SERVICE CORPORATION INTERNATIONAL
Form 10-Q
November 09, 2007

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

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from__________ to__________

Commission file number 1-6402-1

SERVICE CORPORATION INTERNATIONAL

(Exact name of registrant as specified in its charter)

Texas	**74-1488375**
(State or other jurisdiction of incorporation or organization)	(I. R. S. employer identification number)
1929 Allen Parkway, Houston, Texas	**77019**
(Address of principal executive offices)	(Zip code)

713-522-5141

(Registrant s telephone number, including area code)

None

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

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

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

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer o

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

The number of shares outstanding of the registrant s common stock as of November 1, 2007 was 278,672,176 (net of treasury shares).

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GLOSSARY

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

Atneed Funeral and cemetery arrangements after the death has occurred.

Burial Vaults A reinforced outer burial container intended to protect the casket against the weight of the earth.

Cash Overrides Funds received based on achieving certain dollar volume sales or production targets of life insurance policies.

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

General Agency (GA) Revenues Commissions paid to the General Agency (GA) 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. The commission rate is applied to the face amount of the policy purchased to determine the commission amount payable to the GA. GA revenues are recognized as funeral revenues when the insurance purchase transaction between the customer and third party insurance provider is completed.

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

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

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

Maturity At the time of death. This is the point at which preneed contracts are converted to atneed contracts.

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

Perpetual Care or Endowment Care Fund A trust fund used for the maintenance and upkeep of burial spaces within a cemetery in perpetuity.

Preneed Funeral and cemetery arrangements made prior to the time of death.

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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues	$ 539,334	$ 400,389	$ 1,712,381	$ 1,273,790
Costs and expenses	(436,814)	(327,341)	(1,365,346)	(1,027,860)
Gross profit	102,520	73,048	347,035	245,930
General and administrative expenses	(32,074)	(20,956)	(97,754)	(63,885)
Gains (losses) on dispositions and impairment charges, net	4,886	(30,750)	6,949	(38,141)
Operating income	75,332	21,342	256,230	143,904
Interest expense	(38,090)	(33,330)	(111,852)	(86,667)
Loss on early extinguishment of debt			(14,480)	
Interest income	4,254	8,259	8,324	21,022
Equity in earnings of unconsolidated subsidiaries	2,460	1,214	8,730	1,351
Other (expense) income, net	(1,049)	10,118	(3,981)	11,176
Income from continuing operations before income taxes	42,907	7,603	142,971	90,786
Provision for income taxes	(14,062)	(4,797)	(66,500)	(35,846)
Income from continuing operations	28,845	2,806	76,471	54,940
(Loss) income from discontinued operations (net of income tax provision (benefit) of $2,223, ($201), $4,183 and $(118), respectively)	(675)	559	4,459	801
Net income	$ 28,170	$ 3,365	$ 80,930	$ 55,741
Basic earnings per share:				
Income from continuing operations	$ .10	$ .01	$ .26	$ .19
Income from discontinued operations, net of tax			.02	
Net income	$ .10	$ .01	$ .28	$ .19
Diluted earnings per share:				
Income from continuing operations	$ .10	$ .01	$ .26	$ .19
Income from discontinued operations, net of tax			.01	
Net income	$ .10	$ .01	$ .27	$ .19
Basic weighted average number of shares	284,511	291,662	289,437	293,117

Diluted weighted average number of shares	289,597	295,918	294,848	297,353
Dividends declared per share	$ .030	$ .025	$ .090	$ .075

(See notes to unaudited condensed consolidated financial statements)

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

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 287,738	$ 39,880
Receivables, net	104,054	107,194
Inventories	37,898	39,535
Current assets of discontinued operations		2,236
Current assets held for sale	5,404	6,330
Other	34,578	43,162
Total current assets	469,672	238,337
Preneed funeral receivables and trust investments	1,518,187	1,516,676
Preneed cemetery receivables and trust investments	1,465,881	1,522,584
Cemetery property, at cost	1,446,213	1,495,248
Property and equipment, net	1,577,514	1,641,353
Non-current assets of discontinued operations		371,132
Non-current assets held for sale	350,066	349,311
Goodwill	1,268,493	1,264,272
Deferred charges and other assets	396,138	436,545
Cemetery perpetual care trust investments	916,629	893,931
	$ 9,408,793	$ 9,729,389
Liabilities & Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 340,965	$ 341,173
Current maturities of long-term debt	156,466	46,176
Current liabilities of discontinued operations		2,351
Current liabilities held for sale	199	419
Income taxes	45,192	17,828
Total current liabilities	542,822	407,947
Long-term debt	1,779,830	1,912,696
Deferred preneed funeral revenues	548,261	537,792
Deferred preneed cemetery revenues	697,120	754,193
Deferred income taxes	73,166	177,341
Non-current liabilities of discontinued operations		311,498
Non-current liabilities held for sale	270,048	239,800
Other liabilities	479,987	357,418
Non-controlling interest in funeral and cemetery trusts	2,527,809	2,548,743

