respectively, of transportation equipment using capital leases.

11. 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, 2010 and December 31, 2009 was as follows:

| | June 30, 2010 | December 31, 2009 |
|--------------------------------------|--------------------------|------------------------------|
| | (In thousands) | |
| 7.875% Debentures due February 2013 | \$ 32,689 | \$ 31,330 |
| 7.375% Senior Notes due October 2014 | 247,450 | 247,450 |

Table of Contents

| | June 30, 2010 | December 31, 2009 |
|--|--------------------------|------------------------------|
| | (In thousands) | |
| 6.75% Notes due April 2015 | 157,250 | 157,846 |
| 6.75% Notes due April 2016 | 211,330 | 222,069 |
| 7.0% Notes due June 2017 | 293,525 | 289,100 |
| 7.625% Senior Notes due October 2018 | 254,000 | 250,625 |
| 8.0% Notes due November 2021 | 151,875 | 148,500 |
| 7.5% Notes due April 2027 | 178,500 | 179,000 |
| Bank credit facility due November 2013 | 143,719 | 148,875 |
| Mortgage notes and other debt, maturities through 2047 | 37,515 | 34,898 |
| Total fair value of debt instruments | \$ 1,707,853 | \$ 1,709,693 |

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 Fair Value Measurements hierarchy discussed in Note 2. The bank credit agreement and the mortgage and other debt are classified within Level 3 of the Fair Value Measurements 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.

12. 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 fair values of our stock options are calculated using the following weighted average assumptions:

| Assumptions | Six Months Ended June 30, 2010 |
|-------------------------|---|
| Dividend yield | 1.9% |
| Expected volatility | 37.5% |
| Risk-free interest rate | 2.3% |
| Expected holding period | 5 years |

Stock Options

The following table sets forth stock option activity for the six months ended June 30, 2010:

| | Options | Weighted-Average Exercise Price |
|----------------------------------|----------------|--|
| Outstanding at December 31, 2009 | 10,495,142 | \$ 7.36 |
| Granted | 2,255,120 | 7.66 |
| Expired | (21,010) | 7.28 |
| Exercised | (371,319) | 3.72 |
| Outstanding at June 30, 2010 | 12,357,933 | \$ 7.52 |
| Exercisable at June 30, 2010 | 6,984,382 | \$ 8.43 |

As of June 30, 2010, the unrecognized compensation expense related to stock options of \$7.7 million is expected to be recognized over a weighted average period of 1.4 years.

Restricted Shares

Restricted share activity for the six months ended June 30, 2010 was as follows:

| | Restricted shares | Weighted-Average Grant-Date Fair Value |
|--|------------------------------|---|
| Nonvested restricted shares at December 31, 2009 | 1,101,440 | \$ 6.01 |
| Granted | 532,050 | 7.66 |
| Vested | (466,217) | 7.05 |
| Nonvested restricted shares at June 30, 2010 | 1,167,273 | \$ 6.35 |

Table of Contents

As of June 30, 2010, the unrecognized compensation expense related to restricted shares of \$6.1 million is expected to be recognized over a weighted average period of 1.5 years.

13. Equity

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

| | Foreign Currency Translation Adjustment | Unrealized Gains and Losses (In thousands) | Accumulated Other Comprehensive Income |
|---|--|---|---|
| Balance at December 31, 2009 | \$ 97,142 | \$ | \$ 97,142 |
| Activity in 2010 | (2,505) | | (2,505) |
| Increase in net unrealized losses associated with available-for-sale securities of the trusts, net of taxes | | (33,604) | (33,604) |
| Reclassification of net unrealized losses activity attributable to the <i>Deferred preneed funeral and cemetery receipts held in trust</i> and <i>Care trusts corpus</i> , net of taxes | | 33,604 | 33,604 |
| Balance at June 30, 2010 | \$ 94,637 | \$ | \$ 94,637 |

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.

The components of comprehensive income are as follows for the three and six months ended June 30, 2010 and 2009:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Comprehensive income: | | | | |
| Amounts attributable to common stockholders: | | | | |
| Net income | \$ 40,285 | \$ 23,104 | \$ 71,197 | \$ 57,634 |
| Foreign currency translation | (16,332) | 29,011 | (2,505) | 21,258 |
| Amounts attributable to noncontrolling interests: | | | | |
| Net (loss) income | (58) | 476 | 355 | 326 |
| Foreign currency translation | (6) | | (1) | |
| Total comprehensive income | \$ 23,889 | \$ 52,591 | \$ 69,046 | \$ 79,218 |

Cash Dividends

On May 12, 2010, our Board of Directors approved a cash dividend of \$.04 per common share. At June 30, 2010, this dividend totaling \$9.9 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 will be paid on July 30, 2010.

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. During

the six months ended June 30, 2010, we repurchased 6.2 million shares of common stock at an aggregate cost of \$54.4 million, which is an average cost per share of \$8.76. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$69.0 million at June 30, 2010.

Subsequent to June 30, 2010, we repurchased an additional 2.4 million shares of common stock at an aggregate cost of \$18.0 million, which is an average cost per share of \$7.52. After these third quarter repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program is approximately \$51.1 million.

Table of Contents**14. 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. We conduct both funeral and cemetery operations in the United States and Canada and funeral operations in Germany.

