

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

April 30, 2010

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**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, 2010**

**or**

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

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

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

**SERVICE CORPORATION INTERNATIONAL**

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

**Texas**

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

**74-1488375**

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

**1929 Allen Parkway, Houston, Texas**

**(Address of principal executive offices)**

**77019**

**(Zip code)**

**713-522-5141**

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

**None**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(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, 2010 was 254,827,248 (net of treasury shares).



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**GLOSSARY**

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

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

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

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

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

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

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

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

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

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

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

**Preneed** Purchase of products and services prior to 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)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenues	\$ 530,863	\$ 510,595
Costs and expenses	(418,556)	(410,475)
Gross profit	112,307	100,120
General and administrative expenses	(26,201)	(21,786)
(Losses) gains on divestitures and impairment charges, net	(480)	7,230
Operating income	85,626	85,564
Interest expense	(32,301)	(31,670)
Gain on early extinguishment of debt		1,610
Other expense, net	(1,884)	(843)
Income before income taxes	51,441	54,661
Provision for income taxes	(20,116)	(20,281)
Net income	31,325	34,380
Net (income) loss attributable to noncontrolling interests	(413)	150
Net income attributable to common stockholders	30,912	34,530
Basic earnings per share	\$ .12	\$ .14
Diluted earnings per share	\$ .12	\$ .14
Basic weighted average number of shares	254,400	250,134
Diluted weighted average number of shares	256,154	250,309
Dividends declared per share	\$ .04	\$ .04

(See notes to unaudited condensed consolidated financial statements)

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

(In thousands, except share amounts)

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 180,474	\$ 179,745
Receivables, net	91,769	92,228
Deferred tax assets	52,355	51,534
Inventories	33,737	31,117
Current assets held for sale	2,497	1,197
Other	17,484	21,640
 Total current assets	 378,316	 377,461
 Preneed funeral receivables, net and trust investments	 1,392,839	 1,356,353
Preneed cemetery receivables, net and trust investments	1,428,525	1,382,717
Cemetery property, at cost	1,498,094	1,489,065
Property and equipment, net	1,670,194	1,591,074
Non-current assets held for sale	57,476	80,901
Goodwill	1,307,560	1,201,332
Deferred charges and other assets	413,585	522,389
Cemetery perpetual care trust investments	919,948	889,689
	\$ 9,066,537	\$ 8,890,981
 <b>LIABILITIES &amp; EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 329,856	\$ 312,821
Current maturities of long-term debt	28,622	49,957
Current liabilities held for sale	554	501
Income taxes	5,092	2,236
 Total current liabilities	 364,124	 365,515
 Long-term debt	 1,858,465	 1,840,532
Deferred preneed funeral revenues	591,534	596,966
Deferred preneed cemetery revenues	820,546	817,543
Deferred tax liability	276,717	246,730
Non-current liabilities held for sale	27,511	68,332
Other liabilities	405,578	380,263
Deferred preneed funeral and cemetery receipts held in trust	2,280,140	2,201,403
Care trusts corpus	921,500	890,909
Commitments and contingencies (Note 16)		
Stockholders Equity:	254,761	254,017

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Common stock, \$1 per share par value, 500,000,000 shares authorized, 254,851,432 and 254,027,384 shares issued, respectively, and 254,761,136 and 254,017,384 shares outstanding , respectively		
Capital in excess of par value	1,727,226	1,735,493
Accumulated deficit	(572,964)	(603,876)
Accumulated other comprehensive income	110,969	97,142
Total common stockholders equity	1,519,992	1,482,776
Noncontrolling interests	430	12
Total Equity	1,520,422	1,482,788
	\$ 9,066,537	\$ 8,890,981

(See notes to unaudited condensed consolidated financial statements)



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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 31,325	\$ 34,380
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on early extinguishment of debt		(1,610)
Depreciation and amortization	28,679	29,115
Amortization of intangible assets	5,636	5,484
Amortization of cemetery property	6,434	5,911
Amortization of loan costs	1,261	898
Provision for doubtful accounts	31	3,091
Provision for deferred income taxes	14,425	18,577
Losses (gains) on divestitures and impairment charges, net	480	(7,230)
Share-based compensation	2,324	2,408
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease in receivables	2,658	12,269
Decrease in other assets	493	5,083
Increase in payables and other liabilities	9,070	21,954
Effect of preneed funeral production and maturities:		
Decrease in preneed funeral receivables, net and trust investments	25,844	4,558
Decrease in deferred preneed funeral revenue	(3,668)	(2,349)
Decrease in deferred preneed funeral receipts held in trust	(18,655)	(5,579)
Effect of cemetery production and deliveries:		
(Increase) decrease in preneed cemetery receivables, net and trust investments	(7,892)	9,596
Increase in deferred preneed cemetery revenue	8,814	9,589
Decrease in deferred preneed cemetery receipts held in trust	(360)	(4,792)
Acquisition costs and other	2,037	1
Net cash provided by operating activities	108,936	141,354
<b>Cash flows from investing activities:</b>		
Capital expenditures	(18,336)	(23,494)
Acquisitions	(259,393)	(512)
Proceeds from divestitures and sales of property and equipment, net	24,268	7,713
Net withdrawals of restricted funds and other	26,445	129
Net cash used in investing activities	(227,016)	(16,164)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	175,000	
Debt issuance costs	(6,203)	
Payments of debt	(30,810)	(2,132)
Early extinguishment of debt		(7,476)
Principal payments on capital leases	(5,889)	(6,581)
Proceeds from exercise of stock options	1,024	2,363

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Purchase of Company common stock	(689)	
Payments of dividends	(10,161)	(9,981)
Bank overdrafts and other	(7,773)	(13,658)
Net cash provided by (used in) financing activities	114,499	(37,465)
Effect of foreign currency on cash and cash equivalents	4,310	(151)
Net increase in cash and cash equivalents	729	87,574
Cash and cash equivalents at beginning of period	179,745	128,397
Cash and cash equivalents at end of period	\$ 180,474	\$ 215,971

(See notes to unaudited condensed consolidated financial statements)

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

	Outstanding Shares	Common Stock	Treasury Stock Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance at December 31, 2009	254,017	\$ 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	294		730				1,024
Restricted stock awards, net of forfeitures	529	529		(529)				
Purchase of Company Common Stock	(80)		(80)	(609)				(689)
Other	1	1		7				8
Balance at March 31, 2010	254,761	\$ 254,851	\$ (90)	\$ 1,727,226	\$ (572,964)	\$ 110,969	\$ 430	\$ 1,520,422

(See notes to unaudited condensed consolidated financial statements)

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

**1. Nature of Operations**

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

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

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation and Basis of Presentation***

Our unaudited condensed consolidated financial statements include the accounts of Service Corporation International and all subsidiaries in which we hold a controlling financial interest. Our financial statements also include the accounts of the funeral merchandise and service trusts, cemetery merchandise and service trusts, and cemetery perpetual care trusts in which we have a variable interest and are the primary beneficiary. Our interim unaudited condensed consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair presentation of our results for these periods. Our unaudited condensed consolidated financial statements have been prepared in a manner consistent with the accounting policies described in our annual report on Form 10-K for the year ended December 31, 2009, unless otherwise disclosed herein, and should be read in conjunction therewith. The accompanying year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year period. For the three months ended March 31, 2010, we have evaluated subsequent events.

***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, 2009. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. As a result, actual results could differ from these estimates.

***Variable Interest Entities***

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



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

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

***Fair Value Measurements***

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

**3. Recently Issued Accounting Standards*****Equity***

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

***Consolidation***

In January 2010, the FASB amended the guidance under the Consolidation Topic of the ASC to clarify the scope of a decrease in ownership of a subsidiary. This guidance is effective for us on January 1, 2010. This guidance does not have an impact on our unaudited condensed consolidated financial condition or results of operations.

***Stock-Based Compensation***

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

**4. Preneed Funeral Activities**

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

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*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:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Deposits	\$ 21,173	\$ 17,116
Withdrawals	32,010	23,175
Purchases of available-for-sale securities	151,100	66,910
Sales of available-for-sale securities	177,786	65,061
Realized gains from sales of available-for-sale securities	11,493	984
Realized losses from sales of available-for-sale securities	(18,445)	(13,895)

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands)</b>	
Trust investments, at market	\$ 773,058	\$ 771,945
Cash and cash equivalents	195,154	153,126
Insurance-backed fixed income securities	215,744	214,255
Assets associated with businesses held for sale	(3,689)	(377)
Trust investments	1,180,267	1,138,949
Receivables from customers	251,829	256,009
Unearned finance charge	(5,897)	(6,129)
	1,426,199	1,388,829
Allowance for cancellation	(33,360)	(32,476)
Preneed funeral receivables and trust investments	\$ 1,392,839	\$ 1,356,353

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair market value at March 31, 2010 and December 31, 2009 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments (including debt as well as the estimated fair value related to the contract holder's equity in majority-owned real estate investments). The fair market value of our funeral merchandise and service trust investments, in the aggregate, was 98% and 96% of the related cost basis of such investments as of March 31, 2010 and December 31, 2009, respectively.

