

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

April 28, 2011

Table of Contents

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-6402-1

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

Texas

(State or other jurisdiction of incorporation or
organization)

74-1488375

(I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas

(Address of principal executive offices)

77019

(Zip code)

713-522-5141

(Registrant's telephone number, including area code)

None

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

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

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

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

Large accelerated
filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting
company)

Smaller reporting
company

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

The number of shares outstanding of the registrant's common stock as of April 26, 2011 was 238,806,670 (net of treasury shares).

**SERVICE CORPORATION INTERNATIONAL
INDEX**

	Page
<u>Glossary</u>	3
<u>Part I. Financial Information</u>	4
<u>Item 1. Financial Statements</u>	4
<u>Unaudited Condensed Consolidated Statement of Operations Three Months Ended March 31, 2011 and 2010</u>	4
<u>Unaudited Condensed Consolidated Balance Sheet March 31, 2011 and December 31, 2010</u>	5
<u>Unaudited Condensed Consolidated Statement of Cash Flows Three Months Ended March 31, 2011 and 2010</u>	6
<u>Unaudited Condensed Consolidated Statement of Equity Three Months Ended March 31, 2011 and 2010</u>	7
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>The Company</u>	30
<u>Financial Condition, Liquidity, and Capital Resources</u>	30
<u>Results of Operations Three Months Ended March 31, 2011 and 2010</u>	36
<u>Critical Accounting Policies</u>	39
<u>Cautionary Statement on Forward-Looking Statements</u>	40
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	41
<u>Item 4. Controls and Procedures</u>	41
<u>Part II. Other Information</u>	42
<u>Item 1. Legal Proceedings</u>	42
<u>Item 1A. Risk Factors</u>	42
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
<u>Item 6. Exhibits</u>	42
<u>Signature</u>	44
<u>EX-12.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

GLOSSARY

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

Atneed Funeral and cemetery arrangements after a death has occurred.

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

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

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

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

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

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

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

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

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

Preneed Purchase of products and services prior to a death occurring.

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

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

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

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

SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2011	2010
Revenues	\$ 579,699	\$ 530,863
Costs and expenses	(453,253)	(418,505)
Gross profits	126,446	112,358
General and administrative expenses	(28,833)	(26,252)
Losses on divestitures and impairment charges, net	(420)	(480)
Operating income	97,193	85,626
Interest expense	(33,559)	(32,301)
Loss on early extinguishment of debt, net	(314)	
Other income (expense), net	674	(1,884)
Income before income taxes	63,994	51,441
Provision for income taxes	(24,065)	(20,116)
Net income	39,929	31,325
Net income attributable to noncontrolling interests	(1,165)	(413)
Net income attributable to common stockholders	\$ 38,764	\$ 30,912
Basic earnings per share:		
Net income attributable to common stockholders	\$.16	\$.12
Basic weighted average number of shares	239,772	254,400
Diluted earnings per share:		
Net income attributable to common stockholders	\$.16	\$.12
Diluted weighted average number of shares	242,052	256,154
Dividends declared per share	\$.05	\$.04

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

(In thousands, except share amounts)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 210,307	\$ 170,846
Receivables, net	93,209	107,185
Deferred tax assets	44,308	41,371
Inventories	34,245	34,770
Other	17,966	27,746
Total current assets	400,035	381,918
Preneed funeral receivables, net and trust investments	1,436,201	1,424,557
Preneed cemetery receivables, net and trust investments	1,615,743	1,563,893
Cemetery property, at cost	1,509,367	1,508,787
Property and equipment, net	1,633,168	1,627,698
Goodwill	1,313,671	1,307,484
Deferred charges and other assets	389,641	389,184
Cemetery perpetual care trust investments	1,022,420	987,019
Total assets	\$ 9,320,246	\$ 9,190,540
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 338,540	\$ 342,651
Current maturities of long-term debt	22,693	22,502
Income taxes	4,186	1,474
Total current liabilities	365,419	366,627
Long-term debt	1,830,090	1,832,380
Deferred preneed funeral revenues	567,669	580,223
Deferred preneed cemetery revenues	832,235	813,493
Deferred tax liability	344,885	323,304
Other liabilities	405,344	399,619
Deferred preneed funeral and cemetery receipts held in trust	2,459,109	2,408,074
Care trusts corpus	1,020,786	986,872
Commitments and contingencies (Note 15)		
Stockholders' Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 243,053,957 and 242,019,650 shares issued, respectively, and 238,865,095 and 241,035,250 shares outstanding, respectively	238,865	241,035
Capital in excess of par value	1,568,606	1,603,112

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Accumulated deficit	(438,695)	(477,459)
Accumulated other comprehensive income	124,270	112,768
Total common stockholders' equity	1,493,046	1,479,456
Noncontrolling interests	1,663	492
Total equity	1,494,709	1,479,948
Total liabilities and equity	\$ 9,320,246	\$ 9,190,540

(See notes to unaudited condensed consolidated financial statements)

5

Table of Contents

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

	Three Months Ended	
	March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 39,929	\$ 31,325
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt, net	314	
Depreciation and amortization	29,331	28,679
Amortization of intangible assets	6,354	5,636
Amortization of cemetery property	9,500	6,434
Amortization of loan costs	1,184	1,261
Provision for doubtful accounts	1,933	31
Provision for deferred income taxes	19,379	14,425
Losses on divestitures and impairment charges, net	420	480
Share-based compensation	2,253	2,324
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease in receivables	13,494	2,658
Decrease in other assets	1,386	493
(Decrease) increase in payables and other liabilities	(1,454)	9,070
Effect of preneed funeral production and maturities:		
Decrease in preneed funeral receivables, net and trust investments	15,761	25,844
Decrease in deferred preneed funeral revenue	(19,398)	(3,668)
Decrease in deferred preneed funeral receipts held in trust	(8,942)	(18,655)
Effect of cemetery production and deliveries:		
Increase in preneed cemetery receivables, net and trust investments	(9,456)	(7,892)
Increase in deferred preneed cemetery revenue	11,750	8,814
Decrease in deferred preneed cemetery receipts held in trust	(5,643)	(360)
Other	(109)	2,037
Net cash provided by operating activities	107,986	108,936
Cash flows from investing activities:		
Capital expenditures	(25,138)	(18,336)
Acquisitions	(10,513)	(259,393)
Proceeds from divestitures and sales of property and equipment, net	4,697	24,268
Net withdrawals of restricted funds and other	3,567	26,445
Net cash used in investing activities	(27,387)	(227,016)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		175,000
Debt issuance costs		(6,203)
Payments of debt	(710)	(30,810)
Early extinguishment of debt	(5,155)	
Principal payments on capital leases	(5,639)	(5,889)
Proceeds from exercise of stock options	3,182	1,024

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Purchase of Company common stock	(30,245)	(689)
Payments of dividends	(9,605)	(10,161)
Bank overdrafts and other	4,794	(7,773)
Net cash (used in) provided by financing activities	(43,378)	114,499
Effect of foreign currency on cash and cash equivalents	2,240	4,310
Net increase in cash and cash equivalents	39,461	729
Cash and cash equivalents at beginning of period	170,846	179,745
Cash and cash equivalents at end of period	\$ 210,307	\$ 180,474

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance at December 31, 2009	\$ 254,027	\$ (10)	\$ 1,735,493	\$ (603,876)	\$ 97,142	12	\$ 1,482,788
Net income				30,912		413	31,325
Dividends declared on common stock (\$0.04 per share)			(10,190)				(10,190)
Other comprehensive income					13,827	5	13,832
Employee share-based compensation earned			2,324				2,324
Stock option exercises	294		730				1,024
Restricted stock awards, net of forfeitures	529		(529)				
Purchase of Company common stock		(80)	(609)				(689)
Other	1		7				8
Balance at March 31, 2010	\$ 254,851	\$ (90)	\$ 1,727,226	\$ (572,964)	\$ 110,969	\$ 430	\$ 1,520,422
Balance at December 31, 2010	242,020	(985)	1,603,112	(477,459)	112,768	492	1,479,948
Net income				38,764		1,165	39,929
Dividends declared on common stock (\$0.05 per share)			(11,930)				(11,930)
Other comprehensive income			2,253		11,502	6	11,508
							2,253

Employee share-based compensation earned								
Stock option exercises	484		2,698					3,182
Restricted stock awards, net of forfeitures	539		(539)					
Purchase of Company common stock		(3,204)	(27,041)					(30,245)
Other	11		53					64
Balance at								
March 31, 2011	\$ 243,054	\$ (4,189)	\$ 1,568,606	\$ (438,695)	\$ 124,270	\$ 1,663		\$ 1,494,709

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

1. Nature of Operations

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

Our unaudited condensed consolidated financial statements include the accounts of Service Corporation International (SCI) 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 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, 2010, 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.

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, 2010. 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.

Preneed Funeral and Cemetery Receivables

We sell preneed funeral and cemetery contracts whereby the customer enters into arrangements for future merchandise and services prior to the time of need. As these contracts are prior to the delivery of the related goods and services, the preneed funeral and cemetery receivables are offset by a comparable deferred revenue amount. These receivables have an interest component for which interest income is recorded when the interest amount is considered collectible and realizable which typically coincides with cash payment. We do not accrue interest on financing receivables that are not paid in accordance with the contractual payment date given the nature of our goods and services, the nature of our contracts with customers, and the timing of the delivery of our services, we do not consider receivables to be past due until the service or goods are required to be delivered at which time the preneed receivable

is paid or reclassified as a trade receivable with payment terms of less than 30 days. As the preneed funeral and cemetery receivables are offset by comparable deferred revenue amount we have no risk of loss related to these receivables.

Table of Contents

If a preneed contract is cancelled prior to delivery, state or provincial law determines the amount of the refund owed to the customer, if any, including the amount of the attributed investment earnings. Upon cancellation, we receive the amount of principal deposited to the trust and previously undistributed net investment earnings and, where required, issue a refund to the customer. We retain excess funds, if any, and recognize the attributed investment earnings (net of any investment earnings payable to the customer) as revenue in the consolidated statement of operations. In certain jurisdictions, we may be obligated to fund any shortfall if the amount deposited by the customer exceed the funds in trust. Based on our historical experience, we have provided an allowance for cancellation of these receivables which is recorded as a reduction to deferred revenue.