Our reportable segment information is as follows:

| | Funeral | Cemetery | Reportable |
|-----------------------------------|----------------|-----------------------|-------------------|
| | | (In thousands) | Segments |
| Three months ended June 30, | | | |
| Revenues from external customers: | | | |
| 2010 | \$377,827 | \$177,446 | \$ 555,273 |
| 2009 | \$342,705 | \$171,244 | \$ 513,949 |
| Gross profit: | | | |
| 2010 | \$ 77,510 | \$ 31,788 | \$ 109,298 |
| 2009 | \$ 71,169 | \$ 30,656 | \$ 101,825 |
| Six months ended June 30, | | | |
| Revenues from external customers: | | | |
| 2010 | \$746,756 | \$339,380 | \$1,086,136 |
| 2009 | \$707,614 | \$316,930 | \$1,024,544 |
| Gross profit: | | | |
| 2010 | \$162,076 | \$ 59,529 | \$ 221,605 |
| 2009 | \$155,241 | \$ 46,704 | \$ 201,945 |

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Gross profit from reportable segments | \$ 109,298 | \$ 101,825 | \$ 221,605 | \$ 201,945 |
| General and administrative expenses | (26,974) | (26,466) | (53,175) | (48,252) |
| Gains (losses) on divestitures and impairment charges, net | 13,602 | (6,289) | 13,122 | 941 |
| Operating income | 95,926 | 69,070 | 181,552 | 154,634 |
| Interest expense | (32,483) | (32,386) | (64,784) | (64,056) |
| (Loss) gain on early extinguishment of debt | (291) | 1,830 | (291) | 3,440 |
| Other income, net | 4,273 | 1,388 | 2,389 | 545 |
| Income before income taxes | \$ 67,425 | \$ 39,902 | \$ 118,866 | \$ 94,563 |

Our geographic area information is as follows:

| | United | | Germany | |
|-----------------------------|---------------|-----------------------|----------------|--------------|
| | States | Canada | | Total |
| | | (In thousands) | | |
| Three months ended June 30, | | | | |

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Revenues from external customers:

| | | | | |
|------|-----------|-----------|---------|------------|
| 2010 | \$499,553 | \$ 54,322 | \$1,398 | \$ 555,273 |
| 2009 | \$469,765 | \$ 42,652 | \$1,532 | \$ 513,949 |

Six months ended June 30,

Revenues from external customers:

| | | | | |
|------|-----------|-----------|---------|-------------|
| 2010 | \$979,763 | \$103,098 | \$3,275 | \$1,086,136 |
| 2009 | \$937,241 | \$ 84,067 | \$3,236 | \$1,024,544 |

30

Table of Contents**15. Supplementary Information**

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

| | Three Months Ended | | Six Months Ended | |
|---------------------------------|--------------------|------------|------------------|--------------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Merchandise revenues: | | | | |
| Funeral | \$ 124,712 | \$ 110,858 | \$ 244,471 | \$ 229,265 |
| Cemetery | 123,694 | 116,787 | 230,878 | 208,648 |
| Total merchandise revenues | 248,406 | 227,645 | 475,349 | 437,913 |
| Services revenues: | | | | |
| Funeral | 234,237 | 216,180 | 467,953 | 450,893 |
| Cemetery | 45,793 | 46,255 | 93,052 | 91,414 |
| Total services revenues | 280,030 | 262,435 | 561,005 | 542,307 |
| Other revenues | 26,837 | 23,869 | 49,782 | 44,324 |
| Total revenues | \$ 555,273 | \$ 513,949 | \$ 1,086,136 | \$ 1,024,544 |
| Merchandise costs and expenses: | | | | |
| Funeral | \$ 62,581 | \$ 55,137 | \$ 127,474 | \$ 117,210 |
| Cemetery | 53,910 | 50,302 | 99,807 | 91,908 |
| Total cost of merchandise | 116,491 | 105,439 | 227,281 | 209,118 |
| Services costs and expenses: | | | | |
| Funeral | 116,522 | 106,020 | 220,763 | 209,632 |
| Cemetery | 23,855 | 25,582 | 48,108 | 51,028 |
| Total cost of services | 140,377 | 131,602 | 268,871 | 260,660 |
| Overhead and other expenses | 189,107 | 175,083 | 368,379 | 352,821 |
| Total costs and expenses | \$ 445,975 | \$ 412,124 | \$ 864,531 | \$ 822,599 |

16. Commitments and Contingencies***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, 2010 and December 31, 2009, we have self-insurance reserves of \$54.4 million and \$57.9 million, respectively.

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

Table of Contents

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 *Garcia* and *Sands* lawsuits described in the following paragraphs.

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. We cannot quantify our ultimate liability, if any, for the payment of any damages.

F. Charles Sands, individually and on behalf of all others similarly situated, v. Eden Memorial Park, et al.; Case No. BC421528; in the Superior Court of the State of California for the County of Los Angeles – Central District. This case was filed in September 2009 against SCI and certain subsidiaries regarding our Eden Memorial Park cemetery in Mission Hills, California. The plaintiff seeks to certify a class of cemetery plot owners and their families. The plaintiff also seeks the appointment of a receiver to oversee cemetery operations. The plaintiff claims the cemetery damaged and desecrated burials in order to prepare adjoining graves for subsequent burials. Since the case is in its preliminary stages, we cannot quantify our ultimate liability, if any, for the payment of any damages.

Antitrust Claims. We are named as a defendant in an 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 was 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. Based on the case proceeding as a class action, 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. However, the trial court denied the plaintiffs' motion to certify the case as a class action. 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. The individual plaintiffs' claims are set for trial on August 2, 2010. We cannot quantify our ultimate liability, if any, for the payment of any damages.

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, Helm, 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 is related to the Wage and Hour Lawsuit, raising similar claims and brought by the same attorneys. This lawsuit has

Table of Contents

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 similar to the federal claims asserted 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. C 08-01184-SI. On December 29, 2009, the court in the *Helm* case denied the plaintiffs' motion to certify the case as a class action. We cannot quantify our ultimate liability, if any, in these lawsuits.

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. In September 2009, the Court conditionally certified a class of claims as to certain job positions of SCI affiliated employees. 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. Subject to court approval, the parties have agreed to settle this case for an amount that is not material to us.

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.