	<b>March 31, 2010</b>		
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>

**(In thousands)**

Fixed income securities:				
U.S. Treasury	\$ 43,804	\$ 1,252	\$ (310)	\$ 44,746
Canadian government	121,089	2,687	(53)	123,723
Corporate	35,798	1,070	(539)	36,329
Residential mortgage-backed	6,801	345	(11)	7,135
Asset-backed	2,914	109	(7)	3,016
Equity securities:				
Preferred stock	2,841	76	(38)	2,879
Common stock (based on investment objectives):				
Growth	142,728	24,006	(7,825)	158,909
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	<b>March 31, 2010</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	<b>(In thousands)</b>			
Value	165,576	23,013	(10,720)	177,869
Mutual funds:				
Equity	109,439	2,712	(21,736)	90,415
Fixed income	127,642	2,524	(14,246)	115,920
Private equity	25,883	1,517	(16,044)	11,356
Other	990	353	(582)	761
Trust investments	\$ 785,505	\$ 59,664	\$ (72,111)	\$ 773,058

	<b>December 31, 2009</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	<b>(In thousands)</b>			
Fixed income securities:				
U.S. Treasury	\$ 40,065	\$ 1,258	\$ (65)	\$ 41,258
Canadian government	104,713	1,430	(47)	106,096
Corporate	29,778	2,091	(21)	31,848
Residential mortgage-backed	6,573	119	(10)	6,682
Asset-backed	3,188	76		3,264
Equity securities:				
Common stock (based on investment objectives):				
Growth	150,649	22,210	(10,343)	162,516
Value	176,614	19,033	(16,027)	179,620
Mutual funds:				
Equity	118,018	2,277	(27,153)	93,142
Fixed income	151,918	2,135	(18,586)	135,467
Private equity	24,445	1,529	(14,808)	11,166
Other	1,503	359	(976)	886
Trust investments	\$ 807,464	\$ 52,517	\$ (88,036)	\$ 771,945

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the Fair Value Measurements and Disclosures 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 Fair Value Measurements and Disclosures 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

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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 Fair Value Measurements and Disclosures Topic of the ASC.

As of March 31, 2010, our unfunded commitment for our private equity and other investments was \$13.0 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.

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

	<b>Quoted Market Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Fair Market Value</b>
	<b>(In thousands)</b>			

Trust investments at March 31, 2010	\$543,113	\$ 217,828	\$ 12,117	\$773,058
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Trust investments at December 31, 2009	\$570,745	\$ 189,148	\$ 12,052	\$771,945
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The change in our market-based funeral merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Fair market value, beginning balance at January 1	\$ 12,052	\$ 40,880
Net unrealized losses included in <i>Accumulated other comprehensive income</i> (1)	(346)	(5,616)
Net realized (losses) gains included in <i>Other expense, net</i> (2)	(12)	19
Purchases, sales, contributions, and distributions, net	423	(404)
Transfers out of Level 3		(21,891)
Fair market value, ending balance	\$ 12,117	\$ 12,988

(1) All losses recognized in *Accumulated other*

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

- (2) All (losses) gains recognized in *Other 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 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 2010 to 2040. Maturities of fixed income securities at March 31, 2010 are estimated as follows:

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	<b>Fair Market Value (In thousands)</b>
Due in one year or less	\$ 113,773
Due in one to five years	43,217
Due in five to ten years	39,107
Thereafter	18,852
	<b>\$ 214,949</b>

Earnings from all trust investments are recognized in current funeral revenues when a service is performed or merchandise is delivered. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to these trust investments were \$8.1 million and \$5.9 million for the three months ended March 31, 2010 and 2009, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in *Other 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 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*. In the first quarter of 2010, we recorded a \$5.1 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities. In the first quarter of 2009, we recorded a \$6.7 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities.

We have determined that the remaining unrealized losses in our funeral merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings and the severity and duration of the unrealized losses. Our funeral merchandise and service trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of March 31, 2010 and December 31, 2009, respectively, are shown in the following tables.

	<b>In Loss Position Less Than 12 Months</b>		<b>March 31, 2010</b>		<b>Total</b>	
			<b>In Loss Position Greater Than 12 Months</b>			
	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>
	<b>(In thousands)</b>					
Fixed income securities:						
U.S. Treasury	\$ 4,737	\$ (301)	\$ 1,060	\$ (9)	\$ 5,797	\$ (310)
Canadian government	4,653	(53)			4,653	(53)
Corporate	12,910	(538)	102	(1)	13,012	(539)
Residential mortgage-backed	945	(11)			945	(11)
Asset-backed	152	(7)			152	(7)

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Equity securities:						
Preferred Stock	1,043	(38)			1,043	(38)
Common stock (based on investment objectives):						
Growth	38,434	(3,304)	12,478	(4,521)	50,912	(7,825)
Value	24,693	(2,029)	40,091	(8,691)	64,784	(10,720)
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	<b>In Loss Position</b>		<b>March 31, 2010 In Loss Position Greater Than 12 Months</b>		<b>Total</b>	
	<b>Less Than 12 Months</b>		<b>Months</b>			
	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>
			<b>(In thousands)</b>			
Mutual funds:						
Equity	42,858	(15,952)	28,204	(5,784)	71,062	(21,736)
Fixed income	29,039	(7,683)	12,755	(6,563)	41,794	(14,246)
Private equity	7,418	(1,565)	19,066	(14,479)	26,484	(16,044)
Other	272	(141)	462	(441)	734	(582)
Total temporarily impaired securities	\$ 167,154	\$ (31,622)	\$ 114,218	\$ (40,489)	\$ 281,372	\$ (72,111)

	<b>In Loss Position</b>		<b>December 31, 2009 In Loss Position Greater Than 12 Months</b>		<b>Total</b>	
	<b>Less Than 12 Months</b>		<b>Months</b>			
	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>
			<b>(In thousands)</b>			
Fixed income securities:						
U.S. Treasury	\$ 2,707	\$ (40)	\$ 2,296	\$ (25)	\$ 5,003	\$ (65)
Canadian government	5,367	(47)			5,367	(47)
Corporate	1,517	(21)			1,517	(21)
Residential mortgage-backed	1,494	(10)			1,494	(10)
Equity securities:						
Common stock (based on investment objectives):						
Growth	36,467	(3,693)	19,941	(6,650)	56,408	(10,343)
Value	38,221	(3,180)	45,979	(12,847)	84,200	(16,027)
Mutual funds:						
Equity	60,413	(24,928)	20,945	(2,225)	81,358	(27,153)
Fixed income	46,542	(10,471)	22,684	(8,115)	69,226	(18,586)
Private equity	9,657	(1,743)	16,454	(13,065)	26,111	(14,808)
Other	585	(203)	765	(773)	1,350	(976)
Total temporarily impaired securities	\$ 202,970	\$ (44,336)	\$ 129,064	\$ (43,700)	\$ 332,034	\$ (88,036)

**5. Preneed Cemetery Activities**

*Preneed cemetery receivables, net and trust investments* represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, for contracts sold in advance of when the property interment rights, merchandise, or services are needed. Our cemetery merchandise and service trusts are variable interest entities as defined in the Consolidation Topic of the ASC. In accordance with this guidance, we have



determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. The trust investments detailed in Notes 4 and 6 are also accounted for as variable interest entities. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from *Deferred preneed cemetery revenues* into *Deferred preneed funeral and cemetery receipts held in trust*. Amounts are withdrawn from the trusts when the contract obligations are performed. Cash flows from preneed cemetery contracts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

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

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

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	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Deposits	\$ 22,231	\$ 19,343
Withdrawals	23,898	28,868
Purchases of available-for-sale securities	254,318	56,872
Sales of available-for-sale securities	220,449	53,662
Realized gains from sales of available-for-sale securities	11,253	1,039
Realized losses from sales of available-for-sale securities	(17,521)	(28,953)

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

	<b>March 31,</b>	<b>December</b>
	<b>2010</b>	<b>31,</b>
	<b>(In thousands)</b>	
Trust investments, at market	\$ 983,612	\$ 968,100
Cash and cash equivalents	127,921	145,668
Assets associated with businesses held for sale	(8,031)	(47,726)
Trust investments	1,103,502	1,066,042
Receivables from customers	405,903	396,918
Unearned finance charges	(41,360)	(41,517)
	1,468,045	1,421,443
Allowance for cancellation	(39,520)	(38,726)
Preneed cemetery receivables and trust investments	\$ 1,428,525	\$ 1,382,717

The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair market value at March 31, 2010 and December 31, 2009 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments (including debt as well as the estimated fair value related to the contract holder's equity in majority-owned real estate investments). The fair market value of our cemetery merchandise and service trust investments, in the aggregate, was 99% and 95% of the related cost basis of such investments as of March 31, 2010 and December 31, 2009, respectively.