Non-controlling interest in cemetery perpetual care trusts		913,445		887,186
Commitments and contingencies (Note 16)				
Stockholders equity:				
Common stock, $1 per share par value, 500,000,000 shares authorized, 280,158,739 and 293,222,114, issued and outstanding (net of 16,805,762 and 10,000 treasury shares, at par)		280,159		293,222
Capital in excess of par value		2,000,324		2,135,649
Accumulated deficit		(865,496)		(906,394)
Accumulated other comprehensive income		161,318		72,298
Total stockholders equity		1,576,305		1,594,775
	$	9,408,793	$	9,729,389

(See notes to unaudited condensed consolidated financial statements)

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

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Cash flows from operating activities:		
Net income	$ 80,930	$ 55,741
Adjustments to reconcile net income to net cash provided by operating activities:		
Net income from discontinued operations, net of tax	(4,459)	(801)
Loss on early extinguishment of debt	14,480	
Premiums paid on early extinguishment of debt	(11,368)	
Depreciation and amortization	99,308	69,601
Amortization of cemetery property	24,983	18,589
Amortization of loan costs	5,202	13,902
Provision for doubtful accounts	7,753	6,688
Provision for deferred income taxes	20,798	23,486
(Gains) losses on dispositions and impairment charges, net	(6,949)	38,141
Share-based compensation	7,898	5,487
Excess tax benefits from share-based awards	(5,159)	
Equity in earnings of unconsolidated subsidiaries	(8,730)	(1,351)
Change in assets and liabilities, net of effects from acquisitions and dispositions:		
(Increase) decrease in receivables	(7,027)	18,515
Increase in other assets	(1,418)	(19,247)
Increase (decrease) in payables and other liabilities	33,436	(7,482)
Effect of preneed funeral production and maturities:		
Decrease in preneed funeral receivables and trust investments	27,236	24,565
Increase in deferred preneed funeral revenue	41,938	2,655
Decrease in funeral non-controlling interest	(50,013)	(20,959)
Effect of cemetery production and deliveries:		
Decrease in preneed cemetery receivables and trust investments	41,811	20,904
Increase (decrease) in deferred preneed cemetery revenue	36,347	(8,930)
(Decrease) increase in cemetery non-controlling interest	(36,228)	25,079
Other	578	51
Net cash provided by operating activities from continuing operations	311,347	264,634
Net cash provided by operating activities from discontinued operations	17,279	698
Net cash provided by operating activities	328,626	265,332
Cash flows from investing activities:		
Capital expenditures	(113,607)	(63,199)
Proceeds from divestitures, net of cash retained and sales of property and equipment	314,255	54,766
Acquisitions	(3,308)	(14,637)
Net withdrawals of restricted funds and other	(236)	10,435
Net cash provided by (used in) investing activities from continuing operations	197,104	(12,635)
Net cash (used in) provided by investing activities from discontinued operations	(8,546)	11,328

Net cash provided by (used in) investing activities	188,558	(1,307)

	Nine months ended September 30,	
	2007	**2006**
Cash flows from financing activities:		
Proceeds from long-term debt issued	398,996	
Debt issuance costs	(6,443)	
Payments of debt	(3,043)	(14,287)
Principal payments on capital leases	(22,060)	(15,968)
Early extinguishment of debt	(422,545)	
Proceeds from exercise of stock options	19,373	3,614
Purchase of Company common stock	(211,082)	(27,870)
Excess tax benefits from share-based awards	5,159	
Payments of dividends	(26,265)	(22,113)
Bank overdrafts	(829)	
Net cash used in financing activities from continuing operations	(268,739)	(76,624)
Net cash used in financing activities from discontinued operations	(2,113)	
Net cash used in financing activities	(270,852)	(76,624)
Effect of foreign currency	1,526	2,450
Net increase in cash and cash equivalents	247,858	189,851
Cash and cash equivalents at beginning of period	39,880	446,782
Cash and cash equivalents at end of period	$ 287,738	$ 636,633

(See notes to unaudited condensed consolidated financial statements)