17. 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 June 30, | | Six Months Ended June 30, | |
|--|--|-----------|--|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands, except per share amounts) | | (In thousands, except per share amounts) | |
| Amounts attributable to common stockholders: | | | | |
| Net income: | | | | |
| Net income basic | \$ 40,285 | \$ 23,104 | \$ 71,197 | \$ 57,634 |
| After tax interest on convertible debt | 13 | | 25 | 25 |
| Net income diluted | \$ 40,298 | \$ 23,104 | \$ 71,222 | \$ 57,659 |
| Weighted average shares (denominator): | | | | |
| Weighted average shares basic | 251,763 | 250,977 | 253,074 | 250,461 |
| Stock options | 1,699 | 153 | 1,667 | 90 |

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| | | | | |
|---------------------------------|---------|---------|---------|---------|
| Convertible debt | 121 | | 121 | 121 |
| Weighted average shares diluted | 253,583 | 251,130 | 254,862 | 250,672 |
| Net income per share: | | | | |
| Basic | \$.16 | \$.09 | \$.28 | \$.23 |
| Diluted | \$.16 | \$.09 | \$.28 | \$.23 |

Table of Contents

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 anti-dilutive in the periods presented. For the three months ended June 30, 2010 and 2009, total options and convertible debentures not currently included in the computation of dilutive EPS were 5.7 million and 9.8 million, respectively. For the six months ended June 30, 2010 and 2009, total options and convertible debentures not currently included in the computation of dilutive EPS were 5.2 million and 9.6 million, respectively.

18. 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 *Gains (losses) 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.

Gains (losses) on divestitures and impairment charges, net consists of the following for the three and six months ended June 30:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|--------------------------------|------------------------|------------------------------|------------------------|
| | 2010 (In thousands) | 2009 (In thousands) | 2010 (In thousands) | 2009 (In thousands) |
| Gains on divestitures, net | \$ 14,096 | \$ 960 | \$ 14,471 | \$ 11,825 |
| Impairment losses | (494) | (7,249) | (1,349) | (10,884) |
| | \$ 13,602 | \$ (6,289) | \$ 13,122 | \$ 941 |

Keystone

In conjunction with our acquisition of Keystone, we entered into an agreement with the Federal Trade Commission to sell 22 funeral homes and five cemeteries, which were sold for \$34.9 million in the second quarter of 2010. We recognized a gain on divestitures of \$6.0 million associated with the former SCI properties.

Assets Held for Sale

We committed to a plan to sell certain operating properties as of June 30, 2010 and December 31, 2009.

Net assets held for sale were as follows:

| | June 30, 2010 | December 31, 2009 (in thousands) |
|---|---------------------|--|
| Assets: | | |
| Current assets | \$ 515 | \$ 1,197 |
| Preneed funeral receivables, net and trust investments | | 377 |
| Preneed cemetery receivables, net and trust investments | 20 | 50,952 |
| Cemetery property, at cost | | 2,111 |
| Property and equipment, net | | 120 |
| Deferred charges and other assets | | 10,237 |
| Cemetery perpetual care trust investments | 214 | 17,104 |
| Total assets | 749 | 82,098 |
| Liabilities: | | |
| Accounts payable and accrued liabilities | | 501 |
| Deferred preneed cemetery revenues | 428 | 49,346 |

| | | |
|--------------------------|--------|-----------|
| Other liabilities | 7 | 1,882 |
| Care trusts corpus | 214 | 17,104 |
| Total liabilities | 649 | 68,833 |
| Net assets held for sale | \$ 100 | \$ 13,265 |

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

We are North America's largest provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At June 30, 2010, we operated 1,412 funeral service locations and 382 cemeteries (including

Table of Contents

218 combination locations) in North America, which are geographically diversified across 44 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 position is enhanced by our \$6.5 billion backlog of future revenues from both trust and insurance-funded sales at June 30, 2010, 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. We currently have approximately \$51.1 million authorized to repurchase our common stock.

On March 26, 2010, pursuant to a tender offer, we acquired approximately 91% of the outstanding common stock of Keystone for C\$8.07 per share in cash, resulting in a purchase price of \$288.9 million, which included the refinancing of \$80.7 million of Keystone's debt and our purchase of the remaining shares of Keystone for \$17.5 million, which was completed during the second quarter of 2010 using available cash balance.

Financial Condition, Liquidity and Capital Resources***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 and/or preneed escrow accounts 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.

Also, we are required by state and 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 and provincial regulations. All of the trustees engage the same independent investment advisor. 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. The investments are also governed by state and provincial guidelines. Asset allocation for the funeral and cemetery merchandise and service trusts is generally based on matching the time period that we expect the funeral or cemetery preneed contract to be outstanding. Since net ordinary earnings are distributed monthly from the cemetery perpetual care trusts to offset cemetery maintenance costs, the cemetery perpetual care trusts contain a higher fixed income allocation than the funeral and cemetery merchandise and service trusts. 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, and (2) 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 styles, asset classes, and institutional investment managers.

Table of Contents

As of June 30, 2010, approximately 89% of our trusts were under the control and custody of two large financial institutions engaged as preferred trustees. The 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.

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, 2010, the largest single equity position represented less than 1% of the total portfolio.

Table of Contents*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, and mezzanine financing. The trustees that have oversight of their respective LLCs work closely with the investment advisor in making all current investments.

Trust Investment Performance

The trust fund income recognized from these investment assets continues to be volatile. During the twelve months ended June 30, 2010, the Standard and Poor's 500 Index increased approximately 14.4% and the Barclay's Aggregate Index increased approximately 9.5%, while the combined SCI trusts increased approximately 15.2%.

Capital Allocation Considerations

We believe that our cash on hand, future operating cash flows, and the available capacity under our credit facility will give us adequate liquidity to meet our short-term needs as well as our long-term financial obligations.