	<b>March 31, 2010</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	<b>(In thousands)</b>			
Fixed income securities:				
U.S. Treasury	\$ 40,372	\$ 1,081	\$ (452)	\$ 41,001
Canadian government	15,919	220	(81)	16,058
Corporate	42,540	775	(728)	42,587

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Residential mortgage-backed	4,701	75	(20)	4,756
Asset-backed	6,298	267	(7)	6,558
Equity securities:				
Preferred Stock	4,373	89	(53)	4,409
Common stock (based on investment objectives):				
Growth	201,455	31,381	(9,450)	223,386
Value	258,700	30,296	(14,244)	274,752
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	<b>March 31, 2010</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	<b>(In thousands)</b>			
Mutual funds:				
Equity	207,962	5,402	(31,230)	182,134
Fixed income	198,321	2,037	(16,812)	183,546
Private equity	16,287	7	(12,129)	4,165
Other	773	38	(551)	260
Trust investments	\$ 997,701	\$ 71,668	\$ (85,757)	\$ 983,612

	<b>December 31, 2009</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	<b>(In thousands)</b>			
Fixed income securities:				
U.S. Treasury	\$ 32,084	\$ 1,169	\$ (81)	\$ 33,172
Canadian government	15,664	224	(53)	15,835
Corporate	9,065	438	(3)	9,500
Residential mortgage-backed	1,460	19	(2)	1,477
Asset-backed	6,476	193		6,669
Equity securities:				
Common stock (based on investment objectives):				
Growth	198,564	27,019	(11,130)	214,453
Value	260,356	23,475	(20,856)	262,975
Mutual funds:				
Equity	241,763	4,028	(38,093)	207,698
Fixed income	233,999	2,699	(24,718)	211,980
Private equity	14,968	8	(11,000)	3,976
Other	1,230	34	(899)	365
Trust investments	\$ 1,015,629	\$ 59,306	\$ (106,835)	\$ 968,100

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the Fair Value Measurements and Disclosures 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 Fair Value Measurements and Disclosures 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

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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 Fair Value Measurements and Disclosures Topic of the ASC.

As of March 31, 2010, our unfunded commitment for our private equity and other investments was \$11.9 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.

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

	<b>Quoted Market Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Fair Market Value</b>
	<b>(In thousands)</b>			
Trust investments at March 31, 2010	\$863,818	\$ 115,369	\$ 4,425	\$ 983,612
Trust investments at December 31, 2009	\$897,106	\$ 66,653	\$ 4,341	\$ 968,100

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Fair market value, beginning balance at January 1	\$ 4,341	\$ 31,837
Net unrealized losses included in <i>Accumulated other comprehensive income</i> (1)	(278)	(10,823)
Net realized (losses) gains included in <i>Other expense, net</i> (2)	(11)	18
Purchases, sales, contributions, and distributions, net	373	(461)
Transfers out of Level 3		(15,593)
Fair market value, ending balance	\$ 4,425	\$ 4,978

(1) All losses recognized in *Accumulated other comprehensive income* for our cemetery

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

- (2) All (losses) gains recognized in *Other 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 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 2010 to 2040. Maturities of fixed income securities at March 31, 2010 are estimated as follows:

	<b>Fair Market Value (In thousands)</b>
Due in one year or less	\$ 5,505
Due in one to five years	45,089
Due in five to ten years	33,688
Thereafter	26,678
	<b>\$ 110,960</b>



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Earnings from all our cemetery merchandise and service trust investments are recognized in current cemetery revenues when the service is performed or the merchandise is delivered. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognize in current revenues. Recognized earnings (losses) (realized and unrealized) related to our cemetery merchandise and service trust investments were \$3.4 million and (\$1.1) million for the three months ended March 31, 2010 and 2009, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in *Other 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 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*. In the first quarter of 2010, we recorded a \$2.2 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities. In the first quarter of 2009, we recorded a \$9.6 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities.

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. The unrealized losses reflect the effects of the current economic crisis. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments, which included a review of the portfolio holdings, discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery merchandise and service trust investment unrealized losses, their associated fair market value and the duration of unrealized losses as of March 31, 2010 are shown in the tables below.

	<b>In Loss Position</b>		<b>March 31, 2010 In Loss Position Greater Than 12 Months</b>		<b>Total</b>	
	<b>Less Than 12 Months Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>
	<b>(In thousands)</b>					
Fixed income securities:						
U.S. Treasury	\$ 10,460	\$ (445)	\$ 659	\$ (7)	\$ 11,119	\$ (452)
Canadian government	5,326	(81)			5,326	(81)
Corporate	18,467	(728)			18,467	(728)
Residential						
mortgage-backed	157	(20)			157	(20)
Asset-backed	161	(7)			161	(7)
Equity securities:						
Preferred Stock	1,751	(53)			1,751	(53)
Common stock (based on investment objectives):						
Growth	51,563	(4,042)	14,628	(5,408)	66,191	(9,450)
Value	42,619	(2,450)	54,554	(11,794)	97,173	(14,244)
Mutual funds:						
Equity	84,498	(22,165)	31,487	(9,065)	115,985	(31,230)
Fixed income	98,224	(12,853)	11,300	(3,959)	109,524	(16,812)
Private equity	12,785	(4,322)	10,293	(7,807)	23,078	(12,129)

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Other	448	(148)	345	(403)	793	(551)
Total temporarily impaired securities	\$ 326,459	\$ (47,314)	\$ 123,266	\$ (38,443)	\$ 449,725	\$ (85,757)

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	<b>In Loss Position Less Than 12 Months</b>		<b>December 31, 2009 In Loss Position Greater Than 12 Months</b>		<b>Total</b>	
	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>
	<b>(In thousands)</b>					
Fixed income securities:						
U.S. Treasury	\$ 2,624	\$ (65)	\$ 1,171	\$ (16)	\$ 3,795	\$ (81)
Canadian government	5,262	(53)			5,262	(53)
Corporate	212	(3)			212	(3)
Residential mortgage-backed	267	(2)			267	(2)
Equity securities:						
Common stock (based on investment objectives):						
Growth	53,941	(4,357)	21,402	(6,773)	75,343	(11,130)
Value	64,698	(4,031)	60,093	(16,825)	124,791	(20,856)
Mutual funds:						
Equity	123,439	(33,152)	44,463	(4,941)	167,902	(38,093)
Fixed income	131,246	(16,036)	28,203	(8,682)	159,449	(24,718)
Private equity	14,048	(4,056)	9,204	(6,944)	23,252	(11,000)
Other	863	(252)	552	(647)	1,415	(899)
Total temporarily impaired securities	\$ 396,600	\$ (62,007)	\$ 165,088	\$ (44,828)	\$ 561,688	\$ (106,835)

**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:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Deposits	\$ 5,373	\$ 5,367
Withdrawals	9,375	9,145
Purchases of available-for-sale securities	64,197	44,847
Sales of available-for-sale securities	26,550	32,475
Realized gains from sales of available-for-sale securities	2,059	820
Realized losses from sales of available-for-sale securities	(1,673)	(11,521)

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands)</b>	
Trust investments, at market	\$ 841,735	\$ 814,640
Cash and cash equivalents	83,016	92,153
Assets associated with businesses held for sale	(4,803)	(17,104)
 Cemetery perpetual care trust investments	 \$ 919,948	 \$ 889,689

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair market value at March 31, 2010 and December 31, 2009 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities or cash held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments. The fair market value of our cemetery perpetual care trust investments was 98% and 95% of the related cost basis of such investments as of March 31, 2010 and December 31, 2009, respectively.

	<b>March 31, 2010</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	<b>(In thousands)</b>			
Fixed income securities:				
U.S. Treasury	\$ 4,936	\$ 867	\$ (14)	\$ 5,789
Canadian government	27,294	372	(139)	27,527
Corporate	48,068	3,355	(487)	50,936
Residential mortgage-backed	3,372	82	(3)	3,451
Asset-backed	515	7	(1)	521
Equity securities:				
Preferred stock	4,582	1,366	(106)	5,842
Common stock (based on investment objectives):				
Growth	6,958	622	(311)	7,269
Value	130,824	12,509	(11,311)	132,022
Mutual funds:				
Equity	65,507	2,989	(12,657)	55,839
Fixed income	528,847	12,406	(3,925)	537,328
Private equity	31,048	408	(19,630)	11,826
Other	7,072	728	(4,415)	3,385
 Cemetery perpetual care trust investments	 \$ 859,023	 \$ 35,711	 \$ (52,999)	 \$ 841,735

	<b>December 31, 2009</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	

**(In thousands)**

Fixed income securities:				
U.S. Treasury	\$ 5,031	\$ 852	\$ (9)	\$ 5,874
Canadian government	26,688	378	(92)	26,974
Corporate	40,703	3,079	(367)	43,415
Residential mortgage-backed	1,923	35	(9)	1,949
Asset-backed	520	8		528
Equity securities:				

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	<b>December 31, 2009</b>			<b>Fair Market Value</b>
	<b>Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	<b>(In thousands)</b>			
Preferred stock	5,803	1,389	(259)	6,933
Common stock (based on investment objectives):				
Growth	6,172	452	(251)	6,373
Value	129,549	8,810	(15,185)	123,174
Mutual funds:				
Equity	69,376	2,023	(15,598)	55,801
Fixed income	534,137	4,384	(9,845)	528,676
Private equity	28,853	394	(18,235)	11,012
Other	8,568	748	(5,385)	3,931
Cemetery perpetual care trust investments	\$ 857,323	\$ 22,552	\$ (65,235)	\$ 814,640

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

As of March 31, 2010, our unfunded commitment for our private equity and other investments was \$11.4 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.