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

	Outstanding shares	Common stock	Treasury stock, par value	Capital in excess of par value	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at December 31, 2006	293,222	$ 293,232	$ (10)	$ 2,135,649	$ (906,394)	$ 72,298	$ 1,594,775
Cumulative effect of adoption of FIN 48					11,987		11,987
Net income					80,930		80,930
Dividends declared on common stock ($.09 per share)				(26,094)			(26,094)
Total other comprehensive income						89,020	89,020
Employee share based compensation earned				7,898			7,898
Stock option exercises and other	3,478	3,418	60	15,955			19,433
Restricted stock awards, net of forfeitures	314	314		(314)			
Tax benefit related to share-based awards				9,438			9,438
Purchase of Company stock	(16,855)		(16,855)	(142,208)	(52,019)		(211,082)
Balance at September 30, 2007	280,159	$ 296,964	$ (16,805)	$ 2,000,324	$ (865,496)	$ 161,318	$ 1,576,305

(See notes to unaudited condensed consolidated financial statements)

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

1. Nature of Operations

We are a provider of deathcare products and services, with a network of funeral service locations and cemeteries primarily operating in the United States and Canada. At September 30, 2007, we also owned a minority interest in funeral operations of an entity in France, which we divested in the fourth quarter of 2007. Additionally, at September 30, 2007, we owned Kenyon International Emergency Services (Kenyon), a wholly-owned subsidiary that specializes in providing disaster management services in mass fatality incidents as well as training, planning, and crisis-communications consulting services. We divested 70% of our Kenyon investment in the fourth quarter of 2007. Kenyon s results are included in our funeral operations segment. As part of the Alderwoods transaction, we acquired Mayflower National Life Insurance Company, an insurance business that we sold in July 2007. The operations of this business through the date of sale are presented as discontinued operations in our condensed consolidated statement of operations.

Our funeral and cemetery 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, burial vaults, cremation receptacles, 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, casket and cremation memorialization products, 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 condensed consolidated financial statements include the accounts of Service Corporation International and all majority-owned subsidiaries. These statements also include the accounts of the funeral trusts, cemetery merchandise and services trusts, and perpetual care trusts in which we have a variable interest and are the primary beneficiary. The interim condensed consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair presentation of the results for these periods. These condensed consolidated financial statements have been prepared in a manner consistent with the accounting policies described in our annual report on Form 10-K for the year ended December 31, 2006, unless otherwise disclosed herein, and should be read in conjunction therewith. The accompanying year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year period.

Reclassifications

We have reclassified certain prior period amounts to conform to the current period financial statement presentation with no effect on previously reported results of operations, financial condition, or cash flows.

Use of Estimates in the Preparation of Financial Statements

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

3. Recently Issued Accounting Standards

Split-Dollar Life Insurance Agreements

In March 2007, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force Issue No. 06-10 *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements* (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of a collateral assignment agreement. EITF 06-10 is effective for us beginning January 1, 2008. We are currently evaluating the impact of EITF 06-10 on our consolidated financial statements.

Fair Value Option for Financial Assets and Liabilities

In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This Statement permits entities to choose to measure various financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for us beginning January 1, 2008. We are currently evaluating the impact of SFAS 159 on our consolidated financial statements.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective beginning January 1, 2008 for us. We are currently evaluating the impact of SFAS 157 on our consolidated financial statements.

4. Income Taxes

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertain income tax positions recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* . This interpretation requires companies to use a prescribed model for assessing the financial statement recognition and measurement of all tax positions taken or expected to be taken in its tax returns. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recorded a $12.0 million net increase in our liability for unrecognized tax benefits, which was recorded as a $24.0 million increase to goodwill (related to uncertain tax positions acquired in the recent Alderwoods transaction) and a $12.0 million reduction in our *accumulated deficit* as of January 1, 2007. As of the date of adoption and after considering the impact of recognizing the net liability increase noted above, our unrecognized tax benefits totaled $257.1 million, of which $156.3 million would impact our effective tax rate, if recognized.

In the third quarter of 2007, we recorded a net decrease in our liability for uncertain tax positions of approximately $24.5 million relating to uncertain positions taken in prior years, as a result of expiring federal, state, and foreign statute of limitations, and the sale of assets. Of the $24.5 million, $20.9 million was recorded as an adjustment of goodwill related to uncertain tax positions acquired in our Alderwoods transaction. We also recorded a $0.4 million increase in the liability for unrecognized tax benefits related to our recent Alderwoods transaction, which was recorded as a purchase price allocation adjustment. In the second quarter of 2007, we recorded a $1.3 million increase in the liability for unrecognized tax benefits due to a change in estimate, which was recorded as a purchase price allocation adjustment.