While the Company has no significant debt maturities until November 2013, we have chosen to make open market debt repurchases when it is opportunistic to do so relative to other capital deployment opportunities. During 2010 and 2009, we bought our debt securities in the open market totaling \$23 million and \$91 million, respectively.

As a result of the acquisition of Keystone in March 2010, we incurred \$150 million of new debt and we also refinanced debt of approximately \$81 million, which was settled in cash concurrent with the acquisition closing. We do not believe this additional acquisition related debt of \$150 million added meaningfully to our long term debt obligations as the debt purchases in 2009 of \$91 million were completed partly in anticipation of this new debt.

Our current bank credit facility expires in November 2013 and we believe we will be able to successfully renew the bank credit facility at the appropriate time. Our long term liquidity profile assumes that we will have access to the capital markets to refinance our long term debt if, and when, we choose to do so. The Company has a relatively consistent annual cash flow stream which is generally resistant to down economic cycles. This cash flow stream is available to substantially reduce our long-term debt maturities should we choose to do so. Furthermore, the Company's capital expenditures are generally discretionary in nature and can be managed based on the availability of operating cash flow.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. As of June 30, 2010 we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of June 30, 2010 are as follows:

| | Per Credit Agreement | Actual |
|-------------------------|---------------------------------|---------------|
| Leverage ratio | 4.25 (Max) | 3.28 |
| Interest coverage ratio | 2.75 (Min) | 4.18 |

Our financial covenant requirements per our agreement become more restrictive over time. Our future leverage and interest coverage ratios are as follows:

| | Leverage Ratio (Max) | Interest Coverage Ratio (Min) |
|-------------------------------|---------------------------------|--|
| September 2010 and thereafter | 4.00 | 3.00 |

From time to time we have business growth initiatives such as Dignity Memorial, Dignity Planning, and DignityMemorial.com. These growth initiatives are generally not capital intensive. As such, we plan to fund these initiatives using our cash flow from operations. Additionally, we do not believe that these aforementioned initiatives materially impact our short term or long term liquidity needs.

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 decreased approximately \$25.1 million in the first half of 2010 compared to the first half of 2009. This decrease primarily resulted from higher payments toward incentive compensation and trade payables made during the current year, proceeds received in the prior year from liquidating certain life insurance assets, which was partially offset by an increase attributable to higher atneed cash receipts resulting from initiatives that improved collection rates in the current period.

Table of Contents

Investing Activities Net cash used in investing activities increased \$209.3 million in the first half of 2010 compared to the first half of 2009, primarily due to an increased outflow of \$281.6 million in acquisitions, partially offset by increased inflows of \$26.3 million in withdrawals of restricted funds and \$45.1 million in proceeds from divestitures.

Financing Activities Net cash used in financing activities decreased by \$166.6 million in the first half of 2010 compared to the first half of 2009, primarily due to a \$168.8 million increase in proceeds from issuance of long-term debt (net of debt issuance costs) and a \$47.5 million decrease in debt payments which was partially offset by \$55.2 million in purchases of company stock.

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.

| | June 30, 2010 | December 31, 2009 |
|---|------------------------------|------------------------------|
| | (Dollars in millions) | |
| Preneed funeral | \$ 122.1 | \$ 126.6 |
| Preneed cemetery: | | |
| Merchandise and services | 120.5 | 126.0 |
| Pre-construction | 4.1 | 3.3 |
| Bonds supporting preneed funeral and cemetery obligations | 246.7 | 255.9 |
| Bonds supporting preneed business permits | 5.3 | 4.6 |
| Other bonds | 16.6 | 22.1 |
| Total surety bonds outstanding | \$ 268.6 | \$ 282.6 |

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, 2010 and 2009, we had \$4.9 million and \$6.3 million, respectively, of cash receipts attributable to bonded sales. For the six months ended June 30, 2010 and 2009, we had \$9.9 million and \$12.6 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 would 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

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 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.

Trust-Funded Preneed Funeral and Cemetery Contracts: The funds are deposited into trust and invested by independent trustees in accordance with state and provincial laws. We retain any funds above the amounts required to be deposited into trust accounts and use them for working capital purposes, generally to offset the selling and administrative costs of our preneed programs.

Table of Contents

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, 2010 and 2009.

| | North America | | | |
|--|--|-------------|--------------------------------------|-------------|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (Dollars in millions) | | (Dollars in millions) | |
| Funeral: | | | | |
| Preneed trust-funded (including bonded): | | | | |
| Sales production | \$ 33.1 | \$ 37.8 | \$ 63.1 | \$ 76.0 |
| Sales production (number of contracts) | 7,998 | 8,230 | 14,654 | 16,731 |
| Maturities | \$ 44.4 | \$ 43.4 | \$ 93.2 | \$ 89.2 |
| Maturities (number of contracts) | 10,249 | 10,964 | 21,294 | 22,522 |
| Cemetery: | | | | |
| Sales production: | | | | |
| Preneed | \$ 111.4 | \$ 106.7 | \$ 206.7 | \$ 187.7 |
| Atneed | 61.5 | 62.0 | 125.0 | 121.7 |
| Total sales production | \$ 172.9 | \$ 168.7 | \$ 331.7 | \$ 309.4 |
| Sales production deferred to backlog: | | | | |
| Preneed | \$ 47.5 | \$ 45.6 | \$ 89.8 | \$ 78.8 |
| Atneed | 47.3 | 47.7 | 93.4 | 94.1 |
| Total sales production deferred to backlog | \$ 94.8 | \$ 93.3 | \$ 183.2 | \$ 172.9 |
| Revenue recognized from backlog: | | | | |
| Preneed | \$ 35.5 | \$ 37.3 | \$ 68.1 | \$ 67.9 |
| Atneed | 47.9 | 46.9 | 92.0 | 92.2 |
| Total revenue recognized from backlog | \$ 83.4 | \$ 84.2 | \$ 160.1 | \$ 160.1 |

