SERVICE CORPORATION INTERNATIONAL
Form 10-Q
August 07, 2009

Table of Contents

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

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from __________ to __________

Commission file number 1-6402-1

SERVICE CORPORATION INTERNATIONAL

(Exact name of registrant as specified in its charter)

Texas	**74-1488375**
(State or other jurisdiction of incorporation or organization)	(I. R. S. employer identification number)
1929 Allen Parkway, Houston, Texas	**77019**
(Address of principal executive offices)	(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 þ NO o

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 o NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

SERVICE CORPORATION INTERNATIONAL
INDEX

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 use.
Preneed Backlog Future revenues from unfulfilled preneed funeral and cemetery contractual arrangements.
Production Sales of preneed funeral and preneed or atneed cemetery contracts.

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)
(In thousands, except per share amounts)

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

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

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

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

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

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

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

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

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

	Outstanding Shares	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance at December 31, 2008	249,472	$ 249,472	$ 1,733,814	$ (726,756)	$ 36,649	$	$ 1,293,179
Net income				57,634		326	57,960
Other comprehensive income					21,258		21,258
Dividends declared on common stock ($.08 per share)			(20,085)				(20,085)
Employee share-based compensation earned			5,168				5,168
Stock option exercises	631	631	1,732				2,363
Restricted stock awards, net of forfeitures	830	830	(830)				
Issuance of shares from treasury	72	72	383				455
Other						(105)	(105)
Balance at June 30, 2009	251,005	$ 251,005	$ 1,720,182	$ (669,122)	$ 57,907	$ 221	$ 1,360,193

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

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

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

Reclassifications

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

Use of Estimates in the Preparation of Financial Statements

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

Business Combinations

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

Table of Contents

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

Noncontrolling Interests

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

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

Fair Value Measurements

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

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

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

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

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

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

Determination of the Useful Life of Intangible Assets

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

3. Recently Issued Accounting Standards

Other-Than-Temporary Impairments

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

Interim Fair Value Disclosures

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

Fair Value Measurements

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

Subsequent Events

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

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

Table of Contents

Variable Interest Entities

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

Accounting Standards Codification and Hierarchy

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

4. Preneed Funeral Activities

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

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

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

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

June 30, 2009

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

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

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

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

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

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

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

Table of Contents

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

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

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

	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, 2009	$495,584	$ 153,642	$ 12,346	$661,572
Trust investments at December 31, 2008	$428,008	$ 170,617	$ 40,880	$639,505

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

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

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

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

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

trust.

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

	Fair Market Value (In thousands)
Due in one year or less	$ 73,222
Due in one to five years	36,993
Due in five to ten years	32,100
Thereafter	11,327
	$ 153,642

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

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

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

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

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

5. Preneed Cemetery Activities

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Deposits	$ 24,320	$ 30,011	$ 43,663	$ 55,312
Withdrawals	24,990	41,530	53,858	72,739

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

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

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

15

Table of Contents

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

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

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

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

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

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

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

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, and mortgage-backed fixed income securities. Our private equity and other investments are classified as Level 3 securities.

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

	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, 2009	$728,348	$ 82,312	$ 5,388	$816,048
Trust investments at December 31, 2008	$593,592	$ 78,458	$ 31,837	$703,887

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

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

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

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

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

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

Fair Market

		Value (In thousands)
Due in one year or less	$	688
Due in one to five years		30,664
Due in five to ten years		26,258
Thereafter		24,702
	$	82,312

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

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges, resulting from this assessment, are recognized as investment losses in *Other income (expense), net* and a decrease to *Preneed cemetery receivables, net and trust investments*. These investment losses, if any, are offset by a corresponding reclassification in *Other income* (*expense*), *net,* which reduces *Deferred preneed funeral and cemetery receipts held in trust*. See Note 7 for further information related to our *Deferred preneed funeral and cemetery receipts held in trust*. We recorded an impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain securities of $3.3 million and $12.9 million for the three and six months ended June 30, 2009, respectively. We did not record an impairment charge in the first half of 2008.

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

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

	December 31, 2008					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses

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

18

6. Cemetery Perpetual Care Trusts

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Quoted	Significant	Significant

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

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

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

20

Table of Contents

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

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

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

	Fair Market Value (In thousands)
Due in one year or less	$ 2,473
Due in one to five years	36,575
Due in five to ten years	17,322
Thereafter	15,541
	$ 71,911

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

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

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

Table of Contents

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

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

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

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

Deferred Preneed Funeral and Cemetery Receipts Held in Trust

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

Table of Contents

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

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

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

Care Trusts Corpus

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

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

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

Other Income (Expense), Net

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

Three Months Ended June 30, 2009

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

Table of Contents

	Six Months Ended June 30, 2009				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
			(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 income (loss)	(34,289)	(34,732)	1,934		(67,087)
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus	34,289	34,732	(1,934)		67,087
Other expense, net				(743)	(743)
Total other expense, net	$	$	$	$ (743)	$ (743)