We file numerous consolidated and separate income tax returns in the United States federal jurisdiction and in many state and foreign jurisdictions. A number of years may elapse before particular tax matters, for which we have unrecognized tax benefits, are audited and finally settled. In the United States, the Internal Revenue Service has recently completed its field work for tax years 1999 through 2002 and is currently auditing tax years 2003 through 2005. Various state and foreign jurisdictions are auditing years through

2005. It is reasonably possible that one or more of these multi-jurisdictional audits will be settled in the fourth quarter of 2007 or 2008, as some are in the final approval stage, and if favorably resolved such settlements could result in a significant reduction in the amount of our unrecognized tax benefits.

Consistent with our historical financial reporting, we recognize potential accrued interest and penalties related to unrecognized tax benefits within our income tax expense account. We had recognized approximately $51.3 million for the payment of interest and penalties at January 1, 2007, which is included in the $257.1 million in unrecognized tax benefits noted above. During the three and nine months ended September 30, 2007, we recognized an additional $2.5 million and $7.5 million in potential interest and penalties associated with uncertain tax positions. To the extent interest and penalties are not assessed with respect to uncertain tax positions in the future, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

Effective Tax Rate

The effective tax rates for the three and nine months ended September 30, 2007 were 32.8% and 46.5%, respectively, compared to 63.1% and 39.5% for the same periods in 2006. The lower effective tax rate for the three months ended September 30, 2007 was impacted by a net decrease in our liability for uncertain tax positions, an adjustment for tax returns filed, and state tax law changes.

The effective tax rate for the nine months ended September 30, 2007 was impacted by permanent differences between the book and tax bases of asset dispositions, state income taxes, and newly required interest and penalties accrued on existing uncertain tax positions.

5. Alderwoods Acquisition

On November 28, 2006 we completed our acquisition of Alderwoods Group, Inc. (Alderwoods). In the first nine months of 2007, we adjusted our goodwill for various purchase price allocation adjustments as follows (in thousands):

Adjustments to fair value of deferred revenue	(30,839)
Adjustments to fair value of intangible assets	23,977
Adjustments to fair value of trust assets	19,307
Adjustments to fair value of acquired locations	(49,469)
Adjustments to deferred taxes	1,804
Other	3,302
Total adjustment to Alderwoods goodwill	$ (31,918)

During the three and nine months ended September 30, 2007, we recorded adjustments to our acquired Alderwoods goodwill related to our ongoing verification of the contract status and fair values of preneed cemetery and funeral deferred revenues and related trust and intangible assets. In addition, during the second quarter of 2007, we adjusted the fair values of certain assets and liabilities sold during the quarter, in relation to certain Alderwoods locations mandated for divestment pursuant to our recent FTC decree. Although we previously disclosed our finalization of fair value adjustments related to the acquired Alderwoods preneed contracts as of the end of the second quarter, we now expect to conclude our remaining analysis and record any required adjustments in the fourth quarter of 2007, due to on-going work related to the preparation and review of certain Alderwoods account reconciliations.

Certain pre-acquisition contingencies primarily relating to legal matters existed at the date of the merger, and our final assessment required us to gather and analyze a significant amount of additional information and in so doing, to seek third party assistance. We expect to complete this assessment during the fourth quarter of 2007.

The condensed consolidated statement of operations for the three and nine months ended September 30, 2007 includes the results of operations of Alderwoods. For the three and nine months ended September 30, 2006, the following unaudited pro forma information presents information as if the merger occurred on January 1, 2006:

	Three months ended	**Nine months ended**

	September 30, 2006	September 30, 2006
	(In thousands)	
Revenues	$571,928	$ 1,711,799
(Loss) income from continuing operations	$ (1,940)	$ 45,414
Net (loss) income	$ (1,381)	$ 44,973
(Loss) income from continuing operations per share:		
Basic	$ (.01)	$ .15
Diluted	$ (.01)	$ .15
Net (loss) income per share:		
Basic	$ (.01)	$ .15
Diluted	$ (.01)	$ .15

6. Preneed Funeral Activities

Preneed funeral receivables and trust investments, net of allowance for cancellation, represent trust investments, including investment earnings and customer receivables related to unperformed, price-guaranteed preneed funeral contracts. When we, as the primary beneficiary, 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 *Non-controlling interest in funeral and cemetery trusts.* Amounts are withdrawn from the trusts after the contract is performed. We deposited $20.7 million and $20.1 million into and withdrew $37.8 million and $26.1 million from the trusts during the three months ended September 30, 2007 and 2006, respectively. We deposited $66.1 million and $62.0 million into and withdrew $112.0 million and $82.6 million from the trusts during the nine months ended September 30, 2007 and 2006, respectively. Cash flows related to preneed funeral contracts are presented as operating cash flows in our condensed consolidated statement of cash flows.

