

SERVICE CORPORATION INTERNATIONAL  
Form 10-K  
February 13, 2012  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-6402-1  
Service Corporation International  
(Exact name of registrant as specified in its charter)

Texas 74-1488375  
(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification no.)

1929 Allen Parkway 77019  
Houston, Texas (Zip code)

(Address of principal executive offices)  
Registrant's telephone number, including area code:  
713-522-5141

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (\$1 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

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 in the Securities Exchange Act of 1934 Rule 12b-2). Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming that the registrant's only affiliates are its officers and directors) was \$2,442,496,792 based upon a closing market price of \$11.68 on June 30, 2011 of a share of common stock as reported on the New York Stock Exchange.

The number of shares outstanding of the registrant's common stock as of February 9, 2012 was 221,524,032 (net of treasury shares)

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement in connection with its 2012 Annual Meeting of Stockholders (Part III)

---

Table of ContentsSERVICE CORPORATION INTERNATIONAL  
INDEX

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>8</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>12</u>
<u>Item 2. Properties</u>	<u>12</u>
<u>Item 3. Legal Proceedings</u>	<u>12</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>15</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>15</u>
<u>Item 6. Selected Financial Data</u>	<u>17</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>37</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>39</u>
<u>Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>94</u>
<u>Item 9A. Controls and Procedures</u>	<u>94</u>
<u>Item 9B. Other Information</u>	<u>95</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers, and Corporate Governance</u>	<u>96</u>
<u>Item 11. Executive Compensation</u>	<u>96</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>96</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>96</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>96</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>97</u>
<u>Signatures</u>	<u>98</u>
<u>Exhibit Index</u>	<u>99</u>

Table of Contents

GLOSSARY

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

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

Burial Vaults — A reinforced container intended to inhibit the subsidence of the earth and house the casket after 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

Item 1. Business.

General

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 December 31, 2011, we operated 1,423 funeral service locations and 374 cemeteries (including 214 funeral service/cemetery combination locations) in North America, which are geographically diversified across 43 states, eight Canadian provinces, and the District of Columbia. Our funeral segment also includes operations 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.

History

We were incorporated in Texas in July of 1962. Our original business plan was based on efficiencies of scale, specifically reducing overhead costs by sharing resources such as embalming, accounting, transportation, and personnel among funeral homes in a business "cluster." After proving the plan's effectiveness in Houston in the early 1960s, SCI set out to apply this operating strategy through the acquisition of death care businesses in other markets. It was the beginning of a three-decade period of expansion that would create a North American network of nearly 1,400 funeral homes and cemeteries by the end of 1992. Beginning in 1993, we expanded beyond North America, acquiring major deathcare companies in Australia, the United Kingdom, and France, plus smaller holdings in other European countries and South America. By the end of 1999, our global network numbered more than 4,500 funeral service locations, cemeteries, and crematoria in more than 20 countries.

During the mid to late 1990s, acquisitions of deathcare facilities became extremely competitive, resulting in increased prices for acquisitions and substantially reduced returns on invested capital. In 1999, we significantly reduced our level of acquisition activity and over the next several years implemented various initiatives to pay down debt, increase cash flow, reduce overhead costs, and increase efficiency. We divested our international businesses and many North American funeral homes and cemeteries that were either underperforming or did not fit our long-term strategy. At the same time, we began to capitalize on the strength of our network by introducing to North America the first transcontinental brand of deathcare services and products — Dignity Memorial® (See [www.dignitymemorial.com](http://www.dignitymemorial.com)). In late 2006, having arrived at a position of significant financial strength and improved operating efficiency, we acquired the then second largest company in the North American deathcare industry, Alderwoods Group. By combining the two leading companies in the deathcare industry, we were able to realize more than \$90 million in annual pretax cost synergies, savings, and revenue enhancement opportunities. In early 2010, we acquired the then fifth largest company in the North American deathcare industry, Keystone North America. In June of 2011, we acquired 70% of the outstanding shares of The Neptune Society, Inc. (Neptune), which is the nation's largest direct cremation organization.

Funeral and Cemetery Operations

Worldwide, we have 1,435 funeral service locations and 374 cemeteries (including 214 funeral service/cemetery combination locations) covering 43 states, eight Canadian provinces, the District of Columbia, and Germany. See Note 16 in Part II, Item 8. Financial Statements and Supplementary Data, for financial information about our business segments and geographic areas.

Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We 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. Our 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 delivered and performed in the future. We define these sales as preneed sales. As a result of such preneed sales, our backlog of unfulfilled preneed funeral and preneed cemetery contracts was \$6.9 billion and \$6.8 billion at December 31, 2011 and 2010, respectively.

Funeral service/cemetery combination locations are those businesses in which a funeral service location is physically located within or adjoining a cemetery that we own. Combination locations allow certain facility, personnel, and equipment costs to be shared between the funeral service location and cemetery. Such combination facilities typically can be more cost competitive and

Table of Contents

have higher gross margins than if the funeral and cemetery operations were operated separately. Combination locations also create synergies between funeral and cemetery preneed sales force personnel and give families added convenience to purchase both funeral and cemetery products and services at a single location. With the acquisition of Alderwoods, we acquired Rose Hills, which is the largest combination operation in the United States, performing over 4,500 funeral services and 8,000 cemetery interments per year.

In 2011 our operations in the United States and Canada were organized into 29 major markets, 47 metro markets, and 78 main street markets. Each market is led by a market director with responsibility for funeral and/or cemetery operations and preneed sales. Within each market, the funeral homes and cemeteries share common resources such as personnel, preparation services, and vehicles. There are four market support centers in North America to assist market directors with financial, administrative, pricing, and human resource needs. These support centers are located in Houston, Miami, New York, and Los Angeles. The primary functions of the support centers are to help facilitate the execution of corporate strategies, coordinate communication between the field and corporate offices, and serve as liaisons for the implementation of policies and procedures.

The following table at December 31, 2011 provides the number of our funeral homes and cemeteries by country, and by state, territory, or province:

Country, State/Territory/Province	Number of Funeral Homes	Number of Cemeteries	Total
United States			
Alabama	30	9	39
Arizona	35	11	46
Arkansas	8	—	8
California	131	30	161
Colorado	24	11	35
Connecticut	18	—	18
District of Columbia	1	—	1
Florida	113	54	167
Georgia	38	19	57
Hawaii	2	2	4
Idaho	7	1	8
Illinois	46	25	71
Indiana	43	9	52
Iowa	4	2	6
Kansas	8	2	10
Kentucky	16	3	19
Louisiana	26	5	31
Maine	11	—	11
Maryland	14	7	21
Massachusetts	30	—	30
Michigan	36	—	36
Minnesota	11	2	13
Mississippi	20	2	22
Missouri	20	5	25
Nebraska	2	—	2
Nevada	14	6	20
New Hampshire	6	—	6
New Jersey	21	—	21
New York	88	—	88
North Carolina	47	11	58
Ohio	43	11	54

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

Oklahoma	14	7	21
Oregon	12	3	15
Pennsylvania	23	17	40
Rhode Island	4	—	4
South Carolina	6	5	11
Tennessee	34	14	48
Texas	144	55	199
Utah	3	3	6
Vermont	4	—	4

5

---



Table of Contents

Virginia	31	12	43
Washington	45	15	60
West Virginia	3	6	9
Wisconsin	15	—	15
Canada			
Alberta	10	—	10
British Columbia	34	7	41
Manitoba	4	3	7
New Brunswick	5	—	5
Nova Scotia	12	—	12
Ontario	47	—	47
Quebec	45	—	45
Saskatchewan	15	—	15
Germany	12	—	12
Total	1,435	374	1,809

We believe we have satisfactory title to the properties owned and used in our business, subject to various liens, encumbrances, and easements that are incidental to ownership rights and uses and do not materially detract from the value of the property. We also lease a number of facilities that we use in our business under both capital and operating leases.

At December 31, 2011, we owned approximately 89% of the real estate and buildings used at our facilities, and the remainder of the facilities were leased. At December 31, 2011, our 374 cemeteries contained a total of approximately 26,540 acres, of which approximately 60% was developed.

A map of our locations in North America is presented below:

#### Competition

Although there are several public companies that own funeral homes and cemeteries, the majority of deathcare businesses

## Table of Contents

in North America are locally-owned, independent operations. We estimate that our funeral and cemetery market share in North America is approximately 13% based on estimated total industry revenues. The position of a single funeral home or cemetery in any community is a function of the name, reputation, and location of that funeral home or cemetery, although competitive pricing, professional service and attention, and well-maintained locations are also important.

We believe we have an unparalleled network of funeral service locations and cemeteries that offer high-quality products and services at prices that are competitive with local competing funeral homes, cemeteries, and retail locations. Within this network, the funeral service locations and cemeteries operate under various names as most operations were acquired as existing businesses. We have co-branded our funeral operations in North America under the name Dignity Memorial®. We believe our transcontinental branding strategy gives us a strategic advantage and identity in the industry. While this branding process is intended to emphasize our seamless national network of funeral service locations and cemeteries, the original names associated with acquired operations, and their inherent goodwill and heritage, generally remain the same. For example, Geo. H. Lewis & Sons Funeral Directors is now Geo. H. Lewis & Sons Funeral Directors, a Dignity Memorial® provider.

### Strategies for Growth

We believe we are well-positioned for long-term profitable growth. We are the largest company in the North American deathcare industry with unparalleled scale on both a national and local basis and are poised to benefit from the aging of America. We have demonstrated that we can generate significant and consistent cash flow, even in difficult economic times. This, coupled with our financial position and liquidity, allows us to deploy our available free cash flow to enhance the value of the company. Our free cash flow deployment focus is centered on strategic acquisitions, share repurchases and dividends, and opportunistic debt repurchases when we believe we can reduce liquidity risk and enhance our near-term maturity profile.

Our strategies for growth can be categorized in three areas as follows:

#### Target Our Customer

We continue to build on our extensive consumer research to market our products and services on a preneed basis. Our strategy to combine targeted direct mail, select media advertising, seminars and the internet is generating quality preneed sales leads. During 2011, we continued to focus on enhanced training for sales management and sales counselors and also added additional sales management resources in certain markets aimed at increasing preneed sales production and sales counselor productivity.

During 2010, we updated our individual location websites and our Dignity Memorial® website ([www.DignityMemorial.com](http://www.DignityMemorial.com)) to capture customers and generate preneed sales leads via the power of the internet. We now have the ability to display obituaries on our locations' websites that allow friends and family of the deceased to check the schedule of services, write condolences, post photos or videos, and share this information through social media. In addition, those reading the obituaries have the opportunity to learn more about Dignity Memorial® and begin developing their own funeral arrangements. Similarly, we continue to enhance and develop our Dignity Planning® website at [www.DignityPlanning.com](http://www.DignityPlanning.com), which allows customers to make end-of-life arrangements online whether direct or through a partnership with select insurance companies.

We continue to develop and test new products and services including event and reception services, enhanced floral offerings, a broader cemetery merchandise program, and other relevant contemporary products and services. We are also focused on product and service offerings that appeal specifically to cremation customers.

#### Drive Operating Discipline and Leverage Our Scale

We continue to drive operating discipline and leverage our scale through the standardization of processes and the use of key performance metrics for staffing and other operational and administrative activities. We continually examine our purchasing spend to look for ways to consolidate our supplier base, modify processes and policies for more efficient purchasing, and employ metrics to manage and improve supplier performance. In 2010, we completed implementation of a major initiative pertaining to cemetery maintenance, which resulted in the outsourcing of routine lawn care activities to a limited number of regional vendors and improving cemetery interment efficiency. In 2011, we benefited from streamlining the preneed funeral and cemetery arrangement and record-keeping process through technological improvements.

Manage and Grow the Footprint

We are managing our network of business locations by positioning each business location to support the preferences of its local customer base, while monitoring each market for changing demographics and competitive dynamics. We are also looking to optimize our portfolio through strategic market reviews. We expect to pursue selective business expansion through construction or targeted acquisitions of cemeteries and funeral homes with a focus on the highest return customer categories.

Employees

7

---

## Table of Contents

At December 31, 2011, we employed 12,720 (12,691 in North America) individuals on a full-time basis and 8,171 (8,135 in North America) individuals on a part-time basis. Of the full-time employees, 12,078 were employed in the funeral and cemetery operations and 642 were employed in corporate or other overhead activities and services. All eligible employees in the United States who so elect are covered by our group health and life insurance plans. Eligible employees in the United States are participants in retirement plans of SCI or various subsidiaries, while international employees are covered by other SCI (or SCI subsidiary) defined or government-mandated benefit plans.

Approximately 3.3% of our employees in North America are represented by unions. Although labor disputes occur from time to time, relations with employees are generally considered favorable.

### Regulation

Our operations are subject to regulations, supervision, and licensing under numerous foreign, federal, state, and local laws, ordinances, and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery products and services, and various other aspects of our business. We strive to comply in all material respects with the provisions of these laws, ordinances, and regulations. Since 1984, we have operated in the United States under the Federal Trade Commission (FTC) comprehensive trade regulation rule for the funeral industry. The rule contains requirements for funeral industry practices, including extensive price and other affirmative disclosures and imposes mandatory itemization of funeral goods and services.

### Other

Our corporate headquarters are located at 1929 Allen Parkway, Houston, Texas 77019. The property consists of approximately 120,000 square feet of office space and 185,000 square feet of parking space. We own and utilize an additional building located in Houston, Texas for corporate activities containing a total of approximately 38,000 square feet of office space. We also lease approximately 29,000 square feet of office space in Houston, Texas, which we utilize for corporate activities.

We make available free of charge, on or through our website, our annual, quarterly, and current reports and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission (SEC). Our website is <http://www.sci-corp.com> and our telephone number is (713) 522-5141. The SEC also maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Each of our Board of Directors' standing committee charters, our Corporate Governance Guidelines, our Code of Ethics for Board Members, and our Code of Conduct for Officers and Employees are available, free of charge, through our website or, upon request, in print. We will post on our internet website all waivers to or amendments of our Code of Conduct for Officers and Employees, which are required to be disclosed by applicable law and rules of the New York Stock Exchange listing standards. Information contained on our website is not part of this report.

### Item 1A. Risk Factors.

#### Cautionary Statement on Forward-Looking Statements

The statements in this Form 10-K 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 consolidated results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by, or on behalf of, the Company. These factors are discussed below. We assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by the Company, whether as a result of new information, future events, or otherwise.

Our affiliated funeral and cemetery trust funds own investments in equity securities, fixed income securities, and mutual funds, which are affected by market conditions that are beyond our control.

In connection with our preneed funeral and preneed cemetery merchandise and service sales, most affiliated funeral and cemetery trust funds own investments in equity securities and mutual funds. Our earnings and investment gains and losses on these equity securities and mutual funds are affected by financial market conditions that are beyond our control.

The following table summarizes our investment returns (realized and unrealized), excluding certain fees, on our trust funds for the years ended December 31:

8

---

Table of Contents

	2011	2010	2009	
Preneed funeral merchandise and service trust funds	0.7	% 12.3	% 23.0	%
Preneed cemetery merchandise and service trust funds	0.7	% 14.0	% 27.3	%
Perpetual care trust funds	5.2	% 13.0	% 22.4	%

Generally, earnings or gains and losses on our trust investments are recognized, and we withdraw cash, when the underlying service is performed, merchandise is delivered, or upon contract cancellation; however, our cemetery perpetual care trusts recognize earnings, and in certain states, capital gains and losses, and we withdraw cash when we incur qualifying cemetery maintenance costs.

If the investments in our trust funds experience significant declines in 2012 or subsequent years, there could be insufficient funds in the trusts to cover the costs of delivering services and merchandise or maintaining cemeteries in the future. We may be required to cover any such shortfall with cash flows from operations, which could have a material adverse effect on our financial condition, results of operations, or cash flows. For more information related to our trust investments, see Notes 4, 5, and 6 in Part II, Item 8. Financial Statements and Supplementary Data.

If the fair market value of these trusts, plus any other amount due to us upon delivery of the associated contracts, were to decline below the estimated costs to deliver the underlying products and services, we would record a charge to earnings to record a liability for the expected losses on the delivery of the associated contracts. As of December 31, 2011, no such charge was required. For additional information, see Critical Accounting Policies in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We may be required to replenish our affiliated funeral and cemetery trust funds in order to meet minimum funding requirements, which would have a negative effect on our earnings and cash flow.

In certain states and provinces, we have withdrawn allowable distributable earnings including unrealized gains prior to the maturity or cancellation of the related contract. Additionally, some states have laws that either require replenishment of investment losses under certain circumstances or impose various restrictions on withdrawals of future earnings when trust fund values drop below certain prescribed amounts. In the event of market declines, we may be required to deposit portions or all of these amounts into the respective trusts in some future period. As of December 31, 2011, we had unrealized losses of \$13.1 million in the various trusts within these states. See Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial and Contingent Commitments in Part II, Item 7.

Our ability to execute our strategic plan depends on many factors, some of which are beyond our control.

Our strategic plan is focused on cost management and the continued implementation of key revenue initiatives. Many of the factors that impact our ability to execute our strategic plan, such as the number of deaths and general economic conditions, are beyond our control. Changes in operating conditions, such as supply disruptions and labor disputes, could negatively impact our operations. Our inability to achieve the levels of cost savings, productivity improvements, or earnings growth anticipated by management could affect our financial performance. Our inability to complete acquisitions, divestitures, or strategic alliances as planned or to realize expected synergies and strategic benefits could impact our financial performance. We cannot give assurance that we will be able to execute any or all of our strategic plan. Failure to execute any or all of our strategic plan could have a material adverse effect on our financial condition, results of operations, or cash flows.

Our credit agreements contain covenants that may prevent us from engaging in certain transactions.

Our bank credit facility contains, among other things, various affirmative and negative covenants that may prevent us from engaging in certain transactions that might otherwise be considered beneficial to us. The covenants limits, among other things, our and our subsidiaries' ability to:

- Incur additional indebtedness (including guarantee obligations);
- Create liens on assets;
- Engage in certain transactions with affiliates;
- Enter into sale-leaseback transactions;
- Engage in mergers, liquidations, and dissolutions;
- Sell assets;
- Pay dividends, distributions, and other payments in respect of our capital stock;



Table of Contents

- Purchase our capital stock in the open market;
- Make investments, loans, or advances;
- Repay indebtedness or amend the agreements relating thereto;
- Create restrictions on our ability to receive distributions from subsidiaries; and
- Change our lines of business.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. These covenants and coverage ratios may require us to take actions to reduce our indebtedness or act in a manner contrary to our strategic plan and business objectives. In addition, events beyond our control, including changes in general economic and business conditions, may affect our ability to satisfy these covenants. A breach of any of these covenants could result in a default of our indebtedness. If an event of default (if incurred 30 days after we receive notice of such bank credit facility default) under our bank credit facility occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, immediately due and payable. Any such declaration would also result in an event of default under our Senior Indenture governing our various senior notes. For additional information, see Liquidity and Capital Resources in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 10 in Part II, Item 8. Financial Statements and Supplementary Data.

If we lost the ability to use surety bonding to support our preneed funeral and preneed cemetery activities, we may be required to make material cash payments to fund certain trust funds.

We have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance 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 issued to support our preneed funeral and cemetery activities. In the event all of the surety companies cancelled or did not renew our surety bonds, which generally have twelve-month renewal periods, we would be required to either obtain replacement coverage or fund approximately \$187.8 million into state-mandated trust accounts as of December 31, 2011. There can be no assurance that we would be able to obtain replacement coverage at a similar cost or at all. The funeral home and cemetery industry continues to be increasingly competitive.

In North America, the funeral home and cemetery industry is characterized by a large number of locally-owned, independent operations. To compete successfully, our funeral service locations and cemeteries must maintain good reputations and high professional standards, as well as offer attractive products and services at competitive prices. In addition, we must market the Company in such a manner as to distinguish us from our competitors. We have historically experienced price competition from independent funeral home and cemetery operators, monument dealers, casket retailers, low-cost funeral providers, and other non-traditional providers of services and merchandise. If we are unable to successfully compete, our financial condition, results of operations, and cash flows could be materially adversely affected.

Increasing death benefits related to preneed funeral contracts funded through life insurance or annuity contracts may not cover future increases in the cost of providing a price-guaranteed funeral service.

We sell price-guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. For preneed funeral contracts funded through life insurance or annuity contracts, we receive in cash a general agency commission that typically averages approximately 19.4% of the total sale from the third-party insurance company. Additionally, there is an increasing death benefit associated with the contract of approximately 1% per year to be received in cash at the time the funeral is performed. There is no guarantee that the increasing death benefit will cover future increases in the cost of providing a price-guaranteed funeral service, and any such excess cost could be materially adverse to our future cash flows, revenues, and operating margins.

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

Where permitted, customers may arrange their preneed funeral contract by purchasing a life insurance or annuity policy from third-party insurance companies. The customer/policy holder assigns the policy benefits to our funeral home to pay for the preneed funeral contract at the time of need. If the financial condition of the third-party insurance companies were to deteriorate materially because of market conditions or otherwise, there could be an adverse effect



on our ability to collect all or part of the proceeds of the life insurance policy, including the annual increase in the death benefit, when we fulfill the preneed contract at the time of need. Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, or cash flows.

Table of Contents

Unfavorable results of litigation could have a material adverse impact on our financial statements.

As discussed in Note 12 of Part II, Item 8. Financial Statements and Supplementary Data, we are subject to a variety of claims and lawsuits in the ordinary course of our business. Adverse outcomes in some or all of the pending cases may result in significant monetary damages or injunctive relief against us as litigation and other claims are subject to inherent uncertainties. There exists the possibility of a material adverse impact on our financial position, cash flows, and results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

Unfavorable publicity could affect our reputation and business.

Since our operations relate to life events involving emotional stress for our client families, our business is dependent on consumer trust and confidence. Unfavorable publicity about our business generally or in relation to any specific location could affect our reputation and consumers' trust and confidence in our products and services, thereby having an adverse impact upon our sales and financial results as well as the price of our common stock.

If the number of deaths in our markets declines, our cash flows and revenues may decrease.

If the number of deaths in our markets declines, the number of funeral services and interments performed by us could decrease and our financial condition, results of operations, and cash flows could be materially adversely affected.

The continuing upward trend in the number of cremations performed in North America could result in lower revenues and gross profit.

There is a continuing upward trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. In our North American operations during 2011, 44.4% of the comparable funeral services we performed were cremation cases compared to 41.9% and 41.0% performed in 2010 and 2009, respectively. We continue to expand our cremation memorialization products and services, which have resulted in higher average revenues per cremation service performed. If we are unable to continue to successfully expand our cremation memorialization products and services, and cremations remain a significant percentage of our funeral services, our financial condition, results of operations, and cash flows could be materially adversely affected.

Our funeral home and cemetery businesses are high fixed-cost businesses.

The majority of our operations are managed in groups called "markets". Markets are geographical groups of funeral service locations and cemeteries that share common resources such as operating personnel, preparation services, clerical staff, motor vehicles, and preneed sales personnel. Personnel costs, the largest component of our operating expenses, are the cost components most beneficially affected by this grouping. We must incur many of these costs regardless of the number of funeral services or interments performed. Because we cannot necessarily decrease these costs when we experience lower sales volumes, a sales decline may cause our margin percentages to decline at a greater rate than the decline in revenues.

Regulation and compliance could have a material adverse impact on our financial results.

Our operations are subject to regulation, supervision, and licensing under numerous foreign, federal, state, and local laws, ordinances, and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery products and services, and various other aspects of our business. For example, the funeral home industry is regulated by the Federal Trade Commission, which requires funeral homes to take actions designed to protect consumers. Our facilities are also subject to stringent health, safety and environmental regulations. Violations of applicable laws could result in fines or sanctions against us.

Businesses in general are subject to the impact of recent major legislation, including the Patient Protection and Affordable Care Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act. Many provisions of these complex laws could impact our business, and many of the provisions require implementation through regulations that have not yet been promulgated. Although we do not know the ultimate impact of these laws, we expect such laws will increase our costs and the potential risks of failure to comply.

In addition, from time to time, governments and agencies propose to amend or add regulations, which could increase costs and decrease cash flows. For example, foreign, federal, state, local, and other regulatory agencies have considered and may enact additional legislation or regulations that could affect the deathcare industry. These include regulations that require more liberal refund and cancellation policies for preneed sales of products and services, limit or eliminate our ability to use surety bonding, increase trust requirements, require the deposit of funds or collateral to

offset unrealized losses of trusts, and/or prohibit the common ownership of funeral homes and cemeteries in the same market. If adopted by the regulatory authorities of the jurisdictions in which we operate, these and other possible proposals could have a material adverse effect on our financial condition, results of

Table of Contents

operations, and cash flows.

Compliance with laws, regulations, industry standards, and customs concerning burial procedures and the handling and care of human remains is critical to the continued success of our business and any operations we may acquire. Litigation and regulatory proceedings regarding these issues could have a material adverse effect on our financial condition, results of operations, and cash flows. We are continually monitoring and reviewing our operations in an effort to ensure that we are in compliance with these laws, regulations, and standards and, where appropriate, taking appropriate corrective action.

Cemetery burial practice claims could have a material adverse impact on our financial results.

Our cemetery practices have evolved and improved over time. Most of our cemeteries have been operating for decades and therefore, may have used practices and procedures that are outdated in comparison to today's standards. When cemetery disputes occur, we may be subjected to litigation and liability for improper burial practices, including (i) burial practices of a different era that are judged today in hindsight as being outdated, and (ii) alleged violations of our practices and procedures by one or more of our associates. In addition, since we acquired most of our cemeteries, we may be subject to litigation and liability based upon actions or events that occurred before we acquired or managed the cemeteries. Claims or litigation based upon our cemetery burial practices could have a material adverse impact on our financial condition, results of operations, and cash flows.

A number of years may elapse before particular tax matters, for which we have established accruals, are audited and finally resolved.

The number of tax years with open tax audits varies depending on the tax jurisdiction. In the United States, the Internal Revenue Service is currently examining our tax returns for 1999 through 2005 and various state jurisdictions are auditing years through 2010. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals reflect the probable outcome of known tax contingencies.

However, unfavorable settlement of any particular issue may reduce a deferred tax asset or require the use of cash. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future. See Note 9 of Part II, Item 8. Financial Statements and Supplementary Data for additional information.

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

In addition to an annual review, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, a significant decline in our stock price, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. If these factors occur, we may have a triggering event, which could result in an impairment of our goodwill. Based on the results of our annual goodwill impairment test in 2011, we concluded that there was no impairment of our goodwill. However, if economic conditions worsen causing deterioration in our operating revenues, operating margins and cash flows, we may have a triggering event that could result in an impairment of our goodwill. Our cemetery segment, which has a goodwill balance of \$63.1 million as of December 31, 2011, is more sensitive to market conditions and goodwill impairments because it is more reliant on preneed sales, which are impacted by customer discretionary spending. For additional information, see Critical Accounting Policies in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Information regarding properties is set forth in Part I, Item 1. Business.

Item 3. Legal Proceedings.

Information regarding legal proceedings is set forth in Note 12 of Part II, Item 8. Financial Statements and Supplementary Data.



Table of Contents

## EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth as of February 13, 2012, the name and age of each executive officer of the Company, the office held, and the year first elected an officer.