Fair Value Measurements

In January 2010, the FASB amended the Fair Value Measurements and Disclosure (FVM&D) Topic of the Accounting Standards Codification (ASC) to require additional disclosures on (1) transfers between levels, (2) Level 3 activity presented on a gross basis, (3) valuation technique, and (4) inputs into the valuation. We adopted Items 1, 3, and 4 during the three months ended March 31, 2010, and the adoption did not impact our unaudited condensed consolidated financial statements. We adopted Item 2 during the three months ended March 31, 2011, and the appropriate disclosures are contained in Notes 4, 5, and 6.

Stock-Based Compensation

In April 2010, the FASB issued additional guidance for the Compensation – Stock Compensation Topic of the ASC to clarify classification of an employee stock-based payment award when the exercise price is denominated in the currency of a market in which the underlying equity security trades. This guidance becomes effective for us on January 1, 2011. The adoption did not impact our unaudited condensed consolidated financial statements.

Multi-Deliverable Arrangements

In October 2009, the FASB issued authoritative guidance which impacts the recognition of revenue in multi-deliverable arrangements. The guidance establishes a selling-price hierarchy for determining the selling price of a deliverable. The goal of this guidance is to clarify disclosures related to multi-deliverable arrangements and to align the accounting with the underlying economics of the multi-deliverable transaction. This guidance is effective for us in the first quarter of 2011, and its adoption did not impact our unaudited condensed consolidated financial statements.

3. Recently Issued Accounting Standards***Receivables***

In January 2011, the FASB amended the Receivables Topic of the ASC to defer the effective date of disclosures about troubled debt restructuring. The update proposed guidance to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment and for disclosure of troubled debt restructurings. The amended guidance is effective for us in the second quarter of 2011. We do not believe this guidance will have any impact on our consolidated financial condition or results of operations.

4. Preneed Funeral Activities

Preneed funeral receivables, net and trust investments represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, related to unperformed, price-guaranteed preneed funeral contracts. Our funeral merchandise and service trusts are variable interest entities as defined in the Consolidation Topic of the ASC. In accordance with this guidance, we have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. Our cemetery trust investments detailed in Notes 5 and 6 are also accounted for as variable interest entities. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding

Table of Contents

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.

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

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Deposits	\$ 17,316	\$ 21,173
Withdrawals	23,758	32,010
Purchases of available-for-sale securities	83,757	151,100
Sales of available-for-sale securities	109,707	177,786
Realized gains from sales of available-for-sale securities	12,877	11,493
Realized losses from sales of available-for-sale securities	(4,034)	(18,445)

The components of *Preneed funeral receivables, net and trust investments* in our unaudited condensed consolidated balance sheet at March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
Trust investments, at market	\$ 889,554	\$ 875,043
Cash and cash equivalents	122,638	121,212
Insurance-backed fixed income securities	221,316	220,287
Trust investments	1,233,508	1,216,542
Receivables from customers	241,166	247,434
Unearned finance charge	(5,510)	(5,620)
	1,469,164	1,458,356
Allowance for cancellation	(32,963)	(33,799)
Preneed funeral receivables and trust investments	\$ 1,436,201	\$ 1,424,557

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair market value at March 31, 2011 and December 31, 2010 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments (including debt as well as the estimated fair value related to the contract holder's equity in majority-owned real estate investments). The fair market value of our funeral merchandise and service trust investments, in the aggregate, was 107% and 104% of the related cost basis of such investments as of March 31, 2011 and December 31, 2010, respectively.

March 31, 2011
Unrealized Unrealized

	Cost	Gains	Losses	Fair Market Value
	(In thousands)			
Fixed income securities:				
U.S. Treasury	\$ 70,155	\$ 2,531	\$ (289)	\$ 72,397
Canadian government	122,265	705	(47)	122,923
Corporate	32,082	3,383	(239)	35,226
Residential mortgage-backed	5,204	113	(33)	5,284
Asset-backed	2,942	80	(4)	3,018
Equity securities:				
Preferred stock	3,098	409	(14)	3,493
Common stock:				
United States	274,011	70,964	(6,983)	337,992
Canada	21,408	6,153	(479)	27,082
Other international	19,261	2,006	(1,710)	19,557
Mutual funds:				
Equity	112,676	7,008	(15,941)	103,743
Fixed income	131,026	7,530	(5,087)	133,469
Private equity	31,288	1,423	(16,084)	16,627
Other	7,980	763		8,743
Trust investments	\$ 833,396	\$ 103,068	\$ (46,910)	\$ 889,554

Table of Contents

	December 31, 2010			Fair
	Cost	Unrealized Gains	Unrealized Losses	Market Value
	(In thousands)			
Fixed income securities:				
U.S. Treasury	\$ 71,948	\$ 2,061	\$ (334)	\$ 73,675
Canadian government	121,137	1,004	(20)	122,121
Corporate	33,627	2,751	(285)	36,093
Residential mortgage-backed	5,310	135	(22)	5,423
Asset-backed	2,984	97	(2)	3,079
Equity securities:				
Preferred stock	2,835	296	(78)	3,053
Common stock:				
United States	268,650	63,301	(8,391)	323,560
Canada	22,452	4,542	(798)	26,196
Other international	21,611	2,240	(2,330)	21,521
Mutual funds:				
Equity	116,260	6,123	(18,289)	104,094
Fixed income	134,181	6,316	(5,628)	134,869
Private equity	27,864	1,395	(16,890)	12,369
Other	8,833	615	(458)	8,990
Trust investments	\$ 837,692	\$ 90,876	\$ (53,525)	\$ 875,043

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These funds are classified as Level 2 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

The valuation of private equity and other alternative investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity investments are valued using market appraisals or a discounted cash flow methodology, which is an income approach for fair value model, depending on the nature of the underlying assets. The appraisals assess value based on a combination of replacement cost, comparative sales analysis, and discounted cash flow analysis. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of March 31, 2011, our unfunded commitment for our private equity and other investments was \$5.1 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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

Table of Contents

The inputs into the fair value of our market-based 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 March 31, 2011	\$ 621,843	\$242,341	\$ 25,370	\$889,554
Trust investments at December 31, 2010	\$ 610,240	\$243,444	\$ 21,359	\$875,043

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 March 31,	
	2011	2010
Fair market value, beginning balance at January 1	\$ 21,359	\$ 12,052
Net unrealized gains (losses) included in <i>Accumulated other comprehensive income</i> (1)	3,870	(516)
Net realized losses included in <i>Other income (expense), net</i> (2)	(7)	(12)
Sales	(194)	
Contributions	486	613
Distributions	(144)	(20)
Fair market value, ending balance	\$ 25,370	\$ 12,117

(1) All unrealized gains (losses) recognized in *Accumulated other comprehensive income* for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in *Accumulated other comprehensive income* to *Deferred preneed funeral and cemetery receipts held in trust*. See Note 7 for further information related to our *Deferred preneed funeral and cemetery receipts held in trust*.

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

Maturity dates of our fixed income securities range from 2011 to 2041. Maturities of fixed income securities at March 31, 2011 are estimated as follows:

	Fair Market Value (In thousands)
Due in one year or less	\$ 137,478
Due in one to five years	50,823

Due in five to ten years	31,615
Thereafter	18,932
	\$ 238,848

Earnings from all our funeral merchandise and service 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 these trust investments were \$9.6 million and \$8.1 million for the three months ended March 31, 2011 and 2010, 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 funeral receivables, net and trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other income (expense), net*, which reduces *Deferred preneed funeral receipts held in trust*. See Note 7 for further information related to our *Deferred preneed funeral receipts held in trust*. For the three months ended March 31, 2011 and 2010, we recorded a \$3.1 million and a \$5.1 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments.

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U.S. Treasury	\$ 10,433	\$ (316)	\$ 393	\$ (18)	\$ 10,826	\$ (334)
Canadian government	1,632	(2)	668	(18)	2,300	(20)
Corporate	5,619	(285)			5,619	(285)
Residential						
mortgage-backed	836	(9)	263	(13)	1,099	(22)
Asset-backed	225	(1)	53	(1)	278	(2)
Equity securities:						
Preferred stock	1,045	(78)			1,045	(78)
Common stock:						
United States	41,491	(3,019)	24,919	(5,372)	66,410	(8,391)
Canada	4,493	(324)	1,361	(474)	5,854	(798)
Other international	5,251	(862)	3,446	(1,468)	8,697	(2,330)
Mutual funds:						
Equity	3,778	(110)	61,844	(18,179)	65,622	(18,289)
Fixed income	9,630	(156)	8,818	(5,472)	18,448	(5,628)
Private equity	214	(71)	6,715	(16,819)	6,929	(16,890)
Other	8	(2)	309	(456)	317	(458)
Total temporarily impaired securities	\$ 84,655	\$ (5,235)	\$ 108,789	\$ (48,290)	\$ 193,444	\$ (53,525)

Table of Contents**5. Preneed Cemetery Activities**

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

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

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Deposits	\$ 24,092	\$ 22,231
Withdrawals	29,944	23,898
Purchases of available-for-sale securities	133,565	254,318
Sales of available-for-sale securities	133,555	220,449
Realized gains from sales of available-for-sale securities	16,847	11,253
Realized losses from sales of available-for-sale securities	(5,621)	(17,521)

The components of *Preneed cemetery receivables, net and trust investments* in our unaudited condensed consolidated balance sheet at March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
Trust investments, at market	\$ 1,101,641	\$ 1,062,771
Cash and cash equivalents	120,626	122,866
Insurance backed fixed income securities	6,940	9,158
Trust investments	1,229,207	1,194,795
Receivables from customers	465,246	452,296
Unearned finance charges	(36,499)	(39,205)
	1,657,954	1,607,886
Allowance for cancellation	(42,211)	(43,993)
Preneed cemetery receivables and trust investments	\$ 1,615,743	\$ 1,563,893

The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair market value at March 31, 2011 and December 31, 2010 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. The fair market value of our cemetery merchandise and service trust investments was 108% and 106% of the related cost basis of such investments as of March 31, 2011 and December 31, 2010, respectively.