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, 2010 and 2009, and the number of contracts associated with those transactions.

| | North America | |
|--|--|--------------------------------------|
| | Three Months Ended June 30, | Six Months Ended June 30, |

| | 2010 (Dollars in millions) | 2009 | 2010 (Dollars in millions) | 2009 (Dollars in millions) |
|--|---|-------------|---|---|
| Preneed funeral insurance-funded: | | | | |
| Sales production (1) | \$ 121.3 | \$ 82.0 | \$ 211.8 | \$ 151.6 |
| Sales production (number of contracts) (1) | 20,970 | 14,261 | 36,711 | 26,014 |
| General agency revenue | \$ 17.9 | \$ 14.8 | \$ 31.3 | \$ 26.6 |
| Maturities | \$ 71.9 | \$ 59.3 | \$ 141.6 | \$ 124.3 |
| Maturities (number of contracts) | 13,261 | 11,104 | 26,418 | 23,175 |

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

North America Backlog of Preneed Funeral and Cemetery Contracts: The following table reflects our North America backlog of trust-funded deferred preneed funeral and cemetery contract revenues, including amounts related to *Deferred preneed funeral and cemetery receipts held in trust* at June 30, 2010 and December 31, 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, 2010 and December 31, 2009. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on historical experience.

The market value of our funeral and cemetery trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves, and appraisals. For more information on how market values are estimated, see Critical Accounting Policies below. 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, 2010 and 2009

Management Summary

Key highlights in the second quarter of 2010 were as follows:

Funeral gross profit increased \$6.4 million, or 9.0%, due to an increase in funeral case volume and profits from the Keystone and Palm Mortuaries acquisitions partially offset by higher selling costs; and,

Cemetery gross profit increased \$1.1 million due to an increase in preneed cemetery property sales and preneed merchandise sales offset by higher selling costs.

Table of Contents**Results of Operations**

In the second quarter of 2010, we reported net income attributable to common stockholders of \$40.3 million (\$.16 per diluted share) compared to net income attributable to common stockholders in the second quarter of 2009 of \$23.1 million (\$.09 per diluted share). These results were impacted by the following items:

a net after-tax gain on asset sales of \$5.8 million in the second quarter of 2010 and an after-tax loss of \$5.7 million in the second quarter of 2009;

increase in certain tax reserves of \$0.7 million in the second quarter of 2010 as compared to \$2.4 million in the second quarter of 2009;

an after-tax loss from the early extinguishment of debt of \$0.2 million in the second quarter of 2010 and an after-tax gain of \$1.2 million in the second quarter of 2009; and,

after-tax expenses related to our acquisition and integration of Keystone of \$2.3 million in the second quarter of 2010.

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, 2010 and 2009. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2009 and ending June 30, 2010. The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

| Three Months Ended | | Less: Results Associated with Acquisition/ New Construction | Less: Results Associated with Divestitures | | Comparable |
|-----------------------------|---------------------|--|---|----------|-------------------|
| June 30, 2010 | Consolidated | (Dollars in millions) | | | |
| North America Revenue | | | | | |
| Funeral revenue | \$ 376.4 | \$ 33.2 | \$ 0.6 | \$ 342.6 | |
| Cemetery revenue | 177.5 | 4.0 | 0.2 | 173.3 | |
| | 553.9 | 37.2 | 0.8 | 515.9 | |
| Germany revenue | 1.4 | | | 1.4 | |
| Total revenue | \$ 555.3 | \$ 37.2 | \$ 0.8 | \$ 517.3 | |
| North America Gross Profits | | | | | |
| Funeral gross profits | \$ 77.4 | \$ 8.4 | \$ 0.2 | \$ 69.0 | |
| Cemetery gross profits | 31.8 | 1.0 | 0.2 | 30.6 | |
| | 109.2 | 9.4 | 0.2 | 99.6 | |
| Germany gross profits | 0.1 | | | 0.1 | |
| Total gross profits | \$ 109.3 | \$ 9.4 | \$ 0.2 | \$ 99.7 | |

| Three Months Ended | | Less: Results Associated with Acquisition/ New Construction | Less: Results Associated with Divestitures | Comparable |
|---------------------------|---------------------|--|---|-------------------|
| June 30, 2009 | Consolidated | (Dollars in millions) | | |
| North America Revenue | | | | |
| Funeral revenue | \$ 341.2 | \$ 0.2 | \$ 3.3 | \$ 337.7 |
| Cemetery revenue | 171.2 | | 2.5 | 168.7 |
| | 512.4 | 0.2 | 5.8 | 506.4 |
| Germany revenue | 1.5 | | | 1.5 |
| Total revenue | \$ 513.9 | \$ 0.2 | \$ 5.8 | \$ 507.9 |
| | 41 | | | |

Table of Contents

| Three Months Ended | | Less: Results Associated with Acquisition/ New Construction | Less: Results Associated with Divestitures | Comparable |
|-----------------------------|---------------------|--|---|-------------------|
| June 30, 2009 | Consolidated | (Dollars in millions) | | |
| North America Gross Profits | | | | |
| Funeral gross profits | \$ 71.2 | \$ (0.5) | \$ 0.8 | \$ 70.9 |
| Cemetery gross profits | 30.7 | (0.2) | 0.6 | 30.3 |
| | 101.9 | (0.7) | 1.4 | 101.2 |
| Germany gross profits | (0.1) | | | (0.1) |
| Total gross profits | \$ 101.8 | \$ (0.7) | \$ 1.4 | \$ 101.1 |

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the three months ended June 30, 2010 and 2009. 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 number of consolidated funeral services performed during the period.