	Three Months Ended June 30, 2008				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
			(In thousands)		
Realized gains	$ 9,510	$ 11,959	$ 865	$	$ 22,334
Realized losses	(11,892)	(13,320)	(638)		(25,850)
Interest, dividend, and other ordinary income	14,902	12,502	9,990		37,394
Trust expenses and income taxes	(4,408)	(10,972)	(2,386)		(17,766)
Net trust investment income	8,112	169	7,831		16,112
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus	(8,112)	(169)	(7,831)		(16,112)
Other income, net				687	687
Total other income, net	$	$	$	$ 687	$ 687

	Six Months Ended June 30, 2008				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total

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

8. Income Taxes

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

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

9. Debt

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

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

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

Bank Credit Facility

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

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

Debt Extinguishments and Reductions

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

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

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

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

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

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

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

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

Table of Contents

Capital Leases

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

10. Fair Value of Financial Instruments

Fair Value Estimates

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

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

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

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

Table of Contents

11. Share-Based Compensation

Stock Benefit Plans

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

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

Stock Options

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

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

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

Restricted Shares

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

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

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

12. Stockholders Equity

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

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

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

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

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

Cash Dividends

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

Share Repurchase Program

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

13. Segment Reporting

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

Table of Contents

Our reportable segment information is as follows:

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

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

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

Our geographic area information is as follows:

	United States	Canada	Germany	Total
		(In thousands)		
Three months ended June 30,				
Revenues from external customers:				
2009	$ 469,765	$ 42,652	$1,532	$ 513,949

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

29

Table of Contents

14. Supplementary Information

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

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

15. Commitments and Contingencies

Representations and Warranties

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

In 2004, we disposed of our funeral operations in France to a newly formed, third-party company. As a result of this sale, we recognized certain Euro-denominated contractual obligations related to representations, warranties, and other indemnifications. The remaining obligation related to these indemnifications was 1.6 million, or $2.2 million at June 30, 2009.

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

Insurance Loss Reserves

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

Table of Contents

Litigation

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

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

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

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

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

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

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

31

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

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

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

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

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

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

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

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

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

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

Bryant, et al. v. Service Corporation International, et al.; Case No. RG-07359593; and *Helm, et al. v. AWGI & SCI*; Case No. RG-07359602; In the Superior Court of the State of California, County of Almeda. These cases were filed on December 5, 2007 by counsel for plaintiffs in the Wage and Hour Lawsuit. These cases assert state law claims like those previously dismissed in the Wage and Hour Lawsuit. These cases were removed to federal court in the U.S. District Court for the Northern District of California, San Francisco/Oakland Division. The *Bryant* case is now Case No. 3:08-CV-01190-SI and the *Helm* case is now Case No. 2:-CV-01184- SI. We cannot quantify our ultimate liability, if any, in these lawsuits.

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

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

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

16. Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
Amounts attributable to common stockholders:				
Income from continuing operations:				
Income from continuing operations basic	$ 23,104	$ 31,774	$ 57,634	$ 73,278
After-tax interest on convertible debt		13	25	25
Income from continuing operations diluted	$ 23,104	$ 31,787	$ 57,659	$ 73,303
Loss from discontinued operations, net of tax	$	$ (377)	$	$ (362)
Net income:				
Net income basic	$ 23,104	$ 31,397	$ 57,634	$ 72,916
After tax interest on convertible debt		13	25	25
Net income diluted	$ 23,104	$ 31,410	$ 57,659	$ 72,941
Weighted average shares:				
Weighted average shares basic	250,977	259,655	250,461	260,565
Stock options	153	3,356	90	3,542
Convertible debt		121	121	121
Weighted average shares diluted	251,130	263,132	250,672	264,228

Income from continuing operations per share:				
Basic	$ .09	$ .12	$ .23	$ .28
Diluted	$ .09	$ .12	$ .23	$ .28
Net income per share:				
Basic	$ .09	$ .12	$ .23	$ .28
Diluted	$ .09	$ .12	$ .23	$ .28

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

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

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

17. Divestiture-Related Activities

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

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

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

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

Assets Held for Sale

Net assets held for sale were as follows:

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

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

34

Table of Contents

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

The Company

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

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

Financial Condition, Liquidity and Capital Resources

Recent Volatility in Financial Markets

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

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

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

Trust Investments

In addition to selling our products and services to client families at the time of need, we sell price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery services and merchandise. Since preneed funeral and cemetery services or merchandise will not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into trusts until the merchandise is delivered or the service is performed. Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery services and merchandise in the future for the prices that were guaranteed at the time of sale.

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

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

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

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

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

Assets associated with businesses held for sale	(2,167)	(45,669)	(47,836)	(19,976)	(67,812)
Cash and cash equivalents	165,181	136,194	301,375	81,198	382,573
Insurance-backed fixed income securities	207,890		207,890		207,890