Table of Contents

	March 31, 2011			Fair Market Value
	Cost	Unrealized Gains	Unrealized Losses	
		(In thousands)		
Fixed income securities:				
U.S. Treasury	\$ 52,572	\$ 2,968	\$ (245)	\$ 55,295
Canadian government	18,902	102	(18)	18,986
Corporate	37,536	4,272	(379)	41,429
Residential mortgage-backed	634	17	(2)	649
Asset-backed	6,615	218	(12)	6,821
Equity securities:				
Preferred stock	5,056	590	(19)	5,627
Common stock:				
United States	396,356	93,984	(9,115)	481,225
Canada	18,957	4,570	(553)	22,974
Other international	28,839	2,473	(2,610)	28,702
Mutual funds:				
Equity	193,456	17,655	(16,219)	194,892
Fixed income	233,354	9,812	(8,789)	234,377
Private equity	23,286	46	(13,093)	10,239
Other	411	16	(2)	425
Trust investments	\$ 1,015,974	\$ 136,723	\$ (51,056)	\$ 1,101,641

	December 31, 2010			Fair Market Value
	Cost	Unrealized Gains	Unrealized Losses	
		(In thousands)		
Fixed income securities:				
U.S. Treasury	\$ 50,884	\$ 2,493	\$ (307)	\$ 53,070
Canadian government	15,669	362	(4)	16,027
Corporate	39,265	3,387	(402)	42,250
Residential mortgage-backed	863	31	(1)	893
Asset-backed	6,336	261	(5)	6,592
Equity securities:				
Preferred stock	4,577	453	(124)	4,906
Common stock:				
United States	386,537	82,385	(10,821)	458,101
Canada	17,279	3,869	(850)	20,298
Other international	31,466	2,485	(3,645)	30,306
Mutual funds:				
Equity	202,328	15,173	(18,569)	198,932
Fixed income	226,567	8,537	(9,959)	225,145
Private equity	19,596	13	(13,890)	5,719
Other	874	43	(385)	532

Trust investments	\$ 1,002,241	\$ 119,492	\$ (58,962)	\$ 1,062,771
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Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These funds are classified as Level 2 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

The valuation of private equity and other alternative investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity investments are valued using market appraisals or a discounted cash flow methodology, which is an income approach fair value model, depending on the nature of the underlying assets. The appraisals assess value based on a combination of replacement cost, comparative sales analysis, and discounted cash flow analysis. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of March 31, 2011, our unfunded commitment for our private equity and other investments was \$5.3 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the

Table of Contents

nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

Our investments classified as Level 1 securities include common stock and mutual funds. Level 2 securities include U.S. Treasury, Canadian government, corporate, mortgage-backed and asset-backed fixed income securities, and preferred stock. Our private equity and other alternative 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 March 31, 2011	\$ 962,170	\$ 128,807	\$ 10,664	\$ 1,101,641
Trust investments at December 31, 2010	\$ 932,782	\$ 123,738	\$ 6,251	\$ 1,062,771

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 March 31,	
	2011	2010
Fair market value, beginning balance at January 1	\$ 6,251	\$ 4,341
Net unrealized gains (losses) included in <i>Accumulated other comprehensive income</i> (1)	6,311	(419)
Net realized losses included in <i>Other income (expense), net</i> (2)	(8)	(11)
Sales		(12)
Contributions	503	560
Distributions and other	(2,393)	(34)
Fair market value, ending balance	\$ 10,664	\$ 4,425

- (1) All unrealized gains (losses) recognized in *Accumulated other comprehensive income* for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in *Accumulated other comprehensive income* to *Deferred preneed funeral and cemetery receipts held in trust*. See Note 7 for further information related to our *Deferred preneed funeral and cemetery receipts held in trust*.
- (2) All losses 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 cemetery receipts held in trust*.

Maturity dates of our fixed income securities range from 2011 to 2041. Maturities of fixed income securities, excluding mutual funds, at March 31, 2011 are estimated as follows:

	Fair Market Value (In thousands)
Due in one year or less	\$ 4,270
Due in one to five years	60,269
Due in five to ten years	32,860
Thereafter	25,781
	\$ 123,180

Earnings from all our cemetery merchandise and service trust investments are recognized in current 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

Table of Contents

earnings (realized and unrealized) related to our cemetery merchandise and service trust investments were \$6.0 million and \$3.4 million for the three months ended March 31, 2011 and 2010, 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 the corresponding reclassification in *Other income (expense), net*, which reduces *Deferred preneed cemetery receipts held in trust*. See Note 7 for further information related to our *Deferred preneed cemetery receipts held in trust*. For the three months ended March 31, 2011 and 2010, we recorded a \$1.0 million and a \$2.2 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our cemetery merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery merchandise and service trust investment unrealized losses, their associated fair market values and the duration of unrealized losses as of March 31, 2011 are shown in the following tables:

	In Loss Position		March 31, 2011 In Loss Position		Total	
	Less Than 12 Months		Greater Than 12 Months			
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
			(In thousands)			
Fixed income securities:						
U.S. Treasury	\$ 1,908	\$ (15)	\$ 2,738	\$ (230)	\$ 4,646	\$ (245)
Canadian government	7,948	(18)			7,948	(18)
Corporate	7,252	(310)	639	(69)	7,891	(379)
Residential						
mortgage-backed	127	(1)	20	(1)	147	(2)
Asset-backed	950	(11)	55	(1)	1,005	(12)
Equity securities:						
Preferred stock	918	(19)			918	(19)
Common stock:						
United States	69,832	(5,859)	29,094	(3,256)	98,926	(9,115)
Canada	1,289	(123)	560	(430)	1,849	(553)
Other international	7,293	(1,284)	4,593	(1,326)	11,886	(2,610)
Mutual funds:						
Equity	2,062	(20)	90,867	(16,199)	92,929	(16,219)
Fixed income	25,344	(352)	14,051	(8,437)	39,395	(8,789)
Private equity			9,780	(13,093)	9,780	(13,093)
Other	278	(2)			278	(2)
Total temporarily impaired securities	\$ 125,201	\$ (8,014)	\$ 152,397	\$ (43,042)	\$ 277,598	\$ (51,056)

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

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

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Deposits	\$ 5,789	\$ 5,373
Withdrawals	8,387	11,554
Purchases of available-for-sale securities	203,086	64,197
Sales of available-for-sale securities	267,666	26,550
Realized gains from sales of available-for-sale securities	21,241	2,059
Realized losses from sales of available-for-sale securities	(10,661)	(1,673)

The components of *Cemetery perpetual care trust investments* in our unaudited condensed consolidated balance sheet at March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
Trust investments, at market	\$ 903,816	\$ 922,228
Cash and cash equivalents	118,604	64,791
Cemetery perpetual care trust investments	\$ 1,022,420	\$ 987,019

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair market value at March 31, 2011 and December 31, 2010 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities or cash held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments. The fair market value of our cemetery perpetual care trust investments was 105% and 103% of the related cost basis of such investments as of March 31, 2011 and December 31, 2010, respectively.

	March 31, 2011			Fair Market Value
	Cost	Unrealized Gains	Unrealized Losses	
	(In thousands)			
Fixed income securities:				
U.S. Treasury	\$ 4,642	\$ 867	\$ (24)	\$ 5,485
Canadian government	29,613	180	(30)	29,763
Corporate	16,146	591	(36)	16,701

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Residential mortgage-backed	1,710	47	(8)	1,749
Asset-backed	365	1	(2)	364
Equity securities:				
Preferred stock	5,712	798	(203)	6,307
Common stock:				
United States	130,906	19,261	(5,198)	144,969
Canada	11,830	2,667	(507)	13,990
Other international	17,824	3,084	(597)	20,311
Mutual funds:				
Equity	19,057	2,332	(219)	21,170
Fixed income	593,713	29,921	(886)	622,748
Private equity	27,798	441	(13,991)	14,248
Other	5,211	801	(1)	6,011
Cemetery perpetual care trust investments	\$ 864,527	\$ 60,991	\$ (21,702)	\$ 903,816

Table of Contents

	December 31, 2010			Fair
	Cost	Unrealized Gains	Unrealized Losses	Market Value
	(In thousands)			
Fixed income securities:				
U.S. Treasury	\$ 5,651	\$ 863	\$ (31)	\$ 6,483
Canadian government	26,702	642	(7)	27,337
Corporate	48,278	5,219	(249)	53,248
Residential mortgage-backed	1,764	55	(6)	1,813
Asset-backed	363	5		368
Equity securities:				
Preferred stock	7,789	1,385	(112)	9,062
Common stock:				
United States	116,799	16,916	(6,640)	127,075
Canada	11,510	2,510	(758)	13,262
Other international	16,004	2,175	(1,845)	16,334
Mutual funds:				
Equity	65,114	6,964	(7,239)	64,839
Fixed income	562,879	24,773	(2,334)	585,318
Private equity	23,428	351	(13,344)	10,435
Other	8,475	836	(2,657)	6,654
Cemetery perpetual care trust investments	\$ 894,756	\$ 62,694	\$ (35,222)	\$ 922,228

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These funds are classified as Level 2 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

The valuation of private equity and other alternative investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity investments are valued using market appraisals or a discounted cash flow methodology, which is an income approach fair value model, depending on the nature of the underlying assets. The appraisals assess value based on a combination of replacement cost, comparative sales analysis, and discounted cash flow analysis. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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

preferred stock. Our private equity and other alternative investments are classified as Level 3 securities.