Officer Name	Age	Position	Year First Became Officer
R. L. Waltrip	81	Chairman of the Board	1962
Thomas L. Ryan	46	President and Chief Executive Officer	1999
Michael R. Webb	53	Executive Vice President and Chief Operating Officer	1998
J. Daniel Garrison	60	Senior Vice President Sales	1998
Philip C. Jacobs	57	Senior Vice President and Chief Marketing Officer	2007
Stephen M. Mack	60	Senior Vice President Middle Market Operations	1998
Elisabeth G. Nash	50	Senior Vice President Operations Services	2004
Gregory T. Sangalis	56	Senior Vice President General Counsel and Secretary	2007
Eric D. Tanzberger	43	Senior Vice President Chief Financial Officer and Treasurer	2000
Sumner J. Waring, III	43	Senior Vice President Operations	2002
John H. Faulk	36	Vice President Business Development	2010
Joseph A. Hayes	55	Vice President Ethics and Business Conduct and Assistant General Counsel	2007
Jane D. Jones	56	Vice President Human Resources	2005
Albert R. Lohse	51	Vice President Litigation and Risk Management	2004
John Del Mixon, II	48	Vice President Information Technology	2010
Tammy R. Moore	44	Vice President and Corporate Controller	2010
Steven A. Tidwell	50	Vice President Main Street Market Operations	2010

Mr. Waltrip is the founder and Chairman of the Board of SCI. He has provided invaluable leadership to the Company for over 40 years. A licensed funeral director, Mr. Waltrip grew up in his family's funeral business and assumed management of the firm in the 1950s. He began buying additional funeral homes in the 1960's and achieved significant cost efficiencies through the "cluster" strategy of sharing pooled resources among numerous locations. At the end of 2011, the network he began had grown to include more than 1,700 funeral service locations and cemeteries.

Mr. Waltrip took the Company public in 1969. Mr. Waltrip holds a Bachelor's degree in business administration from the University of Houston.

Mr. Ryan was elected Chief Executive Officer of the Company in February 2005 and has served as President of SCI since July 2002. Mr. Ryan joined the Company in 1996 and served in a variety of financial management roles until November 2000, when he was asked to serve as Chief Executive Officer of European Operations. In July 2002, Mr. Ryan was appointed Chief Operating Officer of SCI, a position he held until February 2005. Before joining SCI, Mr. Ryan was a Certified Public Accountant with Coopers & Lybrand LLP for eight years. He holds a Bachelor's degree in Business Administration from the University of Texas at Austin. Mr. Ryan serves as Chairman of the Board of Trustees of the United Way of Greater Houston. Mr. Ryan also serves on the Board of Directors of the Greater Houston Partnership and the Salvation Army Greater Houston Area Advisory Board. In addition, he serves on the Greater Houston Community Foundation Council and the University of Texas McCombs Business School Advisory Council.

Mr. Webb joined the Company in 1991 when it acquired Arlington Corporation, a regional funeral and cemetery consolidator, where he was then Chief Financial Officer. Prior to joining Arlington Corporation, Mr. Webb held various executive financial and development roles at Days Inns of America and Telemundo Group, Inc. In 1993, Mr. Webb joined our corporate development group, which he later led on a global basis before accepting operational responsibility for our Australian and Hispanic businesses. Mr. Webb was promoted to Vice President International Corporate Development in February 1998 and was named Executive Vice President in July 2002. In February 2005, he was promoted to Chief Operating Officer. He is a graduate of the University of Georgia, where he earned a Bachelor of Business Administration degree.

Mr. Garrison joined the Company in 1978 and worked in a series of management positions until he was promoted to President of the Southeastern Region in 1992. In 1998, Mr. Garrison was promoted to Vice President International Operations. In 2000, Mr. Garrison became Vice President North American Cemetery Operations, was promoted to Vice President Operations Services in August 2002, and was promoted to Senior Vice President Operations Support in February 2005. He assumed his current position as Senior Vice President Sales in February 2010. Mr. Garrison has a Bachelor of Science degree in Administrative Management from Clemson University.

Table of Contents

Mr. Jacobs joined SCI in 2007 as Senior Vice President and Chief Marketing Officer. Prior to joining the Company, Mr. Jacobs was employed by CompUSA as Chief Marketing Officer. Prior to that, he was employed by Publicis Worldwide as Chief Marketing Officer and prior to that held other management roles over the past 23 years at several of the nation's top advertising agencies, as well as client-side positions. Mr. Jacobs holds a Bachelor of Science degree from the University of Tennessee and a Masters degree from Vanderbilt University.

Mr. Mack joined the Company in 1973 as a resident director after graduating from Farmingdale State University of New York. He became Vice President of the Eastern Region in 1986, and in February 1998 Mr. Mack was appointed Vice President North American Funeral Operations. Mr. Mack was promoted to Senior Vice President Eastern Operations in August 2002 and assumed the office of Senior Vice President Middle Market Operations, his current position, in May 2004.

Ms. Nash joined SCI in 2002 as Managing Director of Strategic Planning and Process Improvement. Prior to joining SCI, Ms. Nash worked for the Pennzoil Corporation and held various senior management accounting and financial positions. In 2004, Ms. Nash was promoted to Vice President Process & Technology. In 2010, Ms. Nash was named Senior Vice President Operations Services. She is a graduate of Texas A&M University, where she received a Bachelor of Business Administration degree in Accounting.

Mr. Sangalis joined the Company in 2007 as Senior Vice President, General Counsel and Secretary. He previously served as Senior Vice President, Law and Administration for Team Inc., a leading provider of specialty industrial maintenance and construction services. Prior to that, Mr. Sangalis served as Managing Director and General Counsel of Main Street Equity Ventures II, a private equity investment firm, and as Senior Vice President General Counsel and Secretary for Waste Management, Inc., the leading provider of waste management services in North America.

Mr. Sangalis holds a Bachelor's degree in Finance from Indiana University and a Master of Business Administration from the University of Minnesota. He earned his Juris Doctorate from the University of Minnesota Law School.

Mr. Tanzberger joined the Company in August 1996 as Manager of Budgets & Financial Analysis. He was promoted to Vice President Investor Relations and Assistant Corporate Controller in January 2000 and to Corporate Controller in August 2002. In 2006, Mr. Tanzberger was promoted to the position of Senior Vice President and Chief Financial Officer. In 2007, Mr. Tanzberger was appointed Treasurer. Prior to joining the Company, Mr. Tanzberger was Assistant Corporate Controller at Kirby Marine Transportation Corporation, an inland waterway barge and tanker company, from January through August 1996. Prior thereto, he was a Certified Public Accountant with Coopers & Lybrand L.L.P. for more than five years. Mr. Tanzberger is a graduate of the University of Notre Dame, where he earned a Bachelor of Business Administration degree.

Mr. Waring, a licensed funeral director, joined the Company as an Area Vice President in 1996 when we merged with his family's funeral business. Mr. Waring was appointed Regional President of the Northeast Region in 1999 and was promoted to Regional President of the Pacific Region in September 2001. Mr. Waring was promoted to Vice President Western Operations in August 2002 and assumed the office of Vice President Major Market Operations in November 2003. In February 2006, Mr. Waring was promoted to Senior Vice President Major Market Operations. In July 2008, Mr. Waring's responsibilities were expanded to include business development. In February 2010, Mr. Waring's responsibilities were further expanded to include human resources. He has held his current position as Senior Vice President Operations since February 2010. Mr. Waring holds a Bachelor of Science degree in Business Administration from Stetson University, a degree in Mortuary Science from Mt. Ida College and a Master of Business Administration degree from the University of Massachusetts Dartmouth.

Mr. Faulk joined SCI in March 2010 as Vice President Business Development, to oversee the Company's strategic growth, including mergers and acquisitions, real estate, and construction. Prior to joining the Company, Mr. Faulk worked for Bain & Company, Inc. since 2002. At Bain, he helped Fortune 500 Companies and specialty retailers identify profit growth opportunities and achieve strong operating results. He holds a Master's degree in Business Administration from the Darden Graduate School of Business at the University of Virginia and a Bachelor's degree in Electrical Engineering from the University of Virginia.

Mr. Hayes was appointed Vice President Ethics and Business Conduct and Assistant General Counsel in November 2007. Mr. Hayes joined the Company in 1991 as corporate counsel. He was named Managing Counsel in 1996 and Assistant General Counsel in 2005. Prior to joining SCI, Mr. Hayes practiced law in Chicago and San Diego,



specializing in securities, mergers and acquisitions, and commercial transactions. He received a Bachelor's degree in Commerce from DePaul University and earned his Juris Doctorate from the University of California at Berkeley. Mrs. Jones joined SCI in 2003 from Dynegy, Inc., where she served as Vice President of Total Rewards. She oversees human resources, training and education, and payroll and commission services — activities that assist more than 20,000 employees in North America. Mrs. Jones was promoted to Vice President Human Resources in February 2005. She holds a Bachelor of Business Administration degree in Accounting with a minor in Finance from Southern Methodist University. She is a Certified Compensation Professional. Mr. Lohse joined SCI in 2000 as Managing Director of Litigation and has since been involved in the resolution of major

Table of Contents

litigation issues for the Company. Mr. Lohse was promoted to Vice President Corporate Governance in 2004 and to Vice President Litigation and Risk Management in 2007. Before joining the Company, Mr. Lohse was Managing Partner at McDade, Fogler, Maines & Lohse, where he conducted a general civil trial practice. Prior to that, he practiced tort and commercial litigation at Fulbright & Jaworski. Mr. Lohse received a Bachelor of Business Administration degree from the University of Texas and a Juris Doctorate from the University of Houston Law Center.

Mr. Mixon joined SCI in 1995 as a Project Manager in the Information Technology Department. He later served as Directeur Informatique for OGF, a former subsidiary company based in Paris, France. Most recently, he has led the Information Technology Department and the Outsourcing Management Office as Managing Director. Prior to SCI, Mr. Mixon worked for Andersen Consulting (now Accenture PLC) and served on active duty in the United States Army achieving the rank of Captain. He holds a Bachelor of Science degree in Commerce from Washington and Lee University and a Master of Science degree in Systems Management from the University of Southern California.

Mrs. Moore joined the Company in August 2002 as Manager of Financial Reporting. She was promoted to Director of Financial Reporting in 2004 and Managing Director and Assistant Controller in June 2006. In February 2010, she was promoted to Vice President and Corporate Controller and oversees all general accounting, internal and external reporting, customer service and financial planning and analysis. Prior to joining the Company, Mrs. Moore was a Certified Public Accountant with PricewaterhouseCoopers LLP for more than three years. She holds a Bachelor of Business Administration degree in Accounting from the University of Texas at San Antonio.

Mr. Tidwell joined SCI as Vice President Main Street Market Operations in March 2010. As a co-founder of Keystone North America, Inc., Mr. Tidwell served as its President and Chief Executive Officer from May of 2007 until it was acquired by SCI in March 2010. In his role, Mr. Tidwell worked closely with Keystone's Senior Leadership Team to develop and implement organic growth strategies, as well as external growth and acquisition strategies. He began his career as a licensed Funeral Director and Embalmer in Nashville, Tennessee and has been actively involved in the funeral home and cemetery profession for three decades. He holds an Associate of Arts degree from John A. Gupton College and has attended executive management and leadership programs at the Harvard Business School, the Owen School of Business at Vanderbilt University, and the Center for Creative Leadership.

Each officer of the Company is elected by the Board of Directors and holds their office until a successor is elected and qualified or until earlier death, resignation, or removal in the manner prescribed in the Bylaws of the Company. Each officer of a subsidiary of the Company is elected by the subsidiary's board of directors and holds their office until a successor is elected and qualified or until earlier death, resignation, or removal in the manner prescribed in the Bylaws of the Subsidiary.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been traded on the New York Stock Exchange since May 14, 1974. On December 31, 2011, there were 4,009 holders of record of our common stock. In calculating the number of stockholders, we consider clearing agencies and security position listings as one stockholder for each agency or listing. At December 31, 2011, we had 222,955,853 shares outstanding, net of 1,709,542 treasury shares.

During 2011, we paid cash dividends totaling \$44.8 million and accrued \$11.0 million for dividends that we subsequently paid on January 31, 2012. During 2010, we paid cash dividends totaling \$40.0 million. While we intend to pay regular quarterly cash dividends for the foreseeable future, all subsequent dividends are subject to final determination by our Board of Directors each quarter after its review of our financial performance.

The table below shows our quarterly high and low closing common stock prices for the two years ended December 31:

2011	2010
------	------

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

	High	Low	High	Low
First quarter	\$11.13	\$8.12	\$9.07	\$7.36
Second quarter	\$11.90	\$10.81	\$9.48	\$7.29
Third quarter	\$12.01	\$8.44	\$8.65	\$7.04
Fourth quarter	\$10.83	\$8.69	\$8.71	\$7.82

15

---

Table of Contents

Options in our common stock are primarily traded on the Philadelphia Stock Exchange and the Chicago Board Options Exchange. Our common stock is traded on the New York Stock Exchange under the symbol SCI. Stock Performance Graph. This graph assumes the total return on \$100 invested on December 31, 2006, in SCI Common Stock, the S&P 500 Index, and a peer group selected by the Company (the "Peer Group"). The Peer Group is comprised of Carriage Services, Inc., Hillenbrand Inc., Matthews International Corp., and Stewart Enterprises, Inc. Hillenbrand Inc. is included in the Peer Group starting March 31, 2008 when it was spun off from Hillenbrand Industries, Inc. Prior to the spin-off, the Peer Group included Hillenbrand Industries, Inc. Rock of Ages Corporation was included in the Peer Group until January 19, 2011 when it was acquired by Swenson Granite, LLC. Total return data assumes reinvestment of dividends.

**TOTAL STOCKHOLDER RETURNS  
INDEXED RETURNS**

**Years Ending**

For equity compensation plan information, see Part III of this Form 10-K.

On October 31, 2011, we issued 1,282 deferred common stock equivalents or units pursuant to provisions regarding the receipt of dividends under the Amended and Restated Director Fee Plan to four non-employee directors. These issuances were unregistered as they did not constitute a "sale" within the meaning of Section 2(3) of the Securities Act of 1933, as amended.

Since August 2004, we have repurchased a total of \$1.3 billion of common stock at an average cost per share of \$9.40. During the three months ended December 31, 2011, we repurchased \$5.1 million shares of our common stock at an aggregate cost of \$50.7 million including commissions (average cost per share of \$9.92). In August 2011, our Board of Directors approved an increase in our share repurchase program authorizing the investment of up to an additional \$116.6 million to repurchase our common stock, bringing total authorization up to \$199.4 million. The remaining dollar value of shares to be purchased under the share repurchase program was \$99.6 million at December 31, 2011. As discussed in Item 1A, our credit agreement contains covenants that restrict our ability to repurchase our common stock. Pursuant to the program, we repurchased shares of our common stock during the fourth quarter of 2011 as set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Dollar Value of Shares That May Yet be Purchased Under the Program
October 1, 2011 — October 31, 2011	1,369,952	\$9.54	1,369,952	137,195,035
November 1, 2011 — November 30, 2011	1,137,148	\$9.96	1,137,148	125,870,016
December 1, 2011 — December 31, 2011	2,603,906	\$10.10	2,603,906	99,558,483
	5,111,006		5,111,006	

Table of Contents

Subsequent to December 31, 2011, we repurchased an additional 1,831,921 shares of common stock at an aggregate cost of \$20.0 million including commissions (average cost per share of \$10.90). In February 2012, our Board of Directors approved an increase in our share repurchase program authorizing the investment of up to an additional \$119.9 million to repurchase our common stock. After this increase, the remaining dollar value of shares authorized to be purchased under our share repurchase program is approximately \$199.4 million.

## Item 6. Selected Financial Data.

The data set forth below should be read in conjunction with our consolidated financial statements and accompanying notes to these consolidated financial statements. This historical information is not necessarily indicative of future results. The table below contains selected consolidated financial data as of and for the years ended December 31, 2007 through December 31, 2011.

## Selected Consolidated Financial Information

	Years Ended December 31,				
	2011	2010	2009	2008	2007(1)
	(Dollars in millions, except per share amounts)				
Selected Consolidated Statements of Operations Data:					
Revenue	\$2,316.0	\$2,190.6	\$2,053.5	\$2,155.6	\$2,285.3
Income from continuing operations before cumulative effect of accounting changes	\$146.2	\$127.0	\$123.1	\$97.6	\$243.3
(Loss) income from discontinued operations, net of tax	\$—	\$—	\$—	\$(0.4)	) \$4.4
Net income	\$146.2	\$127.0	\$123.1	\$97.2	\$247.7
Net income attributable to noncontrolling interests	\$(1.3)	) \$(0.6)	) \$—	\$(0.1)	) \$—
Net income attributable to common stockholders	\$144.9	\$126.4	\$123.1	\$97.1	\$247.7
Earnings per share:					
Income from continuing operations attributable to common stockholders					
Basic	\$.62	\$.51	\$.49	\$.38	\$.85
Diluted	\$.62	\$.50	\$.49	\$.37	\$.83
Net income attributable to common stockholders					
Basic	\$.62	\$.51	\$.49	\$.38	\$.87
Diluted	\$.61	\$.50	\$.49	\$.37	\$.85
Cash dividends declared per share	\$.20	\$.16	\$.16	\$.16	\$.13
Selected Consolidated Balance Sheet Data (at December 31):					
Total assets	\$9,327.8	\$9,190.5	\$8,890.9	\$8,110.9	\$8,932.2
Long-term debt (less current maturities), including capital leases	\$1,861.1	\$1,832.4	\$1,840.5	\$1,821.4	\$1,820.1
Equity	\$1,412.2	\$1,479.9	\$1,482.8	\$1,293.2	\$1,492.1
Selected Consolidated Statement of Cash Flows Data:					
Net cash provided by operating activities	\$388.1	\$354.4	\$372.1	\$350.3	\$356.2

(1) Results for 2007 include a \$158.1 million pretax gain on redemption of securities related to our former equity investment in France.

Table of Contents

Item 7. 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. 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.

Financial Condition, Liquidity and Capital Resources

Trust Investments

In addition to selling our products and services to client families at the time of need, we sell price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery services and merchandise. Since preneed funeral and cemetery services or merchandise will not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into trusts and/or 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 preneed or atneed 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 distributed and are intended to offset the expense to maintain the cemetery property. The majority of states require that net capital gains or losses are retained and added to the corpus, but certain states allow the net realized capital gains and losses to be included in the net ordinary earnings that are 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 either directly or indirectly through SCI's wholly-owned registered 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 is based on the liability structure of each funeral, cemetery, and perpetual care trust. The investment advisor recommends investment managers to the trustees that are selected on the basis of various criteria set forth in the investment policy. The primary investment objectives for the funeral and cemetery merchandise and service trusts include (1) achieving growth of principal over time sufficient to preserve and increase the purchasing power of the assets and (2) preserving capital within acceptable levels of volatility and risk. 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. All of the trusts seek to control risk and volatility through a combination of asset styles, asset classes, and institutional investment managers.

As of the end of the year, 81% 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 investments and real estate investment trusts. These investments are typically 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 and corporate 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

Table of Contents

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, we believe these securities are well-diversified. As of December 31, 2011, the largest single equity position represented less than 1% of the total equity securities portfolio.

**Mutual Funds**

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

**Private Equity**

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

**Trust Investment Performance**

The trust fund income recognized over a period of years from these investment assets can be volatile. During the twelve months ended December 31, 2011, the Standard and Poor's 500 Index increased approximately 2.1% and the Barclay's Aggregate Index increased approximately 7.8%, while the combined SCI trust assets increased approximately 2.2%.

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

**Capital Allocation Considerations**

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided \$388.1 million in 2011. In addition, we have \$402.3 million in excess borrowing capacity under our bank credit facility. We have no significant maturities of long-term debt until October 2014.

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

	Per Credit Agreement	Actual
Leverage ratio	4.00 (Max)	3.12
Interest coverage ratio	3.00 (Min)	4.35

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 long-term bank credit facility will be adequate to meet our financial obligations over the next 12 months. We expect to continue to focus on funding growth initiatives that generate increased profitability, revenue, and cash flows. These capital investments include the construction of high-end cemetery property (such as private family estates) and the construction of funeral home facilities. We will also consider the acquisition of additional deathcare operations that fit our long-term customer-focused strategy, if such acquisitions have the proper return on investment. Our outlook for capital improvements at existing facilities and cemetery development expenditures in 2012 is \$95 to \$105 million.

Since November 2007, we have paid quarterly dividends of \$0.04 per common share. On February 9, 2011, our Board of Directors approved the payment of a quarterly dividend of \$0.05 per share. While we intend to pay regular



quarterly cash dividends for the foreseeable future, all future dividends are subject to limitations in our debt covenants and final determination by our Board of Directors each quarter upon review of our financial performance.

## Table of Contents

Currently, we have approximately \$199.4 million authorized under our share repurchase program. We intend to make purchases from time to time in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. Our credit agreement contains covenants that limit our ability to repurchase our common stock. There can be no assurance that we will buy our common stock under our share repurchase program in the future.

### Cash Flow

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

### Operating Activities

Net cash provided by operating activities increased \$33.7 million to \$388.1 million in 2011 from \$354.4 million in 2010. This increase was driven by:

- a \$98.2 million increase in cash receipts from customers resulting from increased revenues primarily from acquisitions and improved collection rates at existing locations;
- a \$16.3 million increase in tax refunds and lower cash tax payments;
- a \$16.7 million increase in General Agency (GA) receipts due in part to acquisitions;
- a \$7.6 million increase in net trust fund withdrawals;
- a \$3.5 million increase in royalty income; partially offset by,
- a \$67.5 million increase in vendor payments resulting primarily from increases in variable costs from the Keystone acquisition;
- a \$39.3 million increase in employee compensation as a result of acquisitions; and
- a \$4.0 million increase in cash interest payments.

Net cash provided by operating activities decreased \$17.7 million to \$354.4 million in 2010 from \$372.1 in 2009. This decrease was driven by:

- a \$47.0 million increase in employee compensation as a result of merit increases in 2010 that did not occur in 2009, and an increase in 2010 incentive payments was due to achieving certain targets for 2009;
- a \$70.1 million increase in vendor payments resulting from increases in variable costs from the Keystone and Palm Mortuaries acquisitions;
- an \$11.3 million decrease in certain life insurance proceeds in 2010 compared to 2009; partially offset by;
- an \$87.1 million increase in cash receipts from customers resulting from increased funeral case volume and revenues primarily from the Keystone and Palm Mortuaries acquisitions;
- a \$12.8 million increase in GA revenue receipts due to increased preneed funeral insurance productions; and
- an \$11.9 million increase in net trust fund withdrawals due to increased withdrawals on qualifying cemetery perpetual care expenses.

### Investing Activities

Cash flows from investing activities used \$190.3 million in 2011 compared to using \$279.7 million in 2010. This decrease was primarily attributable to a decrease of \$199.5 million in cash spent for acquisitions (primarily the Keystone acquisition in 2010), partially offset by a \$66.3 million decrease in cash receipts from divestitures and assets sales, a \$23.3 million decrease in withdrawals of restricted funds, and a \$20.5 million increase in capital expenditures. Cash flows from investing activities used \$279.7 million in 2010 compared to using \$152.5 million in 2009. This increase was primarily attributable to an increase of \$214.2 million in cash spent for acquisitions (primarily the Keystone acquisition) and a \$14.1 million increase in capital expenditures, partially offset by a \$58.1 million increase in cash receipts from divestitures and assets sales and a \$42.9 million increase in withdrawals of restricted funds.

### Financing Activities

Financing activities used \$238.7 million in 2011 compared to using \$88.2 million in 2010. This increase was primarily driven by a \$413.2 million decrease in proceeds from the issuance of long-term debt (net of debt issuance costs) and an \$80.4 million

Table of Contents

increase in the repurchases of Company common stock, partially offset by a \$316.2 million decrease in debt payments, a \$23.2 million decrease in capital lease payments, and a \$6.5 million increase in proceeds from exercise of stock options.

Financing activities used \$88.2 million in 2010 compared to using \$178.4 million in 2009. This decrease was primarily driven by a \$356.3 million increase in proceeds from the issuance of long-term debt (net of debt issuance costs), partially offset by a \$113.0 million increase in debt payments, a \$116.9 million increase in repurchases of Company common stock, a \$15.6 million decline in proceeds from the exercise of stock options, and a \$21.9 million increase in capital lease payments.

Proceeds from long-term debt (net of debt issuance costs) were \$85.0 million in 2011 due to a drawdown under our Bank credit facility of which \$20.0 million was repaid in December of 2011. Proceeds from long-term debt (net of debt issuance costs) were \$498.2 million in 2010 due to a \$250.0 million issuance of the 7.0% Notes due May 2019, the release of funds held in escrow for the \$150.0 million issuance of the 8.0% Notes due November 2021, and a \$110.0 million drawdown under our Bank credit facility. Proceeds from long-term debt (net of debt issuance costs) were \$141.9 million in 2009 due to a \$150.0 million drawdown under our Bank credit facility.

The table below sets forth the payments of debt for the years ended December 31:

	2011	2010	2009
	(Dollars in millions)		
7.7% Notes due April 2009	\$—	\$—	\$28.7
7.875% Debentures due February 2013	4.0	25.5	22.8
7.375% Senior Notes due October 2014	—	70.5	4.9
6.75% Notes due April 2015	22.3	3.0	36.9
6.75% Notes due April 2016	16.9	20.1	15.9
7.0% Notes due June 2017	—	—	4.5
Bank credit facility due March 2016	20.0	260.0	—
Series B Senior Notes due November 2011	—	—	150.0
Obligations under capital leases	23.0	46.2	24.3
Mortgage notes and other debt, maturities through 2047	2.8	3.1	5.5
Total Debt Payments	\$89.0	\$428.4	\$293.5

We repurchased 19.9 million shares in 2011 and 14.0 million shares in 2010, for \$197.3 million and \$116.9 million, respectively. We did not repurchase any shares in 2009.

We paid cash dividends of \$44.8 million in 2011, \$40.0 million in 2010, and \$40.2 million in 2009.

#### Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial and Contingent Commitments

We have assumed various financial obligations and commitments in the ordinary course of conducting our business.

We have contractual obligations requiring future cash payments under existing contractual arrangements, such as debt maturities, interest on long-term debt, operating lease agreements, and employment, consulting, and non-competition agreements. We also have commercial and contingent obligations that result in cash payments only if certain events occur requiring our performance pursuant to a funding commitment.

The following table details our known future cash payments (on an undiscounted basis) related to various contractual obligations as of December 31, 2011.

Table of Contents

Contractual Obligations	Payments Due by Period				
	2012	2013-2014	2015-2016	Thereafter	Total
	(Dollars in millions)				
Debt maturities(1)	\$23.6	\$235.0	\$447.1	\$1,179.0	\$1,884.7
Interest obligation on long-term debt(2)	126.2	247.7	194.0	302.5	870.4
Operating lease agreements(3)	13.2	20.5	13.1	41.2	88.0
Employment, consulting, and non-competition agreements(4)	8.5	10.8	5.7	7.8	32.8
Pension obligation(5)	3.6	7.2	5.8	10.4	27.0
Total contractual obligations	\$175.1	\$521.2	\$665.7	\$1,540.9	\$2,902.9

(1) Our outstanding indebtedness contains standard provisions, such as payment delinquency default clauses and change of control clauses. In addition, our bank credit facility agreement contains a maximum leverage ratio and a minimum interest coverage ratio. See “Capital Allocation Considerations” and Note 10 in Part II, Item 8. Financial Statements and Supplementary Data, for additional details related to our long-term debt.

(2) Approximately 89% of our total debt is fixed rate debt for which the interest obligation was calculated at the stated rate. Future interest obligations on our floating rate debt are based on the current forward rate curve of the underlying index. See Note 10 in Part II, Item 8. Financial Statements and Supplementary Data, for additional information related to our future interest obligations.

(3) The majority of our lease arrangements contain options to (i) purchase the property at fair value on the exercise date, (ii) purchase the property for a value determined at the inception of the leases, or (iii) renew for the fair rental value at the end of the primary lease term. Our leases primarily relate to funeral service locations and cemetery operating and maintenance equipment. See Note 12 in Part II, Item 8. Financial Statements and Supplementary Data, for additional details related to our leases.

(4) We have entered into management employment, consulting, and non-competition agreements that contractually require us to make cash payments over the contractual period. The agreements have been primarily entered into with certain officers and employees and former owners of businesses acquired. Agreements with contractual periods less than one year are excluded. See Note 12 in Part II, Item 8. Financial Statements and Supplementary Data, for additional details related to these agreements.