| | Three Months Ended June 30, | |
|--|--|-------------|
| | 2010 | 2009 |
| | (Dollars in millions, except average revenue per funeral service) | |
| Consolidated funeral revenue | \$ 377.8 | \$ 342.7 |
| Less: Consolidated GA revenue | 17.9 | 14.8 |
| Less: Other revenue | 2.4 | 2.4 |
| Adjusted consolidated funeral revenue | \$ 357.5 | \$ 325.5 |
| Consolidated funeral services performed | 68,220 | 63,749 |
| Consolidated average revenue per funeral service | \$ 5,240 | \$ 5,106 |

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the three months ended June 30, 2010 and 2009. 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 number of comparable funeral services performed during the period.

| | Three Months Ended June 30, | |
|--|--|-------------|
| | 2010 | 2009 |
| | (Dollars in millions, | |

| | | except average revenue per funeral service) |
|--|--------------|--|
| Comparable funeral revenue | \$ 344.0 | \$ 339.2 |
| Less: Comparable GA revenue | 17.1 | 14.7 |
| Less: Other revenue | 2.2 | 2.4 |
| Adjusted comparable funeral revenue | \$ 324.7 | \$ 322.1 |
| Comparable funeral services performed | 61,565 | 62,967 |
| Comparable average revenue per funeral service | \$ 5,274 | \$ 5,115 |

Funeral Results*Funeral Revenue*

Our consolidated revenues from funeral operations were \$377.8 million in the second quarter of 2010 compared to \$342.7 million in the same period of 2009. This increase is primarily due to a \$28.2 million increase resulting from the acquisition of Keystone and a \$3.1 million increase in GA revenue.

Table of Contents*Funeral Services Performed*

Our consolidated funeral services performed increased 7.0% during the second quarter of 2010 compared to the same period in 2009. Our comparable funeral services performed decreased 2.2% during the second quarter of 2010 compared to the same period in 2009, primarily related to soft demand in our relevant markets. We believe the decline in comparable deaths in our markets is consistent with trends experienced by other funeral service providers and industry vendors compared to the second quarter of 2009. Our comparable cremation rate of 41.1% in the second quarter of 2010 increased from 40.4% in the same period of 2009. We continue to expand our cremation memorialization products and services, which have resulted in higher average sales for cremation services.

Average Revenue Per Funeral

Our consolidated average revenue per funeral service increased \$134, or 2.6%, in the second quarter of 2010 over the same period of 2009. Our comparable average revenue per funeral service increased \$159, or 3.1%, per funeral service. Higher average revenue per funeral service and higher general agency revenues more than offset a decline in funeral services performed. Excluding a favorable Canadian currency impact and higher funeral trust fund income, the average comparable revenue per funeral service grew approximately 0.9%.

Funeral Gross Profit

Consolidated funeral gross profits increased \$6.4 million, or 9.0%, and the funeral gross margin percentage was relatively flat at approximately 20.5% in the second quarter of 2010 compared to the second quarter of 2009. Comparable funeral gross profits decreased \$1.7 million, or 2.4%, primarily reflecting the impact of higher selling compensation from increased preneed funeral sales production.

Cemetery Results*Cemetery Revenue*

Consolidated revenues from our cemetery operations increased \$6.3 million, or 3.7%, in the second quarter of 2010 compared to the second quarter of 2009. Comparable cemetery revenues increased \$4.6 million, or 2.7%, when compared with the same period in 2009. This comparable increase was primarily due to a \$4.3 million increase as a result of increased preneed property sales and higher merchandise deliveries in the current period.

Cemetery Gross Profits

Consolidated cemetery gross profit increased \$1.1 million, or 3.6%, and cemetery gross margin percentage remained flat at 17.9% due to increased revenues associated with the cemetery sales production growth which was substantially offset by higher selling expenses. Part of the increased selling expense was associated with an increase in deferred cemetery property sales production of approximately \$4.0 million that primarily related to property sold with less than a 10% down payment.

Other Financial Statement Items*General and Administrative Expenses*

General and administrative expenses were \$27.0 million in the second quarter of 2010 compared to \$26.5 million in the second quarter of 2009. This \$0.5 million increase was primarily due to \$3.8 million in acquisition and transition costs, which were largely offset by other net overhead reductions.

Gains (Losses) on Divestitures and Impairment Charges, net

We recognized a \$13.6 million net pre-tax gain on divestitures and impairment charges. This gain was due to gains incurred on various divestitures, primarily the sale of former SCI properties included in the 22 funeral homes and five cemeteries divested as a result of our agreement with the Federal Trade Commission in conjunction with our recent Keystone acquisition. In the second quarter of 2009, we recognized a \$6.3 million net pre-tax loss on divestitures and impairment charges. 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.

Table of Contents*Other income, net*

Other income, net increased \$2.9 million to \$4.3 million in the second quarter of 2010 compared to \$1.4 million in the second quarter of 2009. This increase is primarily due to a favorable foreign currency exchange impact from liability settlements between U.S. and Canadian subsidiaries.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 253.6 million in the second quarter of 2010, compared to 251.1 million in the second quarter of 2009.

Results of Operations Six Months Ended June 30, 2010 and 2009**Management Summary**

Key highlights in the first half of 2010 were as follows:

Funeral gross profit increased \$6.9 million, or 4.5%, due to an increase in funeral case volume and profits from the Keystone and Palm Mortuaries acquisitions partially offset by higher selling costs; and,

Cemetery gross profit increased \$12.8 million due to an increase in preneed cemetery property sales and preneed merchandise sales, partially offset by higher selling costs.