Table of Contents

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

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Market Value
	(In thousands)			
Trust investments at March 31, 2011	\$ 823,188	\$ 60,369	\$ 20,259	\$ 903,816
Trust investments at December 31, 2010	\$ 806,828	\$ 98,311	\$ 17,089	\$ 922,228

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 March 31,	
	2011	2010
Fair market value, beginning balance at January 1	\$ 17,089	\$ 14,943
Net unrealized gains included in <i>Accumulated other comprehensive income</i> (1)	6,111	586
Net realized losses included in <i>Other income (expense), net</i> (2)	(27)	(25)
Sales	(44)	
Contributions	1	371
Distributions	(2,871)	(664)
Fair market value, ending balance	\$ 20,259	\$ 15,211

- (1) All unrealized gains recognized in *Accumulated other comprehensive income* for our cemetery perpetual care trust investments are offset by a corresponding reclassification in *Accumulated other comprehensive income to Care trusts corpus*. See Note 7 for further information related to our *Care trusts corpus*.
- (2) All losses recognized in *Other income (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 2011 to 2041. Maturities of fixed income securities at March 31, 2011 are estimated as follows:

	Fair Market Value (In thousands)
Due in one year or less	\$ 4,820
Due in one to five years	28,223
Due in five to ten years	19,673
Thereafter	1,346
	\$ 54,062

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenues to the extent we incur qualifying cemetery maintenance costs. Recognized earnings related to these cemetery perpetual care trust investments were \$9.2 million and \$9.6 million for the three months ended March 31, 2011 and 2010, 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 the corresponding reclassification in *Other income (expense), net*, which reduces *Care trusts corpus*. See Note 7 for further information related to our *Care trusts corpus*. For the three months ended March 31, 2011 and 2010, we recorded a \$0.3 million and a \$1.5 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our cemetery perpetual care trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings, 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, are shown in the following tables.

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United States	15,419	(1,464)	16,419	(5,176)	31,838	(6,640)
Canada	1,545	(82)	1,454	(676)	2,999	(758)
Other international	3,175	(242)	2,383	(1,603)	5,558	(1,845)
Mutual funds:						
Equity	866	(10)	29,974	(7,229)	30,840	(7,239)
Fixed income	18,166	(134)	53,553	(2,200)	71,719	(2,334)
Private equity	1	(1)	10,060	(13,343)	10,061	(13,344)
Other	1	(2)	5,568	(2,655)	5,569	(2,657)
Total temporarily impaired securities	\$ 56,687	\$ (2,286)	\$ 120,207	\$ (32,936)	\$ 176,894	\$ (35,222)

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

Deferred Preneed Funeral and Cemetery Receipts Held in Trust

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

Table of Contents

The components of *Deferred preneed funeral and cemetery receipts held in trust* in our unaudited condensed consolidated balance sheet at March 31, 2011 and December 31, 2010 are detailed below.

	March 31, 2011			December 31, 2010		
	Preneed Funeral	Preneed Cemetery (In thousands)	Total	Preneed Funeral	Preneed Cemetery	Total
Trust investments	\$ 1,233,508	\$ 1,229,207	\$ 2,462,715	\$ 1,216,542	\$ 1,194,795	\$ 2,411,337
Accrued trust operating payables and other	(1,370)	(2,236)	(3,606)	(975)	(2,288)	(3,263)
Deferred preneed funeral and cemetery receipts held in trust	\$ 1,232,138	\$ 1,226,971	\$ 2,459,109	\$ 1,215,567	\$ 1,192,507	\$ 2,408,074

Care Trusts Corpus

The *Care trusts corpus* reflected in our unaudited condensed consolidated balance sheet represents the cemetery perpetual care trusts, including the related accrued expenses.

The components of *Care trusts corpus* in our unaudited condensed consolidated balance sheet at March 31, 2011 and December 31, 2010 are detailed below.

	March 31, 2011	December 31, 2010
	(In thousands)	
Cemetery perpetual care trust investments	\$ 1,022,420	\$ 987,019
Accrued trust operating payables and other	(1,634)	(147)
Care trusts corpus	\$ 1,020,786	\$ 986,872

Other Income (Expense), Net

The components of *Other income (expense), net* in our unaudited condensed consolidated statement of operations for the three months ended March 31, 2011 and 2010 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 March 31, 2011				Total
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts (In thousands)	Other, Net	
Realized gains	\$ 12,877	\$ 16,847	\$ 21,241	\$	\$ 50,965
Realized losses and impairment charges	(7,180)	(6,599)	(10,958)		(24,737)
Interest, dividend, and other ordinary income	3,422	4,909	8,180		16,511
Trust expenses and income taxes	(1,383)	(1,755)	(1,596)		(4,734)

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Net trust investment income	7,736	13,402	16,867		38,005
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus	(7,736)	(13,402)	(16,867)		(38,005)
Other income, net				674	674
Total other income, net	\$	\$	\$	\$ 674	\$ 674

Three Months Ended March 31, 2010

	Funeral	Cemetery	Cemetery Perpetual	Other, Net	Total
	Trusts	Trusts	Care Trusts (In thousands)		
Realized gains	\$ 11,493	\$ 11,253	\$ 2,059	\$	\$ 24,805
Realized losses and impairment charges	(23,570)	(19,752)	(3,151)		(46,473)
Interest, dividend, and other ordinary income	3,127	4,670	7,647		15,444
Trust expenses and income taxes	(1,049)	(2,390)	241		(3,198)
Net trust investment (loss) income	(9,999)	(6,219)	6,796		(9,422)
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus	9,999	6,219	(6,796)		9,422
Other expense, net				(1,884)	(1,884)
Total other expense, net	\$	\$	\$	\$ (1,884)	\$ (1,884)

Table of Contents**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 changes in estimates due to the finalization of tax returns, tax audit settlements, expiration of statute of limitations, and increases or decreases in valuation allowances on deferred tax assets. Our effective tax rate was 37.6% and 39.1% for the three months ended March 31, 2011 and 2010, respectively. The decrease in the effective tax rate is primarily due to the following; lower Canadian income tax rates, a reduction in permanent non-deductible goodwill associated with divestitures, and lower taxable income from our foreign subsidiaries.

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

9. Debt

Debt as of March 31, 2011 and December 31, 2010 was as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
7.875% Debentures due February 2013	\$ 8,407	\$ 8,557
7.375% Senior Notes due October 2014	180,692	180,692
6.75% Senior Notes due April 2015	152,500	157,250
6.75% Senior Notes due April 2016	212,927	212,927
7.0% Senior Notes due June 2017	295,000	295,000
7.625% Senior Notes due October 2018	250,000	250,000
7.0% Senior Notes due May 2019	250,000	250,000
8.0% Senior Notes due November 2021	150,000	150,000
7.5% Senior Notes due April 2027	200,000	200,000
Obligations under capital leases	121,172	118,339
Mortgage notes and other debt, maturities through 2047	37,291	38,223
Unamortized pricing discounts and other	(5,206)	(6,106)
Total debt	1,852,783	1,854,882
Less current maturities	(22,693)	(22,502)
Total long-term debt	\$ 1,830,090	\$ 1,832,380

Current maturities of debt at March 31, 2011 were primarily comprised of our capital leases. Our consolidated debt had a weighted average interest rate of 6.80% at March 31, 2011 and December 31, 2010. Approximately 92% and 93% of our total debt had a fixed interest rate at March 31, 2011 and December 31, 2010, respectively.

Bank Credit Facility

As of December 31, 2010, we had a \$400 million bank credit facility due November 2013 with a syndicate of financial institutions, including a sublimit of \$175 million for letters of credit. In the first quarter of 2011, we amended our bank credit facility to increase the availability thereunder from \$400 million to \$500 million and extended the maturity date by five years to March 2016.

As of March 31, 2011, we have no outstanding cash advances under our bank credit facility and have used it to support \$42.1 million of letters of credit. The bank credit facility provides us with flexibility for working capital, if needed, and is guaranteed by a majority of our domestic subsidiaries. The subsidiary guaranty is a guaranty of payment of the outstanding amount of the total lending commitment, including letters of credit. The bank credit facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum

Table of Contents

leverage ratio, and certain dividend and share repurchase restrictions. We pay a quarterly fee on the unused commitment. As of March 31, 2011, we have \$457.9 million in borrowing capacity under the facility.

Debt Extinguishments and Reductions

During the first quarter of 2011, we paid \$5.2 million, to retire \$0.2 million aggregate principal amount of our 7.875% Senior Notes due February 2013 and \$4.7 million aggregate principal amount of our 6.75% Senior Notes due April 2015. Certain of the above transactions resulted in the recognition of a loss of \$0.3 million recorded in *Losses on early extinguishment of debt* in our unaudited condensed consolidated statement of operations, which represents the write-off of unamortized deferred loan costs of \$0.1 million and \$0.2 million in premium on the purchase of these notes.

In the first quarter of 2010, we repaid \$30.0 million of amounts drawn on our bank credit facility. There was no gain or loss recognized as a result of this repayment.

Capital Leases

During the three months ended March 31, 2011 and 2010, we acquired \$8.8 million and \$5.5 million, respectively, of primarily transportation equipment using capital leases.

10. Credit Risk and 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 March 31, 2011 and December 31, 2010 was as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
7.875% Debentures due February 2013	\$ 9,101	\$ 9,092
7.375% Senior Notes due October 2014	198,309	194,244
6.75% Senior Notes due April 2015	162,031	161,968
6.75% Senior Notes due April 2016	226,767	216,653
7.0% Senior Notes due June 2017	315,650	302,375
7.625% Senior Notes due October 2018	275,000	262,500
7.0% Senior Notes due May 2019	263,125	251,250
8.0% Senior Notes due November 2021	165,000	158,063
7.5% Senior Notes due April 2027	193,000	194,920
Mortgage notes and other debt, maturities through 2047	37,244	37,991
Total fair value of debt instruments	\$ 1,845,227	\$ 1,789,056

The fair values of our long-term, fixed rate loans were estimated using market prices for those loans, and therefore they are classified within Level 1 of the Fair Value Measurements hierarchy as required by the FVM&D Topic of the ASC. The bank credit agreement and the mortgage and other debt are classified within Level 3 of the Fair Value Measurements hierarchy. The fair values of these instruments have been estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements.

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 fair values of our stock options are calculated using the following weighted average assumptions for the three months ended March 31, 2011:

Assumptions	Three Months Ended March 31, 2011
Dividend yield	2.4%
Expected volatility	38.4%
Risk-free interest rate	2.4%
Expected holding period	5.0 years

Stock Options

The following table sets forth stock option activity for the three months ended March 31, 2011:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2010	12,312,783	\$ 7.53
Granted	2,394,430	9.09
Exercised	(484,216)	6.57
Outstanding at March 31, 2011	14,222,997	\$ 7.82
Exercisable at March 31, 2011	8,999,191	\$ 8.04

As of March 31, 2011, the unrecognized compensation expense related to stock options of \$10.4 million is expected to be recognized over a weighted average period of 1.7 years.