The components of *Preneed funeral receivables and trust investments* in our condensed consolidated balance sheet at September 30, 2007 and December 31, 2006 are as follows:

	September 30, 2007	December 31, 2006
	(In thousands)	
Trust investments, at market	$ 1,325,665	$ 1,329,922
Receivables from customers	222,005	224,740
	1,547,670	1,554,662
Allowance for cancellation	(29,483)	(37,986)
Preneed funeral receivables and trust investments	$ 1,518,187	$ 1,516,676

The cost and market values associated with funeral trust investments at September 30, 2007 and December 31, 2006 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 (including debt as well as the estimated fair value related to the contract holders equity in majority-owned real estate investments). The fair market value of funeral trust investments, which in the aggregate represented 102% and 103% of the related cost basis of such investments as of September 30, 2007 and December 31, 2006, respectively, was based primarily on quoted market prices at the balance sheet date. We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. As a result of our review at June 30, 2007, we recorded a $3.6 million impairment charge as a result of other-than-temporary declines in fair value related to unrealized losses on certain private equity and other investments. The impairment charges are recognized as investment losses and offset by interest income related to non-controlling interest in funeral trust investments in *Other (expense) income, net* in our condensed consolidated statement of operations. As a result of our most recent review at September 30, 2007, we recorded no additional impairment charges. See Note 9 to the condensed consolidated financial statements for further information related to our non-controlling interest in funeral trust investments.

	September 30, 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Cash and cash equivalents	$ 360,484	$	$	$ 360,484
Fixed income securities:				
U.S. Treasury	90,581	1,046	(138)	91,489

Foreign government	92,368	280	(957)	91,691
Corporate	10,136	288	(53)	10,371
Mortgage-backed	5,482	68	(15)	5,535
Insurance-backed	178,483			178,483
Asset-backed	29			29
Equity securities:				
Preferred stock	1,586	82	(8)	1,660
Common stock	289,738	18,866	(1,818)	306,786
Mutual funds:				
Equity	87,588	6,062	(422)	93,228
Fixed income	138,611	5,897	(966)	143,542
Private equity and other	70,419	3,728	(4,634)	69,513
Trust investments	$ 1,325,505	$ 36,317	$ (9,011)	$ 1,352,811
Less: Assets associated with businesses held for sale				(27,146)
				$ 1,325,665

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	December 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Cash and cash equivalents	$ 235,178	$	$	$ 235,178
Fixed income securities:				
U.S. Treasury	72,280	1,648	(278)	73,650
Foreign government	86,770	608	(471)	86,907
Corporate	4,844	132	(44)	4,932
Mortgage-backed	4,390	116	(43)	4,463
Insurance-backed	203,709			203,709
Equity securities:				
Preferred stock	714	47	(5)	756
Common stock	328,672	22,425	(2,698)	348,399
Mutual funds:				
Equity	124,154	12,896	(539)	136,511
Fixed income	212,302	8,561	(2,254)	218,609
Private equity and other	65,127	1,328	(783)	65,672
Trust investments	$ 1,338,140	$ 47,761	$ (7,115)	$ 1,378,786
Less: Assets associated with businesses held for sale				(48,864)
				$ 1,329,922

Maturity dates of the fixed income securities range from 2007 to 2038. Maturities of fixed income securities at September 30, 2007 are estimated as follows:

	Market (In thousands)
Due in one year or less	$ 110,914
Due in one to five years	76,092
Due in five to ten years	92,884
Thereafter	97,708
	$ 377,598

During the three months ended September 30, 2007, purchases and sales of available-for-sale securities included in trust investments were $342.0 million and $379.6 million, respectively. These sale transactions resulted in $54.9 million and $10.7 million of realized gains and realized losses, respectively, for the three months ended September 30, 2007. During the three months ended September 30, 2006, purchases and sales of available-for-sale securities included in trust investments were $171.1 million and $197.5 million, respectively. These sale transactions resulted in $15.3 million and $13.7 million of realized gains and realized losses, respectively for the three months ended September 30, 2006.