(5) See Note 15 in Part II, Item 8. Financial Statements and Supplementary Data, for discussion of our pension plans. The following table details our known potential or possible future cash payments (on an undiscounted basis) related to various commercial and contingent obligations as of December 31, 2011.

Commercial and Contingent Obligations	Expiration by Period				
	2012	2013-2014	2015-2016	Thereafter	Total
	(Dollars in millions)				
Surety obligations(1)	\$187.8	\$—	\$—	\$—	\$187.8
Long-term obligations related to uncertain tax positions(2)	87.5	15.9	6.9	87.8	198.1
Letters of credit(3)	—	—	32.7	—	32.7
Total commercial and contingent obligations	\$275.3	\$15.9	\$39.6	\$87.8	\$418.6

(1) Represents the aggregate funding obligation associated with our surety bond arrangements assuming our surety partners did not renew any of our surety obligations and we could not find replacement surety assurance. See the section titled “Financial Assurances” following this table in this Form 10-K for more information related to our surety bonds.

(2) In accordance with the Income Tax Topic of the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC), we have recorded a liability for unrecognized tax benefits and related interest and penalties of \$198.1 million as of December 31, 2011. See Note 9 in Part II, Item 8. Financial Statements and Supplementary Data, for additional information related to our uncertain tax positions. These amounts are reflected

in the periods when the statutes of limitations expire.

- (3) We are occasionally required to post letters of credit, issued by a financial institution, to secure certain insurance programs

22

---

Table of Contents

or other obligations. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe it is unlikely we will be required to fund a claim under our outstanding letters of credit. As of December 31, 2011, the full amount of our letters of credit was supported by our Bank credit facility, which expires in March 2016.

Not included in the above table are potential funding obligations related to our funeral and cemetery merchandise and service trusts. In certain states and provinces, we have withdrawn allowable distributable earnings including unrealized gains prior to the maturity or cancellation of the related contract. Additionally, some states have laws that either require replenishment of investment losses under certain circumstances or impose various restrictions when trust fund values drop below certain prescribed amounts. In the event that our trust investments do not recover from recent market declines, we may be required to deposit portions or all of these amounts into the respective trusts in some future period. As of December 31, 2011, we had unrealized losses of \$13.1 million in the various trusts within these states.

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 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.

	December 31, 2011	December 31, 2010
	(Dollars in millions)	
Preneed funeral	\$116.6	\$121.0
Preneed cemetery:		
Merchandise and services	116.6	120.2
Pre-construction	6.3	5.1
Bonds supporting preneed funeral and cemetery obligations	239.5	246.3
Bonds supporting preneed business permits	2.2	5.1
Other bonds	15.4	14.2
Total surety bonds outstanding	\$257.1	\$265.6

When selling preneed funeral and cemetery contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The \$239.5 million in bonds supporting preneed funeral and cemetery obligations differs from the \$187.8 million potential funding obligation disclosed in our "Commercial and Contingent Obligations" table above because 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, at the time we enter into the contract. We would only be required to fund the trust for the portion of the preneed contract for which we have received payment from the customer, less any applicable retainage, in accordance with state law. For the years ended December 31, 2011, 2010, and 2009, we had \$18.9 million, \$18.8 million, and \$23.8 million, respectively, of cash receipts from sales attributable to bonded contracts. 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 due to a 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

Table of Contents

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. In certain situations, as described above, where permitted by state or provincial laws, we post a surety bond as financial assurance for a certain amount of the preneed funeral or cemetery contract in lieu of placing funds into trust accounts.

**Trust-Funded Preneed Funeral and Cemetery Contracts:** The funds collected from customers 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.

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. Our preneed funeral and cemetery trust assets are consolidated and recorded in our consolidated balance sheet at fair market value. Investment earnings on trust assets are generally accumulated in the trust and distributed as the revenue associated with the preneed funeral or cemetery contract is recognized or cancelled by the customer. In certain states and provinces, the trusts are allowed to distribute a portion of the investment earnings to us prior to that date.

If a preneed funeral or cemetery contract is cancelled prior to delivery, state or provincial law determines the amount of the refund owed to the customer, if any, including the amount of the attributed investment earnings. Upon cancellation, we receive the amount of principal deposited to trust and previously undistributed net investment earnings and, where required, issue a refund to the customer. We retain excess funds, if any, and recognize the attributed investment earnings (net of any investment earnings payable to the customer) as revenues in our consolidated statement of operations. In certain jurisdictions, we may be obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust. Funds in trust assets exceeded customer deposits at December 31, 2011. See Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial and Contingent Commitments for additional information about potential funding obligations related to our funeral and cemetery merchandise and service trusts. Based on our historical experience, we have included a cancellation reserve for preneed funeral and cemetery contracts in our consolidated balance sheet of \$136.0 million and \$134.8 million as of December 31, 2011 and 2010, respectively.

The cash flow activity over the life of a trust-funded preneed funeral or cemetery contract from the date of sale to its recognition or cancellation is captured in the following operating cash flow line items in our consolidated statement of cash flows:

- Decrease in preneed funeral receivables, net and trust investments;
- Increase in preneed cemetery receivables, net and trust investments;
- (Decrease) increase in deferred preneed funeral revenue;
- Increase in deferred preneed cemetery revenue;
- Decrease in deferred preneed funeral receipts held in trust;
- Decrease in deferred preneed cemetery receipts held in trust; and
- Net income.

While the contract is outstanding, cash flow is provided by the amount retained from funds collected from the customer and any distributed investment earnings. At the time of death maturity, we receive the principal and undistributed investment earnings from the funeral trust and any remaining receivable due from the customer. At the time of delivery or storage of cemetery merchandise and service items for which we were required to deposit funds to trust, we receive the principal and undistributed investment earnings from the cemetery trust. There is generally no remaining receivable due from the customer, as our policy is to deliver preneed cemetery merchandise and service items only upon payment of the contract balance in full. This cash flow at the time of service, delivery, or storage is generally less than the associated revenue recognized, thus reducing cash flow from operating activities.



Table of Contents

The tables below detail our North America results of preneed funeral and cemetery production and maturities, excluding insurance contracts, for the years ended December 31, 2011 and 2010.

	North America Years Ended December 31, 2011                  2010 (Dollars in millions)	
Funeral:		
Preneed trust-funded (including bonded):		
Sales production (1)	\$134.5	\$117.3
Sales production (number of contracts) (1)	38,567	26,954
Maturities	\$209.3	\$179.8
Maturities (number of contracts)	47,476	41,205
Cemetery:		
Sales production:		
Preneed	\$458.9	\$412.6
Atneed	236.5	240.6
Total sales production	\$695.4	\$653.2
Sales production deferred to backlog:		
Preneed	\$185.6	\$169.7
Atneed	178.0	180.1
Total sales production deferred to backlog	\$363.6	\$349.8
Revenue recognized from backlog:		
Preneed	\$153.9	\$153.7
Atneed	178.3	180.1
Total revenue recognized from backlog	\$332.2	\$333.8

(1) The increase in sales production in 2011 is the result of our acquisition of Neptune Cremation Society, which has a lower average selling price per contract.

**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. These general agency commissions (GA revenues) are based on a percentage per contract sold and are recognized as funeral revenues when the insurance purchase transaction between the customer and third-party insurance provider is completed. Direct selling costs incurred pursuant to the sale of insurance-funded preneed funeral contracts are expensed as incurred. 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 consolidated balance sheet. Approximately 78% of our North America preneed funeral production relates to insurance-funded preneed funeral contracts in both 2011 and 2010.

The third-party insurance company collects funds related to the insurance contract directly from the customer. The life insurance contracts include a death benefit escalation provision, which is expected to offset the inflationary costs of providing the preneed funeral services and merchandise in the future at the prices that were guaranteed at the time of the preneed sale. The customer/policy holder assigns the policy benefits to our funeral home to pay for the preneed funeral contract at the time of need.

Additionally, we may receive cash overrides based on achieving certain dollar volume targets of life insurance policies sold as a result of marketing agreements entered into in connection with the sale of our insurance subsidiaries in 2000. Included in GA revenues for 2011 and 2010 were cash overrides in the amount of \$18.5 million and \$13.7 million, respectively.

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

25

---

Table of Contents

	North America	
	Years Ended December 31,	
	2011	2010
	(Dollars in millions)	
Preneed funeral insurance-funded:		
Sales production (1)	\$475.5	\$413.1
Sales production (number of contracts) (1)	81,883	71,532
General agency revenue	\$86.8	\$68.3
Maturities	\$292.9	\$282.8
Maturities (number of contracts)	53,179	52,650

---

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

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

The table also reflects our North America 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 maturities of preneed sales in the future, 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.

Table of Contents

	December 31, 2011		December 31, 2010	
	Market	Cost	Market	Cost
	(Dollars in billions)			
Deferred preneed funeral revenues	\$0.58	\$0.58	\$0.58	\$0.58
Deferred preneed funeral receipts held in trust	1.27	1.29	1.22	1.18
	\$1.85	\$1.87	\$1.80	\$1.76
Allowance for cancellation on trust investments	(0.15)	) (0.15)	) (0.13)	) (0.13)
Backlog of trust-funded preneed funeral revenues	\$1.70	\$1.72	\$1.67	\$1.63
Backlog of insurance-funded preneed funeral revenues	3.40	3.40	3.28	3.28
Total backlog of preneed funeral revenues	\$5.10	\$5.12	\$4.95	\$4.91
Preneed funeral receivables and trust investments	\$1.48	\$1.50	\$1.42	\$1.40
Allowance for cancellation on trust investments	(0.14)	) (0.14)	) (0.12)	) (0.12)
Assets associated with backlog of trust-funded deferred preneed funeral revenues, net of estimated allowance for cancellation	\$1.34	\$1.36	\$1.30	\$1.28
Insurance policies associated with insurance-funded deferred preneed funeral revenues, net of estimated allowance for cancellation	3.40	3.40	3.28	3.28
Total assets associated with backlog of preneed funeral revenues, net of estimated allowance for cancellation	\$4.74	\$4.76	\$4.58	\$4.56
Deferred preneed cemetery revenues	\$0.83	\$0.83	\$0.81	\$0.81
Deferred preneed cemetery receipts held in trust	1.15	1.15	1.19	1.13
	\$1.98	\$1.98	\$2.00	\$1.94
Allowance for cancellation on trust investments	(0.16)	) (0.16)	) (0.15)	) (0.15)
Total backlog of deferred cemetery revenues	\$1.82	\$1.82	\$1.85	\$1.79
Preneed cemetery receivables and trust investments	\$1.60	\$1.59	\$1.56	\$1.50
Allowance for cancellation on trust investments	(0.15)	) (0.15)	) (0.16)	) (0.16)
Total assets associated with backlog of deferred cemetery revenues, net of estimated allowance for cancellation	\$1.45	\$1.44	\$1.40	\$1.34

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 — Years Ended December 31, 2011, 2010, and 2009 Management Summary

Key developments in 2011 were as follows:

- Funeral gross profit increased \$13.7 million due to an increase in funeral operating revenue primarily from the Keystone acquisition, higher trust fund income, and higher General Agency revenues, partially offset by higher advertising and selling expenses.
- Cemetery gross profit increased \$15.6 million due to an increase in preneed property sales production and trust fund income, partially offset by higher selling related expenses and merchandise costs.

Results of Operations — Years Ended December 31, 2011, 2010, and 2009

In 2011, we reported consolidated net income attributable to common stockholders of \$144.9 million (\$0.61 per diluted share) compared to net income attributable to common stockholders in 2010 of \$126.4 million (\$0.50 per diluted share) and net income attributable to common stockholders in 2009 of \$123.1 million (\$0.49 per diluted share). These results were impacted by certain significant items that (decreased) increased earnings, including:

27

---

Table of Contents

	2011	2010	2009
	(Dollars in thousands)		
Net after-tax losses from the sale of assets	\$(1,774 )	\$(2,245 )	\$(1,790 )
After-tax (losses) gains from the early extinguishment of debt, net	\$(2,184 )	\$(5,928 )	\$2,113
After-tax expenses related to acquisitions	\$(1,408 )	\$(9,383 )	\$(8,235 )
Change in certain tax reserves and other	\$(2,629 )	\$(5,033 )	\$1,977

## Consolidated Versus Comparable Results — Years Ended December 31, 2011, 2010, and 2009

The table below reconciles our consolidated GAAP results to our comparable, or “same store,” results for the years ended December 31, 2011, 2010, and 2009. We define comparable operations (or same store operations) as those funeral and cemetery locations owned by us for the entire period beginning January 1, 2010 and ending December 31, 2011. The following tables present operating results for funeral and cemetery locations that were owned by us for these years.

2011	Consolidated	Less: Activity Associated with Acquisition/New Construction	Less: Activity Associated with Divestitures	Comparable
	(Dollars in millions)			
North America Revenue				
Funeral revenue	\$1,566.9	\$ 146.8	\$3.4	\$1,416.7
Cemetery revenue	742.5	6.0	4.4	732.1
	2,309.4	152.8	7.8	2,148.8
Germany revenue	6.6	—	—	6.6
Total revenue	\$2,316.0	\$ 152.8	\$7.8	\$2,155.4
North America Gross Profits				
Funeral gross profits (losses)	\$330.2	\$ 25.9	\$(0.8 )	\$305.1
Cemetery gross profits	147.8	0.5	0.4	146.9
	478.0	26.4	(0.4 )	452.0
Germany gross profits	0.5	—	—	0.5
Total gross profits (losses)	\$478.5	\$ 26.4	\$(0.4 )	\$452.5
2010	Consolidated	Less: Activity Associated with Acquisition/New Construction	Less: Activity Associated with Divestitures	Comparable
	(Dollars in millions)			
North America Revenue				
Funeral revenue	\$1,486.3	\$ 76.3	\$15.0	\$1,395.0
Cemetery revenue	697.7	3.5	9.3	684.9
	2,184.0	79.8	24.3	2,079.9
Germany revenue	6.6	—	—	6.6
Total revenue	\$2,190.6	\$ 79.8	\$24.3	\$2,086.5
North America Gross Profits				
Funeral gross profits (losses)	\$316.1	\$ 20.0	\$(0.9 )	\$297.0
Cemetery gross profits	132.2	0.4	0.6	131.2
	448.3	20.4	(0.3 )	428.2
Germany gross profits	0.9	—	—	0.9
Total gross profits (losses)	\$449.2	\$ 20.4	\$(0.3 )	\$429.1



Table of Contents

2009	Consolidated	Less: Activity Associated with Acquisition/New Construction	Less: Activity Associated with Divestitures	Comparable
	(Dollars in millions)			
North America Revenue				
Funeral revenue	\$1,385.1	\$ 0.1	\$24.4	\$1,360.6
Cemetery revenue	661.6	—	15.7	645.9
	2,046.7	0.1	40.1	2,006.5
Germany revenue	6.8	—	—	6.8
Total revenue	\$2,053.5	\$ 0.1	\$40.1	\$2,013.3
North America Gross Profits				
Funeral gross profits (losses)	\$305.4	\$ (0.8 )	\$(0.7 )	\$306.9
Cemetery gross profits (losses)	115.6	(0.4 )	0.5	115.5
	421.0	(1.2 )	(0.2 )	422.4
Germany gross profits	0.4	—	—	0.4
Total gross profits (losses)	\$421.4	\$ (1.2 )	\$(0.2 )	\$422.8

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the years ended December 31, 2011, 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 funeral services performed during the period.

	2011	2010	2009
	(Dollars in millions, except average revenue per funeral service)		
Consolidated funeral revenue	\$1,573.5	\$1,492.9	\$1,391.9
Less: GA revenues	86.8	68.3	57.3
Less: Other revenues	37.1	11.2	8.4
Adjusted Consolidated funeral revenue	\$1,449.6	\$1,413.4	\$1,326.2
Consolidated funeral services performed	277,983	270,351	258,044
Consolidated average revenue per funeral service	\$5,215	\$5,228	\$5,139

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the years ended December 31, 2011, 2010, and 2009. We calculate average revenue per funeral service by dividing comparable funeral revenue, excluding General Agency (GA) revenues and other revenues to avoid distorting our averages of normal funeral services revenue, by the comparable number of funeral services performed during the period.

	2011	2010	2009
	(Dollars in millions, except average revenue per funeral service)		
Comparable funeral revenue	\$1,423.3	\$1,401.6	\$1,367.4
Less: GA revenues	84.0	66.4	56.9
Less: Other revenues	8.3	9.0	8.4
Adjusted Comparable funeral revenue	\$1,331.0	\$1,326.2	\$1,302.1
Comparable funeral services performed	248,060	254,328	252,690
Comparable average revenue per funeral service	\$5,366	\$5,215	\$5,153

Funeral Results  
Funeral Revenue



Consolidated revenues from funeral operations increased \$80.6 million to \$1,573.5 million for the year ended December 31, 2011 from \$1,492.9 million for the same period in 2010. This increase is primarily attributable to the \$21.7 million increase in comparable revenues described below and \$70.5 million of additional revenues as the result of acquisitions in 2011 and 2010.

Table of Contents

These increases were partially offset by a decline of \$11.6 million in revenues contributed by non-strategic assets that were divested throughout 2011 and 2010. Comparable revenues from funeral operations were \$1,423.3 million for the year ended December 31, 2011 compared to \$1,401.6 million for the same period in 2010. This increase was primarily due to the 2.9% increase in average revenue per funeral service described below and a \$17.6 million increase in GA revenues that resulted from increased preneed insurance production. These increases were partially offset by the 2.5% decrease in the number of funeral services performed as described below.

Consolidated revenues from funeral operations increased \$101.0 million in 2010 compared to the same period in 2009. This increase is primarily due to the increase in comparable revenues described below and \$76.2 million of additional revenues as the result of acquisitions in 2010 and 2009, partially offset by a decline of \$9.4 million in revenues contributed by non-strategic assets that were divested throughout 2010 and 2009. Our comparable funeral revenues increased \$34.2 million, or 2.5%, in 2010 compared to the year ended December 31, 2009 primarily as a result of the 1.2% increase in the average revenue per funeral service described below and a \$9.5 million increase in GA revenues that resulted from increased preneed funeral insurance production.

**Funeral Services Performed**

Our consolidated funeral services performed increased 2.8% during the year ended December 31, 2011 compared to the same period in 2010, primarily as the result of acquisitions in 2011 and 2010, partially offset by a 2.5% decline in comparable funeral services performed noted below. Our comparable funeral services performed decreased 2.5% during the year ended December 31, 2011 compared to the same period in 2010. 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 year ended December 31, 2010. Our comparable cremation rate of 44.4% in 2011 increased from 41.9% and 41.0% in 2010 and 2009, respectively. We continue to expand our cremation memorialization products and services, which have resulted in higher average sales for cremation services.

**Average Revenue Per Funeral Service**

Our consolidated average revenue per funeral service decreased \$13 or 0.2% in 2011 compared to 2010, primarily as a result of changes in product mix. Our comparable average revenue per funeral increased \$151, or 2.9% in 2011 compared to the same period in 2010. This increase was primarily attributable to an \$8.1 million (\$32 per service) increase in trust fund income, a \$6.1 million (\$25 per service) favorable Canadian currency impact, and a 1.8% increase due to changes in our product mix.

**Funeral Gross Profit**

Consolidated funeral gross profits increased \$13.7 million in 2011 compared to the same period in 2010. This increase is primarily attributable to \$5.9 million of additional gross profits related to acquisitions that occurred in 2011 and 2010 and the increase in comparable funeral gross profits described below.

Comparable funeral gross profits increased \$7.7 million, or 2.6%, and the comparable gross margin percentage increased from 21.3% to 21.5% when compared to the same period in 2010 primarily as a result of the increase in comparable revenue described above being partially offset by the following:

- a \$13.0 million increase in comparable selling costs resulting from increased advertising and increased commissions for preneed production. Selling costs are recognized in the period incurred; however, the revenue associated with the preneed production is not recognized until the services are performed as described in Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes below;

- a \$5.1 million unfavorable Canadian currency impact on expenses; partially offset by

- a \$4.3 million decrease in merchandise expense.

Consolidated funeral gross profits increased \$11.2 million in 2010 as compared to 2009 primarily attributable to \$20.8 million of additional profits related to acquisitions that occurred in 2010 and 2009 and the decrease in comparable funeral gross profits described below.

Gross profit from our comparable funeral locations decreased \$9.4 million, or 3.1%, in 2010 compared to 2009. This decrease is primarily a result of the increase in comparable revenue described above being more than offset by;

- a \$9.7 million increase in comparable selling costs resulting from increased advertising and increased commissions for preneed production. Selling costs are recognized in the period incurred; however, the revenue associated with the

preneed production is not recognized until the services are performed as described in Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes below;

• a \$3.2 million increase in insurance expense as the result of a 2009 favorable adjustment in self-insurance casualty reserves

Table of Contents

that did not occur in 2010; and

- an \$11.5 million unfavorable Canadian currency impact on expenses.

Cemetery Results

Cemetery Revenue

Consolidated revenues from our cemetery operations increased \$44.8 million, or 6.4%, in 2011 compared to 2010 primarily as a result of the increase in comparable revenues described below and \$2.5 million in additional revenues generated by acquisitions in 2011 and 2010, partially offset by a decline of \$4.9 million in revenues contributed by non-strategic assets that were divested throughout 2011 and 2010. Comparable cemetery revenues increased \$47.2 million, or 6.9%, in 2011 when compared with 2010. This increase was primarily driven by a \$42.9 million increase in recognized property revenues as a result of 2011 marketing initiatives and a \$10.4 million increase in trust fund income as the result of improved conditions in the equity and debt markets in 2011 compared to 2010.

Consolidated revenues from our cemetery operations increased \$36.1 million, or 5.5%, in 2010 compared to 2009 primarily as a result of the increase in comparable revenues described below and \$3.5 million in additional revenues generated by acquisitions in 2010 and 2009, partially offset by a decline of \$6.4 million in revenues contributed by non-strategic assets that were divested throughout 2010 and 2009. Comparable cemetery revenues increased \$39.0 million, or 6.0%, in 2010 when compared with 2009. This increase was primarily driven by a \$21.8 million increase in recognized property revenues as a result of 2010 marketing initiatives and a \$7.7 million increase in trust fund income as the result of improved conditions in the equity and debt markets in 2010 compared to 2009.

Cemetery Gross Profits

Consolidated cemetery gross profit increased \$15.6 million, or 11.8%, in 2011 compared to 2010. This increase is primarily the result of the increase in comparable gross profits. Comparable cemetery gross profits increased \$15.7 million, or 12.0%, and our comparable gross margin percentage increased from 19.2% to 20.1% in 2011 compared to the same period in 2010. This increase is primarily the result of:

- The increase in comparable revenues described above, partially offset by;
  - a \$15.1 million increase in selling costs stemming from increased advertising and increased commissions on preneed production;
  - a \$7.9 million increase in property cost of sales as a result of higher property sales; and
  - a \$3.3 million increase in maintenance expense driven by higher revenues.

Consolidated cemetery gross profit increased \$16.6 million, or 14.4%, in 2010 compared to 2009. This increase is primarily the result of the increase in comparable gross profits described below:

- a \$0.8 million in additional gross profits generated by acquisitions in 2010 and 2009, partially offset by;
  - a decline of \$0.1 million in gross profits contributed by non-strategic assets that were divested throughout 2010 and 2009.

Comparable cemetery gross profits increased \$15.7 million, or 13.6%, and our comparable gross margin percentage increased from 17.9% to 19.2% in 2010 compared to the same period in 2009. This increase is primarily the result of:

- The increase in comparable revenues described above, partially offset by;
  - a \$12.3 million increase in selling costs stemming from increased advertising and increased commissions on preneed production;
  - a \$2.8 million increase in property and merchandise costs driven by higher revenues described above; and
  - a \$3.0 million increase in insurance expense as a result of a 2009 favorable adjustment in self-insurance casualty reserves that did not recur in 2010.

Other Financial Statement Items

General and Administrative Expenses

General and administrative expenses increased \$0.2 million to \$103.9 million in 2011 compared to \$103.7 million in 2010. The increase is primarily due to a \$9.0 million increase in employee-related compensation plan expenses, partially offset by a \$6.7 million decrease in acquisition and transition costs and a \$1.8 million decrease in professional service fees. General and



Table of Contents

administrative expenses increased \$1.2 million to \$103.7 million in 2010 compared to \$102.5 million in 2009. The increase is primarily due to a \$4.6 million increase in acquisition and transition costs and a \$1.5 million increase in employee-related compensation plan expenses, insurance-related expenses, and tax-related expenses primarily offset by a \$5.2 million decrease in professional service fees.

(Losses) Gains on Divestitures and Impairment Charges, Net

In 2011, we recognized an \$11.0 million net pre-tax loss on asset divestitures and impairments. This loss was primarily due to the impairments and asset divestitures associated with non-strategic funeral and cemetery locations in the United States and Canada.

In 2010, we recognized an \$8.5 million net pre-tax gain on asset divestitures and impairments. This gain was primarily due to a \$6.2 million gain on assets we owned that were divested under our agreement with the Federal Trade Commission arising from our acquisition of Keystone North America and net gains of \$10.3 million on divestitures of certain non-strategic funeral and cemetery assets in the United States and Canada, partially offset by \$8.0 million in impairment charges on certain intangible assets and other asset divestitures.

In 2009, we recognized a \$4.3 million net pre-tax gain on asset divestitures and impairments. This gain was primarily due to an \$18.8 million release of value-added tax (VAT), Social Security, and litigation indemnifications related to our former French operations, offset by \$14.5 million in net losses on asset divestitures and impairment charges.

Interest Expense

Interest expense increased \$5.6 million to \$133.8 million in 2011 compared to \$128.2 million in 2010. The increase in interest expense is primarily due to the November 2010 issuance of our 7.0% Senior Notes due May 2019, partially offset by open market debt repurchases in 2011 and 2010. Certain of these debt repurchases were refinanced through our credit facility, which has a lower interest rate.

Interest expense decreased \$0.8 million to \$128.2 million in 2010 compared to \$129.0 million in 2009. The decrease in interest expense primarily resulted from the retirement of scheduled debt maturities, open market debt repurchases, and a lower weighted average borrowing rate in 2010 compared to 2009.

(Losses) Gains on Early Extinguishment of Debt, Net

During 2011, we repaid \$20.0 million of amounts drawn on our bank credit facility and made debt payments of \$46.0 million, which included \$3.8 million aggregate principal amount of our 7.875% Notes due February 2013, \$20.8 million aggregate principal amount of our 6.75% Notes due April 2015, and \$15.6 million aggregate principal amount of our 6.75% Notes due April 2016. Certain of the above transactions resulted in the recognition of a loss of \$3.5 million recorded in (Losses) gains on early extinguishment of debt, net in our consolidated statement of operations, which represents the write-off of unamortized deferred loan costs of \$0.4 million and \$3.1 million in premium on the purchase of these notes.

During 2010, we repaid \$260 million of amounts drawn on our bank credit facility and made debt payments of \$122.2 million, which included \$25.5 million aggregate principal amount of our 7.875% Debentures due February 2013, \$70.5 million aggregate principal amount of our 7.375% Senior Notes due October 2014, 3.0 million aggregate principal amount of our 6.75% Notes due April 2015, and \$20.1 million aggregate principal amount of our 6.75% Notes due April 2016. Certain of the above transactions resulted in the recognition of a loss of \$9.4 million recorded in (Losses) gains on early extinguishment of debt, net in our consolidated statement of operations, which represents the write-off of unamortized deferred loan costs of \$1.4 million and \$8.0 million in premium on the purchase of these notes.

During 2009, we repaid \$150.0 million aggregate principal amount of our Series B Senior Notes due November 2011, \$23.5 million aggregate principal amount of our 7.875% Debentures due February 2013, \$5.0 million aggregate principal amount of our 7.375% Senior Notes due October 2014, \$39.8 million aggregate principal amount of our 6.75% Notes due April 2015, \$16.9 million aggregate principal amount of our 6.75% Notes due April 2016, and \$5.0 million aggregate principal amount of our 7.0% Notes due June 2017. As a result of these transactions, we recognized a gain of \$3.1 million during the year ended December 31, 2009, which represents a \$5.1 million net discount on the purchase of the notes and the write-off of unamortized deferred loan costs of \$2.0 million.