Restricted Shares

Restricted share activity for the three months ended March 31, 2011 was as follows:

	Restricted shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted shares at December 31, 2010	1,167,273	\$ 6.35
Granted	538,620	9.13
Vested	(540,723)	6.58
Nonvested restricted shares at March 31, 2011	1,165,170	\$ 7.53

As of March 31, 2011, the unrecognized compensation expense related to restricted shares of \$8.2 million is expected to be recognized over a weighted average period of 1.6 years.

Table of Contents**12. Equity****(All shares reported in whole numbers)**Our components of *Accumulated other comprehensive income* are as follows:

	Foreign Currency Translation Adjustment	Unrealized Gains and Losses (In thousands)	Accumulated Other Comprehensive Income
Balance at December 31, 2010	\$ 112,768	\$	\$ 112,768
Activity in 2011	11,502		11,502
Increase in net unrealized gains associated with available-for-sale securities of the trusts, net of taxes		34,879	34,879
Reclassification of net unrealized gains activity attributable to the <i>Deferred preneed funeral and cemetery receipts held in trust</i> and <i>Care trusts corpus</i> , net of taxes		(34,879)	(34,879)
Balance at March 31, 2011	\$ 124,270	\$	\$ 124,270

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

The components of comprehensive income are as follows for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011 2010 (In thousands)	
Comprehensive income:		
Amounts attributable to common stockholders:		
Net income	\$ 38,764	\$ 30,912
Other comprehensive income	11,502	13,827
Amounts attributable to noncontrolling interests:		
Net income	1,165	413
Other comprehensive income	6	5
Comprehensive income	\$ 51,437	\$ 45,157

Cash Dividends

On February 9, 2011, our Board of Directors approved a cash dividend of \$.05 per common share. At March 31, 2011, this dividend totaling \$11.9 million was recorded in *Accounts payable and accrued liabilities* and *Capital in excess of par value* in our unaudited condensed consolidated balance sheet. This dividend will be paid on April 29, 2011.

Share Repurchase Program

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our stock repurchase program. During the three months ended March 31, 2011, we repurchased 3,060,786 shares of common stock at an aggregate cost of

\$28.7 million, which is an average cost per share of \$9.37. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$150.1 million at March 31, 2011.

Subsequent to March 31, 2011, we repurchased an additional 59,571 shares of common stock at an aggregate cost of \$0.7 million, which is an average cost per share of \$10.72. After these second quarter repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program is approximately \$149.4 million.

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

Our reportable segment information is as follows:

	Funeral	Cemetery (In thousands)	Reportable Segments
Three months ended March 31,			
Revenues from external customers:			
2011	\$408,435	\$ 171,264	\$579,699
2010	\$368,929	\$ 161,934	\$530,863
Gross profits:			
2011	\$ 99,355	\$ 27,091	\$126,446
2010	\$ 84,599	\$ 27,759	\$112,358

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Gross profits from reportable segments	\$ 126,446	\$ 112,358
General and administrative expenses	(28,833)	(26,252)
Losses on divestitures and impairment charges, net	(420)	(480)
Operating income	97,193	85,626
Interest expense	(33,559)	(32,301)
Loss on early extinguishment of debt, net	(314)	
Other income (expense), net	674	(1,884)
Income before income taxes	\$ 63,994	\$ 51,441

Our geographic area information is as follows:

	United States	Canada	Germany	Total
	(In thousands)			
Three months ended March 31,				
Revenues from external customers:				
2011	\$524,896	\$52,919	\$ 1,884	\$579,699
2010	\$480,210	\$48,776	\$ 1,877	\$530,863

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 March 31,	
	2011	2010
	(In thousands)	
Merchandise revenues:		
Funeral	\$ 132,263	\$ 119,759
Cemetery	114,921	107,184
Total merchandise revenues	247,184	226,943
Services revenues:		
Funeral	256,285	233,716
Cemetery	49,222	47,259
Total services revenues	305,507	280,975
Other revenues	27,008	22,945
Total revenues	\$ 579,699	\$ 530,863
Merchandise costs and expenses:		
Funeral	\$ 70,014	\$ 64,895
Cemetery	53,565	45,901
Total cost of merchandise	123,579	110,796
Services costs and expenses:		
Funeral	117,938	104,239
Cemetery	24,499	24,254
Total cost of services	142,437	128,493
Overhead and other expenses	187,237	179,216
Total costs and expenses	\$ 453,253	\$ 418,505

Table of Contents**15. Commitments and Contingencies*****Insurance Loss Reserves***

We purchase comprehensive general liability, morticians and cemetery professional liability, automobile liability, and workers compensation insurance coverage structured with high deductibles. The high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. As of March 31, 2011 and December 31, 2010, we have self-insurance reserves of \$54.7 million and \$53.9 million, respectively.

Litigation

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

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 but are not limited to the *Garcia* and *Sands* lawsuits described in the following paragraphs.

Reyvis Garcia and Alicia Garcia v. Alderwoods Group, Inc., Osiris Holding of Florida, Inc., a Florida corporation, d/b/a Graceland Memorial Park South, f/k/a Paradise Memorial Gardens, Inc., was filed in December 2004, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, Case No. 04-25646 CA 32. Plaintiffs are the son and sister of the decedent, Eloisa Garcia, who was buried at Graceland Memorial Park South in March 1986, when the cemetery was owned by Paradise Memorial Gardens, Inc. Initially, the suit sought damages on the individual claims of the plaintiffs relating to the burial of Eloisa Garcia. Plaintiffs claimed that due to poor recordkeeping, 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 recordkeeping, maps, and surveys at the cemetery. Plaintiffs subsequently filed a third amended class action complaint and added two additional named plaintiffs. The plaintiffs are seeking unspecified monetary damages, as well as equitable and injunctive relief. No class has been certified in this matter. We cannot quantify our ultimate liability, if any, for the payment of any damages.

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

Antitrust Claims. We are named as a defendant in an antitrust case filed in 2005. The case is Cause No 4:05-CV-03394; *Funeral Consumers Alliance, Inc. v. Service Corporation International, et al.*; in the United States District Court for the Southern District of Texas Houston (Funeral Consumers Case). This was a purported class action on behalf of casket consumers throughout the United States alleging that we and several other companies involved in the funeral industry violated federal antitrust laws and state consumer laws by engaging in various anti-competitive conduct associated with the sale of caskets. Based on the case proceeding as a class action, the plaintiffs filed an expert report indicating that the damages sought from all defendants range from approximately \$950 million to

Table of Contents

\$1.5 billion, before trebling. However, the trial court denied the plaintiffs' motion to certify the case as a class action. We deny that we engaged in anticompetitive practices related to our casket sales, and we have filed reports of our experts, which vigorously dispute the validity of the plaintiffs' damages theories and calculations. The trial court dismissed plaintiffs' claims on September 24, 2010, and the plaintiffs filed an appeal on October 19, 2010. We cannot quantify our ultimate liability, if any, in this lawsuit.

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 but not limited to the *Prise, Bryant, Bryant, Helm, and Stickle* lawsuits described in the following paragraphs.

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

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

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

Bryant, et al. v. Service Corporation International, et al.; Case No. RG-07359593; and *Helm, et al. v. AWGI & SCI*; Case No. RG-07359602; in the Superior Court of the State of California, County of Alameda. These cases were filed on December 5, 2007 by counsel for plaintiffs in the Wage and Hour Lawsuit. These cases assert state law claims similar to the federal claims asserted in the Wage and Hour Lawsuit. These cases were removed to federal court in the U.S. District Court for the Northern District of California, San Francisco/Oakland Division. The *Bryant* case is now Case No. 3:08-CV-01190-SI and the *Helm* case is now Case No. C 08-01184-SI. On December 29, 2009, the court in the *Helm* case denied the plaintiffs' motion to certify the case as a class action. The plaintiffs have modified and refiled their motion for certification. On March 9, 2011, the court denied plaintiffs' renewed motions to certify a class in both of the *Bryant* and *Helm* cases. The plaintiffs have also filed 21 additional lawsuits with similar allegations seeking class certification of state law claims in different states. The plaintiffs have also filed demands for arbitration in *Bryant, Stickle*, and some of the state courts where the additional lawsuits were filed. We cannot quantify our ultimate liability, if any, in these lawsuits.

Stickle, et al. v. Service Corporation International, et al.; Case No. 08-CV-83; in the U.S. District Court for Arizona, Phoenix Division. Counsel for plaintiffs in the Wage and Hour Lawsuit filed this case on January 17, 2008, against SCI and various related entities and individuals asserting FLSA and other ancillary claims based on the alleged failure to pay for overtime. In September 2009, the Court conditionally certified a class of claims as to certain job positions of SCI affiliated employees. On April 20, 2011, the court granted our motion to decertify the class. 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.

Table of Contents

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands, except per share amounts)	
Amounts attributable to common stockholders:		
Net income:		
Net income basic	\$ 38,764	\$ 30,912
After tax interest on convertible debt	13	13
Net income diluted	\$ 38,777	\$ 30,925
Weighted average shares (denominator):		
Weighted average shares basic	239,772	254,400
Stock options	2,159	1,633
Convertible debt	121	121
Weighted average shares diluted	242,052	256,154
Net income per share:		
Basic	\$.16	\$.12
Diluted	\$.16	\$.12

The computation of diluted EPS excludes outstanding stock options and convertible debt in certain periods in which the inclusion of such options and debt would be anti-dilutive in the periods presented. For the three months ended March 31, 2011 and March 31, 2010, total options and convertible debentures not currently included in the computation of dilutive EPS were 5.6 million and 4.7 million, respectively.

17. Keystone Acquisition

In March 2010, pursuant to a tender offer, we acquired Keystone North America, Inc. (Keystone) for C\$8.07 per share in cash, resulting in a purchase price of \$288.9 million, which includes the refinancing of \$80.7 million of Keystone's debt.