During the nine months ended September 30, 2007, purchases and sales of available-for-sale securities included in trust investments were $653.9 million and $575.1 million, respectively. These sale transactions resulted in $87.7 million and $22.8 million of realized gains and realized losses, respectively, for the nine months ended September 30, 2007. During the nine months ended September 30, 2006, purchases and sales of available-for-sale securities included in trust investments were $325.8 million and $357.2 million, respectively. These sale transactions resulted in $49.1 million and $25.5 million of realized gains and realized losses, respectively for the nine months ended September 30, 2006.

Earnings from all trust investments are recognized in current funeral revenues when the service is performed, merchandise is delivered, or upon cancellation of the funeral contract. Only the amount we are entitled to retain is recognized when a contract is cancelled. Recognized earnings (realized and unrealized) related to these trust investments were $11.2 million and $7.6 million for the three months ended September 30, 2007 and 2006, respectively. Recognized earnings (realized and unrealized) related to these trust investments were $33.3 million and $26.6 million for the nine months ended September 30, 2007 and 2006, respectively.

7. Preneed Cemetery Activities

Preneed cemetery receivables and trust investments, net of allowance for cancellation, 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. When we, as the primary beneficiary, receive payments from the customer, we deposit the amount required by law into the trust, remove the corresponding amount from *Deferred preneed cemetery revenues*, and record the amount into *Non-controlling interest in funeral and cemetery trusts.* Amounts are withdrawn from the trusts when the contract is performed. We deposited $30.1 million and $27.4 million into and withdrew $40.1 million and $27.5 million from the trusts during the three months ended September 30, 2007 and 2006, respectively. We deposited $89.3 million and $91.7 million into and withdrew $121.3 million and $68.7 million from the trusts during the nine months ended September 30, 2007 and 2006, respectively. Cash flows related to preneed cemetery contracts are presented as operating cash flows in our condensed consolidated statement of cash flows.

The components of *Preneed cemetery receivables and trust investments* in the condensed consolidated balance sheet at September 30, 2007 and December 31, 2006 are as follows:

	September 30, 2007	December 31, 2006
	(In thousands)	
Trust investments, at market	$ 1,217,329	$ 1,236,446
Receivables from customers	353,066	384,428
Unearned finance charges	(49,180)	(54,704)
	1,521,215	1,566,170
Allowance for cancellation	(55,334)	(43,586)
Preneed cemetery receivables and trust investments	$ 1,465,881	$ 1,522,584

The cost and market values associated with the cemetery merchandise and service trust investments at September 30, 2007 and December 31, 2006 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 (including debt as well as the estimated fair value related to the contract holders equity in majority-owned real estate alternative investments). The fair market value of cemetery trust investments, which in the aggregate represented 105% and 106% of the related cost basis of such investments as of September 30, 2007 and December 31, 2006, was based primarily on quoted market prices at the balance sheet date. We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. As a result of our review at June 30, 2007, we recorded a $3.2 million impairment charge as a result of other than temporary declines in fair value related to unrealized losses on certain private equity and other investments. The impairment charges are recognized as investment losses and offset by interest income related to non-controlling interest in cemetery trust investments in *Other (expense) income, net* in our condensed consolidated statements of operations. As a result of our most recent review at September 30, 2007, we recorded no additional impairment charges. See Note 9 to the condensed consolidated financial statements for further information related to our non-controlling interest in cemetery trust investments.

	September 30, 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			

Cash and cash equivalents	$ 431,694	$	$	$ 431,694
Fixed income securities:				
U.S. Treasury	60,423	2,811	(314)	62,920
Foreign government	22,825	456	(94)	23,187
Corporate	9,715	763	(53)	10,425
Equity securities:				
Preferred stock	2,837	224	(15)	3,046
Common stock	312,320	26,418	(1,719)	337,019
Mutual funds:				
Equity	136,566	19,231	(480)	155,317
Fixed income	277,059	18,771	(1,790)	294,040
Private equity and other	26,817	2,547	(3,485)	25,879
Trust investments	$ 1,280,256	$ 71,221	$ (7,950)	$ 1,343,527
Less: Assets associated with businesses held for sale				(126,198)
				$ 1,217,329