Other (Expense) Income, Net

Other (expense) income, net decreased \$3.8 million to \$0.8 million expense in 2011 compared to \$3.0 million income in 2010, primarily due to an unfavorable foreign currency exchange impact between U.S. and Canadian subsidiaries.

## Table of Contents

Other (expense) income, net increased \$1.7 million to \$3.0 million in 2010 compared to \$1.3 million in 2009, primarily due to a favorable foreign currency exchange impact from liability settlements between U.S. and Canadian subsidiaries.

### Provision for Income Taxes

The 2011 consolidated effective tax rate was 35.2%, compared to 42.1% and 38.3% in 2010 and 2009, respectively. We sold our Puerto Rican subsidiary in the third quarter of 2011. Our outside tax basis in the business was significantly higher than our book basis. Consequently, we recognized a tax loss that was significantly higher than the book loss on the sale which is permanent in nature. The decrease in the effective tax rate for the year ended December 31, 2011 as compared to the previous two years is primarily due to that sale.

Our 2010 and 2009 effective tax rates were negatively impacted by permanent book and tax basis differences related to North American asset divestitures. During 2010 we recognized US tax on the post-acquisition integration of certain Keystone entities into SCI's structure. Our overall foreign tax expense increased in 2010 due to an increase in foreign earnings. This increase was partially offset by a decrease in foreign statutory rates. In 2010 our state tax expense was impacted by permanent items affecting our overall effective rate as well as an increase in state statutory tax rates. During 2009 we experienced a decrease in state tax expense due to a restructuring of some of our state operating entities.

During 2010, the Internal Revenue Service approved three requests for tax accounting method changes relating to the recognition of trust earnings accumulated in cemetery and funeral trusts, revenue from preneed sales of cemetery merchandise, and revenue from non-trusted customer payments for preneed funeral contracts. The effective date for these tax accounting method changes is for the fiscal year ended December 31, 2010. In accordance with §481(a) of the US Internal Revenue Code this adjustment recalculates the income previously recognized to determine what should have been recognized under the new tax accounting method. The cumulative impact of these accounting method changes resulted in an adjustment under §481(a) for 2010 of \$190.3 million that represents a decrease in current year taxable income, a decrease in a previously recognized deferred tax asset related to deferred revenue, and an increase in our deferred tax asset related to our net operation loss carryover. Although these changes had no tax impact on the overall effective tax rate, there was a savings in cash taxes including a refund of our 2010 Federal estimated tax payments of \$7.1 million which was received in 2011.

### Weighted Average Shares

The diluted weighted average number of shares outstanding was \$236.7 million in 2011, compared to \$250.6 million in 2010, and \$252.5 million in 2009. The decrease in all years reflects the impact of shares repurchased under our share repurchase program.

### Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes

Our consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. See Note 2 in Part II, Item 8. Financial Statements and Supplementary Data, for more information. Estimates and assumptions affect the carrying values of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date. Actual results could differ from such estimates due to uncertainties associated with the methods and assumptions underlying our critical accounting measurements. The following is a discussion of our critical accounting policies pertaining to revenue recognition, business combinations, valuation of goodwill, valuation of intangible assets, valuation of long-lived assets, loss contract analysis, the use of estimates, fair value measurements, and non-controlling interests.

### Revenue Recognition

Funeral revenue is recognized when funeral services are performed or funeral merchandise is delivered. Our trade receivables primarily consist of amounts due for funeral services already performed. Revenue associated with cemetery merchandise and services is recognized when the service is performed or merchandise is delivered. Under the Revenue Recognition Topic of the ASC revenue from constructed cemetery property is not recognized until a minimum percentage of the sales price has been collected. The revenues associated with a preneed cemetery contract, however, may be recognized as different contract events occur. Preneed sales of cemetery interment rights (cemetery burial property) are recognized when a minimum of 10% of the sales price has been collected and the



property has been constructed or is available for interment. For services and non-personalized merchandise (such as vaults), we defer the revenues until the services are performed and the merchandise is delivered. For personalized marker merchandise, with the customer's direction generally obtained at the time of sale, we can choose to order, store, and transfer title to the customer. In situations in which we have no further obligation or involvement related to the merchandise, we recognize revenues and record the cost of sales in accordance with the Revenue Recognition Topic of the ASC upon the earlier of vendor storage of these items or delivery in our cemetery.

Valuation of Goodwill

33

---

## Table of Contents

We record the excess of purchase price over the fair value of identifiable net assets acquired in business combinations as goodwill. Goodwill is tested annually for impairment by assessing the fair value of each of our reporting units. We test for impairment of goodwill in accordance with the Intangibles Topic of the ASC annually during the fourth quarter.

Our goodwill impairment test involves estimates and management judgment. In the first step of our goodwill impairment test, we compare the fair value of a reporting unit to its carrying amount, including goodwill. We determine fair value of each reporting unit using both a market and income approach. Our methodology considers discounted cash flows and multiples of EBITDA (earnings before interest, taxes, depreciation, and amortization) for both SCI and its competitors. The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. We do not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. If the aggregate fair value is less than the related carrying amount for a reporting unit, we compare the implied fair value of goodwill (as defined in the Intangibles Topic of the ASC) to the carrying amount of goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Based on our most recent annual impairment test performed during the fourth quarter with amounts recorded as of October 1, 2011, we concluded that there was no impairment of goodwill as of December 31, 2011.

For our most recent annual impairment test performed in the fourth quarter, we used growth rates ranging from 2.6% to 5.6% over a three-year period, plus a terminal value determined using the constant growth method, in projecting our future cash flows. We used an 8.5% discount rate, which reflected our weighted average cost of capital based on our capital structure, as adjusted for equity risk premiums. Fair value was calculated as the sum of the projected discounted cash flows of our reporting units over the next three years plus terminal value at the end of those three years. Our terminal value was calculated using long-term growth rates of 2.6% and 2.9% for our funeral and cemetery reporting units, respectively.

In addition to our annual review, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. No interim goodwill impairments reviews were performed in 2011.

### Valuation of Intangible Assets

Our intangible assets include customer relationships, trademarks and tradenames, and other assets primarily resulting from acquisitions. Our trademark and tradenames and water rights assets are considered to have an indefinite life and are not subject to amortization. We test for impairment of intangible assets in accordance with the Intangibles Topic of the ASC annually during the fourth quarter.

Our intangible assets impairment tests involve estimates and management judgment. For trademark and tradenames, our test uses the relief from royalty method whereby we determine the fair value of the assets by discounting the cash flows that represent a savings over having to pay a royalty fee for use of the trademark and tradenames. The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. For our most recent annual impairment test performed in the fourth quarter using October 1 data, we estimated that the pre-tax savings would be 4.0% of the revenues associated with the trademark and tradenames, based primarily on our research of intellectual property valuation and licensing databases. We also assumed a terminal growth rate of 2.6% and 2.9% for our funeral and cemetery segments, respectively, and discounted the cash flows at an 8.7% discount rate based on the relative risk of these assets to our overall business. Based on our annual impairment test performed during the fourth quarter, we recorded a \$1.2 million impairment in (Losses) gains on divestitures and impairment charges, net on certain license assets.

In addition to our annual review, we assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant underperformance relative to historical or projected

future operating results and significant negative industry or economic trends. No interim intangible impairment reviews were performed in 2011.

#### Valuation of Long-Lived Assets

We review the carrying value of our long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable, in accordance with the Intangibles and Property, Plant, and Equipment Topics of the ASC. This guidance requires that long-lived assets to be held and used are reported at the lower of their carrying amount or fair value. Fair value is based on an income approach that utilizes projections of undiscounted future cash flows expected to be generated by our long-lived assets.

Assets to be disposed of and assets not expected to provide any future service potential are recorded at the lower of their carrying amount or fair value less estimated cost to sell. For additional information regarding impairment or disposal of long-lived assets, see Note 20 in Part II, Item 8. Financial Statements and Supplementary Data.

## Table of Contents

### Loss Contract Analysis

We perform an analysis to determine whether our preneed contracts are in a loss position, which would necessitate a charge to earnings. For this analysis, we add the sales prices of the underlying contracts and net realized earnings, then subtract net unrealized losses to derive the net amount of estimated proceeds for contracts as of the balance sheet date. We consider unrealized gains and losses based on current market prices quoted for the investments, and we do not include future expected returns on the investments in our analysis. We compare our estimated proceeds to the estimated direct costs to deliver our contracts, which consist primarily of funeral and cemetery merchandise costs and salaries, supplies, and equipment related to the delivery of a preneed contract. If a deficiency were to exist, we may record a charge to earnings and a corresponding liability for the expected loss on delivery of those contracts from our backlog. As of December 31, 2011, no such charge was required. Due to the positive margins of our preneed contracts and the trust portfolio returns we have experienced in prior years, we believe there is currently capacity for additional market depreciation before a loss contract would result.

### Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States (GAAP) requires management to make certain estimates and assumptions. These estimates and assumptions affect the carrying values of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date. Actual results could differ from such estimates due to uncertainties associated with the methods and assumptions underlying our critical accounting measurements. Key estimates used by management include:

**Allowances —** We provide various allowances and/or cancellation reserves for our funeral and cemetery preneed and atneed receivables, as well as for our preneed funeral and preneed cemetery deferred revenues. These allowances are based on an analysis of historical trends and include, where applicable, collection and cancellation activity. We also record an estimate of general agency revenues that may be cancelled in their first year and revenue would be charged back by the insurance company. These estimates are impacted by a number of factors, including changes in economy, relocation, and demographic or competitive changes in our areas of operation.

**Valuation of trust investments —** The trust investments include marketable securities that are classified as available-for-sale in accordance with the Investments in Debt and Equity Securities Topic of the ASC. When available, we use quoted market prices for specific securities. When quoted market prices are not available for the specific security, fair values are estimated by using either quoted market prices for securities with similar characteristics or a fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment terms, rating, and tax exempt status.

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

**Legal liability reserves —** Contingent liabilities, principally for legal matters, are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated in accordance with the Contingencies Topic of the ASC. Liabilities accrued for legal matters require judgments regarding projected outcomes and a range of loss based on historical experience and recommendations of legal counsel. However, litigation is inherently unpredictable and excessive verdicts do occur. As disclosed in Note 12 in Part II, Item 8. Financial Statements and Supplementary Data, our legal exposures and the ultimate outcome of these legal proceedings could be material to operating results or cash flows in any given quarter or year.

**Depreciation of long-lived assets —** We depreciate our long-lived assets ratably over their estimated useful lives. These estimates of useful lives may be affected by such factors as changing market conditions or changes in regulatory requirements.

**Valuation of assets acquired and liabilities assumed —** We have applied the guidance in the Business Combinations Topic of the ASC to our business combinations. Tangible and intangible assets and liabilities assumed are recorded at

their fair value and goodwill is recognized for any difference between the price of acquisition and our fair value determination. We have customarily estimated our purchase costs and other related transactions known to us at closing of the acquisition. To the extent that information not available to us at the closing date subsequently became available during the allocation period, we have adjusted our goodwill, assets, or liabilities associated with the acquisition. Income taxes — We compute income taxes using the liability method. Our ability to realize the benefit of our federal, state and foreign deferred tax assets requires us to achieve certain future earnings levels. We have established a valuation allowance against a portion of our deferred tax assets and we could be required to further adjust that valuation allowance if market conditions change materially and future earnings are, or are projected to be, significantly different than our current estimates.

Table of Contents

During the fourth quarter of 2010 the Company underwent a restructuring of its Canadian subsidiaries. The restructuring triggered a U.S. dividend of \$6.9 million for which U.S. federal taxes have been provided for the year ended December 31, 2010. The dividend is less than current year earnings and other prior year earnings required to be permanently reinvested. At December 31, 2011 and 2010, U.S. income taxes had not been provided on \$93.0 million and \$256.0 million, respectively, of the remaining undistributed earnings of our Canadian subsidiaries. We intend to permanently reinvest these undistributed foreign earnings in those businesses outside the United States. It is not practicable to determine the amount of federal income taxes, if any, that might become due if such earnings are repatriated.

We file income tax returns, including tax returns for our subsidiaries, with U.S. federal, state, local, and foreign jurisdictions. Our tax returns are subject to routine compliance review by the various federal, state, and foreign taxing authorities in the jurisdictions in which we have operated and filed tax returns in the ordinary course of business. We accrue tax expense to reduce our tax benefits in those situations where it is more likely than not that we will not prevail against the tax authorities should they challenge the tax return position that gave rise to the benefit. We believe that our tax returns are materially correct as filed, and we will vigorously defend any challenges and proposed adjustments to those filings made by the tax authorities. A number of years may elapse before particular tax matters, for which we have established accruals, are audited and finally resolved. The number of tax years that may be subject to a tax audit varies depending on the tax jurisdiction. Current audits are occurring in the United States and various state and foreign locations covering open tax years through 2010. The Internal Revenue Service is in various stages of auditing tax years 1999 through 2005. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would reduce a deferred tax asset or require the payment of cash. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future. Our tax accruals for uncertain tax positions are presented in the balance sheet within Other liabilities.

**Pension cost** — Our pension plans are frozen with no benefits accruing to participants except interest. Pension costs and liabilities are actuarially determined based on certain assumptions, including the discount rate used to compute future benefit obligations. Weighted-average discount rates used to determine net periodic pension cost were 4.41% and 4.80% as of December 31, 2011 and 2010, respectively. We verify the reasonableness of the discount rate by comparing our rate to the rate earned on high-quality fixed income investments, such as the Moody's Aa index.

**Insurance loss reserves** — We purchase comprehensive general liability, morticians and cemetery professional liability, automobile liability, and workers' compensation insurance coverages structured with high deductibles. This high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. Historical insurance industry experience indicates a high degree of inherent variability in assessing the ultimate amount of losses associated with casualty insurance claims. This is especially true with respect to liability and workers' compensation exposures due to the extended period of time that transpires between when the claim might occur and the full settlement of such claim, often many years. We continually evaluate loss estimates associated with claims and losses related to these insurance coverages falling within the deductible of each coverage. Assumptions based on factors such as claim settlement patterns, claim development trends, claim frequency and severity patterns, inflationary trends, and data reasonableness will generally affect the analysis and determination of the "best estimate" of the projected ultimate claim losses. The results of these evaluations are used to both analyze and adjust our insurance loss reserves.

As of December 31, 2011, reported losses within our retention for workers' compensation, general liability, and auto liability incurred during the period May 1, 1991 through December 31, 2011 were approximately \$319.4 million over 20.8 years. The selected fully developed ultimate settlement value estimated was \$360.3 million for the same period. Paid losses were \$307.7 million indicating a reserve requirement of \$52.6 million.

At December 31, 2011 and 2010, the balances in our reserve for workers' compensation, general, and auto liability and the related activity were as follows:

	(Dollars in millions)
Balance at December 31, 2009	\$57.9

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

Additions	24.2	
Payments	(28.2	)
Balance at December 31, 2010	\$53.9	
Additions	16.9	
Payments	(18.2	)
Balance at December 31, 2011	\$52.6	

36

---

## Table of Contents

### Fair Value Measurements

We measure the available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis in accordance with the Fair Value Measurements Topic of the ASC. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about instruments measured at fair value. The guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certain available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts have been classified in Level 3 of the hierarchy due to the significant management judgment required as a result of the absence of quoted market prices, inherent lack of liquidity, or the long-term nature of the securities. For additional disclosures required by FASB guidance for all of our available-for-sale securities, see Notes 4, 5, and 6 in Part II, Item 8. Financial Statements and Supplementary Data.

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

### Recent Accounting Pronouncements and Accounting Changes

For discussion of recent accounting pronouncements and accounting changes, see Note 3 in Part II, Item 8. Financial Statements and Supplementary Data.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The market risk inherent in our financial instruments and positions includes the price risk associated with the marketable equity and debt securities included in our portfolio of trust investments, the interest rate risk associated with our floating rate debt, and the currency risk associated with our foreign operations (primarily in Canada). Our market-sensitive instruments and positions are considered to be "other-than-trading". Our exposure to market risk as discussed below includes forward-looking statements and represents an estimate of possible changes in fair value or future earnings that might occur, assuming hypothetical changes in equity markets, interest rates, and currencies. Our views on market risk are not necessarily indicative of actual results that may occur, and they do not represent the maximum possible gains or losses that may occur. Actual fair value movements related to changes in equity markets, interest rates and currencies, along with the timing of such movements, may differ from those estimated.

#### 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 December 31, 2011 are presented in Notes 4, 5, and 6 in Part II, Item 8, Financial Statements and Supplementary Data. Also, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Financial Conditions, Liquidity, and Capital Resources, for discussion of trust investments.



Market-Rate Sensitive Instruments — Interest Rate Risk

At December 31, 2011 and 2010, approximately 89% and 93%, respectively, of our total debt consisted of fixed rate debt at a weighted average rate of 6.69% and 6.80%, respectively. The fair market value of our debt was \$135.1 million more than its

Table of Contents

carrying value at December 31, 2011. A hypothetical 10% increase in interest rates associated with our floating rate debt would increase our interest expense by \$0.4 million. See Note 10 and 11 in Part II, Item 8. Financial Statements and Supplementary Data, for additional information.

Market-Rate Sensitive Instruments — Currency Risk

At December 31, 2011 and 2010, our foreign currency exposure was primarily associated with the Canadian dollar and the Euro. A 10% adverse change in the strength of the U.S. dollar relative to our foreign currency instruments would have negatively affected our income from our continuing operations, on an annual basis, by \$0.9 million for the year ended December 31, 2011 and \$4.0 million for the year ended December 31, 2010.

At December 31, 2011, approximately 3% of our stockholders' equity and 14% of our operating income were denominated in foreign currencies, primarily the Canadian dollar. Approximately 3% of our stockholders' equity and 15% of our operating income were denominated in foreign currencies, primarily the Canadian dollar, at December 31, 2010. We do not have an investment in foreign operations considered to be in highly inflationary economies.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL STATEMENTS AND RELATED SCHEDULE

	Page
Financial Statements:	
Report of Independent Registered Public Accounting Firm	<u>40</u>
Consolidated Statement of Operations for the years ended December 31, 2011, 2010, and 2009	<u>41</u>
Consolidated Balance Sheet as of December 31, 2011 and 2010	<u>42</u>
Consolidated Statement of Cash Flows for the years ended December 31, 2011, 2010, and 2009	<u>43</u>
Consolidated Statement of Equity for the three years ended December 31, 2011	<u>44</u>
Notes to Consolidated Financial Statements	<u>45</u>
1. Nature of Operations	<u>45</u>
2. Summary of Significant Accounting Policies	<u>45</u>
3. Recent Accounting Pronouncements and Accounting Changes	<u>49</u>
4. Preneed Funeral Activities	<u>50</u>
5. Preneed Cemetery Activities	<u>56</u>
6. Cemetery Perpetual Care Trusts	<u>61</u>
7. Deferred Preneed Funeral and Cemetery Receipts Held in Trust and Care Trusts' Corpus	<u>67</u>
8. Goodwill and Intangible Assets	<u>90</u>
9. Income Taxes	<u>94</u>
10. Debt	<u>69</u>
11. Credit Risk and Fair Value of Financial Instruments	<u>73</u>
12. Commitments and Contingencies	<u>75</u>
13. Equity	<u>76</u>
14. Share-Based Compensation	<u>78</u>
15. Retirement Plans	<u>79</u>
16. Segment Reporting	<u>82</u>
17. Supplementary Information	<u>83</u>
18. Earnings Per Share	<u>87</u>
19. Acquisition	<u>89</u>
20. Divestiture-Related Activities	<u>92</u>
21. Quarterly Financial Data (Unaudited)	<u>93</u>
Financial Statement Schedule:	
II — Valuation and Qualifying Accounts	<u>94</u>
All other schedules have been omitted because the required information is not applicable or is not present in amounts sufficient to require submission or because the information required is included in the consolidated financial statements or the related notes thereto.	

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Service Corporation International:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Service Corporation International and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Houston, Texas

February 13, 2012

40

---

Table of ContentsSERVICE CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31,		
	2011	2010	2009
	(In thousands, except per share amounts)		
Revenues	\$2,316,040	\$2,190,552	\$2,053,520
Costs and expenses	(1,837,504 )	(1,741,329 )	(1,632,125 )
Gross profits	478,536	449,223	421,395
General and administrative expenses	(103,860 )	(103,689 )	(102,501 )
(Losses) gains on divestitures and impairment charges, net	(10,977 )	8,512	4,253
Other operating income	—	—	740
Operating income	363,699	354,046	323,887
Interest expense	(133,782 )	(128,196 )	(128,981 )
(Losses) gains on early extinguishment of debt, net	(3,509 )	(9,400 )	3,146
Other (expense) income, net	(772 )	3,009	1,316
Income from continuing operations before income taxes	225,636	219,459	199,368
Provision for income taxes	(79,404 )	(92,458 )	(76,275 )
Net income	146,232	127,001	123,093
Net (income) loss attributable to noncontrolling interests	(1,329 )	(584 )	5
Net income attributable to common stockholders	\$144,903	\$126,417	\$123,098
Basic earnings per share:			
Net income attributable to common stockholders	\$0.62	\$0.51	\$0.49
Basic weighted average number of shares	234,242	248,871	251,709
Diluted earnings per share:			
Net income attributable to common stockholders	\$0.61	\$0.50	\$0.49
Diluted weighted average number of shares	236,669	250,602	252,484
Dividends declared per share	\$0.20	\$0.16	\$0.16

(See notes to consolidated financial statements)

Table of ContentsSERVICE CORPORATION INTERNATIONAL  
CONSOLIDATED BALANCE SHEET

	December 31,	
	2011	2010
	(In thousands, except share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$128,569	\$170,846
Receivables, net	103,892	107,185
Deferred tax assets	44,316	41,371
Inventories, net	25,513	27,372
Other	25,803	27,746
Total current assets	328,093	374,520
Preneed funeral receivables, net and trust investments	1,478,865	1,424,557
Preneed cemetery receivables, net and trust investments	1,595,940	1,563,893
Cemetery property, at cost	1,497,703	1,508,787
Property and equipment, net	1,618,361	1,627,698
Goodwill, net	1,361,493	1,307,484
Deferred charges and other assets	430,851	396,582
Cemetery perpetual care trust investments	1,016,506	987,019
Total assets	\$9,327,812	\$9,190,540
<b>LIABILITIES &amp; EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$358,904	\$342,651
Current maturities of long-term debt	23,554	22,502
Income taxes	3,150	1,474
Total current liabilities	385,608	366,627
Long-term debt	1,861,116	1,832,380
Deferred preneed funeral revenues	575,546	580,223
Deferred preneed cemetery revenues	833,303	813,493
Deferred tax liability	405,615	323,303
Other liabilities	414,773	399,620
Deferred preneed funeral and cemetery receipts held in trust	2,424,356	2,408,074
Care trusts' corpus	1,015,300	986,872
Commitments and contingencies (Note 12)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 224,665,395 and 242,019,650 shares issued, respectively, and 222,955,853 and 241,035,250 shares outstanding, respectively	222,956	241,035
Capital in excess of par value	1,430,330	1,603,112
Accumulated deficit	(367,044)	(477,459)
Accumulated other comprehensive income	105,852	112,768
Total common stockholders' equity	1,392,094	1,479,456
Noncontrolling interests	20,101	492
Total equity	1,412,195	1,479,948
Total liabilities and equity	\$9,327,812	\$9,190,540

(See notes to consolidated financial statements)





Table of ContentsSERVICE CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 146,232	\$ 127,001	\$ 123,093
Adjustments to reconcile net income to net cash provided by operating activities:			
Losses (gains) on early extinguishments of debt, net	3,509	9,400	(3,146 )
Depreciation and amortization	118,047	116,391	111,102
Amortization of intangible assets	25,591	25,197	21,698
Amortization of cemetery property	40,046	32,418	30,664
Amortization of loan costs	4,436	4,266	7,575
Provision for doubtful accounts	9,251	8,155	11,351
Provision for deferred income taxes	66,512	76,934	57,866
Losses (gains) on divestitures and impairment charges, net	10,977	(8,512 )	(4,253 )
Share-based compensation	9,144	8,878	9,684
Change in assets and liabilities, net of effects from acquisitions and dispositions:			
Increase in receivables	(3,322 )	(14,561 )	(8,245 )
Decrease in other assets	6,815	2,603	11,161
Increase in payables and other liabilities	14,610	16,374	30,899
Effect of preneed funeral production and maturities:			
Decrease in preneed funeral receivables, net and trust investments	69,688	45,988	18,963
(Decrease) increase in deferred preneed funeral revenue	(32,158 )	(14,778 )	92
Decrease in deferred preneed funeral receipts held in trust	(50,591 )	(36,322 )	(22,558 )
Effect of preneed cemetery production and maturities:			
Increase in preneed cemetery receivables, net and trust investments	(65,581 )	(53,224 )	(41,427 )
Increase in deferred preneed cemetery revenue	23,636	10,558	24,999
Decrease in deferred preneed cemetery receipts held in trust	(9,419 )	(648 )	(11,702 )
Other	689	(1,739 )	4,254
Net cash provided by operating activities	388,112	354,379	372,070
Cash flows from investing activities:			
Capital expenditures	(118,375 )	(97,899 )	(83,790 )
Acquisitions	(99,570 )	(299,083 )	(84,932 )
Proceeds from divestitures and sales of property and equipment, net	24,529	90,835	32,696
Net withdrawals (deposits) of restricted funds and other	3,159	26,437	(16,459 )
Net cash used in investing activities	(190,257 )	(279,710 )	(152,485 )
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	85,000	510,000	150,000
Debt issuance costs	—	(11,828 )	(8,146 )
Payments of debt	(22,774 )	(263,063 )	(33,058 )
Early extinguishment of debt	(43,194 )	(119,105 )	(236,114 )
Principal payments on capital leases	(23,030 )	(46,214 )	(24,288 )
Proceeds from exercise of stock options	8,227	1,759	17,407
Purchase of Company common stock	(197,302 )	(116,878 )	—
Payments of dividends	(44,795 )	(40,001 )	(40,195 )
Bank overdrafts and other	(798 )	(2,856 )	(4,036 )

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

Net cash used in financing activities	(238,666	)	(88,186	)	(178,430	)
Effect of foreign currency	(1,466	)	4,618	)	10,193	)
Net (decrease) increase in cash and cash equivalents	(42,277	)	(8,899	)	51,348	)
Cash and cash equivalents at beginning of period	170,846		179,745		128,397	
Cash and cash equivalents at end of period	\$128,569		\$170,846		\$179,745	

(See notes to consolidated financial statements)

Table of ContentsSERVICE CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENT OF EQUITY

	Common Stock	Treasury Stock, Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
(In thousands, except per share amounts)							
Balance at December 31, 2008	\$249,953	\$(481 )	\$1,733,814	\$(726,756 )	\$ 36,649	\$ —	\$1,293,179
Comprehensive income:							
Net income				123,098		(5 )	123,093
Foreign currency translation					60,493	30	60,523
Total comprehensive income							183,616
Tax benefits related to share-based awards			19,059				19,059
Dividends declared on common stock (\$.16 per share)			(40,381 )				(40,381 )
Stock option exercises	3,643		13,764				17,407
Restricted stock award, net of forfeitures and other	830		(830 )				—
Employee share-based compensation earned			9,684				9,684
Issuance of shares from treasury stock	1	71	383				455
Noncontrolling interest payments						(231 )	(231 )
Retirement of treasury shares	(400 )	400					—
Other				(218 )		218	—
Balance at December 31, 2009	\$254,027	\$(10 )	\$1,735,493	\$(603,876 )	\$ 97,142	\$ 12	\$1,482,788
Comprehensive income:							
Net income				126,417		584	127,001
Foreign currency translation					15,626	9	15,635
Total comprehensive income							142,636
Tax benefits related to share-based awards			(229 )				(229 )
Dividends declared on common stock (\$.16 per share)			(39,442 )				(39,442 )
Stock option exercises	431		1,328				1,759
Restricted stock awards, net of forfeitures and other	532		(532 )				—
			8,878				8,878

Employee share-based compensation							
Purchase of Company common stock		(14,008 )	(102,870 )				(116,878 )
Noncontrolling interest payments						(113 )	(113 )
Retirement of treasury shares	(12,973 )	12,973					—
Other	3	60	486				549
Balance at December 31, 2010	\$242,020	\$(985 )	\$1,603,112	\$(477,459 )	\$112,768	\$492	\$1,479,948
Comprehensive income:							
Net income				144,903		1,329	146,232
Foreign currency translation					(6,916 )	(9 )	(6,925 )
Total comprehensive income							139,307
Dividends declared on common stock (\$.20 per share)			(46,171 )				(46,171 )
Stock option exercises	1,208		7,019				8,227
Restricted stock awards, net of forfeitures	539		(539 )				—
Employee share-based compensation earned			9,144				9,144
Purchase of Company common stock		(19,899 )	(142,915 )	(34,488 )			(197,302 )
Acquisition						18,857	18,857
Noncontrolling interest payments						(568 )	(568 )
Retirement of treasury shares	(19,174 )	19,174					—
Other	73		680				753
Balance at December 31, 2011	\$224,666	\$(1,710 )	\$1,430,330	\$(367,044 )	\$105,852	\$20,101	\$1,412,195

(See notes to consolidated financial statements)

Table of Contents

SERVICE CORPORATION INTERNATIONAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 consolidated financial statements include the accounts of Service Corporation International (SCI) and all subsidiaries in which we hold a controlling financial interest. Our financial statements also include the accounts of the funeral merchandise and service trusts, cemetery merchandise and service trusts, and cemetery perpetual care trusts in which we have a variable interest and are the primary beneficiary. Intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

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

Use of Estimates in the Preparation of Financial Statements

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2011, the majority of our cash was invested in commercial paper. The carrying amounts of our cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Accounts Receivable and Allowance for Doubtful Accounts

Our trade receivables primarily consist of amounts due for funeral services already performed. We provide various allowances and cancellation reserves for our funeral and cemetery preneed and atneed receivables as well as for our preneed funeral and preneed cemetery deferred revenues. These allowances are based on an analysis of historical trends of collection and cancellation activity. Atneed funeral and cemetery receivables are considered past due after 30 days. Collections are generally managed by the locations or third party agencies acting on behalf of the locations, until a receivable is 180 days delinquent at which time it is fully reserved and sent to a collection agency. These estimates are impacted by a number of factors, including changes in the economy, relocation, and demographic or competitive changes in our areas of operation.