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

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

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

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

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

	(In thousands)
Accounts receivable	\$ 6,131
Other current assets	20,200

Cemetery property	19,949
Property and equipment, net	105,888
Preneed funeral and cemetery receivables and trust investments	66,395
Intangible assets	68,012
Deferred charges and other assets	6,533
Goodwill	108,643
Total assets acquired	401,751
Current liabilities	11,719
Long-term debt	2,548
Deferred preneed funeral and cemetery revenues and deferred receipts held in trusts	69,336
Deferred tax liability	20,939
Other liabilities	8,347
Total liabilities assumed	112,889
Net assets acquired	\$ 288,862

The gross amount of accounts receivable is \$8.2 million, of which \$2.1 million is not expected to be collected. Included in Preneed funeral and cemetery receivables and trust investments are receivables under preneed contracts with a fair value of \$5.2 million. The gross amount due under the contracts is \$5.5 million, of which \$0.3 million is not expected to be collected.

We have finalized our assessment of the fair values. Goodwill, land, and certain identifiable intangible assets recorded in the acquisition are not subject to amortization; however, the goodwill and intangible assets will be tested periodically for impairment as required by the Intangible Assets Topic of the ASC. Of the \$108.6 million in goodwill recognized, \$4.3 million was allocated to our cemetery segment and \$104.3 million was allocated to our funeral segment. As a result of the carryover of Keystone's tax basis, \$26.0 million of this goodwill is deductible for tax purposes. The \$68.0 million in identified intangible assets consists of the following:

	Useful life	Fair Value
		(In thousands)
Preneed customer relationships related to insurance claims	10 years	\$ 15,200
	10-14	1,740
Preneed deferred revenue	years	
	5 - 15	13,332
Covenants-not-to-compete	years	
	5 - 15	440
Operating leases	years	
Tradenames	5 years	3,600
Tradenames	Indefinite	33,200
Licenses and permits	Indefinite	500
Total intangible assets		\$ 68,012

The condensed statement of operations for the three months ended March 31, 2011 includes the results of operations of Keystone. For the three months ended March 31, 2010, the following unaudited pro forma information presents information as if the merger occurred on January 1, 2010:

	2010
	(In thousands)
Revenue	\$ 560,515

Net income \$ 33,882

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

The Company

We are North America's largest provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At March 31, 2011, we operated 1,398 funeral service locations and 381 cemeteries (including 218 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 position is enhanced by our \$6.9 billion backlog of future revenues from both trust and insurance-funded sales at March 31, 2011, which is the result of preneed funeral and cemetery sales. We believe we have the financial strength and flexibility to reward shareholders through dividends while maintaining a prudent capital structure and pursuing new opportunities for profitable growth. We currently have approximately \$149.4 million authorized to repurchase our common stock.

Financial Condition, Liquidity and Capital Resources

Trust Investments

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

Also, we are required by state and provincial law to pay a portion of the proceeds from the sale of cemetery property interment rights into perpetual care trusts. For these investments, the original corpus remains in the trust in perpetuity and the net ordinary earnings are

Table of Contents

intended to offset the expense to maintain the cemetery property. The majority of states require that net gains or losses are retained and added to the corpus, but certain states allow the net realized gains and losses to be included in the income that is distributed.

Independent trustees manage and invest all of the funds deposited into the funeral and cemetery merchandise and service trusts as well as the cemetery perpetual care trusts. The trustees are selected based on their respective geographic footprint and qualifications per state and provincial regulations. All of the trustees engage the same independent investment advisor. The trustees, with input from the investment advisor, establish an investment policy that serves as an operating document to guide the investment activities of the trusts including asset allocation and manager selection. The investments are also governed by state and provincial guidelines. Asset allocation for the funeral and cemetery merchandise and service trusts is generally based on matching the time period that we expect the funeral or cemetery preneed contract to be outstanding. Since net ordinary earnings are distributed monthly from the cemetery perpetual care trusts to offset cemetery maintenance costs, the cemetery perpetual care trusts contain a higher fixed income allocation than the funeral and cemetery merchandise and service trusts. The investment advisor recommends investment managers to the trustees that are selected on the basis of various criteria set forth in the investment policy. The primary investment objectives for the funeral and cemetery merchandise and service trusts include (1) achieving growth of principal over time sufficient to preserve and increase the purchasing power of the assets, and (2) preserving capital within acceptable levels of volatility. Preened funeral and cemetery contracts generally take years to mature. Therefore, the funds associated with these contracts are often invested for several market cycles. While cemetery perpetual care trusts share the same investment objectives as listed above, these trusts emphasize providing a steady stream of investment income with some capital appreciation. The trusts seek to control risk and volatility through a combination of asset styles, asset classes, and institutional investment managers.

As of March 31, 2011, 86% of our trusts were under the control and custody of two large financial institutions engaged as preferred trustees. The U.S. trustees primarily use common trust fund structures as the investment vehicle for their trusts. Through the common trust fund structure, each respective trustee manages the allocation of assets through individual managed accounts or institutional mutual funds. In the event a particular state prohibits the use of a common trust fund as a qualified investment, the trustee utilizes institutional mutual funds. The U.S. trusts include a modest allocation to alternative investments, which are comprised primarily of private equity and real estate investments. These investments are structured as limited liability companies (LLCs) and are managed by certain trustees. The trusts that are eligible to allocate a portion of their investments to alternative investments purchase units of the respective LLCs.

Fixed Income Securities

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

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

Equity Securities

Equity investments have historically provided long-term capital appreciation in excess of inflation. The SCI trusts have direct investments primarily in domestic equity portfolios that include large, mid, and small capitalization companies of different investment objectives (i.e., growth and value). The majority of the equity portfolio is managed by multiple institutional investment managers that specialize in an objective-specific area of expertise. Our equity securities are exposed to market risk; however, these securities are well-diversified. As of March 31, 2011, the largest single equity position represented less than 1% of the total equity securities portfolio.

Mutual Funds

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

Private Equity

The objective of these investments is to provide high rates of return with controlled volatility. These investments are typically long-term in duration. These investments are diversified by strategy, sector, manager, and vintage year. Private equity exposure is

Table of Contents

accessed through LLCs established by certain preferred trustees. These LLCs invest in numerous limited partnerships, including private equity, fund of funds, distressed debt, and mezzanine financing. The trustees that have oversight of their respective LLCs work closely with the investment advisor in making all current investments.

Trust Performance

The trust fund income recognized from these investment assets continues to be volatile. During the twelve months ended March 31, 2011, the Standard and Poor's 500 Index increased approximately 15.6% and the Barclay's Aggregate Index increased approximately 5.1%, while the combined SCI trusts increased approximately 13.3%.

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

Capital Allocation Considerations

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided \$108.0 million in the first quarter of 2011. In addition, we have \$457.9 million in excess borrowing capacity under our bank credit facility. We currently have no significant maturities of long-term debt until October 2014.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. As of March 31, 2011 we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of March 31, 2011 are as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.00 (Max)	3.10
Interest coverage ratio	3.00 (Min)	4.26

We believe our sources of liquidity can be supplemented by our ability to access the capital markets for additional debt or equity securities. We believe that our cash on hand, future operating cash flows, and the available capacity under our credit facility will be adequate to meet our financial obligations over the next 12 months.

We expect to continue to focus on funding growth initiatives that generate increased profitability, revenue, and cash flows. These capital investments include the construction of high-end cemetery property (such as private family estates) and the construction of funeral home facilities. We will also consider the acquisition of additional deathcare operations that fit our long-term customer-focused strategy, if such acquisitions have the proper return on investment.

Since November 2007, we have paid quarterly dividends of \$0.04 per common share. On February 9, 2011, our Board of Directors approved the payment of a quarterly dividend of \$0.05 per share. While we intend to pay regular quarterly cash dividends for the foreseeable future, all future dividends are subject to limitations in our debt covenants and final determination by our Board of Directors each quarter upon review of our financial performance.

Currently, we have approximately \$149.4 million authorized under our share repurchase program. We intend to make purchases from time to time in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. Our credit agreement contains covenants that limit our ability to repurchase our common stock. There can be no assurance that we will buy our common stock under our share repurchase program in the future.

Cash Flow

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

Operating Activities

Net cash provided by operating activities decreased \$0.9 million to \$108.0 million in the first quarter of 2011 from \$108.9 million in the first quarter of 2010. This decrease was driven by:

Table of Contents

a \$21.3 million increase in employee compensation in the first quarter of 2011 compared to the first quarter of 2010 primarily from the Keystone acquisition;

a \$41.4 million increase in vendor payments resulting primarily from increases in variable costs from the Keystone acquisition;

an \$8.1 million decrease in net trust fund withdrawals due to decreased preneed funeral maturities; partially offset by,

a \$56.9 million increase in cash receipts from customers resulting from increased revenues primarily from the Keystone acquisition and improved collection rates at existing locations; and

a \$7.8 million increase in net tax refunds primarily due to favorable rulings from the Internal Revenue Service on three tax accounting method changes.

Investing activities

Cash flows from investing activities used \$27.4 million in the first quarter of 2011 compared to using \$227.0 million in the same period of 2010. This decrease was primarily attributable to a decrease of \$248.9 million in cash spent on acquisitions (primarily the Keystone North American acquisition) and a \$22.9 million decrease in withdrawals of restricted funds, partially offset by a \$6.8 million increase in capital expenditures and a \$19.6 million increase in cash receipts from divestitures and asset sales.

Financing activities

Financing activities used \$43.4 million in the first quarter of 2011 compared to providing \$114.5 million in the same period of 2010. This decrease was primarily driven by a \$168.8 million decrease in proceeds from the issuance of long-term debt (net of debt issuance costs), a \$29.6 million increase in repurchases of Company common stock, partially offset by a \$25.2 million decrease in debt payments, a \$12.6 increase in bank overdrafts and other, and a \$2.2 million increase from proceeds from exercise of stock options.

There were no proceeds from long-term debt (net of debt issuance costs) in the first quarter of 2011. Proceeds from long-term debt (net of debt issuance costs) were \$168.8 million in the first quarter of 2010 due to a \$150.0 million issuance of the 8.00% Senior Notes due 2021 and a \$25.0 million drawdown under our bank credit facility.