Results of Operations

In the first half of 2010, we reported net income attributable to common stockholders of \$71.2 million (\$.28 per diluted share) compared to net income attributable to common stockholders in the first half of 2009 of \$57.6 million (\$.23 per diluted share). These results were impacted by the following items:

a net after-tax gain on asset sales of \$5.3 million in the first half of 2010 and an after-tax loss of \$3.0 million in the first half of 2009;

increase in certain tax reserves of \$1.5 million in the first half of 2010 as compared to \$2.4 million in the first half of 2009;

an after-tax loss from the early extinguishment of debt of \$0.2 million in the first half of 2010 and an after-tax gain of \$2.1 million in the first half of 2009; and,

after-tax expenses related to our acquisition and integration of Keystone of \$4.5 million in the first half of 2010.

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, 2010 and 2009. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2009 and ending June 30, 2010. The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

| Six Months Ended | Consolidated | Less: | | Comparable |
|-----------------------|--------------|---|--------------------------------------|------------|
| | | Results Associated with Acquisition/ New Construction | Results Associated with Divestitures | |
| June 30, 2010 | | (Dollars in millions) | | |
| North America Revenue | | | | |
| Funeral revenue | \$ 743.4 | \$ 39.6 | \$ 2.0 | \$ 701.8 |
| Cemetery revenue | 339.4 | 6.3 | 1.6 | 331.5 |

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| | | | | |
|-----------------|---------|------|-----|---------|
| Germany revenue | 1,082.8 | 45.9 | 3.6 | 1,033.3 |
| | 3.3 | | | 3.3 |
| | 44 | | | |

Table of Contents

| Six Months Ended | Consolidated | Less: | Less: | Comparable |
|-----------------------------|-----------------------|--|---|------------|
| | | Results Associated with Acquisition/ New Construction | Results Associated with Divestitures | |
| June 30, 2010 | (Dollars in millions) | | | |
| Total revenue | \$ 1,086.1 | \$ 45.9 | \$ 3.6 | \$ 1,036.6 |
| North America Gross Profits | | | | |
| Funeral gross profits | \$ 161.8 | \$ 9.8 | \$ (0.2) | \$ 152.2 |
| Cemetery gross profits | 59.5 | 1.8 | (0.1) | 57.8 |
| | 221.3 | 11.6 | (0.3) | 210.0 |
| Germany gross profits | 0.3 | | | 0.3 |
| Total gross profits | \$ 221.6 | \$ 11.6 | \$ (0.3) | \$ 210.3 |

| Six Months Ended | Consolidated | Less: | Less: | Comparable |
|-----------------------------|-----------------------|--|---|------------|
| | | Results Associated with Acquisition/ New Construction | Results Associated with Divestitures | |
| June 30, 2009 | (Dollars in millions) | | | |
| North America Revenue | | | | |
| Funeral revenue | \$ 704.4 | \$ 0.3 | \$ 8.1 | \$ 696.0 |
| Cemetery revenue | 316.9 | | 4.2 | 312.7 |
| | 1,021.3 | 0.3 | 12.3 | 1,008.7 |
| Germany revenue | 3.2 | | | 3.2 |
| Total revenue | \$ 1,024.5 | \$ 0.3 | \$ 12.3 | \$ 1,011.9 |
| North America Gross Profits | | | | |
| Funeral gross profits | \$ 155.0 | \$ (0.5) | \$ | \$ 155.5 |
| Cemetery gross profits | 46.7 | (0.1) | 0.1 | 46.7 |
| | 201.7 | (0.6) | 0.1 | 202.2 |
| Germany gross profits | 0.2 | | | 0.2 |
| Total gross profits | \$ 201.9 | \$ (0.6) | \$ 0.1 | \$ 202.4 |

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The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the six months ended June 30, 2010 and 2009. 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 number of consolidated funeral services performed during the period.

| | Six Months Ended June 30, | |
|--|--|--------------|
| | 2010 | 2009 |
| | (Dollars in millions, except average revenue per funeral service) | |
| Consolidated funeral revenue | \$ 746.7 | \$ 707.6 |
| Less: Consolidated GA revenue | 31.3 | 26.6 |
| Less: Other revenue | 6.3 | 4.1 |
| Adjusted consolidated funeral revenue | \$ 709.1 | \$ 676.9 |
| Consolidated funeral services performed | 135,992 | 133,078 |
| Consolidated average revenue per funeral service | \$ 5,214 | \$ 5,086 |

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the six months ended June 30, 2010 and 2009. 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 number of comparable funeral services performed during the period.

| | Six Months Ended June 30, | |
|--|--|--------------|
| | 2010 | 2009 |
| | (Dollars in millions, except average revenue per funeral service) | |
| Comparable funeral revenue | \$ 705.1 | \$ 699.2 |
| Less: Comparable GA revenue | 30.3 | 26.5 |
| Less: Other revenue | 4.4 | 4.1 |
| Adjusted comparable funeral revenue | \$ 670.4 | \$ 668.6 |
| Comparable funeral services performed | 127,498 | 131,223 |
| Comparable average revenue per funeral service | \$ 5,258 | \$ 5,095 |

Table of Contents***Funeral Results******Funeral Revenue***

Our consolidated revenues from funeral operations were \$746.7 million in the first half of 2010 compared to \$707.6 million in the same period of 2009. This increase is primarily due to a \$29.8 million increase resulting from the acquisition of Keystone and a \$4.7 million increase in GA revenue.

Funeral Services Performed

Our consolidated funeral services performed increased 2.2% during the first half of 2010 compared to the same period in 2009. Our comparable funeral services performed decreased 2.8% during the first half of 2010 compared to the same period in 2009, primarily related to soft demand in our relevant markets. We believe the decline in deaths in our comparable markets is consistent with trends experienced by other funeral service providers and industry vendors compared to the second quarter of 2009. Our comparable cremation rate of 41.1% in the first half of 2010 increased from 40.3% in the same period of 2009. We continue to expand our cremation memorialization products and services, which have resulted in higher average sales for cremation services.