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

**Quoted  
Market**

	<b>Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Fair Market Value</b>
	<b>(In thousands)</b>			
Trust investments at March 31, 2010	\$732,458	\$ 94,066	\$ 15,211	\$ 841,735
Trust investments at December 31, 2009	\$714,024	\$ 85,673	\$ 14,943	\$ 814,640

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Fair market value, beginning balance at January 1	\$ 14,943	\$ 48,276
Net unrealized gains (losses) included in <i>Accumulated other comprehensive income</i> (1)	586	(22,007)
Net realized losses included in <i>Other income, net</i> (2)	(25)	(5)
Purchases, sales, contributions, and distributions, net	(293)	(3,363)
Transfers out of Level 3		(7,212)
Fair market value, ending balance	\$ 15,211	\$ 15,689

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

(2) All losses recognized in *Other expense, net* for our cemetery perpetual care trust investments are offset by a corresponding reclassification in *Other 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 2010 to 2040. Maturities of fixed income securities at March 31, 2010 are estimated as follows:

	<b>Fair Market Value (In thousands)</b>
Due in one year or less	\$ 9,649
Due in one to five years	38,840
Due in five to ten years	22,386
Thereafter	17,349
	\$ 88,224

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenues to the extent we incur qualifying cemetery maintenance costs. Recognized earnings related to these cemetery perpetual care trust investments were \$9.6 million and \$8.5 million for the three months ended March 31, 2010 and 2009, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in *Other expense, net* and a decrease to *Cemetery perpetual care trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other expense, net*, which reduces *Care trusts corpus*. See Note 7 for further information related to our *Care trusts corpus*. In the first quarter of 2010, we recorded a \$1.5 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities. In the first quarter of 2009, we recorded a \$4.2 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities.

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 as of March 31, 2010, are shown in the following tables.

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	<b>In Loss Position</b>		<b>March 31, 2010 In Loss Position Greater Than 12 Months</b>		<b>Total</b>	
	<b>Less Than 12 Months</b>		<b>Months</b>			
	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>
			<b>(In thousands)</b>			
Fixed income securities:						
U.S. Treasury	\$ 572	\$ (14)	\$	\$	\$ 572	\$ (14)
Canadian government	9,214	(139)			9,214	(139)
Corporate	6,328	(211)	2,289	(276)	8,617	(487)
Residential						
mortgage-backed	345	(3)			345	(3)
Equity securities:	208	(1)			208	(1)
Preferred stock	281	(30)	583	(76)	864	(106)
Common stock (based on investment objectives):						
Growth	2,399	(241)	264	(70)	2,663	(311)
Value	14,593	(982)	35,029	(10,329)	49,622	(11,311)
Mutual funds:						
Equity	21,494	(8,502)	14,042	(4,155)	35,536	(12,657)
Fixed income	50,994	(2,919)	24,325	(1,006)	75,319	(3,925)
Private equity	3,635	(4,073)	18,844	(15,557)	22,479	(19,630)
Other	773	(868)	4,001	(3,547)	4,774	(4,415)
Total temporarily impaired securities	\$ 110,836	\$ (17,983)	\$ 99,377	\$ (35,016)	\$ 210,213	\$ (52,999)

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

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Growth	1,299	(126)	987	(125)	2,286	(251)
Value	20,125	(1,649)	36,289	(13,536)	56,414	(15,185)
Mutual funds:						
Equity	21,152	(9,290)	16,051	(6,308)	37,203	(15,598)
Fixed income	285,936	(7,512)	36,141	(2,333)	322,077	(9,845)

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	<b>In Loss Position</b>		<b>December 31, 2009</b>		<b>Total</b>	
	<b>Less Than 12 Months</b>		<b>In Loss Position Greater Than 12 Months</b>			
	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Unrealized Losses</b>
	<b>(In thousands)</b>					
Private equity	8,973	(7,249)	12,689	(10,986)	21,662	(18,235)
Other	2,497	(2,017)	3,519	(3,368)	6,016	(5,385)
Total temporarily impaired securities	\$ 356,740	\$ (28,092)	\$ 109,190	\$ (37,143)	\$ 465,930	\$ (65,235)

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

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

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

	<b>March 31, 2010</b>			<b>December 31, 2009</b>		
	<b>Preneed Funeral</b>	<b>Preneed Cemetery</b>	<b>Total</b>	<b>Preneed Funeral</b>	<b>Preneed Cemetery</b>	<b>Total</b>
	<b>(In thousands)</b>					
Trust investments	\$ 1,180,267	\$ 1,103,502	\$ 2,283,769	\$ 1,138,949	\$ 1,066,042	\$ 2,204,991
Accrued trust operating payables and other	(1,440)	(2,189)	(3,629)	(1,449)	(2,139)	(3,588)
Deferred preneed funeral and cemetery receipts held in trust	\$ 1,178,827	\$ 1,101,313	\$ 2,280,140	\$ 1,137,500	\$ 1,063,903	\$ 2,201,403

***Care Trusts Corpus***

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

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands)</b>	
Cemetery perpetual care trust investments	\$ 919,948	\$ 889,689

Accrued trust operating payables and other	1,552		1,220
Care trusts corpus	\$ 921,500	\$	890,909

**Other Expense, Net**

The components of *Other expense, net* in our unaudited condensed consolidated statement of operations for the three months ended March 31, 2010 and 2009 are detailed below. See Notes 4, 5, and 6 for further discussion of the amounts related to the funeral, cemetery, and cemetery perpetual care trusts.

	<b>Three Months Ended March 31, 2010</b>				<b>Total</b>
	<b>Funeral Trusts</b>	<b>Cemetery Trusts</b>	<b>Cemetery Perpetual Care Trusts (In thousands)</b>	<b>Other, Net</b>	
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

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	<b>Three Months Ended March 31, 2010</b>					
	<b>Funeral</b>	<b>Cemetery</b>	<b>Cemetery</b>		<b>Other, Net</b>	<b>Total</b>
			<b>Trusts</b>	<b>Trusts</b>		
Other expense, net					(1,884)	(1,884)
Total other expense, net	\$	\$	\$		\$ (1,884)	\$ (1,884)

	<b>Three Months Ended March 31, 2009</b>					
	<b>Funeral</b>	<b>Cemetery</b>	<b>Cemetery</b>		<b>Other, Net</b>	<b>Total</b>
			<b>Trusts</b>	<b>Trusts</b>		
Realized gains	\$ 984	\$ 1,039	\$	820	\$	\$ 2,843
Realized losses and impairment charges	(20,555)	(38,535)		(15,676)		(74,766)
Interest, dividend, and other ordinary income	1,686	5,471		12,377		19,534
Trust expenses and income taxes	(10)	1,241		(415)		816
Net trust investment loss	(17,895)	(30,784)		(2,894)		(51,573)
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts corpus	17,895	30,784		2,894		51,573
Other expense, net					(843)	(843)
Total other expense, net	\$	\$	\$		\$ (843)	\$ (843)

**8. Keystone Acquisition**

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

We incurred acquisition costs of \$5.3 million of which \$1.9 million is included in *General and Administrative Expenses* for the three months ended March 31, 2010 and the remainder was incurred in prior periods.

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

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

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

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

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed as of March 26, 2010:

	<b>(In thousands)</b>
Accounts receivable	\$ 4,946
Other current assets	21,231
Cemetery property	19,918
Property and equipment, net	107,343
Preneed funeral and cemetery receivables and trust investments	67,505
Intangible assets	65,272
Deferred charges and other assets	5,834
Goodwill	115,352
Total assets acquired	407,401
Current liabilities	19,784
Long-term debt	2,742
Deferred preneed funeral and cemetery revenues and deferred receipts held in trusts	64,649
Deferred tax liability	17,823
Other liabilities	13,541

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	<b>(In thousands)</b>
Total liabilities assumed	118,539
Net assets acquired	288,862

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

We have not finalized our assessment of the fair values as there has been insufficient time between the acquisition date and the issuance of this Form 10-Q to complete our review of individual contracts, agreements, and accounting records of Keystone.

The gross amount of accounts receivable is \$8.0 million, of which \$3.1 million is not expected to be collected. Included in Preneed funeral and cemetery receivables and trust investments are receivables under preneed contracts with a fair value of \$5.4 million. The gross amount due under the contracts is \$5.7 million, of which \$0.3 million is not expected to be collected.

Goodwill, land, and certain identifiable intangible assets recorded in the acquisition are not subject to amortization; however, the goodwill and intangible assets will be tested periodically for impairment as required by the Intangible Assets Topic of the ASC. Of the \$115.4 million in goodwill recognized, \$4.6 million was allocated to our cemetery segment and \$110.8 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 \$65.3 million in identified intangible assets consists of the following:

	<b>Useful life</b>	<b>Fair Value (In thousands)</b>
Preneed customer relationships related to insurance claims	10 years	\$ 11,700
Preneed deferred revenue	10-14 years	2,832
Covenants-not-to-compete	5 - 15 years	13,000
Operating Leases	5 - 15 years	440
Tradenames	5 years	3,600
Tradenames	Indefinite	33,200
Licenses and permits	Indefinite	500
Total intangible assets		\$ 65,272

Included in our results of operations for the three months ended March 31, 2010 is revenue of \$1.7 million and net income of \$0.4 million for the period from the acquisition date (March 26, 2010) through March 31, 2010. The following unaudited pro forma summary presents financial information as if the acquisition had occurred at the beginning of the three months ended:

	<b>March 31, 2010</b>	<b>March 31, 2009</b>
Revenue	\$ 560,515	\$ 543,728
Net income	\$ 33,882	\$ 39,408



## **9. Income Taxes**

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items which are recorded in the period in which they occur. Discrete items include, among others, such events as changes in estimates, tax audit settlements, expiration of statute of limitations and increases or decreases in valuation allowances. Our effective tax rate was 39.1% and 37.1% for the three months ended March 31, 2010 and 2009, respectively. The increase in the effective tax rate is primarily due to higher foreign and state income taxes offset with a reduction in non-deductible items.