The table below sets forth the payments of debt for the three months ended March 31, 2011 and 2010 (in millions):

	Three Months Ended March 31,	
	2011	2010
7.875% Debentures due February 2013	\$ 0.2	\$
6.75% Senior Notes due April 2015	5.0	
Bank credit facility due March 2016		30.0
Obligations under capital leases	5.6	5.9
Mortgage notes and other debt, maturities through 2047	0.7	0.8
Total Debt Payments	\$ 11.5	\$ 36.7

We repurchased 3.2 million shares in the first quarter of 2011 for \$30.2 million and 0.1 million shares in the same period of 2010 for \$0.7 million.

We paid cash dividends of \$9.6 million in the first quarter of 2011 and \$10.2 million in the same period of 2010.

Financial Assurances

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

issued and outstanding have been used to support our preneed funeral and cemetery sales activities. The obligations underlying these surety bonds are recorded on the unaudited condensed consolidated balance sheet as *Deferred preneed funeral revenues* and *Deferred preneed cemetery revenues*. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.

Table of Contents

	March 31, 2011	December 31, 2010
	(Dollars in millions)	
Preneed funeral	\$ 116.6	\$ 121.0
Preneed cemetery:		
Merchandise and services	116.4	120.2
Pre-construction	5.1	5.1
 Bonds supporting preneed funeral and cemetery obligations	 238.1	 246.3
 Bonds supporting preneed business permits	 2.2	 5.1
Other bonds	14.3	14.2
 Total surety bonds outstanding	 \$ 254.6	 \$ 265.6

When selling preneed funeral and cemetery contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law. For the three months ended March 31, 2011 and 2010, we had \$4.6 million and \$5.0 million, respectively, of cash receipts attributable to bonded sales. These amounts do not consider reductions associated with taxes, obtaining costs, or other costs.

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

Preneed Funeral and Cemetery Activities and Backlog of Contracts

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

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

The tables below detail our results of preneed funeral and cemetery production and maturities, excluding insurance contracts, for the three months ended March 31, 2011 and 2010.

**North America
Three Months Ended**

	March 31,	
	2011	2010
	(Dollars in millions)	
Funeral:		
Preneed trust-funded (including bonded):		
Sales production	\$ 24.7	\$ 30.0
Sales production (number of contracts)	5,437	6,656
Maturities	\$ 48.2	\$ 48.8
Maturities (number of contracts)	10,784	11,045
Cemetery:		
Sales production:		
Preneed	\$ 110.3	\$ 95.3
Atneed	61.7	63.5
Total sales production	\$ 172.0	\$ 158.8
Sales production deferred to backlog:		
Preneed	\$ 45.9	\$ 42.3
Atneed	47.0	46.1
Total sales production deferred to backlog	\$ 92.9	\$ 88.4
Revenue recognized from backlog:		
Preneed	\$ 34.0	\$ 32.6
Atneed	44.4	44.1
Total revenue recognized from backlog	\$ 78.4	\$ 76.7

Table of Contents

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

The table below details the results of insurance-funded preneed funeral production and maturities for the three months ended March 31, 2011 and 2010, and the number of contracts associated with those transactions.

	North America Three Months Ended March 31, 2011 2010 (Dollars in millions)	
Preneed funeral insurance-funded:		
Sales production (1)	\$ 100.0	\$ 90.5
Sales production (number of contracts) (1)	17,563	15,741
General agency revenue	\$ 19.3	\$ 13.4
Maturities	\$ 76.8	\$ 69.7
Maturities (number of contracts)	13,942	13,157

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

North America Backlog of Preneed Funeral and Cemetery Contracts: The following table reflects our North America backlog of trust-funded deferred preneed funeral and cemetery contract revenues, including amounts related to *Deferred preneed funeral and cemetery receipts held in trust* at March 31, 2011 and December 31, 2010. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our unaudited condensed consolidated balance sheet) at March 31, 2011 and December 31, 2010. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on historical experience.

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

	March 31, 2011		December 31, 2010	
	Market	Cost	Market	Cost
	(Dollars in billions)			
Deferred preneed funeral revenues	\$ 0.57	\$ 0.57	\$ 0.58	\$ 0.58
Deferred preneed funeral receipts held in trust	1.23	1.19	1.22	1.18
	\$ 1.80	\$ 1.76	\$ 1.80	\$ 1.76
Allowance for cancellation on trust investments	(0.15)	(0.15)	(0.13)	(0.13)

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Backlog of trust-funded preneed funeral revenues	\$ 1.65	\$ 1.61	\$ 1.67	\$ 1.63
Backlog of insurance-funded preneed funeral revenues	3.33	3.33	3.28	3.28
Total backlog of preneed funeral revenues	\$ 4.98	\$ 4.94	\$ 4.95	\$ 4.91
Preneed funeral receivables and trust investments	\$ 1.44	\$ 1.39	\$ 1.42	\$ 1.40
Allowance for cancellation on trust investments	(0.13)	(0.13)	(0.12)	(0.12)
Assets associated with backlog of trust-funded deferred preneed funeral revenues, net of estimated allowance for cancellation	\$ 1.31	\$ 1.26	\$ 1.30	\$ 1.28
Insurance policies associated with insurance-funded deferred preneed funeral revenues, net of estimated allowance for cancellation	3.33	3.33	3.28	3.28
Total assets associated with backlog of preneed funeral revenues, net of estimated allowance for cancellation	\$ 4.64	\$ 4.59	\$ 4.58	\$ 4.56
Deferred preneed cemetery revenues	\$ 0.83	\$ 0.83	\$ 0.81	\$ 0.81
Deferred preneed cemetery receipts held in trust	1.23	1.14	1.19	1.13
Allowance for cancellation on trust investments	\$ 2.06 (0.14)	\$ 1.97 (0.14)	\$ 2.00 (0.15)	\$ 1.94 (0.15)
Total backlog of deferred cemetery revenues	\$ 1.92	\$ 1.83	\$ 1.85	\$ 1.79
Preneed cemetery receivables and trust investments	\$ 1.62	\$ 1.53	\$ 1.56	\$ 1.50
Allowance for cancellation on trust investments	(0.15)	(0.15)	(0.16)	(0.16)
Total assets associated with backlog of deferred cemetery revenues, net of estimated allowance for cancellation	\$ 1.47	\$ 1.38	\$ 1.40	\$ 1.34

Table of Contents

The market value of our funeral and cemetery trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves, and appraisals. The difference between the backlog and asset amounts represents the contracts for which we have posted surety bonds as financial assurance in lieu of trusting, the amounts collected from customers that were not required to be deposited into trust, and allowable cash distributions from trust assets. The table also reflects the amounts expected to be received from insurance companies through the assignment of policy proceeds related to insurance-funded funeral contracts.

Results of Operations Three Months Ended March 31, 2011 and 2010**Management Summary**

Key highlights in the first quarter of 2011 were as follows:

Funeral gross profits increased \$14.7 million, or 17.4%, due to higher atneed case volume, higher average revenue per case, and higher General Agency revenues (insurance commissions) related to preneed funeral arrangements; and,

Cemetery gross profits decreased \$0.7 million, or 2.5%, due to higher property and merchandise expenses as well as higher selling compensation driven by higher sales production, partially offset by higher cemetery revenues.

Results of Operations

In the first quarter of 2011, we reported net income attributable to common stockholders of \$38.8 million (\$.16 per diluted share) compared to net income attributable to common stockholders in the first quarter of 2010 of \$30.9 million (\$.12 per diluted share). These results were impacted by the following items:

	2011	2010
	(Dollars in thousands)	
Net after-tax losses from the sale of assets	\$ (458)	\$ (440)
After-tax losses from the early extinguishment of debt, net	\$ (185)	\$
After-tax expenses related to acquisitions	\$ (580)	\$(2,261)
Change in certain tax reserves and other	\$(1,003)	\$ (804)

Consolidated Versus Comparable Results

The table below reconciles our consolidated GAAP results to our comparable, or same store, results for the three months ended March 31, 2011 and 2010. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2010 and ending March 31, 2011. The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

Three Months Ended	Less: Results Associated with Acquisition/ New		Less: Results Associated with		Comparable
March 31, 2011	Consolidated	Construction	Divestitures	(Dollars in millions)	
North America Revenue					
Funeral revenue	\$ 406.5	\$ 28.9	\$ 0.2	\$	377.4
Cemetery revenue	171.3	1.3	0.1		169.9
	577.8	30.2	0.3		547.3
Germany revenue	1.9				1.9

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Total revenue	\$	579.7	\$	30.2	\$	0.3	\$	549.2
North America Gross Profits								
Funeral gross profits	\$	99.1	\$	6.4	\$	(0.2)	\$	92.9
Cemetery gross profits		27.1		(0.2)				27.3
		126.2		6.2		(0.2)		120.2
Germany gross profits		0.2						0.2
Total gross profits	\$	126.4	\$	6.2	\$	(0.2)	\$	120.4

Table of Contents

Three Months Ended		Less: Results Associated with Acquisition/ New Construction	Less: Results Associated with Divestitures	Comparable
March 31, 2010	Consolidated	(Dollars in millions)		
North America Revenue				
Funeral revenue	\$ 367.1	\$ 1.7	\$ 3.6	\$ 361.8
Cemetery revenue	161.9	0.1	1.9	159.9
	529.0	1.8	5.5	521.7
Germany revenue	1.9			1.9
Total revenue	\$ 530.9	\$ 1.8	\$ 5.5	\$ 523.6
North America Gross Profits				
Funeral gross profits	\$ 84.4	\$ 0.2	\$ 0.4	\$ 83.8
Cemetery gross profits	27.8	(0.1)	(0.4)	28.3
	112.2	0.1		112.1
Germany gross profits	0.2			0.2
Total gross profits	\$ 112.4	\$ 0.1	\$	\$ 112.3

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the three months ended March 31, 2011 and 2010. We calculate average revenue per funeral service by dividing consolidated funeral revenue, excluding General Agency (GA) revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the number of consolidated funeral services performed during the period.