Inventories and Cemetery Property

Funeral and cemetery merchandise are stated at the lower of average cost or market. Cemetery property is recorded at cost. Inventory costs and cemetery property are relieved using specific identification in performance of a contract. Amortization expense for cemetery property was \$40.0 million, \$32.4 million, and \$30.7 million for the years ended

December 31, 2011, 2010, and 2009 respectively.

45

---

Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property and Equipment, Net

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense whereas renewals and major replacements that extend the assets useful lives are capitalized. Depreciation is recognized ratably over the estimated useful lives of the various classes of assets. Buildings are depreciated over a period ranging from seven to forty years, equipment is depreciated over a period from three to eight years, and leasehold improvements are depreciated over the shorter of the lease term or ten years. Depreciation and amortization expense related to property and equipment was \$118.0 million, \$116.4 million, and \$111.1 million for the years ended December 31, 2011, 2010, and 2009, respectively. When property is sold or retired, the cost and related accumulated depreciation are removed from the consolidated balance sheet; resulting gains and losses are included in the consolidated statement of operations in the period of sale or disposal.

Leases

We have lease arrangements primarily related to funeral service locations and transportation equipment that were primarily classified as capital leases at December 31, 2011. Lease terms related to funeral home properties generally range from one to 35 years with options to renew at varying terms. Lease terms related to transportation equipment generally range from one to five years with options to renew at varying terms. We calculate operating lease expense ratably over the lease term. We consider reasonably assured renewal options and fixed escalation provisions in our calculation. For more information related to leases, see Note 12.

Goodwill

The excess of purchase price over the fair value of identifiable net assets acquired in business combinations is recorded as goodwill. Goodwill is tested annually for impairment by assessing the fair value of each of our reporting units. We performed our annual impairment test of goodwill in accordance with the Intangibles Topic of the Accounting Standards Codification (ASC) during the fourth quarter.

Our goodwill impairment test involves estimates and management judgment. In the first step of our goodwill impairment test, we compare the fair value of a reporting unit to its carrying amount, including goodwill. We determine fair value of each reporting unit using both a market and income approach. Our methodology considers discounted cash flows and multiples of EBITDA (earnings before interest, taxes, depreciation, and amortization) for both SCI and its competitors. The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. We do not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. If the aggregate step one fair value is less than the related carrying amount for a reporting unit, we compare the implied fair value of goodwill (as defined in the Intangibles Topic of the ASC) to the carrying amount of goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Based on our most recent annual impairment test performed during the fourth quarter, we concluded that there was no impairment of goodwill as of December 31, 2011.

For our most recent annual impairment test performed in the fourth quarter, we used growth rates ranging from 2.6% to 5.6% over a three-year period, plus a terminal value determined using the constant growth method in projecting our future cash flows. We used an 8.5% discount rate, which reflected our weighted average cost of capital based on our capital structure, as adjusted for equity risk premiums. Fair value was calculated as the sum of the projected discounted cash flows of our reporting units over the next three years plus terminal value at the end of those three years. Our terminal value was calculated using a long-term growth rate of 2.6% and 2.9% for our funeral and cemetery reporting units, respectively.

In addition to our annual review, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. No interim goodwill impairment reviews were required in 2011.

Other Intangible Assets

Our intangible assets include customer relationships, trademarks and tradenames, and other assets primarily resulting from acquisitions. Our trademark and tradenames and water rights assets are considered to have an indefinite life and are not subject to amortization. We test for impairment of intangible assets in accordance with the Intangibles Topic of the ASC annually during the fourth quarter.

Our intangible assets impairment tests involve estimates and management judgment. For trademark and tradenames, our test uses the relief from royalty method whereby we determine the fair value of the assets by discounting the cash flows that represent a savings over having to pay a royalty fee for use of the trademark and tradenames. The discounted cash flow valuation uses



Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. For our most recent annual impairment test performed in the fourth quarter, we estimated that the pre-tax savings would be 4.0% of the revenues associated with the trademark and tradenames, based primarily on our research of intellectual property valuation and licensing databases. We also assumed a terminal growth rate of 2.6% and 2.9% for our funeral and cemetery segments, respectively, and discounted the cash flows at an 8.7% discount rate based on the relative risk of these assets to our overall business. Based on our annual impairment test performed during the fourth quarter, we recorded a \$1.2 million impairment on certain intangible assets as of December 31, 2011.

In addition to our annual review, we assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. No interim intangible impairment reviews were required in 2011.

Certain of our customer relationship intangible assets associated with prior acquisitions are relieved using specific identification in performance of a contract. We amortize all other finite-lived intangible assets on a straight-line basis over their estimated useful lives of 5-20 years.

Valuation of Long-Lived Assets

We review the carrying value of our long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable, in accordance with the Intangibles and Property, Plant, and Equipment Topic of the ASC. Under this guidance, long-lived assets to be held and used are reported at the lower of their carrying amount or fair value. Fair value is based on an income approach that utilizes projections of undiscounted future cash flows expected to be generated by our long-lived assets. No long-lived asset impairment reviews were required in 2011. While we believe our estimates of undiscounted future cash flows used in performing this test are reasonable, different assumptions regarding such cash flows and comparable sales values could materially affect our evaluations.

Assets to be disposed of and assets not expected to provide any future service potential are recorded at the lower of their carrying amount or fair value less estimated cost to sell. We determined the fair value of assets to be disposed of using a market approach. See Note 20 for additional information related to assets to be disposed.

Treasury Stock

We make treasury stock purchases in the open market or through privately negotiated transactions subject to market conditions and normal trading restrictions. We account for the repurchase of our common stock under the par value method. We use the average cost method upon the subsequent reissuance of treasury shares. On December 15, 2011, we cancelled 19.2 million shares of common stock held in our treasury. We cancelled 13.0 million and 0.4 million shares of common stock held in our treasury in 2010 and 2009, respectively. These retired treasury shares were changed to authorized but unissued status.

Foreign Currency Translation

All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at exchange rates in effect as of the end of the reporting period. Revenue and expense items are translated at the average exchange rates for the reporting period. The resulting translation adjustments are included in Equity as a component of Accumulated other comprehensive income in the consolidated statement of equity and consolidated balance sheet.

The functional currency of SCI and its subsidiaries is the respective local currency. The transactional currency gains and losses that arise from transactions denominated in currencies other than the functional currencies of our operations are recorded in Other (expenses) income, net in the consolidated statement of operations. We do not have an investment in foreign operations considered to be in highly inflationary economies.

Fair Value Measurements

We measure the available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis in accordance with the Fair Value

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

47

---

Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

**Funeral Operations**

Revenue is recognized when funeral services are performed or funeral merchandise is delivered. We sell price-guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. Revenue associated with sales of preneed funeral contracts is deferred until such time that the funeral services are performed or funeral merchandise is delivered. Sales taxes collected are recognized on a net basis in our consolidated financial statements.

Pursuant to state or provincial law, all or a portion of the proceeds from funeral merchandise or services sold on a preneed basis may be required to be paid into trust funds. We defer investment earnings related to these merchandise and service trusts until the associated merchandise is delivered or services are performed. Costs related to sales of merchandise and services are charged to expense when merchandise is delivered or services are performed. See Note 4 for more information regarding preneed funeral activities.

**Cemetery Operations**

Revenue associated with sales of cemetery merchandise and services is recognized when the service is performed or merchandise is delivered. Revenue associated with sales of preneed cemetery interment rights is recognized in accordance with the Revenue Recognition Topic of the ASC. Under this guidance, revenue related to the preneed sale of unconstructed cemetery property is deferred until it is constructed and 10% of the sales price is collected. For services and non-personalized merchandise (such as vaults), we defer the revenues until the services are performed or the merchandise is delivered. For personalized marker merchandise, with the customer's direction generally obtained at the time of sale, we can choose to order, store, and transfer title to the customer. In situations in which we have no further obligation or involvement related to the merchandise, we recognize revenues and record the cost of sales in accordance with the Revenue Recognition Topic of the ASC upon the earlier of vendor storage of these items or delivery in our cemetery. Sales taxes collected are recognized on a net basis in our consolidated financial statements. Pursuant to state or provincial law, all or a portion of the proceeds from cemetery merchandise or services sold on a preneed basis may be required to be paid into trust funds. We defer investment earnings related to these merchandise and services trusts until the associated merchandise is delivered or services are performed.

A portion of the proceeds from the sale of cemetery property interment rights is required by state or provincial law to be paid into perpetual care trust funds. Investment earnings from these trusts are distributed to us regularly, are recognized in current cemetery revenues, and are intended to defray cemetery maintenance costs, which are expensed as incurred. The principal of such perpetual care trust funds generally cannot be withdrawn.

Costs related to the sale of property interest rights include the property and construction costs specifically identified by project. At the completion of the project, construction costs are charged to expense in the same period revenue is recognized. Costs related to sales of merchandise and services are charged to expense when merchandise is delivered or when services are performed.

Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

See Notes 5 and 6 for more information regarding preneed cemetery activities.

**Preneed Funeral and Cemetery Receivables**

We sell preneed funeral and cemetery contracts whereby the customer enters into arrangements for future merchandise and services prior to the time of need. As these contracts are prior to the delivery of the related goods and services, the preneed funeral and cemetery receivables are offset by a comparable deferred revenue amount. These receivables have an interest component for which interest income is recorded when the interest amount is considered collectible and realizable, which typically coincides with cash payment. We do not accrue interest on financing receivables that are not paid in accordance with the contractual payment date given the nature of our goods and services, the nature of our contracts with customers, and the timing of the delivery of our services. We do not consider receivables to be past due until the service or goods are required to be delivered at which time the preneed receivable is paid or reclassified as a trade receivable with payment terms of less than 30 days. As the preneed funeral and cemetery receivables are offset by comparable deferred revenue amount, we have no risk of loss related to these receivables.

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

**Income Taxes**

We compute income taxes using the liability method. Our ability to realize the benefit of our federal and state deferred tax assets requires us to achieve certain future earnings levels. We have established a valuation allowance against a portion of our deferred tax assets and we could be required to further adjust that valuation allowance if market conditions change materially and future earnings are, or are projected to be, significantly different than our current estimates.

**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 became effective for us at January 1, 2011. The adoption did not impact our unaudited condensed consolidated financial statements.

**Multi-Deliverable Arrangements**

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

**3. Recent Accounting Pronouncements and Accounting Changes**

**Fair Value Measurements**

In May 2011, the FASB amended the FVM&D Topic of the ASC that expands disclosures about items marked to fair value that are categorized within Level 3 of the fair value hierarchy to include qualitative explanations of the valuation methodology used and sensitivity analysis of the inputs into the valuation. The amendment also requires that items that are not measured at fair value but for which the fair value is disclosed also disclose the level in the fair value hierarchy in which those items were categorized. The amended guidance is effective for us in the first quarter of 2012 and we do not believe that this guidance will have any impact on our consolidated financial condition or results of

operations.

Comprehensive Income

In June 2011, the FASB amended the Comprehensive Income Topic of the ASC to require the disclosure of the components of other comprehensive income, which we currently disclose elsewhere in our filings, be shown as either part of one statement of

49

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

comprehensive income or as a separate statement of other comprehensive income immediately following the income statement. The amended guidance is effective for us in the first quarter of 2012 and will not have any impact on our consolidated financial condition or results of operations.

## Goodwill Testing

In September 2011, the FASB amended the Intangibles - Goodwill and Other Topic of the ASC that allows us to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, after assessing the relevant information, we determine it is more likely than not that the fair value is more than the carrying amount, no additional work is necessary. If we determine it is more likely than not that the fair value is less than the carrying amount, then we are required to proceed to the quantitative approach. The amended guidance is effective for us in our annual test in the fourth quarter of 2012. We do not expect the adoption to impact our consolidated financial condition or results of operations.

## 4. Preneed Funeral Activities

## Preneed funeral receivables, net and trust investments

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 consolidated statement of cash flows.

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

The table below sets forth certain investment-related activities associated with our preneed funeral merchandise and service trusts for the years ended December 31:

	2011	2010	2009
		(In thousands)	
Deposits	\$72,750	\$80,027	\$85,901
Withdrawals	109,013	103,418	104,437
Purchases of available-for-sale securities	527,681	467,221	372,058
Sales of available-for-sale securities	610,917	479,128	398,984
Realized gains from sales of available-for-sale securities	61,272	36,807	28,715
Realized losses from sales of available-for-sale securities	(41,162	) (46,601	) (57,118

The components of Preneed funeral receivables, net and trust investments in our consolidated balance sheet at December 31 were as follows:

	2011	2010
	(In thousands)	
Trust investments, at market	\$892,685	\$875,043
Cash and cash equivalents	101,111	121,212
Insurance-backed fixed income securities	277,650	220,287
Trust investments	1,271,446	1,216,542
Receivables from customers	246,601	247,434
Unearned finance charge	(5,425	) (5,620

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

Allowance for cancellation	1,512,622	1,458,356	
	(33,757	) (33,799	)
Preneed funeral receivables and trust investments	\$1,478,865	\$1,424,557	

50

---



Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The activity in Preneed funeral receivables, net and trust investments for the years ended December 31 was as follows:

	2011	2010	2009
	(In thousands)		
Beginning balance — Preneed funeral receivables and trust investments	\$1,424,557	\$1,356,353	\$1,191,692
Net preneed contract sales	111,447	126,121	155,834
Cash receipts from customers, net of refunds	(106,489)	(99,142)	(118,049)
Deposits to trust	72,750	80,027	85,901
Acquisitions (dispositions) of businesses, net	143,252	29,607	(6,226)
Net undistributed investment (losses) earnings (1)	(11,348)	82,097	164,003
Maturities and distributed earnings	(148,820)	(140,593)	(141,135)
Change in cancellation allowance	(30)	(1,140)	(2,054)
Effect of foreign currency and other	(6,454)	(8,773)	26,387
Ending balance — Preneed funeral receivables and trust investments	\$1,478,865	\$1,424,557	\$1,356,353

(1) Includes both realized and unrealized investment earnings (losses).

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair market value at December 31, 2011 and 2010 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments.

	December 31, 2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Fixed income securities:				
U.S. Treasury	\$77,299	\$4,565	\$(373)	\$81,491
Canadian government	114,586	838	(109)	115,315
Corporate	49,210	1,849	(770)	50,289
Residential mortgage-backed	3,292	71	(34)	3,329
Asset-backed	126	6	—	132
Equity securities:				
Preferred stock	2,041	50	(153)	1,938
Common stock:				
United States	258,738	40,992	(22,715)	277,015
Canada	23,986	2,511	(1,771)	24,726
Other international	18,954	1,045	(1,296)	18,703
Mutual funds:				
Equity	134,383	2,384	(18,982)	117,785
Fixed income	193,134	5,044	(13,114)	185,064
Private equity	35,017	218	(19,249)	15,986
Other	484	428	—	912
Trust investments	\$911,250	\$60,001	\$(78,566)	\$892,685

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

As of December 31, 2011, 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. The majority of the investments can be redeemed at discount; others can be redeemed without a discount. Generally, however, 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. 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:

52

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Fair Market Value
Trust investments at December 31, 2011	\$623,293	\$252,494	\$16,898	\$892,685
Trust investments at December 31, 2010	\$610,240	\$243,444	\$21,359	\$875,043
The change in our market-based funeral merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31, 2011, 2010, and 2009 (in thousands):				
		2011	2010	2009
Fair market value, beginning balance at January 1,		\$21,359	\$12,052	\$40,880
Net unrealized losses included in Accumulated other comprehensive income(1)		(5,234 )	(3,949 )	(9,205 )
Net realized losses included in Other (expense) income, net(2)		(92 )	(530 )	(27 )
Purchases		18	7,343	—
Sales		(8,156 )	(108 )	—
Contributions		10,392	7,213	2,779
Distributions and other		(1,389 )	(662 )	(484 )
Transfers out of Level 3		—	—	(21,891 )
Fair market value, ending balance at December 31,		\$16,898	\$21,359	\$12,052

All unrealized 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 (1) 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.

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

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

	Fair Market Value (In thousands)
Due in one year or less	\$140,654
Due in one to five years	49,267
Due in five to ten years	39,232
Thereafter	21,403
	\$250,556

Earnings from all our funeral merchandise and service trust investments are recognized in funeral revenues when a service is performed or merchandise is delivered. Fees charged by our wholly-owned registered investment advisor are also included in current revenues in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to our funeral

merchandise and service trust investments were \$37.7 million, \$29.5 million, and \$23.7 million for the years ended December 31, 2011, 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) income, net and a decrease to Preneed funeral receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Deferred preneed funeral receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral receipts held in trust. For the years ended December 31, 2011, 2010, and 2009, we recorded a



Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2010		December 31, 2010		Total	
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Fair Market Value	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$10,433	\$(316 )	\$393	\$(18 )	\$10,826	\$(334 )
Canadian government	1,632	(2 )	668	(18 )	2,300	(20 )
Corporate	5,619	(285 )	—	—	5,619	(285 )
Mortgage-backed	836	(9 )	263	(13 )	1,099	(22 )
Asset-backed	225	(1 )	53	(1 )	278	(2 )
Equity securities:						
Preferred Stock	1,045	(78 )	—	—	1,045	(78 )
Common stock:						
United States	41,491	(3,019 )	24,919	(5,372 )	66,410	(8,391 )
Canada	4,493	(324 )	1,361	(474 )	5,854	(798 )
Other international	5,251	(862 )	3,446	(1,468 )	8,697	(2,330 )
Mutual funds:						
Equity	3,778	(110 )	61,844	(18,179 )	65,622	(18,289 )
Fixed income	9,630	(156 )	8,818	(5,472 )	18,448	(5,628 )
Private equity	214	(71 )	6,715	(16,819 )	6,929	(16,890 )
Other	8	(2 )	309	(456 )	317	(458 )
Total temporarily impaired securities	\$84,655	\$(5,235 )	\$108,789	\$(48,290 )	\$193,444	\$(53,525 )

## Deferred Preneed Funeral Revenues

At December 31, 2011 and 2010, Deferred preneed funeral revenues, net of allowance for cancellation, represent future funeral revenues, including distributed trust investment earnings associated with unperformed trust-funded preneed funeral contracts that are not held in trust accounts. Deferred preneed funeral revenues are recognized in current funeral revenues when the service is performed or merchandise is delivered. Future funeral service revenues and net trust investment earnings that are held in trust accounts are included in Deferred preneed funeral receipts held in trust.

The following table summarizes the activity in Deferred preneed funeral revenues for the years ended December 31 were as follows:

	2011	2010	2009
	(In thousands)		
Beginning balance — Deferred preneed funeral revenues, net	\$580,223	\$596,966	\$588,198
Net preneed contract sales	105,866	112,678	141,752
Acquisitions (dispositions) of businesses, net	142,026	26,816	(794 )
Net investment (losses) earnings (1)	(12,164 )	83,605	135,842
Recognized deferred preneed revenues	(182,408 )	(151,484 )	(153,382 )
Change in cancellation allowance	(1,526 )	(761 )	(2,972 )
Change in deferred preneed funeral receipts held in trust	(57,936 )	(69,694 )	(117,181 )
Effect of foreign currency and other	1,465	(17,903 )	5,503
Ending balance — Deferred preneed funeral revenues, net	\$575,546	\$580,223	\$596,966

(1) Includes both realized and unrealized investment earnings (losses).

**Insurance-Funded Preneed Funeral Contracts**

Not included in our consolidated balance sheet are insurance-funded preneed funeral contracts that will be funded by life insurance or annuity contracts issued by third party insurers. 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

55

---



Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

we earn a commission as general sales agent for the insurance company. These general agency commissions (GA revenues) are based on a percentage per contract sold and are recognized as funeral revenues when the insurance purchase transaction between the customer and third-party insurance provider is completed. GA revenues recognized in 2011, 2010, and 2009 were \$86.8 million, \$68.3 million, and \$57.3 million, respectively. Direct selling costs incurred pursuant to the sale of insurance-funded preneed funeral contracts are expensed as incurred. 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 consolidated balance sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenues as these funerals are performed by the Company.

## 5. Preneed Cemetery Activities

## Preneed cemetery receivables, net and trust investments

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 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 for the years ended December 31:

	2011	2010	2009
		(In thousands)	
Deposits	\$98,121	\$96,864	\$92,687
Withdrawals	109,382	100,474	104,580
Purchases of available-for-sale securities	595,683	638,368	625,248
Sales of available-for-sale securities	525,534	592,813	593,133
Realized gains from sales of available-for-sale securities	67,167	43,413	44,972
Realized losses from sales of available-for-sale securities	(46,889)	(51,771)	(75,254)

The components of Preneed cemetery receivables, net and trust investments in the consolidated balance sheet at December 31 were as follows:

	2011	2010
	(In thousands)	
Trust investments, at market	\$1,051,464	\$1,062,771
Cash and cash equivalents	104,554	122,866
Insurance-backed fixed income securities	5	9,158
Trust investments	1,156,023	1,194,795
Receivables from customers	517,917	452,296
Unearned finance charges	(33,766)	(39,205)
	1,640,174	1,607,886

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

Allowance for cancellation	(44,234	) (43,993	)
Preneed cemetery receivables and trust investments	\$1,595,940	\$1,563,893	

The activity in Preneed cemetery receivables, net and trust investments for the years ended December 31 was as follows:

56

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2011	2010 (In thousands)	2009
Beginning balance — Preneed cemetery receivables and trust investments	\$1,563,893	\$1,382,717	\$1,062,952
Net preneed contract sales	468,850	423,985	408,328
(Dispositions) acquisitions of businesses, net	(5,500)	) 5,508	7,749
Net undistributed investment (losses) earnings (1)	(24,407)	) 121,225	271,804
Cash receipts from customers, net of refunds	(403,524)	) (373,071)	) (351,459)
Deposits to trust	98,121	96,864	92,687
Maturities, deliveries, and associated earnings	(109,382)	) (100,474)	) (104,580)
Change in cancellation allowance	(759)	) (3,764)	) (10,141)
Effect of foreign currency and other	8,648	10,903	5,377
Ending balance — Preneed cemetery receivables and trust investments	\$1,595,940	\$1,563,893	\$1,382,717

(1) Includes both realized and unrealized investment earnings (losses).

The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair market value at December 31, 2011 and 2010 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments.