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

## **10. Debt**

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

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	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands)</b>	
7.875% Debentures due February 2013	\$ 32,127	\$ 32,127
7.375% Senior Notes due October 2014	245,000	245,000
6.75% Notes due April 2015	160,250	160,250
6.75% Notes due April 2016	233,143	233,143
7.0% Notes due June 2017	295,000	295,000
7.625% Senior Notes due October 2018	250,000	250,000
7.5% Notes due April 2027	200,000	200,000
8.0% Notes due November 2021	150,000	150,000
Bank credit facility due November 2013	145,000	150,000
Obligations under capital leases	143,948	142,946
Mortgage notes and other debt, maturities through 2047	39,113	38,631
Unamortized pricing discounts and other	(6,494)	(6,608)
<b>Total debt</b>	<b>1,887,087</b>	<b>1,890,489</b>
Less current maturities	(28,622)	(49,957)
<b>Total long-term debt</b>	<b>\$ 1,858,465</b>	<b>\$ 1,840,532</b>

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

**Bank Credit Facility**

As of March 31, 2010, we have \$145.0 million in outstanding cash advances under our bank credit facility and have used it to support \$47.4 million of letters of credit. The bank credit facility provides us with flexibility for working capital, if needed, and is guaranteed by our domestic subsidiaries. The subsidiary guaranty is a guaranty of payment of the outstanding amount of the total lending commitment, including letters of credit. The bank credit facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, and certain dividend and share repurchase restrictions. We pay a quarterly fee on the unused commitment. As of March 31, 2010, we have \$207.6 million in borrowing capacity under the facility.

**Debt Issuances and Additions**

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

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

**Debt Extinguishments and Reductions**

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.

In the first quarter of 2009, we purchased \$7.3 million aggregate principal amount of our 6.75% Notes due 2015 and \$2.0 million aggregate principal amount of our 7.00% Notes due 2017 on the open market. As a result of these transactions, we recognized a gain of \$1.6 million recorded in *Gain on early extinguishment of debt* in the first quarter

of 2009, which represents the write-off of unamortized deferred loan costs of \$0.2 million and a \$1.8 million discount on the purchase of the Notes.

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

During the three months ended March 31, 2010 and 2009, we acquired \$5.5 million and \$11.2 million, respectively, of transportation equipment using capital leases.

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

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

The fair value of our debt instruments at March 31, 2010 and December 31, 2009 was as follows:

	March 31, 2010	December 31, 2009
	(In thousands)	
7.875% Debentures due February 2013	\$ 31,565	\$ 31,330
7.375% Senior Notes due October 2014	251,125	247,450
6.75% Notes due April 2015	159,048	157,846
6.75% Notes due April 2016	230,812	222,069
7.0% Notes due June 2017	290,575	289,100
7.625% Senior Notes due October 2018	253,750	250,625
8.0% Notes due November 2021	152,437	148,500
7.5% Notes due April 2027	183,500	179,000
Bank credit facility due November 2013	144,063	148,875
Mortgage notes and other debt, maturities through 2047	38,968	34,898
Total fair value of debt instruments	\$ 1,735,843	\$ 1,709,693

The fair values of our long-term, fixed rate securities were estimated using market prices for those securities, and therefore they are classified within Level 1 of the Fair Value Measurements hierarchy discussed in Note 2. The bank credit agreement and the mortgage and other debt are classified within Level 3 of the Fair Value Measurements hierarchy. The fair values of these instruments have been estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements.

**12. Share-Based Compensation****Stock Benefit Plans**

We utilize the Black-Scholes option valuation model for estimating the fair value of our stock options. This model allows the use of a range of assumptions related to volatility, the risk-free interest rate, the expected life, and the dividend yield. The fair values of our stock options are calculated using the following weighted average assumptions for the three months ended March 31, 2010:

<b>Assumptions</b>	<b>Three Months Ended March 31, 2010</b>
Dividend yield	2.0%
Expected volatility	37.5%
Risk-free interest rate	2.3%
Expected holding period	5.0 years

**Table of Contents***Stock Options*

The following table sets forth stock option activity for the three months ended March 31, 2010:

	<b>Options</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at December 31, 2009	10,495,142	\$ 7.36
Granted	2,245,020	7.65
Exercised	(278,947)	3.40
Outstanding at March 31, 2010	12,461,215	\$ 7.50
Exercisable at March 31, 2010	7,084,429	\$ 8.37

As of March 31, 2010, the unrecognized compensation expense related to stock options of \$9.0 million is expected to be recognized over a weighted average period of 1.6 years.

*Restricted Shares*

Restricted share activity for the three months ended March 31, 2010 was as follows:

	<b>Restricted shares</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Nonvested restricted shares at December 31, 2009	1,101,440	\$ 6.01
Granted	529,020	7.66
Vested	(466,217)	7.05
Nonvested restricted shares at March 31, 2010	1,164,243	\$ 6.35

As of March 31, 2010, the unrecognized compensation expense related to restricted shares of \$6.9 million is expected to be recognized over a weighted average period of 1.6 years.

**13. Equity**

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

	<b>Foreign Currency Translation Adjustment</b>	<b>Unrealized Gains and Losses (In thousands)</b>	<b>Accumulated Other Comprehensive Income</b>
Balance at December 31, 2009	\$ 97,142	\$	\$ 97,142
Activity in 2010	13,827		13,827
Reduction in net unrealized losses associated with available-for-sale securities of the trusts, net of taxes		49,144	49,144
Reclassification of net unrealized losses activity attributable to the <i>Deferred preneed funeral and cemetery receipts held in trust</i> and <i>Care trusts corpus</i> , net of taxes		(49,144)	(49,144)
Balance at March 31, 2010	\$ 110,969	\$	\$ 110,969

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, 2010 and 2009:

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	<b>Three Months Ended March 31, 2010                  2009 (In thousands)</b>	
Comprehensive income:		
Amounts attributable to common stockholders:		
Net income	\$ 30,912	\$ 34,530
Other comprehensive income (loss)	13,827	(7,753)
Amounts attributable to noncontrolling interests:		
Net income (loss)	413	(150)
Other comprehensive income	5	
Comprehensive income	\$ 45,157	\$ 26,627

**Cash Dividends**

On February 10, 2010, our Board of Directors approved a cash dividend of \$.04 per common share. At March 31, 2010, this dividend totaling \$10.2 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 30, 2010.

**14. Segment Reporting**

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

	<b>Funeral</b>	<b>Cemetery (In thousands)</b>	<b>Reportable Segments</b>
Three months ended March 31,			
Revenues from external customers:			
2010	\$368,929	\$ 161,934	\$530,863
2009	\$364,909	\$ 145,686	\$510,595
Gross profit:			
2010	\$ 84,566	\$ 27,741	\$112,307
2009	\$ 84,073	\$ 16,047	\$100,120

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

	<b>Three Months Ended March 31, 2010                  2009 (In thousands)</b>	
Gross profit from reportable segments	\$ 112,307	\$ 100,120
General and administrative expenses	(26,201)	(21,786)
(Losses) gains on divestitures and impairment charges, net	(480)	7,230

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Operating income	85,626	85,564
Interest expense	(32,301)	(31,670)
Gain on early extinguishment of debt		1,610
Other expense, net	(1,884)	(843)
Income before income taxes	\$ 51,441	\$ 54,661

Our geographic area information is as follows:

	<b>United States</b>	<b>Canada</b>	<b>Germany</b>	<b>Total</b>
	<b>(In thousands)</b>			
Three months ended March 31,				
Revenues from external customers:				
2010	\$480,210	\$48,776	\$1,877	\$530,863
2009	\$467,476	\$41,415	\$1,704	\$510,595
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The detail of certain income statement accounts as presented in the unaudited condensed consolidated statement of operations is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Merchandise revenues:		
Funeral	\$ 119,759	\$ 118,407
Cemetery	107,184	91,861
Total merchandise revenues	226,943	210,268
Services revenues:		
Funeral	233,716	234,713
Cemetery	47,259	45,159
Total services revenues	280,975	279,872
Other revenues	22,945	20,455
Total revenues	\$ 530,863	\$ 510,595
Merchandise costs and expenses:		
Funeral	\$ 64,893	\$ 62,073
Cemetery	45,897	41,606
Total cost of merchandise	110,790	103,679
Services costs and expenses:		
Funeral	104,241	103,612
Cemetery	24,253	25,446
Total cost of services	128,494	129,058
Overhead and other expenses	179,272	177,738
Total costs and expenses	\$ 418,556	\$ 410,475

**16. Commitments and Contingencies*****Insurance Loss Reserves***

We purchase comprehensive general liability, morticians and cemetery professional liability, automobile liability, and workers compensation insurance coverage structured with high deductibles. The high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. As of March 31, 2010 and December 31, 2009, we have self-insurance reserves of \$54.4 million and \$57.9 million, respectively.

***Litigation***

We are a party to various litigation matters, investigations, and proceedings. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. We intend to vigorously defend ourselves in the lawsuits described herein;

however, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these litigation matters. We accrue such insurance recoveries when they become probable of being paid and can be reasonably estimated.