	Three Months Ended March 31,	
	2011	2010
	(Dollars in millions, except average revenue per funeral service)	
Consolidated funeral revenue	\$ 408.4	\$ 369.0
Less: Consolidated GA revenue	19.3	13.4
Less: Other revenue	2.5	3.9
Adjusted consolidated funeral revenue	\$ 386.6	\$ 351.7
Consolidated funeral services performed	72,968	67,772
Consolidated average revenue per funeral service	\$ 5,298	\$ 5,189

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the three months ended March 31, 2011 and 2010. We calculate average revenue per funeral service by dividing comparable funeral revenue, excluding comparable GA revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the number of comparable funeral services performed during the period.

	Three Months Ended March 31,	
	2011	2010
	(Dollars in millions, except average revenue per funeral service)	
Comparable funeral revenue	\$ 379.3	\$ 363.7
Less: Comparable GA revenue	18.8	13.4
Less: Other revenue	2.3	2.2
 Adjusted comparable funeral revenue	 \$ 358.2	 \$ 348.1
 Comparable funeral services performed	 67,698	 67,049
Comparable average revenue per funeral service	\$ 5,291	\$ 5,192

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

Consolidated revenues from funeral operations were \$408.4 million in the first quarter of 2011 compared to \$369.0 million for the same period in 2010. This increase is primarily attributable to the \$15.6 million increase in comparable revenues described below and \$27.2 million of additional revenues as the result of acquisitions in 2011 and 2010. These increases were partially offset by a decline of \$3.4 million in revenues contributed by non-strategic assets that were divested throughout 2010. Comparable revenues from funeral operations were \$379.3 million in the first quarter of 2011 compared to \$363.7 million for the same period in 2010. This increase was primarily due to the 1.9% increase in average revenue per funeral service described below and a \$5.4 million increase in GA revenues (insurance commissions) that resulted from increased preneed funeral arrangements.

Funeral Services Performed

Our consolidated funeral services performed increased 7.7% during the first quarter of 2011 compared to the same period in 2010, primarily as the result of acquisitions in 2011 and 2010 and a 1.0% increase in comparable funeral services performed. We believe this increase was somewhat impacted by extreme weather throughout North America, and we believe is consistent with trends experienced by other funeral service providers and industry vendors. Our comparable cremation rate of 43.9% in the first quarter of 2011 increased from 41.6% in 2010. We continue to expand our cremation memorialization products and services, which have resulted in higher average sales for cremation services.

Average Revenue Per Funeral Service

Our consolidated average revenue per funeral service increased \$109 or 2.1% in 2011 compared to 2010, primarily as a result of increased comparable average revenue per funeral service described below. Our comparable average revenue per funeral increased \$99, or 1.9% in 2011 compared to the same period in 2010. Excluding a favorable Canadian currency impact and higher funeral trust fund income, the average revenue per funeral service grew approximately 0.9% despite an increase in cremation rates.

Funeral Gross Profits

Consolidated funeral gross profits increased \$14.7 million in 2011 compared to the same period in 2010. This increase is primarily attributable to \$6.2 million of additional gross profits related to acquisitions that occurred in 2011 and 2010 and a \$9.1 million increase in comparable gross profits described below, partially offset by a decline of \$0.6 million of gross profits that were contributed by non-strategic assets divested throughout 2011 and 2010.

Comparable funeral gross profits increased \$9.1 million, or 10.8%, and the comparable gross margin percentage increased from 23.1% to 24.5% when compared to the same period in 2010 primarily as a result of the increase in comparable revenue described above offset by the following:

- a \$4.2 million increase in comparable selling costs resulting from increased advertising and increased commissions for preneed production. Selling costs are recognized in the period incurred; however, the revenue associated with the preneed production is not recognized until the services are performed as described in Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes below;

- a \$2.0 million increase in direct costs of services performed as the result of the increase in funeral services performed described above; and

- an \$1.7 million unfavorable Canadian currency impact on expenses.

Cemetery Results***Cemetery Revenue***

Consolidated revenues from our cemetery operations increased \$9.4 million, or 5.8%, in the first quarter of 2011 compared to the same period in 2010 primarily as a result of the increase in comparable revenues described below and \$1.2 million in additional revenues generated by acquisitions in 2011 and 2010. The increases were partially offset by a decline of \$1.8 million in revenues contributed by non-strategic assets that were divested throughout 2011 and 2010. Comparable cemetery revenues increased \$10 million, or 6.3%, primarily as a result of strong cemetery preneed property sales production and higher merchandise and service trust fund income during the current quarter, partially

offset by a lower recognition rate and lower at need revenues.

Table of Contents

Cemetery Gross Profits

Consolidated cemetery gross profits decreased \$0.7 million, or 2.5%, in the first quarter of 2011 compared to the same period in 2010. This decrease is primarily the result of the decrease in comparable gross profits.

Comparable cemetery gross profits decreased \$1.0 million, or 3.5%, and gross margin percentage decreased from 17.7% to 16.1% in the first quarter of 2011 compared to the same period in 2010. This decrease is primarily the result of:

a \$4.7 million increase in property and merchandise costs driven by higher revenues described above, and

a \$4.1 million increase in selling costs stemming from increased advertising and increased commissions on preneed production. Selling costs are recognized in the period incurred; however, the revenue associated with the preneed production is not recognized until the services are performed as described in Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes below; more than offset by;

the increase in comparable revenues described above.

Other Financial Statement Items

General and Administrative Expenses

General and administrative expenses were \$28.8 million during the first quarter in 2011 compared to \$26.3 million the same period in 2010. For the first quarter of 2011 compared to 2010, general and administrative costs increased \$2.5 million primarily due to higher compensation costs tied to total shareholder return which were partially offset by lower acquisition and transition costs in the current period.

Interest Expense

Interest expense increased \$1.3 million to \$33.6 million in 2011 compared to \$32.3 million in 2010. The increase in interest expense primarily resulted from the November 2010 issuance of our 7.0% Senior Notes due May 2019.

Other Income (Expense), Net

Other income (expense), net increased \$2.6 million to \$0.7 million during the first quarter of 2011, primarily due to a \$2.2 million gain in foreign currency exchange as a result of the recent increase in Canadian currency rates.

Provision for Income Taxes

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items which are recorded in the period in which they occur. Discrete items include, among others, such events as changes in estimates due to the finalization of tax returns, tax audit settlements, expiration of statute of limitations, and increases or decreases in valuation allowances. Our effective tax rate was 37.6% and 39.1% for the three months ended March 31, 2011 and 2010, respectively. The decrease in the effective tax rate is primarily due to the following; lower Canadian income tax rates, a reduction in permanent non-deductible goodwill associated with divestitures, and lower taxable income from our foreign subsidiaries.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 242.1 million during the first quarter of 2011, compared to 256.2 million in the same period of 2010. The decrease in the number of shares reflects the impact of shares repurchased under our share repurchase program.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

No other significant changes to our accounting policies have occurred subsequent to December 31, 2010, except as described below within *Recent Accounting Pronouncements and Accounting Changes*.

Recent Accounting Pronouncements and Accounting Changes

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

Cautionary Statement on Forward-Looking Statements

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

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

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

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

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

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

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

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

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

The outcome of pending Internal Revenue Service audits. We maintain accruals for tax liabilities which relate to uncertain tax matters. If these tax matters are unfavorably resolved, we will make any required payments to tax authorities. While such payments would affect our cash flow, we do not believe it would impair our ability to service debt or our overall liquidity. If these tax matters are favorably resolved, the accruals maintained by us will no longer be required, and these amounts will be reversed through the tax provision at the time of resolution.

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2010 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at www.sci-corp.com. We assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Marketable Equity and Debt Securities Price Risk

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

Cost and market values as of March 31, 2011 are presented in Part I, Item 1. Financial Statements and Notes 4, 5, and 6 of this Form 10-Q. Also, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, *Financial Conditions, Liquidity and Capital Resources*, for discussion of trust investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of March 31, 2011, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission (SEC) reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The officers have concluded that our disclosure controls and procedures were effective as of March 31, 2011 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with US GAAP.

Table of Contents***Changes in Internal Control over Financial Reporting***

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

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

There have been no material changes in our Risk Factors as set forth in Item 1A of our Form 10-K for the fiscal year ended December 31, 2010.

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

On January 31, 2011, we issued 1,114 deferred common stock equivalents, or units, pursuant to provisions regarding dividends under the Amended and Restated Director Fee Plan to four non-employee directors. We did not receive any monetary consideration for the issuances. These issuances were unregistered because they did not constitute a sale within the meaning of Section 2(3) of the Securities Act of 1933, as amended.

As of March 31, 2011, the remaining dollar value of shares that may yet be purchased under our currently approved share repurchase program was approximately \$150.1 million.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Dollar value of shares that may yet be purchased under the programs
January 1, 2011 – January 31, 2011	1,618,353	8.39	1,618,353	165,183,567
February 1, 2011 – February 28, 2011	333,520	9.43	333,520	162,837,019
March 1, 2011 – March 31, 2011	1,252,589	10.80	1,108,913	150,082,258(1)
	3,204,462		3,060,786	

(1) The 143,676 shares purchased in March 2011 that were not part of publicly announced programs represent restricted stock that was redeemed by certain employees in lieu of tax liability withholdings, which do not affect our share repurchase program.

Subsequent to March 31, 2011, we repurchased an additional 59,571 shares of common stock at an aggregate cost of \$0.7 million, which is an average cost per share of \$10.72. After these first quarter repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program is approximately \$149.4 million.

Item 6. Exhibits

10.1 Second Amended and restated Revolving Credit Agreement, dated as of March 18, 2011, among the lenders party thereto and JPMorgan Chase Bank, N.A. as Administrative Agent for the lenders, dated as of March 18, 2011 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated March 24, 2011).

12.1 Ratio of earnings to fixed charges for the three months ended March 31, 2011 and 2010.

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

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

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

Table of Contents

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

101 The following materials from Service Corporation International's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet (ii) Condensed Consolidated Statement of Operations, (iii) Condensed Consolidated Statement of Equity (iv) Condensed Consolidated Statement of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

Undertaking

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

Table of Contents

SIGNATURE

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

April 28, 2011

SERVICE CORPORATION
INTERNATIONAL

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

44

Table of Contents

Index to Exhibits

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