	December 31, 2011			Fair Market Value
	Cost	Unrealized Gains (In thousands)	Unrealized Losses	
Fixed income securities:				
U.S. Treasury	\$51,022	\$6,438	\$(313)	) \$57,147
Canadian government	16,566	381	(24)	) 16,923
Corporate	42,803	2,033	(961)	) 43,875
Residential mortgage-backed	167	5	(2)	) 170
Equity securities:				
Preferred stock	3,365	86	(270)	) 3,181
Common stock:				
United States	408,075	71,138	(30,454)	) 448,759
Canada	18,289	2,547	(1,780)	) 19,056
Other international	30,501	1,843	(1,536)	) 30,808
Mutual funds:				
Equity	197,523	3,317	(24,911)	) 175,929
Fixed income	248,529	11,670	(20,238)	) 239,961
Private equity	30,783	53	(15,617)	) 15,219
Other	306	130	—	436
Trust investments	\$1,047,929	\$99,641	\$(96,106)	) \$1,051,464

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Fixed income securities:				
U.S. Treasury	\$50,884	\$2,493	\$(307)	) \$53,070
Canadian government	15,669	362	(4)	) 16,027
Corporate	39,265	3,387	(402)	) 42,250
Residential mortgage-backed	863	31	(1)	) 893
Asset-backed	6,336	261	(5)	) 6,592
Equity securities:				
Preferred stock:	4,577	453	(124)	) 4,906
Common stock:				
United States	386,537	82,385	(10,821)	) 458,101
Canada	17,279	3,869	(850)	) 20,298
Other international	31,466	2,485	(3,645)	) 30,306
Mutual funds:				
Equity	202,328	15,173	(18,569)	) 198,932
Fixed income	226,567	8,537	(9,959)	) 225,145
Private equity	19,596	13	(13,890)	) 5,719
Other	874	43	(385)	) 532
Trust investments	\$1,002,241	\$119,492	\$(58,962)	) \$1,062,771

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

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

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

As of December 31, 2011, our unfunded commitment for our private equity and other investments was \$11.8 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. The majority of the investments can be redeemed at discount; others can be redeemed without a discount. Generally, however, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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

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

58

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Fair Market Value
Trust investments at December 31, 2011	\$914,513	\$121,296	\$15,655	\$1,051,464
Trust investments at December 31, 2010	\$932,782	\$123,738	\$6,251	\$1,062,771
The change in our market-based cemetery merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31 (in thousands):				
		2011	2010	2009
Fair market value, beginning balance at January 1,		\$6,251	\$4,341	\$31,837
Net unrealized gains (losses) included in Accumulated other comprehensive income(1)		286	(4,304)	(14,039)
Net realized losses included in Other (expense) income, net(2)		(101)	(529)	(27)
Sales		—	(48)	—
Contributions		10,795	7,508	2,672
Distributions and other		(1,576)	(717)	(510)
Transfers out of Level 3		—	—	(15,592)
Fair market value, ending balance at December 31		\$15,655	\$6,251	\$4,341

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

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

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

	Fair Market Value (In thousands)
Due in one year or less	\$9,841
Due in one to five years	45,470
Due in five to ten years	34,622
Thereafter	28,182
	\$118,115

Earnings from all our cemetery merchandise and service trust investments are recognized in cemetery revenues when a service is performed or merchandise is delivered. Fees charged by our wholly-owned registered investment advisor are also included in current revenues in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to our cemetery merchandise and service trust investments were \$20.7 million, \$15.1 million, and \$8.6 million for the years

ended December 31, 2011, 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) income, net and a decrease to Preneed cemetery receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Deferred preneed cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed cemetery receipts held in trust. For the years ended December 31, 2011, 2010, and 2009, we

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

recorded a \$28.7 million, a \$5.7 million, and a \$41.2 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our cemetery merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery merchandise and service trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses for the years ended December 31, 2011 and 2010, are shown in the following tables:

	December 31, 2011		December 31, 2010		Total	
	In Loss Position Less Than 12 Months Fair Market Value	Unrealized Losses	In Loss Position Greater Than 12 Months Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
						(In thousands)
Fixed income securities:						
U.S. Treasury	\$1,736	\$(51 )	\$3,038	\$(262 )	\$4,774	\$(313 )
Canadian government	4,024	(24 )	—	—	4,024	(24 )
Corporate	15,044	(850 )	1,747	(111 )	16,791	(961 )
Residential mortgage-backed	2	(1 )	15	(1 )	17	(2 )
Equity securities:						
Preferred stock:	1,583	(270 )	—	—	1,583	(270 )
Common stock:						
United States	123,849	(26,401 )	17,085	(4,053 )	140,934	(30,454 )
Canada	7,694	(1,260 )	366	(520 )	8,060	(1,780 )
Other international	8,654	(629 )	3,772	(907 )	12,426	(1,536 )
Mutual funds:						
Equity	115,725	(11,222 )	36,398	(13,689 )	152,123	(24,911 )
Fixed income	48,950	(7,686 )	9,367	(12,552 )	58,317	(20,238 )
Private equity	466	(254 )	14,213	(15,363 )	14,679	(15,617 )
Total temporarily impaired securities	\$327,727	\$(48,648 )	\$86,001	\$(47,458 )	\$413,728	\$(96,106 )





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

61

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 contracts are presented as operating cash flows in our consolidated statement of cash flows. The table below sets forth certain investment-related activities associated with our cemetery perpetual care trusts for the years ended December 31:

	2011	2010	2009
	(In thousands)		
Deposits	\$23,785	\$22,828	\$22,336
Withdrawals	34,737	41,418	31,196
Purchases of available-for-sale securities	444,616	442,219	369,536
Sales of available-for-sale securities	410,175	365,017	285,370
Realized gains from sales of available-for-sale securities	34,275	11,753	11,288
Realized losses from sales of available-for-sale securities	(16,310)	(9,792)	(20,512)

The components of Cemetery perpetual care trust investments in our consolidated balance sheet at December 31 were as follows:

	2011	2010
	(In thousands)	
Trust investments, at market	\$952,573	\$922,228
Cash and cash equivalents	63,933	64,791
Cemetery perpetual care trust investments	\$1,016,506	\$987,019

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

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Fixed income securities:				
U.S. Treasury	\$981	\$39	\$—	\$1,020
Canadian government	29,015	686	(43	) 29,658
Corporate	21,197	528	(134	) 21,591
Residential mortgage-backed	1,662	53	(13	) 1,702
Asset-backed	83	2	(1	) 84
Equity securities:				
Preferred stock	6,475	18	(1,146	) 5,347
Common stock:				
United States	141,880	14,443	(9,113	) 147,210
Canada	13,374	1,483	(1,423	) 13,434
Other international	16,836	1,314	(1,421	) 16,729
Mutual funds:				
Equity	21,801	1,598	(579	) 22,820
Fixed income	654,883	29,758	(9,402	) 675,239
Private equity	23,212	374	(12,737	) 10,849
Other	8,018	850	(1,978	) 6,890
Cemetery perpetual care trust investments	\$939,417	\$51,146	\$(37,990	) \$952,573

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

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

the ASC.

63

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. The majority of the investments can be redeemed at discount; others can be redeemed without a discount. Generally, however, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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

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

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Fair Market Value
Trust investments at December 31, 2011	\$875,432	\$59,402	\$17,739	\$952,573
Trust investments at December 31, 2010	\$806,828	\$98,311	\$17,089	\$922,228

The change in our market-based cemetery perpetual care trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31 (in thousands):

	2011	2010	2009
Fair market value, beginning balance	\$17,089	\$14,943	\$48,276
Net unrealized gains (losses) included in Accumulated other comprehensive income(1)	7,400	7,018	(27,920 )
Net realized losses included in Other (expense) income, net(2)	(310 )	(2,613 )	(121 )
Sales	(44 )	(155 )	—
Contributions	118	11,140	4,263
Distributions and other	(6,514 )	(13,244 )	(2,343 )
Transfers out of Level 3	—	—	(7,212 )
Fair market value, ending balance	\$17,739	\$17,089	\$14,943

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

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Fair Market Value (In thousands)
Due in one year or less	\$7,850
Due in one to five years	23,325
Due in five to ten years	21,622
Thereafter	1,258
	\$54,055

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenues to the extent we incur qualifying cemetery maintenance costs. Fees charged by our wholly-owned registered investment advisor are also included in current revenues in the period in which they are earned. Recognized earnings related to these cemetery perpetual care trust investments were \$43.0 million, \$38.6 million, and \$37.6 million for the years ended December 31, 2011, 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) income, net and a decrease to Cemetery perpetual care trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Care trusts' corpus. See Note 7 for further information related to our Care trusts' corpus. For the years ended December 31, 2011, 2010, and 2009, we recorded a \$0.7 million, a \$7.8 million, and a \$13.1 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our cemetery perpetual care trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings, and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery perpetual care trust investment unrealized losses, their associated fair market values and the duration of unrealized losses for the years ended December 31, 2011 and 2010, are shown in the following table:



Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2011		In Loss Position		Total	Unrealized
	In Loss Position Less Than 12 Months	Fair Market Value	Fair Market Value	Unrealized Losses		
Fixed income securities:						
Canadian government	\$7,057	\$(43 )	\$—	\$—	\$7,057	\$(43 )
Corporate	3,854	(73 )	1,456	(61 )	5,310	(134 )
Residential mortgage-backed	58	(1 )	127	(12 )	185	(13 )
Asset-backed	51	(1 )	—	—	51	(1 )
Equity securities:						
Preferred stock	4,393	(1,116 )	21	(30 )	4,414	(1,146 )
Common stock:						
United States	39,716	(5,459 )	9,055	(3,654 )	48,771	(9,113 )
Canada	4,402	(772 )	565	(651 )	4,967	(1,423 )
Other international	5,738	(1,226 )	104	(195 )	5,842	(1,421 )
Mutual funds:						
Equity	9,852	(564 )	2,717	(15 )	12,569	(579 )
Fixed income	144,350	(5,498 )	51,301	(3,904 )	195,651	(9,402 )
Private equity	254	(324 )	10,189	(12,413 )	10,443	(12,737 )
Other	140	(181 )	5,660	(1,797 )	5,800	(1,978 )
Total temporarily impaired securities	\$219,865	\$(15,258 )	\$81,195	\$(22,732 )	\$301,060	\$(37,990 )

	December 31, 2010		In Loss Position		Total	Unrealized
	In Loss Position Less Than 12 Months	Fair Market Value	Fair Market Value	Unrealized Losses		
Fixed income securities:						
U.S. Treasury	\$1,669	\$(31 )	\$—	\$—	\$1,669	\$(31 )
Canadian government	4,966	(7 )	—	—	4,966	(7 )
Corporate	9,181	(221 )	675	(28 )	9,856	(249 )
Residential mortgage-backed	137	(2 )	92	(4 )	229	(6 )
Equity securities:						
Preferred stock	1,561	(90 )	29	(22 )	1,590	(112 )
Common stock:						
United States	15,419	(1,464 )	16,419	(5,176 )	31,838	(6,640 )
Canada	1,545	(82 )	1,454	(676 )	2,999	(758 )
Other international	3,175	(242 )	2,383	(1,603 )	5,558	(1,845 )
Mutual funds:						
Equity	866	(10 )	29,974	(7,229 )	30,840	(7,239 )
Fixed income	18,166	(134 )	53,553	(2,200 )	71,719	(2,334 )

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

Private equity	1	(1	) 10,060	(13,343	) 10,061	(13,344	)
Other	1	(2	) 5,568	(2,655	) 5,569	(2,657	)
Total temporarily impaired securities	\$56,687	\$(2,286	) \$120,207	\$(32,936	) \$176,894	\$(35,222	)

66

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 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; 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 consolidated balance sheet at December 31, 2011 and 2010 are detailed below.

	December 31, 2011			December 31, 2010		
	Preneed Funeral	Preneed Cemetery	Total	Preneed Funeral	Preneed Cemetery	Total
	(In thousands)			(In thousands)		
Trust investments	\$1,271,446	\$1,156,023	\$2,427,469	\$1,216,542	\$1,194,795	\$2,411,337
Accrued trust operating payables and other	(1,261 )	(1,852 )	(3,113 )	(975 )	(2,288 )	(3,263 )
Deferred preneed funeral and cemetery receipts held in trust	\$1,270,185	\$1,154,171	\$2,424,356	\$1,215,567	\$1,192,507	\$2,408,074

## Care Trusts' Corpus

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

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

	December 31, 2011	December 31, 2010
	(In thousands)	
Cemetery perpetual care trust investments	\$1,016,506	\$987,019
Accrued trust operating payables and other	(1,206 )	(147 )
Care trusts' corpus	\$1,015,300	\$986,872

## Other (Expense) Income, Net

The components of Other (expense) income, net in our consolidated statement of operations for the years ended December 31, 2011, 2010, and 2009 are detailed below. See Notes 4, 5, and 6 for further discussion of the amounts related to our funeral, cemetery, and cemetery perpetual care trusts.

	Year Ended December 31, 2011				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
	(In thousands)				
Realized gains	\$61,272	\$67,167	\$34,275	\$—	\$162,714
Realized losses	(41,162 )	(46,889 )	(16,310 )	—	(104,361 )
Impairment charges	(24,705 )	(28,705 )	(741 )	—	(54,151 )
Interest, dividend, and other ordinary income	22,283	26,902	35,467	—	84,652
Trust expenses and income taxes	(7,303 )	(10,579 )	(2,774 )	—	(20,656 )
Net trust investment income	10,385	7,896	49,917	—	68,198
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care	(10,385 )	(7,896 )	(49,917 )	—	(68,198 )

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

trusts' corpus

Other (expense) income, net	—	—	—	(772	) (772	)
Total other (expense) income, net	\$—	\$—	\$—	\$(772	) \$(772	)

67

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31, 2010				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
	(In thousands)				
Realized gains	\$36,807	\$43,413	\$11,753	\$—	\$91,973
Realized losses	(46,601 )	(51,771 )	(9,792 )	—	(108,164 )
Impairment charges	(8,135 )	(5,749 )	(7,771 )	—	(21,655 )
Interest, dividend, and other ordinary income	18,571	22,464	34,356	—	75,391
Trust expenses and income taxes	(4,920 )	(9,708 )	(1,872 )	—	(16,500 )
Net trust investment (loss) income	(4,278 )	(1,351 )	26,674	—	21,045
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus	4,278	1,351	(26,674)	—	(21,045 )
Other (expense) income, net	—	—	—	3,009	3,009
Total other (expense) income, net	\$—	\$—	\$—	\$3,009	\$3,009

	Year Ended December 31, 2009				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
	(In thousands)				
Realized gains	\$28,715	\$44,972	\$11,288	\$—	\$84,975
Realized losses	(57,118 )	(75,254 )	(20,512 )	—	(152,884 )
Impairment charges	(22,476 )	(41,245 )	(13,067 )	—	(76,788 )
Interest, dividend, and other ordinary income	21,694	25,273	37,436	—	84,403
Trust expenses and income taxes	(4,127 )	(3,789 )	(3,240 )	—	(11,156 )
Net trust investment (loss) income	(33,312 )	(50,043 )	11,905	—	(71,450 )
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus	33,312	50,043	(11,905)	—	71,450
Other (expense) income, net	—	—	—	1,316	1,316
Total other (expense) income, net	\$—	\$—	\$—	\$1,316	\$1,316

## 8. Goodwill and Intangible Assets

The changes in the carrying amounts of goodwill for our funeral and cemetery reporting units are as follows (in thousands):

	2011			2010		
	Funeral	Cemetery	Total	Funeral	Cemetery	Total
Balance as of January 1:						
Goodwill	\$1,244,206	\$210,072	\$1,454,278	\$1,140,742	\$207,384	\$1,348,126
Accumulated impairment losses	—	(146,794 )	(146,794 )	—	(146,794 )	(146,794 )
Goodwill, net	1,244,206	63,278	1,307,484	1,140,742	60,590	1,201,332
Increase in goodwill related to acquisitions	60,933	463	61,396	114,020	6,076	120,096
	(4,332 )	(598 )	(4,930 )	(16,581 )	(3,388 )	(19,969 )

Reduction of goodwill related to divestitures						
Effect of foreign currency and other	(2,457 )	—	(2,457 )	6,025	—	6,025
	54,144	(135 )	54,009	103,464	2,688	106,152
Balance as of December 31:						
Goodwill	1,298,350	209,937	1,508,287	1,244,206	210,072	1,454,278
Accumulated impairment losses	—	(146,794 )	(146,794 )	—	(146,794 )	(146,794 )
Goodwill, net	\$ 1,298,350	\$ 63,143	\$ 1,361,493	\$ 1,244,206	\$ 63,278	\$ 1,307,484

The components of intangible assets at December 31 were as follows:

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Useful life		2011 (In thousands)	2010
	Minimum (Years)	Maximum		
Amortizing intangibles:				
Covenants-not-to-compete	2	- 20	\$200,973	\$195,346
Customer relationships	10	- 20	100,423	93,218
Tradenames	5	- 5	3,600	3,600
Other	5	- 40	6,050	6,050
			311,046	298,214
Less: Accumulated amortization			189,773	171,597
Amortizing intangibles, net			121,273	126,617
Non-amortizing intangibles:				
Tradenames		Indefinite	121,838	82,732
Other		Indefinite	10,140	10,140
Non-amortizing intangibles			131,978	92,872

Intangible assets, net \$253,251 \$219,489

Amortization expense for intangible assets was \$25.6 million, \$25.2 million, and \$21.7 million for the years ended December 31, 2011, 2010, and 2009, respectively. The following is estimated amortization expense, excluding certain customer relationship intangibles for which we are unable to provide an estimate because they are amortized based on specific identification in the performance of a preneed contract, for the five years subsequent to December 31, 2011 (in thousands):

2012	\$14,591
2013	12,589
2014	10,929
2015	8,236
2016	7,745
	\$54,090

**9. Income Taxes**

The provision or benefit for income taxes includes U.S. federal income taxes (determined on a consolidated return basis), foreign income taxes, and state income taxes.

Income from continuing operations before income taxes for the years ended December 31 was composed of the following components:

	2011 (In thousands)	2010	2009
United States	\$196,788	\$169,544	\$175,212
Foreign	28,848	49,915	24,156
	\$225,636	\$219,459	\$199,368

Income tax provision (benefit) for the years ended December 31 consisted of the following:

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2011	2010	2009
	(In thousands)		
Current:			
United States	\$1,267	\$1,752	\$13
Foreign	5,844	12,326	9,200
State	5,781	1,446	9,196
Total current income taxes	12,892	15,524	18,409
Deferred:			
United States	\$57,845	\$64,814	\$57,767
Foreign	279	185	(806)
State	8,388	11,935	905
Total deferred income taxes	66,512	76,934	57,866
Total income taxes	\$79,404	\$92,458	\$76,275

We made income tax payments of \$13.1 million, \$29.3 million, and \$27.2 million in 2011, 2010, and 2009, respectively, and received refunds of \$8.5 million, \$8.3 million, and \$5.6 million. The Internal Revenue Service approved our application for a change in accounting method in December 2010. As a result we overpaid our estimated 2010 Federal and state income taxes. The overpayment of our estimated Federal income tax is included in our 2011 refunds; however, we elected to apply the overpayment of our 2010 state income tax to our 2011 estimated income tax payments which lowered our 2011 cash tax payments.

The differences between the U.S. federal statutory income tax rate and our effective tax rate for the years ended December 31 were as follows:

	2011	2010	2009
	(In thousands)		
Computed tax provision at the applicable federal statutory income tax rate	\$78,973	\$76,811	\$69,779
State and local taxes, net of federal income tax benefits	9,895	8,775	6,565
Dividends received deduction and tax exempt interest	(644)	(1,168)	(947)
Foreign jurisdiction differences	(4,789)	(3,101)	(3,707)
Permanent differences associated with dispositions	(6,329)	7,192	2,950
Changes in uncertain tax positions	1,584	1,138	(134)
Other	714	2,811	1,769
Provision for income taxes	\$79,404	\$92,458	\$76,275
Total effective tax rate	35.2%	42.1%	38.3%

The 2011 consolidated effective tax rate was 35.2%, compared to 42.1% and 38.3% in 2010 and 2009, respectively.

We sold our Puerto Rican subsidiary in the third quarter of 2011. Our outside tax basis in the business was significantly higher than our book basis. Consequently, we recognized a tax loss that was significantly higher than the book loss on the sale which is permanent in nature. The decrease in the effective tax rate for the year ended December 31, 2011 as compared to the previous two years is primarily due to that sale.

Our 2010 and 2009 effective tax rate was negatively impacted by permanent book and tax basis differences relate to North American asset divestitures. During 2010 we recognized U.S. tax on post-acquisition integration of certain Keystone entities into SCI's structure. Our overall foreign tax expense increased in 2010 due to an increase in foreign earnings. This increase was partially offset by a decrease in foreign statutory rates. In 2010 our state tax expense was impacted by permanent items affecting our overall effective rate as well as an increase in state statutory tax rates. During 2009 we experienced a decrease in state tax expense due to a restructuring of some of our state operating entities.

During 2010, the Internal Revenue Service approved three requests for tax accounting method changes relating to the recognition of trust earnings accumulated in cemetery and funeral trusts, revenue from preneed sales of cemetery



merchandise, and revenue from non-trusted customer payments for preneed funeral contracts. The effective date for these tax accounting method changes is for the fiscal year ended December 31, 2010. In accordance with § 481(a) of the U.S. Internal Revenue Code this adjustment recalculates the income previously recognized to determine what should have been recognized under the new tax accounting method. The cumulative impact of these accounting method changes resulted in an adjustment under § 481(a) for 2010

70

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

of \$190.3 million that represents a decrease in current year taxable income, a decrease in a previously recognized deferred tax asset related to deferred revenue, and an increase in our deferred tax asset related to our net operation loss carryover. Although these changes had no tax impact on the overall effective tax rate, there was a savings in cash taxes including a refund of our 2010 Federal estimated tax payments of \$7.1 million which was received in 2011. Deferred taxes are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates. The tax effects of temporary differences and carry-forwards that give rise to significant portions of deferred tax assets and liabilities as of December 31 consisted of the following:

	2011	2010
	(In thousands)	
Inventories and cemetery property, principally due to purchase accounting adjustments	\$(352,323	) \$(344,160 )
Property and equipment, principally due to differences in depreciation methods and purchase accounting adjustments	(194,875	) (170,305 )
Intangibles	(74,278	) (82,587 )
Payables, principally due to sales of cemetery interment rights and related products	(32,949	) (28,779 )
Deferred tax liabilities	(654,425	) (625,831 )
Loss and tax credit carry-forwards	215,285	235,393
Deferred revenue on preneed funeral and cemetery contracts, principally due to earnings from trust funds	92,640	98,335
Accrued liabilities	11,308	24,469
Other	44,506	49,316
Deferred tax assets	363,739	407,513
Less: Valuation allowance	(63,681	) (63,614 )
Net deferred income tax liability	\$(354,367	) \$(281,932 )
Deferred tax assets and Deferred income tax liabilities consisted of the following as of December 31 (in thousands):	2011	2010
Current deferred tax assets	\$44,316	\$40,740
Non-current deferred tax assets	6,932	631
Non-current deferred tax liabilities	(405,615	) (323,303 )
Net deferred income tax liability	\$(354,367	) \$(281,932 )

In addition to the loss and tax credit carry-forward amounts reflected as deferred tax assets in the table above, we have taken certain tax deductions related to the exercised employee stock options and vested restricted shares that are in excess of the stock-based compensation amounts recorded in our consolidated financial statements (“windfall tax benefits”). Pursuant to the Stock Compensation Topic under the ASC, such windfall tax benefits are not recognized in our consolidated financial statements unless they reduce income taxes payable. As of December 31, 2011 and 2010 we have windfall tax benefits of \$13.0 million and \$9.5 million, respectively, which when realized will be recorded as a reduction to current taxes payable and a credit to Capital in excess of par value in our consolidated financial statements.

During the fourth quarter of 2010, the Company underwent a restructuring of its Canadian subsidiaries. The restructuring triggered a U.S. dividend of \$6.9 million for which U.S. federal taxes have been provided for the year ended December 31, 2010. The dividend is less than current year earnings and other prior year earnings required to be permanently reinvested. At December 31, 2011 and 2010, U.S. income taxes had not been provided on \$93.0 million and \$256.0 million, respectively, of the remaining undistributed earnings of our Canadian subsidiaries. We intend to permanently reinvest these undistributed foreign earnings in those businesses outside the United States. It is not practicable to determine the amount of federal income taxes, if any, that might become due if such earnings are repatriated.

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2009 to December 31, 2011 (in thousands):

71

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Federal, State and Foreign Tax (In thousands)
Balance at December 31, 2008	\$142,457
Additions to tax positions related to the current year	5,154
Additions to tax positions related to prior years	1,076
Statute expirations	(4,243 )
Balance at December 31, 2009	\$144,444
Additions to tax positions related to the current year	10,215
Additions to tax positions related to prior years	110
Statute expirations	(2,004 )
Balance at December 31, 2010	\$152,765
Additions to tax positions related to the current year	4,971
Additions to tax positions related to prior years	60
Statute expirations	(1,484 )
Balance at December 31, 2011	\$156,312

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rates were \$37.8 million, \$39.3 million, and \$41.2 million as of December 31, 2011, 2010, and 2009, respectively.

During 2011, in accordance with the Income Tax Topic under the ASC, we recorded an increase of \$3.5 million in our liability for unrecognized tax benefits, of which \$5.0 million was an increase to U.S. tax positions taken in the current year and \$0.1 million was an increase related to U.S. tax positions taken in prior years. In addition, we recorded a \$1.5 million decrease to our tax liability due to the expiration of statute of limitations on positions taken in previous fiscal years.

Consistent with our historical financial reporting, we include potential accrued interest and penalties related to unrecognized tax benefits within our income tax provision account. We have accrued \$41.8 million, \$38.8 million and \$36.0 million for the payment of interest, net of tax benefits, and penalties as of December 31, 2011, 2010, and 2009, respectively. We recognized interest and penalties of \$3.0 million, \$3.6 million, and \$3.8 million for the years ended December 31, 2011, 2010, and 2009, respectively. To the extent interest and penalties are not assessed with respect to uncertain tax positions or the uncertainty of deductions in the future, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

We file income tax returns, including tax returns for our subsidiaries, with federal, state, local, and foreign jurisdictions. Our tax returns are subject to routine compliance review by the taxing authorities in the jurisdictions in which we file tax returns in the ordinary course of business. We consider the United States to be our most significant tax jurisdiction; however, the taxing authorities in Canada and Spain are auditing various tax returns. Current audits are occurring in the United States and various state and foreign locations covering open tax years through 2010. The Internal Revenue Service is in various stages of auditing tax years 1999 through 2005. 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.

Various subsidiaries have foreign, federal, and state carry-forwards in the aggregate of \$2.9 billion with expiration dates through 2030. Such loss carry-forwards will expire as follows:

	Federal	State	Foreign	Total
	(In thousands)			
2012	\$691	\$56,990	\$—	\$57,681
2013	1,733	10,640	—	12,373
2014	115	42,324	64	42,503

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

2015	3,667	39,430	—	43,097
Thereafter	219,083	2,548,627	312	2,768,022
Total	\$225,289	\$2,698,011	\$376	\$2,923,676

In addition to the above loss carry-forwards, we have \$64.1 million of foreign losses that have an indefinite expiration. A valuation allowance has been established because more-likely-than-not uncertainties exist with respect to our future

72

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

realization of certain loss carry-forwards. The valuation allowance is primarily attributable to state net operating losses and reflects our expectation that the net operating losses in certain jurisdictions will expire before we generate sufficient taxable income to utilize the losses. In 2011, we recorded a net \$5.0 million increase in state valuation allowances due to an increase in net operating losses which is primarily attributable to state net operating losses and reflects our expectation that the net operating losses in certain jurisdictions will expire before we generate sufficient taxable income to utilize the losses. We recorded a \$4.8 million decrease in foreign valuation allowances which is primarily related to the completion of the sale of our Puerto Rico subsidiary resulting in a decrease in foreign valuation allowances which had been booked against their deferred tax assets.

At December 31, 2011, our loss and tax credit carry-forward deferred tax assets and related valuation allowances by jurisdiction are as follows:

	Federal	State(1) (In thousands)	Foreign	Total
Loss and tax credit carry-forwards	\$99,457	\$93,393	\$22,435	\$215,285
Valuation allowance	\$4,107	\$41,330	\$18,244	\$63,681

(1) Presented net of Federal benefit

## 10. Debt

Debt as of December 31 was as follows:

	2011 (In thousands)	2010
7.875% Debentures due February 2013	\$4,757	\$8,557
7.375% Senior Notes due October 2014	180,692	180,692
6.75% Senior Notes due April 2015	136,465	157,250
6.75% Senior Notes due April 2016	197,377	212,927
7.0% Senior Notes due June 2017	295,000	295,000
7.625% Senior Notes due October 2018	250,000	250,000
7.0% Senior Notes due May 2019	250,000	250,000
8.0% Senior Notes due November 2021	150,000	150,000
7.5% Senior Notes due April 2027	200,000	200,000
Bank credit facility due March 2016	65,000	—
Obligations under capital leases	124,330	118,339
Mortgage notes and other debt, maturities through 2047	35,937	38,223
Unamortized pricing discounts and other	(4,888)	(6,106)
Total debt	1,884,670	1,854,882
Less current maturities	(23,554)	(22,502)
Total long-term debt	\$1,861,116	\$1,832,380

Current maturities of debt at December 31, 2011 were primarily comprised of our capital lease obligations and mortgage notes. Our consolidated debt had a weighted average interest rate of 6.69% and 6.80% at December 31, 2011 and 2010, respectively. Approximately 89% and 93% of our total debt had a fixed interest rate at December 31, 2011 and 2010, respectively.

The aggregate maturities of our debt for the five years subsequent to December 31, 2011 and thereafter (in thousands) are as follows:

Table of Contents

2012	\$23,554
2013	27,299
2014	207,708
2015	176,448
2016	270,653
2017 and thereafter	1,179,008
	\$1,884,670

**Bank Credit Facility**

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

As of December 31, 2011, we had \$65.0 million outstanding cash advances and then used it to support \$32.7 million of letters of credit. The Bank credit facility provides us with flexibility for refinancing debt and acquisitions, 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, which was 0.35%. As of December 31, 2011, we have \$402.3 million in borrowing capacity under the facility.

**Debt Issuances and Additions**

In November 2010, we issued \$250.0 million of unsecured 7.0% Senior Notes due May 2019. 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. We used the net proceeds from the offering to repay our indebtedness under our amended and restated credit facility and for general corporate purposes.

**Debt Extinguishments and Reductions**

During 2011, we made debt payments of \$46.0 million, including the following purchases on the open market:

- \$3.8 million aggregate principal amount of our 7.875% Senior Notes due February 2013;
- \$20.8 million aggregate principal amount of our 6.75% Senior Notes due April 2015; and
- \$15.6 million aggregate principal amount of our 6.75% Senior Notes due April 2016.