*Conley Investment Counsel v. Service Corporation International, et al.*; Civil Action 04-MD-1609; in the United States District Court for the Southern District of Texas, Houston Division (the 2003 Securities Lawsuit ). The 2003 Securities Lawsuit resulted from the transfer and consolidation by the Judicial Panel on Multidistrict Litigation of three lawsuits *Edgar Neufeld v. Service Corporation International, et al.*; Cause No. CV-S-03-1561-HDM-PAL; in the United States District Court for the District of Nevada; and *Rujira Srisythemp v. Service Corporation International, et al.*; Cause No. CV-S-03-1392-LDG-LRL; in the United States District

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Court for the District of Nevada; and *Joshua Ackerman v. Service Corporation International, et al.*; Cause No. 04-CV-20114; in the United States District Court for the Southern District of Florida. The 2003 Securities Lawsuit names as defendants SCI and several of SCI's current and former executive officers or directors. The 2003 Securities Lawsuit is a purported class action alleging that the defendants failed to disclose the unlawful treatment of human remains and burial sites at two cemeteries in Fort Lauderdale and West Palm Beach, Florida. No discovery has occurred, and we cannot quantify our ultimate liability, if any, for the payment of damages.

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

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

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

*Antitrust Claims.* We are named as a defendant in an antitrust case filed in 2005. The case is Cause No 4:05-CV-03394; *Funeral Consumers Alliance, Inc. v. Service Corporation International, et al.*; in the United States District Court for the Southern District of Texas – Houston ( *Funeral Consumers Case* ). This was a purported class action on behalf of casket consumers throughout the United States alleging that we and several other companies involved in the funeral industry violated federal antitrust laws and state consumer laws by engaging in various anti-competitive conduct associated with the sale of caskets. Based on the case proceeding as a class action, the plaintiffs filed an expert report indicating that the damages sought from all defendants range from approximately \$950 million to \$1.5 billion, before trebling. However, the trial court denied the plaintiffs' motion to certify the case as a class action. We deny that we engaged in anticompetitive practices related to our casket sales and we have filed reports of our experts, which vigorously dispute the validity of the plaintiffs' damages theories and calculations. The individual plaintiffs' claims are set for trial on August 3, 2010.

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

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



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

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

*Bryant, et al. v. Service Corporation International, et al.*; Case No. RG-07359593; and *Helm, et al. v. AWGI & SCI*; Case No. RG-07359602; in the Superior Court of the State of California, County of Alameda. These cases were filed on December 5, 2007 by counsel for plaintiffs in the Wage and Hour Lawsuit. These cases assert state law claims similar to the federal claims asserted in the Wage and Hour Lawsuit. These cases were removed to federal court in the U.S. District Court for the Northern District of California, San Francisco/Oakland Division. The *Bryant* case is now Case No. 3:08-CV-01190-SI and the *Helm* case is now Case No. C 08-01184-SI. On December 29, 2009, the court in the *Helm* case denied the plaintiffs' motion to certify the case as a class action. We cannot quantify our ultimate liability, if any, in these lawsuits.

*Stickle, et al. v. Service Corporation International, et al.*; Case No. 08-CV-83; in the U.S. District Court for Arizona, Phoenix Division. Counsel for plaintiffs in the Wage and Hour Lawsuit filed this case on January 17, 2008, against SCI and various related entities and individuals asserting FLSA and other ancillary claims based on the alleged failure to pay for overtime. In September 2009, the Court conditionally certified a class of claims as to certain job positions of SCI affiliated employees. We cannot quantify our ultimate liability, if any, in this lawsuit.

*Shauna Welch v. California Cemetery & Funeral Services, LLC*; Case No. BC 396793; in the Superior Court of the State of California, for the County of Los Angeles. In August 2008, the plaintiff filed a class action on behalf of employees of a subsidiary in California for alleged violations of the California Labor Code and the Business & Professions Code. The plaintiff specifically alleges that she and the putative class are unable to negotiate their paychecks without paying a fee and/or without being subject to a waiting period since paychecks are issued from an out-of-state bank. Subject to court approval, the parties have agreed to settle this case for an amount which is not material to us.

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

**17. Earnings Per Share**

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

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

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	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands, except per share amounts)</b>	
Amounts attributable to common stockholders:		
Net income:		
Net income basic	\$ 30,912	\$ 34,530
After tax interest on convertible debt	13	13
Net income diluted	\$ 30,925	\$ 34,543
Weighted average shares (denominator):		
Weighted average shares basic	254,400	250,134
Stock options	1,633	54
Convertible debt	121	121
Weighted average shares diluted	256,154	250,309
Net income per share:		
Basic	\$ .12	\$ .14
Diluted	\$ .12	\$ .14

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, 2010 and March 31, 2009, total options and convertible debentures not currently included in the computation of dilutive EPS were 4.7 million and 12.1 million, respectively.

**18. Divestiture-Related Activities**

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

*(Losses) gains on divestitures and impairment charges, net* consists of the following for the three months ended March 31:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Gains on divestitures, net	\$ 375	\$ 10,865
Impairment losses	(855)	(3,635)
	\$ (480)	\$ 7,230

**Assets Held for Sale**

We committed to a plan to sell certain operating properties as of March 31, 2010 and December 31, 2009. Additionally, subsequent to March 31, 2010, we have entered into an agreement with the Federal Trade Commission to sell 22 funeral homes and five cemeteries in conjunction with the acquisition of Keystone.

Net assets held for sale were as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Assets:		
Current assets	\$ 2,497	\$ 1,197
Preneed funeral receivables, net and trust investments	4,272	377
Preneed cemetery receivables, net and trust investments	10,752	50,952
Cemetery property, at cost	9,229	2,111
Property and equipment, net	27,378	120
Deferred charges and other assets	1,042	10,237

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	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Cemetery perpetual care trust investments	4,803	17,104
Total assets	59,973	82,098
Liabilities:		
Accounts payable and accrued liabilities	554	501
Deferred preneed funeral revenues	1,504	
Deferred preneed cemetery revenues	9,237	49,346
Other liabilities	11,967	1,882
Care trusts corpus	4,803	17,104
Total liabilities	28,065	68,833
Net assets held for sale	\$ 31,908	\$ 13,265

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

### **The Company**

We are North America's largest provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At March 31, 2010, we operated 1,441 funeral service locations and 387 cemeteries (including 221 combination locations) in North America, which are geographically diversified across 44 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral segment also includes the operations of 12 funeral homes in Germany that we intend to exit when economic values and conditions are conducive to a sale. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We sell cemetery property and funeral and cemetery products and services at the time of need and on a preneed basis.

Our financial stability is enhanced by our \$6.6 billion backlog of future revenues from both trust and insurance-funded sales at March 31, 2010, which is the result of preneed funeral and cemetery sales. We believe we have the financial strength and flexibility to reward shareholders through dividends while maintaining a prudent capital structure and pursuing new opportunities for profitable growth. We currently have approximately \$123.4 million authorized to repurchase our common stock.

On March 26, 2010, pursuant to a tender offer, we acquired approximately 91% of the outstanding common stock of Keystone for C\$8.07 per share in cash, resulting in a purchase price of \$288.9 million, which includes the refinancing of \$80.7 million of Keystone's debt and our purchase of the remaining shares of Keystone for \$17.5 million, subsequent to March 31, 2010.

### **Financial Condition, Liquidity and Capital Resources**

#### ***Volatility in Financial Markets***

Our funeral, cemetery merchandise and service, and cemetery perpetual care trusts have been impacted by the volatility in the U.S. and global financial markets. The fair market value of our trust investments declined sharply in the second half of 2008. Since that time, our trusts have recovered commensurate with the overall improvement in the financial markets. During the three months ended March 31, 2010, our combined trust fund assets had a return on investment of 3.8%.

As of March 31, 2010, we have cumulative net unrealized losses of \$26.5 million in our preneed funeral and cemetery merchandise and service trusts, and cumulative net unrealized losses of \$17.3 million in our cemetery perpetual care trusts, as discussed in Notes 4, 5, and 6, Financial Statements and Supplementary Data. At March 31, 2010, these net unrealized losses represented 1.7% of our original cost basis of \$2.6 billion. As explained in Critical Accounting Policies, Fair Value Measurements, changes in unrealized gains and/or losses related to these securities



are reflected in *Other comprehensive income (loss)* and offset by the *Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts corpus interest* in those unrealized gains and/or losses. Therefore, the majority of these net unrealized losses are not reflected in our consolidated statement of operations for the quarter ended March 31, 2010. We do, however, rely on our trust investments to provide funding for the various contractual obligations that arise upon maturity of the underlying preneed contracts. Because of the long-term relationship between the establishment of trust investments and the required performance of the underlying contractual obligations, the impact of current market conditions that may exist at any given time is not necessarily indicative of our ability to generate profit on our future performance obligations.

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In 2010, we recorded a \$8.8 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain equity securities. We have determined that the remaining unrealized losses in our trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in the capital markets. 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. The investments are diversified across multiple industry segments and across several asset classes using a balanced allocation strategy to minimize long-term risk.

*Trust Investments*

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

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

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

The market values of our trust investments at March 31, 2010 are detailed below (in thousands).