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	December 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Cash and cash equivalents	$ 258,365	$	$	$ 258,365
Fixed income securities:				
U.S. Treasury	61,785	4,195	(2,147)	63,833
Foreign government	25,187	745	(30)	25,902
Corporate	5,223	398	(32)	5,589
Equity securities:				
Preferred stock	2,054	158	(12)	2,200
Common stock	300,188	26,726	(1,756)	325,158
Mutual funds:				
Equity	208,396	28,309	(729)	235,976
Fixed income	374,636	21,204	(3,039)	392,801
Private equity and other	28,802	499	(4,153)	25,148
Trust investments	$ 1,264,636	$ 82,234	$ (11,898)	$ 1,334,972
Less: Assets associated with businesses held for sale				(98,526)
				$ 1,236,446

Maturity dates of the fixed income securities range from 2007 to 2038. Maturities of fixed income securities at September 30, 2007 are estimated as follows:

	Market (In thousands)
Due in one year or less	$ 3,929
Due in one to five years	29,179
Due in five to ten years	40,145
Thereafter	23,279
	$ 96,532

During the three months ended September 30, 2007, purchases and sales of available-for-sale securities included in trust investments were $448.4 million and $461.2 million, respectively. These sale transactions resulted in $66.0 million and $10.9 million of realized gains and realized losses, respectively, for the three months ended September 30, 2007. During the three months ended September 30, 2006, purchases and sales of available-for-sale securities included in trust investments were $321.6 million and $344.9 million, respectively. These sale transactions resulted in $24.5 million and $25.4 million of realized gains and realized losses, respectively for the three months ended September 30, 2006.

During the nine months ended September 30, 2007, purchases and sales of available-for-sale securities included in trust investments were $805.4 million and $664.8 million, respectively. These sale transactions resulted in $102.3 million and $23.3 million of realized gains and realized losses, respectively, for the nine months ended

September 30, 2007. During the nine months ended September 30, 2006, purchases and sales of available-for-sale securities included in trust investments were $509.0 million and $542.3 million, respectively. These sale transactions resulted in $59.0 million and $39.2 million of realized gains and realized losses, respectively for the nine months ended September 30, 2006.

Earnings from all trust investments are recognized in current cemetery revenues when the service is performed or the merchandise is delivered, or upon cancellation of the cemetery contract. Only the amount we are entitled to retain is recognized when a contract is cancelled. Recognized earnings (realized and unrealized) related to these trust investments were $8.9 million and $3.5 million for the three months ended September 30, 2007 and 2006, respectively. Recognized earnings (realized and unrealized) related to these trust investments were $18.7 million and $10.2 million for the nine months ended September 30, 2007 and 2006, respectively.

8. Cemetery Perpetual Care Trusts

We are required by state or provincial law to pay into perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. As the primary beneficiary of the trusts, we consolidate the perpetual care trust investments with a corresponding amount recorded as *Non-controlling interest in perpetual care trusts.* We deposited $5.7 million and $7.0 million into the trusts and withdrew $4.2 million and $9.2 million from the trusts during the three months ended September 30, 2007 and 2006,

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respectively. We deposited $20.3 million and $18.2 million into the trusts and withdrew $22.9 million and $38.5 million from the trusts during the nine months ended September 30, 2007 and 2006, respectively. Cash flows related to cemetery perpetual care contracts are presented as operating cash flows in our condensed consolidated statement of cash flows.

The cost and market values associated with trust investments held in perpetual care trusts at September 30, 2007 and December 31, 2006 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 (including debt as well as the estimated fair value related to the contract holders equity in majority-owned real estate investments). The fair market value of perpetual care trusts, which in the aggregate represented 102% and 105% of the related cost basis of such investments as of September 30, 2007 and December 31, 2006, respectively, was based primarily on quoted market prices at the balance sheet date. We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. As a result of our review at June 30, 2007, we recorded a $1.2 million impairment charge as a result of other than temporary declines in fair value related to unrealized losses on certain private equity and other investments. The impairment charges are recognized as investment losses and offset by interest income related to non-controlling interest in perpetual care trust investments in *Other (expense) income, net* in our condensed consolidated statements of operations. As a result of our most recent review at September 30, 2007, we recorded no additional impairment charges. See Note 9 to the condensed consolidated financial statements for further information related to our non-controlling interest in perpetual care trust investments.