Average Revenue Per Funeral

Our consolidated average revenue per funeral service increased \$128, or 2.5%, in the first half of 2010 over the same period of 2009. Higher average revenue per funeral service and higher general agency revenues more than offset a decline in funeral services performed. Our comparable average revenue per funeral service increased \$163, or 3.2%, per funeral service. Excluding a favorable Canadian currency impact and higher funeral trust fund income, the average comparable revenue per funeral service grew approximately 0.8%.

Funeral Gross Profit

Consolidated funeral gross profits increased \$6.9 million, or 4.4%, and the funeral gross margin percentage was relatively flat at approximately 21.7% in the first half of 2010 compared to the first half of 2009. Comparable funeral gross profits decreased \$3.2 million, or 2.1%, primarily reflecting the impact of higher selling compensation from increased preneed funeral sales production.

Cemetery Results***Cemetery Revenue***

Consolidated revenues from our cemetery operations increased \$22.5 million, or 7.1%, in the first half of 2010 compared to the first half of 2009. Comparable cemetery revenues increased \$18.8 million, or 6.0%, when compared with the same period in 2009. This comparable increase was primarily due to a \$15.4 million increase in preneed property sales and merchandise deliveries and a \$4.7 million increase in cemetery trust fund income.

Cemetery Gross Profits

Consolidated cemetery gross profit increased \$12.8 million, or 27.4%, and cemetery gross margin percentage improved to approximately 17.5% from 14.7% due to a significant increase in cemetery property sales and increases in cemetery trust fund income compared to prior year levels. We are also beginning to see some benefit from initiatives to reduce maintenance expenses implemented last year, which helped to offset increased selling costs as a result of higher sales production.

Table of Contents

Other Financial Statement Items

General and Administrative Expenses

General and administrative expenses were \$53.2 million in the first half of 2010 compared to \$48.3 million in the first half of 2009. This \$4.9 million increase was primarily due to \$6.1 million in acquisition and transition costs, which were largely offset by other net overhead reductions.

Gains (Losses) on Divestitures and Impairment Charges, net

We recognized a \$13.1 million net pre-tax gain on divestitures and impairment charges. This gain was due to gains incurred on various divestitures, primarily the sale of former SCI properties included in the 22 funeral homes and five cemeteries divested as a result of our agreement with the Federal Trade Commission in conjunction with our recent Keystone acquisition. In the first half of 2009, we recognized a \$0.9 million net pre-tax gain on divestitures and impairment charges. This gain was due to a 17.7 million release of VAT, social security, and litigation indemnifications related to our former French operations, partially offset by \$16.8 million from impairment charges and asset divestitures.

Other income, net

Other income, net increased \$1.9 million to \$2.4 million in the first half of 2010 compared to \$0.5 million in the first half of 2009. This increase is primarily due to a favorable foreign currency exchange impact from liability settlements between U.S. and Canadian subsidiaries.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 254.9 million in the first half of 2010, compared to 250.7 million in the first half of 2009.

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. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

No other significant changes to our accounting policies have occurred subsequent to December 31, 2009, except as described below within *Recent Accounting Pronouncements and Accounting Changes*.

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.

Table of Contents

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.

Our 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 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 in order to meet minimum 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. While such payments would affect our cash flow, we do not believe it would impair our ability to service debt or our overall liquidity. If these tax matters are favorably resolved, the accruals maintained by us will no longer be required, and these amounts will be reversed 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 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.

Declines in overall economic conditions beyond our control could reduce future potential earnings and cash flows and could result in future goodwill impairments.

Our funeral and cemetery trust funds' investments in equity securities, fixed income securities, and mutual funds may be impacted by market conditions that are beyond our control.

Table of Contents

Failure to realize the anticipated benefits and/or successful implementation of the acquisition of Keystone, which could prove to be disruptive and could result in the combined business failing to meet our expectations.

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2009 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at 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, 2010 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 volatility in financial markets.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of June 30, 2010, 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. The officers have concluded that our disclosure controls and procedures were effective as of June 30, 2010 and 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, results of operations and cash flows for the periods presented in conformity with US GAAP.

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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding legal proceedings is set forth in Note 16 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, 2009, except that the Risk Factor relating to failure to consummate the acquisition of Keystone is no longer applicable because we have acquired Keystone.

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

On April 30, 2010, we issued 844 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, 2010, the aggregate purchases pursuant to our share repurchase program totaled \$1.1 billion. As of June 30, 2010, the remaining dollar value of shares that may yet be purchased under our currently approved share repurchase program was approximately \$69.0 million.

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Dollar value of shares that may yet be purchased under the programs |
|--------------------------------|---|-------------------------------------|--|--|
| April 1, 2010 - April 30, 2010 | | | | \$ 123,444,042 |
| May 1, 2010 - May 31, 2010 | 6,209,800 | \$ 8.76 | 6,209,800 | \$ 69,032,916 |
| June 1, 2010 - June 30, 2010 | | | | \$ 69,032,916 |
| | | | | \$ |
| | 6,209,800 | | 6,209,800 | |

Subsequent to June 30, 2010, we repurchased an additional 2.4 million shares of common stock at an aggregate cost of \$18.0 million, which is an average cost per share of \$7.52. After these third quarter repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$51.1 million.

Item 6. Exhibits

- 12.1 Ratio of earnings to fixed charges for the three and six months ended June 30, 2010 and 2009.
- 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.
- 101 The following materials from Service Corporation International's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet (ii) Condensed Consolidated Statement of Operations, (iii) Condensed Consolidated Statement of Equity (iv) Condensed Consolidated Statement of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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.

Table of Contents

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.

July 30, 2010

SERVICE CORPORATION
INTERNATIONAL

By: /s/ Tammy Moore
Tammy Moore
Vice President and Corporate Controller
(Principal Accounting Officer)

51

Table of Contents

Index to Exhibits

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