			<b>Total Funeral and Cemetery Merchandise and Service</b>	<b>Cemetery Merchandise and Service</b>	<b>Cemetery Perpetual Care Funds</b>	<b>Total</b>
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Fixed income securities:

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U.S. Treasury	\$ 44,746	\$ 41,001	\$ 85,747	\$ 5,789	\$ 91,536
Canadian government	123,723	16,058	139,781	27,527	167,308
Corporate	36,329	42,587	78,916	50,936	129,852
Residential mortgage-backed	7,135	4,756	11,891	3,451	15,342
Asset-backed	3,016	6,558	9,574	521	10,095
Equity securities:					
Preferred stock	2,879	4,409	7,288	5,842	13,130
Common stock (based on investment objectives):					
Growth	158,909	223,386	382,295	7,269	389,564
Value	177,869	274,752	452,621	132,022	584,643
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	<b>Funeral Merchandise and Service</b>	<b>Cemetery Merchandise and Service</b>	<b>Total Funeral and Cemetery Merchandise and Service</b>	<b>Cemetery Perpetual Care Funds</b>	<b>Total</b>
Mutual funds:					
Equity	90,415	182,134	272,549	55,839	328,388
Fixed income	115,920	183,546	299,466	537,328	836,794
Private equity	11,356	4,165	15,521	11,826	27,347
Other	761	260	1,021	3,385	4,406
Trust investments	773,058	983,612	1,756,670	841,735	2,598,405
Assets associated with businesses held for sale	(3,689)	(8,031)	(11,720)	(4,803)	(16,523)
Cash and cash equivalents	195,154	127,921	323,075	83,016	406,091
Insurance-backed fixed income securities	215,744		215,744		215,744
Total trust assets	\$ 1,180,267	\$ 1,103,502	\$ 2,283,769	\$ 919,948	\$ 3,203,717

As of March 31, 2010, 90% 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, 2010, 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-

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term in duration. These investments are diversified by strategy, sector, manager, and vintage year. Private equity exposure is accessed through LLCs established by certain preferred trustees. These LLCs invest in numerous limited partnerships, including private equity, fund of funds, distressed debt, and mezzanine financing. The trustees that have oversight of their respective LLCs work closely with the investment advisor in making all current investments.

*Trust Performance*

The trust fund income recognized from these investment assets continues to be volatile. During the twelve months ended March 31, 2010, the Standard and Poor's 500 Index increased approximately 49.7% and the Barclay's Aggregate Index increased approximately 7.7%, while the combined SCI trusts increased approximately 34.6%.

*Capital Allocation Considerations*

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided \$108.9 million in the first quarter of 2010. Our current cash and cash equivalents balance is approximately \$149.3 million as of April 26, 2010. In addition, we have \$207.6 million in excess borrowing capacity under our bank credit facility. We currently have no significant maturities of long-term debt until November 2013.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. As of March 31, 2010 we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of March 31, 2010 are as follows:

	<b>Per Credit Agreement</b>	<b>Actual</b>
Leverage ratio	4.25 (Max)	3.26
Interest coverage ratio	2.75 (Min)	4.21

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

	<b>Leverage Ratio (Max)</b>	<b>Interest Coverage Ratio (Min)</b>
September 2010 and thereafter	4.00	3.00

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.

*Cash Flow*

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

*Operating Activities* Net cash provided by operating activities decreased approximately \$32.4 million in the first three months of 2010 compared to the first three months of 2009. This decrease resulted from greater incentive compensation payments made during the current quarter as expected, and from funding an April payroll on March 31 of the current quarter.

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*Investing Activities* Net cash used in investing activities increased \$210.9 million in the first three months of 2010 compared to the first three months of 2009, primarily due to an increased outflow of \$258.9 million in acquisitions, partially offset by increased inflows of \$26.3 million in withdrawals of restricted funds and \$16.6 million in proceeds from divestitures.

*Financing Activities* Net cash used in financing activities decreased by \$152.0 million in the first three months of 2010 compared to the first three months of 2009, primarily due to a \$168.8 million increase in proceeds from issuance of long-term debt (net of debt issuance costs) which was partially offset by a \$20.5 million increase in debt payments.

**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.

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in millions)</b>	
Preneed funeral	\$ 122.1	\$ 126.6
Preneed cemetery:		
Merchandise and services	123.6	126.0
Pre-construction	3.3	3.3
Bonds supporting preneed funeral and cemetery obligations	249.0	255.9
Bonds supporting preneed business permits	4.6	4.6
Other bonds	22.1	22.1
Total surety bonds outstanding	\$ 275.7	\$ 282.6

When selling preneed funeral and cemetery contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law. For the three months ended March 31, 2010 and 2009, we had \$5.0 million and \$6.3 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.



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*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, 2010 and 2009.

	<b>North America</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>	
<b>Funeral:</b>		
Preneed trust-funded (including bonded):		
Sales production	\$ 30.0	\$ 38.2
Sales production (number of contracts)	6,656	8,501
Maturities	\$ 48.8	\$ 45.8
Maturities (number of contracts)	11,045	11,558
<b>Cemetery:</b>		
Sales production:		
Preneed	\$ 95.3	\$ 81.0
Atneed	63.5	59.7
Total sales production	\$ 158.8	\$ 140.7
Sales production deferred to backlog:		
Preneed	\$ 42.3	\$ 33.2
Atneed	46.1	46.4
Total sales production deferred to backlog	\$ 88.4	\$ 79.6
Revenue recognized from backlog:		
Preneed	\$ 32.6	\$ 30.6
Atneed	44.1	45.3
Total revenue recognized from backlog	\$ 76.7	\$ 75.9

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

	<b>North America</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>	
Preneed funeral insurance-funded:		
Sales production (1)	\$ 90.5	\$ 69.6
Sales production (number of contracts) (1)	15,741	11,753
General agency revenue	\$ 13.4	\$ 11.8
Maturities	\$ 69.7	\$ 65.0
Maturities (number of contracts)	13,157	12,071

(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*

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*cemetery receipts held in trust* at March 31, 2010 and December 31, 2009. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our unaudited condensed consolidated balance sheet) at March 31, 2010 and December 31, 2009. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on historical experience.

The 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.

	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Market</b>	<b>Cost</b>	<b>Market</b>	<b>Cost</b>
	<b>(Dollars in billions)</b>			
Deferred preneed funeral revenues	\$ 0.59	\$ 0.59	\$ 0.59	\$ 0.59
Deferred preneed funeral receipts held in trust	1.18	1.20	1.14	1.17
	\$ 1.77	\$ 1.79	\$ 1.73	\$ 1.76
Allowance for cancellation on trust investments	(0.13)	(0.13)	(0.12)	(0.12)
Backlog of trust-funded preneed funeral revenues	\$ 1.64	\$ 1.66	\$ 1.61	\$ 1.64
Backlog of insurance-funded preneed funeral revenues	3.15	3.15	3.03	3.03
Total backlog of preneed funeral revenues	\$ 4.79	\$ 4.81	\$ 4.64	\$ 4.67
Preneed funeral receivables and trust investments	\$ 1.39	\$ 1.41	\$ 1.35	\$ 1.39
Allowance for cancellation on trust investments	(0.11)	(0.11)	(0.11)	(0.11)
Assets associated with backlog of trust-funded deferred preneed funeral revenues, net of estimated allowance for cancellation	\$ 1.28	\$ 1.30	\$ 1.24	\$ 1.28
Insurance policies associated with insurance-funded deferred preneed funeral revenues, net of estimated allowance for cancellation	3.15	3.15	3.03	3.03
Total assets associated with backlog of preneed funeral revenues, net of estimated allowance for cancellation	\$ 4.43	\$ 4.45	\$ 4.27	\$ 4.31
Deferred preneed cemetery revenues	\$ 0.82	\$ 0.82	\$ 0.82	\$ 0.82
Deferred preneed cemetery receipts held in trust	1.10	1.12	1.06	1.11
	\$ 1.92	\$ 1.94	\$ 1.88	\$ 1.93
Allowance for cancellation on trust investments	(0.16)	(0.16)	(0.16)	(0.16)
Total backlog of deferred cemetery revenues	\$ 1.76	\$ 1.78	\$ 1.72	\$ 1.77

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Preneed cemetery receivables and trust investments	\$ 1.43	\$ 1.44	\$ 1.38	\$ 1.43
Allowance for cancellation on trust investments	(0.15)	(0.15)	(0.14)	(0.14)
Total assets associated with backlog of deferred cemetery revenues, net of estimated allowance for cancellation	\$ 1.28	\$ 1.29	\$ 1.24	\$ 1.29

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

**Results of Operations Three Months Ended March 31, 2010 and 2009**

***Management Summary***

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

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Funeral gross profit increased \$0.5 million, or 0.6%, due to higher average revenue per service and strong general agency revenues offsetting a decline in funeral services performed; and,

Cemetery gross profit increased \$11.7 million due to an increase in preneed cemetery property sales and trust fund income, partially offset by higher variable costs.