Certain of the above transactions resulted in the recognition of a loss of \$3.5 million recorded in (Losses) gains on early extinguishment of debt, net in our consolidated statement of operations, which represents the write-off of unamortized deferred loan costs of \$0.4 million and \$3.1 million in premium on the purchase of these notes.

During 2010, we made debt payments of \$122.2 million, which included the following purchases on the open market:

- \$25.5 million aggregate principal amount of our 7.875% Senior Notes due February 2013;
- \$70.5 million aggregate principal amount of our 7.375% Senior Notes due October 2014;
- \$3.0 million aggregate principal amount of our 6.75% Senior Notes due April 2015; and
- \$20.1 million aggregate principal amount of our 6.75% Senior Notes due April 2016.

Certain of the above transactions resulted in the recognition of a loss of \$9.4 million recorded in (Losses) gains on early extinguishment of debt, net during the year ended December 31, 2010, which represents the write-off of unamortized deferred loan costs of \$1.4 million and \$8.0 million in premium on the purchase of these notes.

**Capital Leases**

In 2011, 2010, and 2009 we acquired \$31.3 million, \$22.8 million, and \$64.1 million, respectively, of transportation equipment using capital leases. See additional information regarding these leases in Note 12.

**Additional Debt Disclosures**

Table of Contents

At December 31, 2011 and 2010, we have deposits of \$4.1 million and \$15.6 million, respectively, in restricted, interest-bearing accounts that were pledged as collateral for various credit instruments and commercial commitments. Our restricted cash is included in Deferred charges and other assets in our consolidated balance sheet. Unamortized pricing discounts, totaling \$4.9 million and \$6.1 million at December 31, 2011 and 2010, respectively, primarily relate to our 6.75% Senior Notes due April 2015, 6.75% Senior Notes due April 2016, 7.0% Senior Notes due June 2017, and our 8.0% Senior Notes due November 2021.

We had assets of approximately \$2.8 million and \$3.6 million pledged as collateral for the mortgage notes and other debt at December 31, 2011 and 2010, respectively.

Cash interest payments for the three years ended December 31 (in thousands) were as follows:

Payments in 2011	\$ 129,105
Payments in 2010	125,138
Payments in 2009	122,224

Cash interest payments forecasted as of December 31, 2011 for the five years subsequent to December 31, 2011 and thereafter (in thousands) are as follows:

Payments in 2012	\$ 126,225
Payments in 2013	125,678
Payments in 2014	121,951
Payments in 2015	104,370
Payments in 2016	89,578
Payments in 2017 and thereafter	302,520

## 11. Credit Risk and Fair Value of Financial Instruments

### Fair Value Estimates

The fair value estimates of the following financial instruments have been determined using available market information and appropriate valuation methodologies. The carrying values of cash and cash equivalents, trade receivables, and trade payables approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of receivables on preneed funeral 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 December 31 was as follows:

	2011	2010
	(In thousands)	
7.875% Debentures due February 2013	\$4,971	\$9,092
7.375% Senior Notes due October 2014	196,954	194,244
6.75% Senior Notes due April 2015	150,083	161,968
6.75% Senior Notes due April 2016	216,375	216,653
7.0% Senior Notes due June 2017	323,025	302,375
7.625% Senior Notes due October 2018	276,875	262,500
7.0% Senior Notes due May 2019	262,500	251,250
8.0% Senior Notes due November 2021	167,550	158,063
7.5% Senior Notes due April 2027	195,750	194,920
Bank credit facility due March 2016	65,000	—
Mortgage notes and other debt, maturities through 2047	36,340	37,991
Total fair value of debt instruments	\$1,895,423	\$1,789,056

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 as required by the FVM&D Topic of the ASC. The bank credit facility and the mortgage and other debt are classified within Level 3 of the Fair Value Measurements hierarchy. The fair values of these instruments have been estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements.





Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Credit Risk Exposure

Our cash deposits, some of which exceed insured limits, are distributed among various market and national banks in the jurisdictions in which we operate. In addition, we regularly invest excess cash in financial instruments which are not insured, such as money-market funds and Eurodollar time deposits, that are offered by a variety of reputable financial institutions and commercial paper that is offered by corporations with quality credit ratings. We believe that the credit risk associated with such instruments is minimal.

We grant credit to customers in the normal course of business. The credit risk associated with our funeral, cemetery, and preneed funeral and preneed cemetery receivables due from customers is generally considered minimal because of the diversification of the customers served. Furthermore, bad debts have not been significant relative to the volume of deferred revenues. Customer payments on preneed funeral or preneed cemetery contracts that are either placed into state-regulated trusts or used to pay premiums on life insurance contracts generally do not subject us to collection risk. Insurance-funded contracts are subject to supervision by state insurance departments and are protected in the majority of states by insurance guaranty acts.

## 12. Commitments and Contingencies

## Leases

Our leases principally relate to funeral home facilities and transportation equipment. The majority of our lease arrangements contain options to (i) purchase the property at fair value on the exercise date, (ii) purchase the property for a value determined at the inception of the lease, or (iii) renew the lease for the fair rental value at the end of the primary lease term. Rental expense for operating leases was \$25.7 million, \$24.7 million, and \$22.8 million for the years ended December 31, 2011, 2010, and 2009, respectively. As of December 31, 2011, future minimum lease payments for non-cancelable operating and capital leases exceeding one year were as follows:

	Operating (In thousands)	Capital
2012	\$13,215	\$24,930
2013	11,210	21,420
2014	9,248	27,168
2015	7,328	39,439
2016	5,760	7,474
2017 and thereafter	41,192	18,531
Total	\$87,953	\$138,962
Less: Interest on capital leases		(14,632)
Total principal payable on capital leases		\$124,330

## Management, Consulting, and Non-Competition Agreements

We have entered into management, employment, consulting, and non-competition agreements, generally for five to ten years, with certain officers and employees and former owners of businesses that we acquired. At December 31, 2011, the maximum estimated future cash commitments under agreements with remaining commitment terms, and with original terms of more than one year, were as follows:

	Employment (In thousands)	Consulting	Non-Competition	Total
2012	\$3,603	\$852	\$4,074	\$8,529
2013	2,079	438	3,462	5,979
2014	1,473	330	2,988	4,791
2015	491	201	2,477	3,169
2016	205	99	2,196	2,500
2017 and thereafter	432	262	7,136	7,830
Total	\$8,283	\$2,182	\$22,333	\$32,798



Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 December 31, 2011 and 2010, we have self-insurance reserves of \$52.7 million and \$53.9 million, respectively.

Litigation

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

**Burial Practices Claims.** We are named as a defendant in various lawsuits alleging improper burial practices at certain of our cemetery locations. These lawsuits include but are not limited to the Garcia and Sands lawsuits described in the following paragraphs.

**Reyvis Garcia and Alicia Garcia v. Alderwoods Group, Inc., Osiris Holding of Florida, Inc.,** a Florida corporation, d/b/a Graceland Memorial Park South, f/k/a Paradise Memorial Gardens, Inc., was filed in December 2004, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, Case No. 04-25646 CA 32. Plaintiffs are the son and sister of the decedent, Eloisa Garcia, who was buried at Graceland Memorial Park South in March 1986, when the cemetery was owned by Paradise Memorial Gardens, Inc. Initially, the suit sought damages on the individual claims of the plaintiffs relating to the burial of Eloisa Garcia. Plaintiffs claimed that due to poor recordkeeping, spacing issues and maps, and the fact that the family could not afford to purchase a marker for the grave, the burial location of the decedent could not be readily located. Subsequently, the decedent's grave was located and verified. In July 2006, plaintiffs amended their complaint, seeking to certify a class of all persons buried at this cemetery whose burial sites cannot be located, claiming that this was due to poor recordkeeping, maps, and surveys at the cemetery. Plaintiffs subsequently filed a third amended class action complaint and added two additional named plaintiffs. The plaintiffs are seeking unspecified monetary damages, as well as equitable and injunctive relief. On May 4, 2011, the trial court certified a class and we are appealing that ruling. 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 seeks compensatory, consequential and punitive damages as well as the appointment of a receiver to oversee cemetery operations. The plaintiff claims the cemetery damaged and desecrated burials in order to prepare adjoining graves for subsequent burials. 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

trial court dismissed plaintiffs' claims on September 24, 2010, and the plaintiffs filed an appeal on October 19, 2010. We cannot quantify our ultimate liability, if any, in this lawsuit.

Wage and Hour Claims. We are named a defendant in various lawsuits alleging violations of federal and state laws regulating wage and hour overtime pay, including but not limited to the Prise, Bryant, Bryant, Helm, Stickle, and Southern 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

Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

fully compensated, including work for which overtime pay was owed. Although the court initially conditionally certified a class of claims as to certain job positions for Alderwoods employees, the court granted our motion to decertify the class on September 9, 2011.

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

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

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

Stickle, et al. v. Service Corporation International, et al.; Case No. 08-CV-83; in the U.S. District Court for Arizona, Phoenix Division. Counsel for plaintiffs in the Wage and Hour Lawsuit filed this case on January 17, 2008, against SCI and various related entities and individuals asserting FLSA and other ancillary claims based on the alleged failure to pay for overtime. In September 2009, the Court conditionally certified a class of claims as to certain job positions of SCI affiliated employees. On April 20, 2011, the court granted our motion to decertify the class. We cannot quantify our ultimate liability, if any, in this lawsuit.

Southern, et al. v. SCI Kentucky Funeral Services, Inc.; Case No. 11C106501; in the Jefferson Circuit Court, Division Eight, Kentucky. This lawsuit was filed on October 6, 2011 against an SCI subsidiary and purports to have been brought on behalf of employees who worked in Kentucky as funeral directors. The plaintiffs allege causes of action for various violations of Kentucky wage and hour laws, and breach of contract. Plaintiffs seek unpaid wages, compensatory and exemplary relief, damages, attorneys' fees and costs, and pre- and post judgment interest. We cannot quantify our ultimate liability, if any, in this lawsuit.

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

13. Equity

(All shares reported in whole numbers)

Share Authorization

We are authorized to issue 1,000,000 shares of preferred stock, \$1 per share par value. No preferred shares were issued as of December 31, 2011 or 2010. At December 31, 2011 and 2010, 500,000,000 common shares of \$1 par value were authorized. We had 222,955,853 and 241,035,250 shares issued and outstanding, net of 1,709,542 and 984,400 shares held in treasury at par at December 31, 2011 and 2010, respectively.

Accumulated Other Comprehensive Income

Our components of Accumulated other comprehensive income are as follows:

78

---

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Foreign Currency Translation Adjustment (In thousands)	Unrealized Gains and Losses	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2008	\$36,649	\$—	\$36,649
Activity in 2009	60,493	—	60,493
Increase in net unrealized gains, net of tax, associated with available-for-sale securities of the trusts, net of taxes	—	323,131	323,131
Reclassification of net unrealized gains, net of tax, activity attributable to the Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus, net of taxes	—	(323,131 )	(323,131 )
Balance at December 31, 2009	\$97,142	\$—	\$97,142
Activity in 2010	15,626	—	15,626
Increase in net unrealized gains associated with available-for-sale securities of the trusts, net of taxes	—	147,688	147,688
Reclassification of net unrealized gains activity attributable to the Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus, net of taxes	—	(147,688 )	(147,688 )
Balance at December 31, 2010	\$112,768	\$—	\$112,768
Activity in 2011	(6,916 )	—	(6,916 )
Reduction in net unrealized gains associated with available-for-sale securities of the trusts, net of taxes	—	(80,789 )	(80,789 )
Reclassification of net unrealized losses activity attributable to the Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus, net of taxes	—	80,789	80,789
Balance at December 31, 2011	\$105,852	\$—	\$105,852

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 cumulative currency translation adjustments in Accumulated other comprehensive income.

**Share Repurchase Program**

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our share repurchase program. During 2011, we repurchased 19,752,174 shares of common stock at an aggregate cost of \$195.7 million, which is an average cost per share of \$9.91. During 2010, we repurchased 13,927,510 shares of common stock at an aggregate cost of \$116.2 million, which is an average cost per share of \$8.34. During 2009, we did not repurchase any shares of our common stock. In August 2011, our Board of Directors approved an increase in our share repurchase program authorizing the investment of up to an additional \$116.6 million to repurchase our common stock. The remaining dollar value of shares authorized to be purchased under the share repurchase program was \$99.6 million at December 31, 2011.

Subsequent to December 31, 2011, we repurchased an additional 1,831,921 shares of common stock at an aggregate cost of \$20.0 million including commissions (average cost per share of \$10.90). In February 2012, our Board of Directors approved an increase in our share repurchase program authorizing the investment of up to an additional \$119.9 million to repurchase our common stock. After this increase, the remaining dollar value of shares authorized to be purchased under our share repurchase program is approximately \$199.4 million.

**Cash Dividends**



On November 8, 2011, our Board of Directors approved a cash dividend of \$0.05 per common share. At December 31, 2011, this dividend totaling \$11.0 million was recorded in Accounts payable and accrued liabilities and Capital in Excess of Par Value in our consolidated balance sheet. We paid this dividend subsequent to December 31, 2011. We paid \$44.8 million, \$40.0 million, and \$40.2 million in cash dividends in 2011, 2010, and 2009, respectively. On February 8, 2012 our Board of Directors approved a cash dividend of \$0.05 per common share payable on April 30, 2012 to stockholders of record as of April 13, 2012.

14. Share-Based Compensation

Table of Contents

## Stock Benefit Plans

We maintain benefit plans whereby shares of our common stock may be issued pursuant to the exercise of stock options or restricted stock granted to officers and key employees. Our Amended and Restated Incentive Plan reserves 44,000,000 shares of common stock for outstanding and future awards of stock options, restricted stock, and other stock based awards to officers and key employees.

Our benefit plans allow for options to be granted as either non-qualified or incentive stock options. The options historically have been granted annually, or upon hire, as approved by the Compensation Committee of the Board of Directors. The options are granted with an exercise price equal to the market price of our common stock on the date the grant, as approved by the Compensation Committee of the Board of Directors. The options are generally exercisable at a rate of 33<sup>1</sup>/<sub>3</sub>% each year unless alternative vesting methods are approved by the Compensation Committee of the Board of Directors. Restricted stock awards are generally expensed to income ratably over the period during which the restrictions lapse. At December 31, 2011 and 2010, 11,789,483 and 4,297,186 shares, respectively, were reserved for future option and restricted stock grants under our 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, risk-free interest rate, expected holding period, and dividend yield. The expected volatility utilized in the valuation model is based on the historical volatility of our stock price. The dividend yield and expected holding period are based on historical experience and management's estimate of future events. The risk-free interest rate is derived from the U.S. Treasury yield curve based on the expected life of the option in effect at the time of grant. The fair values of our stock options are calculated using the following weighted average assumptions, based on the methods described above for the years ended December 31, 2011, 2010, and 2009:

Assumptions	Years Ended December 31,			
	2011	2010	2009	
Dividend yield	2.4	% 1.9	% 3.5	%
Expected volatility	38.4	% 37.5	% 32.3	%
Risk-free interest rate	2.4	% 2.3	% 1.8	%
Expected holding period (years)	5.0	5.0	5.0	

The following table summarizes certain information with respect to stock option and restricted share compensation for 2011, 2010, and 2009, as included in our consolidated statement of operations for those respective periods:

	December 31,		
	2011	2010	2009
	(In thousands)		
Total pretax employee share-based compensation expense included in net income	\$9,144	\$8,878	\$9,684
Income tax benefit related to share-based compensation included in net income	\$3,218	\$3,740	\$3,705

We realized windfall tax deductions of \$4.9 million, \$2.7 million, and \$7.1 million in excess of previously recorded tax benefits, based on the option and restricted share value at the time of grant for the years ended December 31, 2011, 2010, and 2009, respectively. Pursuant to the Stock-Based Compensation Topic of the ASC, the additional tax benefit associated with the windfall is not recognized until the deduction reduces taxes payable.

## Stock Options

The following table sets forth stock option activity for the year ended December 31, 2011:  
(Shares reported in whole numbers and not in thousands)

Table of Contents

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2010	12,312,783	\$ 7.53
Granted	2,394,430	\$ 9.09
Exercised	(1,208,140 )	\$ 6.81
Canceled	(94,857 )	\$ 5.32
Outstanding at December 31, 2011	13,404,216	\$ 7.88
Exercisable at December 31, 2011	8,216,969	\$ 8.17

During the twelve months ended December 31, 2011, 19,857 of the canceled shares were forfeited. The aggregate intrinsic value for stock options outstanding and exercisable was \$38.8 million and \$22.2 million, respectively, at December 31, 2011.

Set forth below is certain information related to stock options outstanding and exercisable at December 31, 2011: (Shares reported in whole numbers and not in thousands)

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2011	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable at December 31, 2011	Weighted- Average Exercise Price
\$4.01 — 6.00	3,675,996	5.1	\$4.19	2,366,751	\$4.19
\$6.01 — 9.00	3,883,760	4.2	\$7.74	2,405,385	\$7.80
\$9.01 — 15.00	5,844,460	5.0	\$10.31	3,444,833	\$11.16
\$4.01 — 15.00	13,404,216	4.8	\$7.88	8,216,969	\$8.17

Other information pertaining to option activity during the years ended December 31 is as follows:

	2011	2010	2009
Weighted average grant-date fair value of stock options granted	\$2.73	\$2.31	\$0.87
Total fair value of stock options vested (in thousands)	\$5,015	\$6,022	\$6,439
Total intrinsic value of stock options exercised (in thousands)	\$5,184	\$1,804	\$7,001

For the years ended December 31, 2011, 2010, and 2009, cash received from the exercise of stock options was \$8.2 million, \$1.8 million, and \$17.4 million, respectively. We recognized compensation expense of \$5.1 million, \$5.3 million, and \$6.5 million related to stock options for the years ended December 31, 2011, 2010, and 2009, respectively. As of December 31, 2011, the unrecognized compensation expense related to stock options of \$6.6 million is expected to be recognized over a weighted average period of 1.4 years.

**Restricted Shares**

Restricted share activity was as follows:

(Shares reported in whole numbers)

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

The fair market value of our restricted stock, as determined on the grant date, is being amortized and charged to income (with an offsetting credit to Capital in excess of par value) generally over the average period during which the restrictions lapse. At



Table of Contents

December 31, 2011, unrecognized compensation expense of \$5.1 million related to restricted shares, which is recorded in Capital in excess of par value on our balance sheet, is expected to be recognized over a weighted average period of 1.3 years. We recognized compensation expense of \$4.1 million, \$3.6 million, and \$3.2 million during the years ended December 31, 2011, 2010, and 2009, respectively, related to our restricted shares.

## 15. Retirement Plans

We currently have a supplemental retirement plan for certain current and former key employees (SERP), a supplemental retirement plan for officers and certain key employees (Senior SERP), a retirement plan for certain non-employee directors (Directors' Plan), a Retirement Plan for Rose Hills Trustees, and a Rose Hills Supplemental Retirement Plan (Rose Hills SERP) (collectively, the "Plans"). We also provide a 401(k) employee savings plan. All of our Plans have a measurement date of December 31.

The Plans are frozen; therefore, the participants do not earn incremental benefits from additional years of service, and we do not incur any additional service cost since December 31, 2000.

Retirement benefits under the SERP are based on years of service and average monthly compensation, reduced by benefits under Social Security. The Senior SERP provides retirement benefits based on years of service and position. The Directors' Plan provides for an annual benefit to directors following retirement, based on a vesting schedule.

The components of the Plans' net periodic benefit cost for the years ended December 31 were as follows:

	2011	2010	2009
	(In thousands)		
Interest cost on projected benefit obligation	\$ 1,306	\$ 1,498	\$ 1,849
Actual return on plan assets	—	—	—
Recognized net actuarial (gains) losses	(289	) 534	2,197
	\$ 1,017	\$ 2,032	\$ 4,046

The Plans' funded status at December 31 was as follows:

	2011	2010
	(In thousands)	
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 31,377	\$ 32,891
Interest cost	1,306	1,498
Actuarial loss	49	846
Benefits paid	(3,518	) (3,858
Benefit obligation at end of year	\$ 29,214	\$ 31,377
Change in Plan Assets:		
Fair value of plan assets at beginning of year	\$—	\$—
Employer contributions	3,518	3,858
Benefits paid, including expenses	(3,518	) (3,858
Fair value of plan assets at end of year	\$—	\$—
Funded status of plan	\$(29,214	) \$(31,377
Net amount recognized in the Consolidated Balance Sheet	\$(29,214	) \$(31,377
Funding Summary:		
Projected benefit obligations	\$ 29,214	\$ 31,377
Accumulated benefit obligation	\$ 29,214	\$ 31,377
Amounts Recognized in the Consolidated Balance Sheet:		
Accrued benefit liability	\$(29,214	) \$(31,377

The retirement benefits under the Plans are unfunded obligations of the Company. We have purchased various life insurance policies on the participants in the Plans with the intent to use the proceeds or any cash value buildup from such policies to assist in meeting, at least to the extent of such assets, the Plan's funding requirements. The face value of these insurance policies at



Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2011 and 2010 was \$51.1 million and \$51.6 million, respectively, and the cash surrender value was \$37.5 million and \$37.3 million, respectively. The outstanding loans against the policies are minimal and there are no restrictions in the policies regarding loans.

The Plans' weighted-average assumptions used to determine the benefit obligation and net benefit cost are as follows: we base our discount rate used to compute future benefit obligations using an analysis of expected future benefit payments. The reasonableness of our discount rate is verified by comparing the rate to the rate earned on high-quality fixed income investments, such as the Moody's Aa index, plus 50 basis points. The assumed rate of return on plan assets was not applicable as we pay plan benefits as they come due. As all Plans are curtailed, the assumed rate of compensation increase is zero.

	2011	2010	2009	
Weighted average discount rate used to determine obligations	4.05	% 4.45	% 5.00	%
Weighted average discount rate used to determine net periodic pension cost	4.41	% 4.80	% 5.97	%

The following benefit payments are expected to be paid in future years related to our Plans:

2012	\$3,646
2013	3,577
2014	3,600
2015	3,011
2016	2,760
Years 2017 through 2021	10,373

We have an employee savings plan that qualifies under section 401(k) of the Internal Revenue Code for the exclusive benefit of our United States employees. Under the plan, participating employees may contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines up to a maximum of 50%.

During 2011, 2010, and 2009 we matched a percentage of the employee contributions through contributions of cash.

For these years, our matching contribution was based upon the following:

Years of Vesting Service	Percentage of Deferred Compensation
0 — 5 years	75% of the first 6% of deferred compensation
6 — 10 years	100% of the first 6% of deferred compensation
11 or more years	125% of the first 6% of deferred compensation

The amount of our matched contributions in 2011, 2010, and 2009 was \$22.3 million, \$20.3 million, and \$18.1 million, respectively.

## 16. 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:

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Funeral	Cemetery	Reportable Segments
	(In thousands)		
2011			
Revenues from external customers	\$1,573,498	\$742,542	\$2,316,040
Interest expense	3,957	305	4,262
Depreciation and amortization	89,872	21,355	111,227
Amortization of intangible assets	18,582	5,540	24,122
Gross profit	330,732	147,804	478,536
Amortization of cemetery property	—	40,046	40,046
Total assets	4,494,331	4,496,749	8,991,080
Capital expenditures	45,275	57,972	103,247
2010			
Revenues from external customers	\$1,492,838	\$697,714	\$2,190,552
Interest expense	3,033	257	3,290
Depreciation and amortization	87,897	20,909	108,806
Amortization of intangible assets	17,464	6,095	23,559
Gross profit	317,068	132,155	449,223
Amortization of cemetery property	—	32,418	32,418
Total assets	4,262,675	4,450,028	8,712,703
Capital expenditures	34,762	48,427	83,189
2009			
Revenues from external customers	\$1,391,894	\$661,626	\$2,053,520
Interest expense	2,548	847	3,395
Depreciation and amortization	85,324	21,889	107,213
Amortization of intangible assets	15,473	6,105	21,578
Gross profit	305,809	115,586	421,395
Amortization of cemetery property	—	30,664	30,664
Total assets	4,081,512	4,215,968	8,297,480
Capital expenditures	38,348	38,726	77,074

The following table reconciles certain reportable segment amounts to our corresponding consolidated amounts:



Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Reportable Segments (In thousands)	Corporate	Consolidated
2011			
Revenue from external customers	\$2,316,040	\$—	\$2,316,040
Interest expense	4,262	129,520	133,782
Depreciation and amortization	111,227	6,820	118,047
Amortization of intangible assets	24,122	1,469	25,591
Total assets	8,991,080	336,732	9,327,812
Capital expenditures	103,247	15,128	118,375
2010			
Revenue from external customers	\$2,190,552	\$—	\$2,190,552
Interest expense	3,290	124,906	128,196
Depreciation and amortization	108,806	7,585	116,391
Amortization of intangible assets	23,559	1,638	25,197
Total assets	8,712,703	477,837	9,190,540
Capital expenditures	83,189	14,710	97,899
2009			
Revenue from external customers	\$2,053,520	\$—	\$2,053,520
Interest expense	3,395	125,586	128,981
Depreciation and amortization	107,213	3,889	111,102
Amortization of intangible assets	21,578	120	21,698
Total assets	8,297,480	593,462	8,890,942
Capital expenditures	77,074	6,716	83,790

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

	2011 (In thousands)	2010	2009
Gross profit from reportable segments	\$478,536	\$449,223	\$421,395
General and administrative expenses	(103,860 )	(103,689 )	(102,501 )
(Losses) gains on divestitures and impairment charges, net	(10,977 )	8,512	4,253
Other operating income	—	—	740
Operating income	363,699	354,046	323,887
Interest expense	(133,782 )	(128,196 )	(128,981 )
(Losses) gains on early extinguishment of debt, net	(3,509 )	(9,400 )	3,146
Other (expense) income, net	(772 )	3,009	1,316
Income from continuing operations before income taxes	\$225,636	\$219,459	\$199,368

Our geographic area information was as follows:

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	United States (In thousands)	Canada	Germany	Total
2011				
Revenues from external customers	\$2,103,738	\$205,733	\$6,569	\$2,316,040
Interest expense	133,479	303	—	133,782
Depreciation and amortization	105,931	11,723	393	118,047
Amortization of intangible assets	24,223	1,368	—	25,591
Amortization of cemetery property	35,375	4,671	—	40,046
Operating income	311,790	51,367	542	363,699
(Losses) gains on divestitures and impairment charges, net	(10,299	) (678	) —	(10,977
Long-lived assets	4,553,557	351,813	3,038	4,908,408
2010				
Revenues from external customers	\$1,981,190	\$202,760	\$6,602	\$2,190,552
Interest expense	127,971	225	—	128,196
Depreciation and amortization	104,496	11,507	388	116,391
Amortization of intangible assets	23,524	1,673	—	25,197
Amortization of cemetery property	27,688	4,730	—	32,418
Operating income	301,297	51,799	950	354,046
(Losses) gains on divestitures and impairment charges, net	6,837	1,600	75	8,512
Long-lived assets	4,467,176	363,008	3,600	4,833,784
2009				
Revenues from external customers	\$1,869,042	\$177,665	\$6,813	\$2,053,520
Interest expense	128,798	140	43	128,981
Depreciation and amortization	100,380	10,273	449	111,102
Amortization of intangible assets	19,969	1,729	—	21,698
Amortization of cemetery property	27,545	3,119	—	30,664
Operating income	288,108	35,462	317	323,887
(Losses) gains on divestitures and impairment charges, net	8,906	(4,614	) (39	) 4,253
Long-lived assets	4,526,789	354,677	4,022	4,885,488

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 17. Supplementary Information

The detail of certain balance sheet accounts is as follows:

	December 31,	
	2011	2010
	(In thousands)	
Cash and cash equivalents:		
Cash	\$67,937	\$78,382
Commercial paper and temporary investments	60,632	92,464
	\$128,569	\$170,846
Receivables, net:		
Notes receivable	\$1,313	\$1,395
Atneed funeral receivables, net of allowances of \$7,755 and \$10,852, respectively	77,103	85,853
Atneed cemetery receivables, net of allowances of \$1,989 and \$3,121, respectively	12,837	10,235
Other	12,639	9,702
	\$103,892	\$107,185
Other current assets:		
Income tax receivable	\$8,670	\$14,499
Prepaid insurance	4,221	4,182
Restricted cash	4,138	3,650
Other	8,774	5,415
	\$25,803	\$27,746
Cemetery property:		
Undeveloped land	\$1,072,170	\$1,083,290
Developed land, lawn crypts, and mausoleums	425,533	425,497
	\$1,497,703	\$1,508,787
Property and equipment:		
Land	\$515,100	\$509,100
Buildings and improvements	1,526,290	1,496,310
Operating equipment	456,852	427,607
Leasehold improvements	24,717	23,302
Capital leases	168,538	156,235
	2,691,497	2,612,554
Less: Accumulated depreciation	(976,823)	(891,846)
Accumulated amortization of capital leases	(96,313)	(93,010)
	\$1,618,361	\$1,627,698
Deferred charges and other assets:		
Intangible assets, net	253,251	219,489
Restricted cash	6,903	14,755
Non-current deferred tax assets	6,932	—
Notes receivable, net of allowances of \$1,665 and \$3,111, respectively	11,488	11,781
Cash surrender value of insurance policies	77,791	72,420
Other	74,486	78,137
	\$430,851	\$396,582

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31,	
	2011	2010
	(In thousands)	
Accounts payable and accrued liabilities:		
Accounts payable	\$115,302	\$116,543
Accrued compensation	82,145	69,988
Accrued dividend	11,027	9,602
Accrued interest	22,555	22,923
Accrued property taxes	13,057	13,726
Self insurance reserves	52,697	53,892
Bank overdraft	15,309	15,582
Other accrued liabilities	46,812	40,395
	\$358,904	\$342,651
Other liabilities:		
Accrued pension	\$29,214	\$31,377
Deferred compensation	49,711	42,246
Customer refund obligation reserve	76,270	75,517
Tax liability	207,701	201,183
Indemnification liability	2,490	2,689
Other	49,387	46,608
	\$414,773	\$399,620

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Revenues and Costs and Expenses

The detail of certain income statement accounts is as follows for the years ended December 31:

	2011	2010	2009
	(In thousands)		
Merchandise revenues:			
Funeral	\$514,548	\$489,744	\$450,892
Cemetery	516,677	481,508	446,035
Total merchandise revenues	1,031,225	971,252	896,927
Services revenues:			
Funeral	968,747	930,163	882,186
Cemetery	195,376	186,236	183,288
Total services revenues	1,164,123	1,116,399	1,065,474
Other revenues	120,692	102,901	91,119
Total revenues	\$2,316,040	\$2,190,552	\$2,053,520
Merchandise costs and expenses:			
Funeral	\$258,173	\$247,104	\$226,931
Cemetery	222,406	204,665	191,489
Total cost of merchandise	480,579	451,769	418,420
Services costs and expenses:			
Funeral	496,557	453,678	419,855
Cemetery	97,702	94,776	98,923
Total cost of services	594,259	548,454	518,778
Overhead and other expenses	762,666	741,106	694,927
Total cost and expenses	\$1,837,504	\$1,741,329	\$1,632,125
Certain Non-Cash Financing and Investing Transactions			
	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Dividends accrued but not paid	\$11,027	\$9,602	\$10,161
Financing held in escrow	\$—	\$—	\$147,173

## 18. 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 stock that shared in our earnings.

A reconciliation of the numerators and denominators of the basic and diluted EPS for the three years ended December 31 is presented below:

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2011	2010	2009
	(In thousands, except per share amounts)		
Amounts attributable to common stockholders:			
Net income:			
Net income — basic	\$ 144,903	\$ 126,417	\$ 123,098
After tax interest on convertible debt	51	51	51
Net income — diluted	\$ 144,954	\$ 126,468	\$ 123,149
Weighted average shares:			
Weighted average shares — basic	234,242	248,871	251,709
Stock options	2,306	1,610	654
Convertible debt	121	121	121
Weighted average shares — diluted	236,669	250,602	252,484
Net income per share:			
Basic	\$0.62	\$0.51	\$0.49
Diluted	\$0.61	\$0.50	\$0.49

The computation of diluted earnings per share excludes outstanding stock options and convertible debt in certain periods in which the inclusion of such options and debt would be antidilutive to the periods presented. Total options not currently included in the computation of diluted EPS in shares are 4.9 million, 4.8 million, and 6.2 million for the years ended December 31, 2011, 2010, and 2009, respectively.

We adopted the FASB's recent authoritative guidance on determining whether instruments granted in share-based payment transactions are participating securities, effective January 1, 2009. Our adoption had an immaterial impact on our reported EPS as reflected in these consolidated financial statements.

## 19. Acquisition

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

We incurred acquisition costs of \$7.1 million of which \$3.7 million is included in General and Administrative Expenses for the year ended December 31, 2010, respectively, and the remainder was incurred in prior periods.

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

- the acquisition of Keystone enhances our network footprint, enabling us to serve a number of new, complementary areas;
- combining the two companies' operations provides synergies and related cost savings through the elimination of duplicate home office functions and economies of scale; and
- the acquisition of Keystone's preneed backlog of deferred revenues enhances our long-term stability.

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

Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	(In thousands)
Accounts receivable	\$6,131
Other current assets	20,200
Cemetery property	19,949
Property and equipment, net	105,888
Preneed funeral and cemetery receivables and trust investments	66,395
Finite-lived intangible assets	34,312
Indefinite-lived intangible assets	33,700
Deferred charges and other assets	6,533
Goodwill	108,643
Total assets acquired	401,751
Current liabilities	11,719
Long-term debt	2,548
Deferred preneed funeral and cemetery revenues and deferred receipts held in trusts	69,336
Deferred tax liability	20,939
Other liabilities	8,347
Total liabilities assumed	112,889
Net assets acquired	\$288,862

The gross amount of accounts receivable is \$8.2 million, of which \$2.1 million is not expected to be collected.

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

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

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

Included in our results of operations for the twelve months ended December 31, 2010 is revenue of \$83.7 million and net income of \$16.7 million for the period from the acquisition date (March 26, 2010) through December 31, 2010.

The following unaudited pro forma summary presents financial information as if the acquisition had occurred at the beginning of the year presented for the consolidated company:

	2010 (In thousands)
Revenue	\$2,220,204
Net income	\$129,970

Neptune

91

---



Table of Contents

## SERVICE CORPORATION INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company acquired 70% of the outstanding shares of The Neptune Society, Inc. (Neptune) on June 3, 2011 for \$44 million. Neptune is the nation's largest direct cremation organization with a network of 30 locations in nine states. Neptune operates under the brand names Neptune Society, Neptune Cremation Service, and Trident Society. With this acquisition we will be expanding the footprint into a sector of the market that will continue to grow and that we do not currently target through our traditional funeral service and cemetery network. We have not completed our purchase price allocation as we are still reviewing the underlying accounting records. As a result of this acquisition, we recognized \$37.6 million of intangible assets and \$37.3 million of goodwill.

## 20. Divestiture-Related Activities

As divestitures occur in the normal course of business, gains or losses on the sale of such locations 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 consist of the following for the years ended December 31:

	2011	2010	2009
	(In thousands)		
(Losses) gains on divestitures, net	\$ (8,526 )	\$ 16,547	\$ 20,787
Impairment losses	(2,451 )	(8,035 )	(16,534 )
	\$ (10,977 )	\$ 8,512	\$ 4,253

## Keystone

In conjunction with our acquisition of Keystone, we entered into an agreement with the Federal Trade Commission to sell 22 funeral homes and five cemeteries, which were sold for \$34.9 million in the second quarter of 2010. We recognized a gain on divestitures of \$6.2 million associated with the former SCI properties.

Table of Contents

## 21. Quarterly Financial Data (Unaudited)

Quarterly financial data for 2011 and 2010 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
2011				
Revenues	\$579,699	\$576,774	\$572,999	\$586,568
Costs and expenses	(453,253 )	(461,751 )	(465,949 )	(456,551 )
Gross profits	126,446	115,023	107,050	130,017
Operating income	97,193	80,495	78,186	107,825
Income from continuing operations before income taxes (1)	63,994	44,827	44,042	72,773
Provision for income taxes	(24,065 )	(18,089 )	(9,027 )	(28,223 )
Net income	39,929	26,738	35,015	44,550
Net (income) loss attributable to noncontrolling interests	(1,165 )	(645 )	481	—
Net income attributable to common stockholders	38,764	26,093	35,496	44,550
Net income attributable to common stockholders per share (2):				
Basic — EPS	0.16	0.11	0.15	0.20
Diluted — EPS	0.16	0.11	0.15	0.20
2010				
Revenues	\$530,863	\$555,273	\$533,165	\$571,251
Costs and expenses	(418,505 )	(445,975 )	(430,518 )	(446,331 )
Gross profits	112,358	109,298	102,647	124,920
Operating income	85,626	95,926	68,496	103,998
Income from continuing operations before income taxes (1)	51,441	67,425	28,621	71,972
Provision for income taxes	(20,116 )	(27,198 )	(9,941 )	(35,203 )
Net income	31,325	40,227	18,680	36,769
Net (income) loss attributable to noncontrolling interests	(413 )	58	85	(314 )
Net income attributable to common stockholders	30,912	40,285	18,765	36,455
Net income attributable to common stockholders per share (2):				
Basic — EPS	0.12	0.16	0.08	0.15
Diluted — EPS	0.12	0.16	0.08	0.15

(1) Includes (losses) gains on divestitures and impairment charges, net, as described in Note 20.

(2) Net income per share is computed independently for each of the quarters presented. Therefore, the sum of the quarters' net income per share may not equal the total computed for the year.

Table of Contents

SERVICE CORPORATION INTERNATIONAL  
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
Three Years Ended December 31, 2011

Description	Balance at Beginning of Period	Charged (Credited) to Costs and Expenses	Charged (Credited) to Other Accounts(1)	Write-Offs(2)	Balance at End of Period
(In thousands)					
Current provision:					
Allowance for doubtful accounts:					
Year Ended December 31, 2011	\$ 13,973	\$ 9,254	\$ 25,813	\$(39,296)	) \$ 9,744
Year Ended December 31, 2010	\$ 14,171	\$ 8,153	\$ 17,926	\$(26,277)	) \$ 13,973
Year Ended December 31, 2009	\$ 19,735	\$ 11,346	\$ 56	\$(16,966)	) \$ 14,171
Due After One Year:					
Allowance for doubtful accounts:					
Year Ended December 31, 2011	\$ 3,111	\$ —	\$ —	\$(1,446)	) \$ 1,665
Year Ended December 31, 2010	\$ 3,135	\$ —	\$ —	\$(24)	) \$ 3,111
Year Ended December 31, 2009	\$ 2,775	\$ —	\$ 720	\$(360)	) \$ 3,135
Preneed Funeral and Preneed Cemetery					
Asset allowance for cancellation:					
Year Ended December 31, 2011	\$ 77,792	\$ 2,852	\$(2,652)	) \$ —	\$ 77,992
Year Ended December 31, 2010	\$ 71,202	\$ 3,204	\$ 3,386	) \$ —	\$ 77,792
Year Ended December 31, 2009	\$ 58,618	\$ 3,249	\$ 9,335	) \$ —	\$ 71,202
Deferred Preneed Funeral and Cemetery					
Revenue allowance for cancellation:					
Year Ended December 31, 2011	\$(134,760)	) \$ —	\$(1,244)	) \$ —	\$(136,004)
Year Ended December 31, 2010	\$(130,897)	) \$ —	\$(3,863)	) \$ —	\$(134,760)
Year Ended December 31, 2009	\$(137,769)	) \$ —	\$ 6,872	) \$ —	\$(130,897)
Deferred tax valuation allowance:					
Year Ended December 31, 2011	\$ 63,614	\$ 67	\$ —	) \$ —	\$ 63,681
Year Ended December 31, 2010	\$ 68,192	\$ 76	\$(4,654)	) \$ —	\$ 63,614
Year Ended December 31, 2009	\$ 54,225	\$ 13,967	\$ —	) \$ —	\$ 68,192

(1) Primarily relates to acquisitions and dispositions of operations.

(2) Uncollected receivables written off, net of recoveries.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures as of December 31, 2011 were effective to ensure that information we are

required to disclose in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules

Table of Contents

and forms, and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13-a-15(f)). SCI's internal control over financial reporting is a process, under the supervision of our CEO and CFO, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our CEO and CFO, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

Table of Contents

## PART III

Item 10. Directors, Executive Officers and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13. Certain Relationships and Related Transactions and Director Independence

Item 14. Employee Stock Purchase Plan

Information required by PART III (Items 10, 11, 12, 13 and 14) has been omitted as we intend to file with the Commission not later than 120 days after the end of our fiscal year a definitive proxy statement that includes such information. Such information is set forth in such proxy statement (i) with respect to Item 10, under the captions “Proxy Voting: Questions and Answers,” “Election of Directors,” “Other Matters — Section 16(a) Beneficial Ownership Reporting Compliance” and “Report of the Audit Committee,” (ii) with respect to Items 11 and 13, under the captions “Election of Directors,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Certain Information with Respect to Officers and Directors,” “Compensation Committee Interlocks and Insider Participation” and “Certain Transactions”, (iii) with respect to Item 12, under the caption “Voting Securities and Principal Holders”, and (iv) with respect to Item 14, under the caption “Proposal to Approve the Selection of Independent Accountants — Audit Fees and All Other Fees”. The information as specified in the preceding sentence is incorporated herein by reference; provided however, notwithstanding anything set forth in this Form 10-K, the information under the captions “Compensation Committee Report” and “Report of the Audit Committee” in such proxy statement, is not incorporated by reference into this Form 10-K.

The information regarding our executive officers called for by Item 401 of Regulation S-K and the information regarding our code of ethics called for by Item 406 of Regulation S-K has been included in PART I of this report. The information regarding our equity compensation plan information called for by Item 201(d) of Regulation S-K is set forth below.

Equity Compensation Plan Information at December 31, 2011:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	12,809,565	\$7.89	13,404,216
Equity compensation plans not approved by security holders(1)	594,651	\$7.79	783,124
Total	13,404,216	\$7.88	14,187,340

(1) Includes options outstanding under the 1996 Nonqualified Incentive Plan under which nonqualified stock options were granted to employees who are not officers or directors. We have 594,651 total options outstanding under the 1996 Non-qualified Incentive Plan. No shares of our common stock are available for any future grants under this plan. See Note 15 in Part II, Item 8. Financial Statements and Supplementary Data, for a further description of

1996 Nonqualified Incentive Plan. This plan has not been submitted for stockholder approval.

Includes an estimated 783,124 shares available under the Employee Stock Purchase Plan. Under such plan, a dollar value of shares (not an amount of shares) is registered. The above estimate was determined by dividing (i) the (2)remaining unissued dollar value of registered shares at December 31, 2011, which was \$8.3 million, by (ii) the closing price of \$10.65 per share of common stock at December 31, 2011. This plan is being terminated effective as of December 31, 2011.

The Employee Stock Purchase Plan enables Company employees in North America to invest via payroll deductions up to \$500 (or \$700 Canadian) per month in our common stock. Contributions are utilized to purchase the stock in the open market. With respect to Canadian employees who meet certain requirements, we will provide annually a match equal to 25% of the amount of the employee's contribution subject to a maximum contribution per participant of \$2,100 Canadian. This plan has not been submitted for stockholder approval.

#### PART IV

Table of Contents

Item 15. Exhibits and Financial Statement Schedule

(a)(1)-(2) Financial Statements and Schedule:

The financial statements and schedule are listed in the accompanying Index to Financial Statements and Related Schedule on page 45 of this report.

(3) Exhibits:

The exhibits listed on the accompanying Exhibit Index on pages 99-101 are filed as part of this report.

(b) Included in (a) above.

(c) Included in (a) above.



Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, Service Corporation International, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## SERVICE CORPORATION INTERNATIONAL

By: /s/ Gregory T. Sangalis  
(Gregory T. Sangalis,  
Senior Vice President, General  
Counsel, and Secretary)

Dated: February 13, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ R. L. WALTRIP* (R. L. Waltrip)	Chairman of the Board	February 13, 2012
/s/ THOMAS L. RYAN* (Thomas L. Ryan)	President, Chief Executive Officer, and Director (Principal Executive Officer)	February 13, 2012
/s/ ERIC D. TANZBERGER* (Eric D. Tanzberger)	Senior Vice President, Chief Financial Officer, and Treasurer (Principal Financial Officer)	February 13, 2012
/s/ TAMMY R. MOORE* (Tammy R. Moore)	Vice President and Corporate Controller (Principal Accounting Officer)	February 13, 2012
/s/ ALAN R. BUCKWALTER, III* (Alan R. Buckwalter, III)	Director	February 13, 2012
/s/ ANTHONY L. COELHO* (Anthony L. Coelho)	Director	February 13, 2012
/s/ A. J. FOYT, JR.* (A. J. Foyt, Jr.)	Director	February 13, 2012
/s/ MALCOLM GILLIS* (Malcolm Gillis)	Director	February 13, 2012
/s/ VICTOR L. LUND* (Victor L. Lund)	Director	February 13, 2012
/s/ JOHN W. MECOM, JR.* (John W. Mecom, Jr.)	Director	February 13, 2012
/s/ CLIFTON H. MORRIS, JR.* (Clifton H. Morris, Jr.)	Director	February 13, 2012
/s/ W. BLAIR WALTRIP*	Director	February 13, 2012

(W. Blair Waltrip)

/s/ EDWARD E. WILLIAMS\*  
(Edward E. Williams)

Director

February 13, 2012

\*By /s/ GREGORY T. SANGALIS  
(Gregory T. Sangalis, as  
Attorney-In-Fact for each of the  
Persons indicated)

February 13, 2012

Table of Contents

EXHIBIT INDEX

PURSUANT TO ITEM 601 OF REG. S-K

ExhibitNumberDescription

3.1	—	Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-10867 on Form S-3).
3.2	—	Articles of Amendment to Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended September 30, 1996).
3.3	—	Statement of Resolution Establishing Series of Shares of Series D Junior Participating Preferred Stock, dated July 27, 1998. (Incorporated by reference to Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 1998).
3.4	—	Bylaws, as amended. (Incorporated by reference to Exhibit 3.1 to Form 8-K dated November 16, 2007).
4.1	—	Senior Indenture dated as of February 1, 1993 by and between the Company and The Bank of New York, as trustee. (Incorporated by reference as Exhibit 4.1 to Form S-4 filed September 2, 2004 (File No. 333-118763)).
4.2	—	Agreement of Resignation, Appointment of Acceptance, dated October 21, 2005, among the Company, The Bank of New York and The Bank of New York Trust Company, N.A., appointing a successor trustee for the Senior Indenture dated as of February 1, 1993. (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the fiscal quarter ended June 30, 2005).
10.1	—	Retirement Plan For Non-Employee Directors. (Incorporated by reference to Exhibit 10.1 to Form 10-K for the fiscal year ended December 31, 1991).
10.2	—	First Amendment to Retirement Plan For Non-Employee Directors. (Incorporated by reference to Exhibit 10.2 to Form 10-K for the fiscal year ended December 31, 2000).
10.3	—	Second Amendment to Retirement Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10.3 to Form 10-K for the fiscal year ended December 31, 2010).
10.4	—	Employment Agreement, dated December 28, 2006, between SCI Executive Services, Inc. and R.L. Waltrip (including Non-Competition Agreement and Amendment to Employment Agreement, dated November 11, 1991, among the Company, R. L. Waltrip and Claire Waltrip). (Incorporated by reference to Exhibit 10.4 to Form 10-K for the fiscal year ended December 31, 2006).
10.5	—	Amendment to Employment and Noncompetition Agreement, dated November 30, 2007, between SCI Executive Services, Inc. and R. L. Waltrip. (Incorporated by reference to Exhibit 10.5 to Form 10-K for the fiscal year ended December 31, 2007).
10.6	—	Amendment to Employment and Noncompetition Agreement, dated December 1, 2010, between SCI Executive Services, Inc. and R.L. Waltrip. (Incorporated by reference to Exhibit 10.7 to Form 10-K for the fiscal year ended December 31, 2010).
10.7	—	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 2003).
10.8	—	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.12 to Form 10-K for the fiscal year ended December 31, 2005).
10.9	—	Amendment to Employment and Noncompetition Agreement, dated November 30, 2007, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.8 to Form 10-K for fiscal year ended December 31, 2007).
10.10	—	Amendment to Employment and Noncompetition Agreement, dated December 1, 2010, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.11 to Form 10-K for the fiscal year ended December 31, 2010).
10.11	—	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by reference to Exhibit 10.10 to Form 10-K for the fiscal year

ended December 31, 2003).

- 10.12 — Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by reference to Exhibit 10.14 to Form 10-K for the fiscal year ended December 31, 2005).
- 10.13 — Amendment to Employment and Noncompetition Agreement, dated November 30, 2007, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by reference to Exhibit 10.11 to Form 10-K for the fiscal year ended December 31, 2007).
- 10.14 — Amendment to Employment and Noncompetition Agreement, dated December 1, 2010, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by reference to Exhibit 10.15 to Form 10-K for the fiscal year ended December 31, 2010).

Table of Contents

Exhibit Number	Description
10.15	— Employment and Noncompetition Agreement, dated December 28, 2006 between SCI Executive Services, Inc. and Eric D. Tanzberger. (Incorporated by reference to Exhibit 10.11 to Form 10-K for the fiscal year ended December 31, 2006).
10.16	— Amendment to Employment and Noncompetition Agreement, dated November 30, 2007, between SCI Executive Services, Inc. and Eric D. Tanzberger. (Incorporated by reference to Exhibit 10.13 to Form 10-K for the fiscal year ended December 31, 2007).
10.17	— Amendment to Employment and Noncompetition Agreement, dated December 1, 2010, between SCI Executive Services, Inc. and Eric D. Tanzberger. (Incorporated by reference to Exhibit 10.18 to Form 10-K for the fiscal year ended December 31, 2010).
10.18	— Employment and Noncompetition Agreement, dated December 28, 2006, between SCI Executive Services, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 2006).
10.19	— Amendment to Employment and Noncompetition Agreement, dated November 30, 2007, between SCI Executive Services, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.15 to Form 10-K for the fiscal year ended December 31, 2009).
10.20	— Amendment to Employment and Noncompetition Agreement, dated December 1, 2010, between SCI Executive Services, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.21 to Form 10-K for the fiscal year ended December 31, 2010).
10.21	— Form of Employment and Noncompetition Agreement pertaining to non-senior officers. (Incorporated by reference to Exhibit 10.12 to Form 10-K for the fiscal year ended December 31, 2003).
10.22	— Form of Addendum to Employment and Noncompetition Agreement pertaining to the preceding exhibit. (Incorporated by reference to Exhibit 10.20 to Form 10-K for the fiscal year ended December 31, 2005).
10.23	— Form of Amendment to Employment and Noncompetition Agreement dated November 30, 2007, between SCI Executive Services, Inc. and non-senior officers. (Incorporated by reference to Exhibit 10.18 to Form 10-K for the fiscal year ended December 31, 2007).
10.24	— Form of Amendment to Employment and Noncompetition Agreement, dated December 1, 2010, between SCI Executive Services, Inc. and non-senior officers. (Incorporated by reference to Exhibit 10.25 to Form 10-K for the fiscal year ended December 31, 2010).
10.25	— Amended 1996 Incentive Plan. (Incorporated by reference to Appendix A to Proxy Statement dated April 6, 2007).
10.26	— Amended and Restated Incentive Plan. (Incorporated by reference to Appendix B to Proxy Statement dated April 1, 2011).
10.27	— Supplemental Executive Retirement Plan for Senior Officers (as amended and restated effective as of January 1, 1998). (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 1998).
10.28	— First Amendment to Supplemental Executive Retirement Plan for Senior Officers. (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 2000).
10.29	— SCI 401(k) Retirement Savings Plan as Amended and Restated. (Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333-119681).
10.30	— First Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarterly period ended September 30, 2004).
10.31	— Second Amendment to the SCI 401(k) Retirement Savings Plan, and Third Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.26 to Form 10-K for the fiscal year ended December 31, 2004).
10.32	— Fourth Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.27 to Form 10-K for the fiscal year ended December 31, 2006).
10.33	— Fifth Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.30 to Form 10-K for the fiscal year ended December 31, 2007).

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-K

- 10.34 — Sixth Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.30 to Form 10-K for the fiscal year ended December 31, 2008).
- 10.35 — Amended and Restated Director Fee Plan. (Incorporated by reference to Annex C to Proxy Statement dated April 1, 2011).
- 10.36 — Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 1.1 to Registration Statement No. 2-62484 on Form S-8).
- 10.37 — Amendment No. 1 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 15.1 to Registration Statement No. 2-62484 on Form S-8).

100

---

Table of Contents

Exhibit Number	Description
10.38	— Amendment No. 2 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 28.3 to Registration Statement No. 33-25061 on Form S-8).
10.39	— Amendment No. 3 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 28.4 to Registration Statement No. 33-35708 on Form S-8).
10.40	— Amendment No. 4 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.34 to Form 10-K for the fiscal year ended December 31, 2009).
10.41	— Amendment No. 5 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.31 to Form 10-K for the fiscal year ended December 31, 1999).
10.42	— Amendment No. 6 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.44 to Form 10-K for the fiscal year ended December 31, 2002).
10.43	— Amendment No. 7 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.45 to Form 10-K for the fiscal year ended December 31, 2002).
10.44	— Agreement between Merrill Lynch Canada Inc. and Service Corporation International. (Incorporated by reference to Exhibit 28.5 to Post-Effective Amendment No. 1 to Registration Statement No. 33-8907 on Form S-8).
10.45	— First Amendment to Agreement between Merrill Lynch Canada Inc. and Service Corporation International. (Incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K dated December 21, 1993).
10.46	— Employee Stock Purchase Plan Administration Agreement dated July 25, 2001 between Service Corporation International (Canada) Limited and Fastrak Systems Inc. (Incorporated by reference to Exhibit 10.48 to Form 10-K for the fiscal year ended December 31, 2002).
10.47	— Form of Indemnification Agreement for officers and directors. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended September 30, 2004).
10.48	— Form of Executive Deferred Compensation Plan as Amended and Restated Effective December 8, 2009. (Incorporated by reference to Exhibit 10.42 to Form 10-K for the fiscal year ended December 31, 2009.)
10.49	— Amendment One to Executive Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.50 to Form 10-K for the fiscal year ended December 31, 2010).
10.50	— Form of Performance Unit Grant Award Agreement.
10.51	— Second Amended and Restated Revolving Credit Agreement, dated as of March 18, 2011 among Service Corporation International, the lenders party thereto and JPMorgan Chase Bank, N.A. as Administrative Agent for the lenders, dated as of March 18, 2011. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated March 24, 2011).
10.52	— Agreement and First Amendment to Second Amended and Restated Credit Agreement, dated as of May 27, 2011, among the Company and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 3, 2011).
12.1	— Ratio of Earnings to Fixed Charges.
21.1	— Subsidiaries of the Company.
23.1	— Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).
24.1	— Powers of Attorney.
31.1	— Certification of Thomas L. Ryan as Principal Executive Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	— Certification of Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	— Certification of Periodic Financial Reports by Thomas L. Ryan as Principal Executive Officer in satisfaction of Section 906 of the Sarbanes- Oxley Act of 2002.
32.2	— Certification of Periodic Financial Reports by Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002.
101	— Interactive data file.

In the above list, the management contracts or compensatory plans or arrangements are set forth in Exhibits 10.1 through 10.50.

Pursuant to Item 601(b)(4) of Regulation S-K, there are not filed as exhibits to this report certain instruments with respect to long-term debt under which the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish a copy of any such instrument to the Commission upon request.