**Results of Operations**

In the first quarter of 2010, we reported net income attributable to common stockholders of \$30.9 million (\$.12 per diluted share) compared to net income attributable to common stockholders in the first quarter of 2009 of \$34.5 million (\$.14 per diluted share). These results were impacted by the following items:

a net after-tax loss on asset sales of \$0.4 million in the first quarter of 2010 and an after-tax gain of \$2.6 million in the first quarter of 2009;

an after-tax gain from the early extinguishment of debt of \$1.0 million in the first quarter of 2009; and,

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

**Consolidated Versus Comparable Results**

The table below reconciles our consolidated GAAP results to our comparable, or same store, results for the three months ended March 31, 2010 and 2009. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2009 and ending March 31, 2010. The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

Three Months Ended	Consolidated	Less:		Comparable
		Results Associated with Acquisition/New	Results Associated with Divestitures	
March 31, 2010	(Dollars in millions)			
North America Revenue				
Funeral revenue	\$ 367.1	\$ 4.5	\$ 2.9	\$ 359.7
Cemetery revenue	161.9	1.5	1.0	159.4
	529.0	6.0	3.9	519.1
Germany revenue	1.9			1.9
Total revenue	\$ 530.9	\$ 6.0	\$ 3.9	\$ 521.0
North America Gross Profits				
Funeral gross profits	\$ 84.4	\$ 1.0	\$ 0.4	\$ 83.0
Cemetery gross profits	27.7		0.8	26.9
	112.1	1.0	1.2	109.9
Germany gross profits	0.2			0.2
Total gross profits	\$ 112.3	\$ 1.0	\$ 1.2	\$ 110.1

<b>Three Months Ended</b>	<b>Less: Results Associated with Acquisition/ New</b>			<b>Less: Results Associated with</b>	<b>Comparable</b>
<b>March 31, 2009</b>	<b>Consolidated</b>	<b>Construction</b>	<b>Divestitures</b>		
	<b>(Dollars in millions)</b>				
North America Revenue					
Funeral revenue	\$ 363.2	\$ 4.1	\$ (0.1)	\$ 359.2	
Cemetery revenue	145.7	1.8	(1.2)	145.1	
	508.9	5.9	(1.3)	504.3	
Germany revenue	1.7			1.7	
Total revenue	\$ 510.6	\$ 5.9	\$ (1.3)	\$ 506.0	

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<b>Three Months Ended</b>	<b>Less: Results Associated with Acquisition/ New Construction</b>			<b>Less: Results Associated with Divestitures</b>		<b>Comparable</b>
<b>March 31, 2009</b>	<b>Consolidated</b>	<b>(Dollars in millions)</b>				
North America Gross Profits						
Funeral gross profits	\$ 83.8	\$ (1.0)		\$ 0.2		\$ 84.6
Cemetery gross profits	16.0	0.6		(0.7)		16.1
	99.8	(0.4)		(0.5)		100.7
Germany gross profits	0.3					0.3
Total gross profits	\$ 100.1	\$ (0.4)		\$ (0.5)		\$ 101.0

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the three months ended March 31, 2010 and 2009. We calculate average revenue per funeral service by dividing consolidated funeral revenue, excluding General Agency (GA) revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the number of consolidated funeral services performed during the period.

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions, except average revenue per funeral service)</b>	
Consolidated funeral revenue	\$ 369.0	\$ 364.9
Less: Consolidated GA revenue	13.4	11.8
Less: Other revenue	3.9	1.8
Adjusted consolidated funeral revenue	\$ 351.7	\$ 351.3
Consolidated funeral services performed	67,772	69,329
Consolidated average revenue per funeral service	\$ 5,189	\$ 5,067

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the three months ended March 31, 2010 and 2009. We calculate average revenue per funeral service by dividing comparable funeral revenue, excluding comparable GA revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the number of comparable funeral services performed during the period.

<b>Three Months Ended March 31,</b>	
<b>2010</b>	<b>2009</b>
<b>(Dollars in millions,</b>	

		<b>except average revenue per funeral service)</b>
Comparable funeral revenue	\$ 361.6	\$ 360.9
Less: Comparable GA revenue	13.2	11.7
Less: Other revenue	2.2	1.7
 Adjusted comparable funeral revenue	 \$ 346.2	 \$ 347.5
 Comparable funeral services performed	 66,015	 68,408
Comparable average revenue per funeral service	\$ 5,244	\$ 5,080

**Funeral Results***Funeral Revenue*

Our consolidated revenues from funeral operations were \$369.0 million in the first quarter of 2010 compared to \$364.9 million in the same period of 2009. This increase is primarily due to a \$1.6 million increase in GA revenue and a \$1.7 million increase resulting from the acquisition of Keystone.

*Funeral Services Performed*

Our consolidated funeral services performed decreased 2.2% during the first quarter of 2010 compared to the same period in 2009. Our comparable funeral services performed decreased 3.5% during the first quarter of 2010 compared to the same period in 2009. We believe the decline in deaths in our markets is consistent with trends experienced by other funeral service providers and industry vendors compared to the first quarter of 2009. Our comparable cremation rate of 41.0% in the first quarter of 2010 increased from 40.2% in 2009. We continue to expand our cremation memorialization products and services, which have resulted in higher average



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sales for cremation services.

*Average Revenue Per Funeral*

Our consolidated average revenue per funeral service increased \$122, or 2.4%, in the first quarter of 2010 over the same period of 2009. Higher average revenue per funeral service and strong general agency revenues effectively offset a decline in funeral services performed. Our comparable average revenue per funeral service increased \$164, or 3.2%, per funeral service. Excluding a favorable Canadian currency impact and higher funeral trust fund income, the average revenue per funeral service grew approximately 0.7%.

*Funeral Gross Profit*

Consolidated funeral gross profits increased \$0.5 million, or 0.6%, and the funeral gross margin percentage was relatively flat at approximately 23% in the first quarter of 2010 compared to the first quarter of 2009. Comparable funeral gross profits decreased \$1.7 million, or 2.0%, due to the impact of higher selling costs from increased preneed funeral sales production.

***Cemetery Results***

*Cemetery Revenue*

Consolidated revenues from our cemetery operations increased \$16.2 million, or 11.1%, in the first quarter of 2010 compared to the first quarter of 2009. Comparable cemetery revenues increased \$14.3 million, or 9.9%, when compared with the same period in 2009. This increase was due to an \$11.8 million increase in preneed property sales and a \$4.4 million increase in cemetery trust fund income.

*Cemetery Gross Profits*

Cemetery gross profit increased \$11.7 million, or 73.1%, and cemetery gross margin percentage improved to approximately 17.0% from 11.0% due to a significant increase in cemetery property sales and increases in cemetery trust fund income compared to prior year levels. We are also beginning to see some benefit from initiatives to reduce maintenance expenses implemented last year which helped to offset increased selling costs as a result of higher sales production.

***Other Financial Statement Items***

*General and Administrative Expenses*

*General and administrative expenses* were \$26.2 million in the first quarter of 2010 compared to \$21.8 million in the first quarter of 2009. This \$4.4 million increase was primarily due to current year acquisition expenses related to Keystone and lower employee compensation expenses in the prior year.

*(Losses) Gains on Divestitures and Impairment Charges, net*

We recognized a \$0.5 million net pre-tax loss on divestitures and impairment. This loss was due to losses incurred on various divestitures. In the first quarter of 2009, we recognized a \$7.2 million net pre-tax gain on divestitures and impairment. This gain was due to the released VAT and litigation indemnifications related to our former French operations of \$14.1 million partially offset by losses from impairment charges and asset divestitures.

*Weighted Average Shares*

The diluted weighted average number of shares outstanding was 256.2 million in the first quarter of 2010, compared to 250.3 million in the first quarter of 2009.

***Critical Accounting Policies***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

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

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

**Cautionary Statement on Forward-Looking Statements**

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2009 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at [www.sci-corp.com](http://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, 2010 are presented in Part I, Item 1. Financial Statements and Notes 4, 5, and 6 of this Form 10-Q. Also, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, *Financial Conditions, Liquidity and Capital Resources*, for discussion of volatility in financial markets.

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

As of March 31, 2010, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission ( SEC ) reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified by

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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. Our CEO and CFO have jointly concluded that our disclosure controls and procedures were effective as of March 31, 2010 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with US GAAP.

**Changes in Internal Control over Financial Reporting**

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

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

Information regarding legal proceedings is set forth in Note 16 in Item 1 of Part I of this Form 10-Q, which information is hereby incorporated by reference herein.

**Item 1A. Risk Factors**

There have been no material changes in our Risk Factors as set forth in Item 1A of our Form 10-K for the fiscal year ended December 31, 2009, except that the Risk Factor relating to failure to consummate the acquisition of Keystone is no longer applicable because we have acquired Keystone.

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

On January 29, 2010, we issued 1,005 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, 2010, the aggregate purchases pursuant to our share repurchase program totaled \$1.0 billion. As of March 31, 2010, the remaining dollar value of shares that may yet be purchased under our currently approved share repurchase program was approximately \$123.4 million.

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced programs</b>	<b>Dollar value of shares that may yet be purchased under the programs</b>
January 1, 2010 – January 31, 2010				123,444,042
February 1, 2010 – February 28, 2010				123,444,042
March 1, 2010 – March 31, 2010	80,296	8.59		123,444,042(1)
	80,296			

(1) These shares represent restricted stock that was redeemed by certain employees in

lieu of tax  
liability  
withholdings,  
which do not  
affect our share  
repurchase  
program.

**Item 6. Exhibits**

- 12.1 Ratio of earnings to fixed charges for the three months ended March 31, 2010 and 2009.
- 31.1 Certification of Thomas L. Ryan as Chief Executive Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.

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

**Undertaking**

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

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**SIGNATURE**

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

April 30, 2010

SERVICE CORPORATION  
INTERNATIONAL

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

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