	September 30, 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Cash and cash equivalents	$ 219,083	$	$	$ 219,083
Fixed income securities:				
U.S. Treasury	2,113	612	(13)	2,712
Foreign government	30,838	515	(194)	31,159
Corporate	33,865	648	(299)	34,214
Mortgage-backed	5,467	3	(3)	5,467
Equity securities:				
Preferred stock	2,364	71	(16)	2,419
Common stock	110,511	10,519	(642)	120,388
Mutual funds:				
Equity	47,226	3,010	(195)	50,041
Fixed income	480,274	11,268	(3,058)	488,484
Private equity and other	28,849	2,280	(1,184)	29,945
Perpetual care trust investments	$ 960,590	$ 28,926	$ (5,604)	$ 983,912
Less: Assets associated with businesses held for sale				(67,283)
				$ 916,629

December 31, 2006

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
		(In thousands)		
Cash and cash equivalents	$ 167,464	$	$	$ 167,464
Fixed income securities:				
U.S. Treasury	11,557	655	(117)	12,095
Foreign government	28,738	952	(101)	29,589
Corporate	24,067	1,255	(13)	25,309
Mortgage-backed	639	2	(8)	633
Equity securities:				
Preferred stock	7,931	557	(1)	8,487
Common stock	86,945	8,806	(115)	95,636
Mutual funds:				
Equity	61,498	5,077	(212)	66,363
Fixed income	481,267	24,048	(1,431)	503,884
Private equity and other	36,948	2,446	(694)	38,700
Perpetual care trust investments	$ 907,054	$ 43,798	$ (2,692)	$ 948,160

	December 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
	(In thousands)			
Less: Assets associated with businesses held for sale				(54,229)
				$ 893,931

Maturity dates of the fixed income securities range from 2007 to 2038. Maturities of fixed income securities at September 30, 2007 are estimated as follows:

	Market (In thousands)
Due in one year or less	$ 12,720
Due in one to five years	30,755
Due in five to ten years	14,475
Thereafter	15,602
	$ 73,552

During the three months ended September 30, 2007, purchases and sales of available-for-sale securities in the perpetual care trusts were $405.6 million and $247.3 million, respectively. These sale transactions resulted in $6.6 million and $5.7 million of realized gains and realized losses, respectively. During the three months ended September 30, 2006, purchases and sales of available-for-sale securities in the perpetual care trusts were $395.4 million and $421.4 million, respectively. These sales transactions resulted in $20.8 million and $17.4 million of realized gains and realized losses, respectively.

During the nine months ended September 30, 2007, purchases and sales of available-for-sale securities in the perpetual care trusts were $632.9 million and $341.4 million, respectively. These sale transactions resulted in $31.0 million and $11.9 million of realized gains and realized losses, respectively. During the nine months ended September 30, 2006, purchases and sales of available-for-sale securities in the perpetual care trusts were $729.8 million and $736.9 million, respectively. These sales transactions resulted in $32.2 million and $25.2 million of realized gains and realized losses, respectively.

Distributable earnings from these perpetual care trust investments are recognized in current cemetery revenues to the extent of qualifying cemetery maintenance costs. Recognized earnings related to these perpetual care trust investments were $10.3 million and $9.1 million for the three months ended September 30, 2007 and 2006, respectively. Recognized earnings related to these perpetual care trust investments were $35.6 million and $32.7 million for the nine months ended September 30, 2007 and 2006, respectively.

9. Non-Controlling Interest in Funeral and Cemetery Trusts and in Cemetery Perpetual Care Trusts

We consolidate the merchandise and service trusts associated with our preneed funeral and cemetery activities as a result of the implementation of FIN 46R. Although FIN 46R requires the consolidation of the merchandise and service trusts, it does not change the legal relationships among the trusts, our customers or us. The customers are the legal beneficiaries of these merchandise and service trusts, and therefore, their interests in these trusts represent a non-controlling interest in subsidiaries.

The components of *Non-controlling interest in funeral and cemetery trusts* and *Non-controlling interest in perpetual care trusts* in our condensed consolidated balance sheet at September 30, 2007 and December 31, 2006 are detailed below.

	September 30, 2007			September 30, 2007
	Preneed Funeral	Preneed Cemetery	Total	Cemetery Perpetual Care
	(In thousands)			
Trust investments, at market value	$ 1,325,665	$ 1,217,329	$ 2,542,994	$ 916,629
Less: Accrued trust operating payables, deferred taxes and other	(4,910)	(10,275)	(15,185)	(3,184)
Non-controlling interest	$ 1,320,755	$ 1,207,054	$ 2,527,809	$ 913,445

	December 31, 2006			December 31, 2006
	Preneed Funeral	Preneed Cemetery	Total	Cemetery Perpetual Care
	(In thousands)			
Trust investments, at market value	$ 1,329,922	$ 1,236,446	$ 2,566,368	$ 893,931
Less: Accrued trust operating payables, deferred taxes and other	(6,052)	(11,573)	(17,625)	(6,745)
Non-controlling interest	$ 1,323,870	$ 1,224,873	$ 2,548,743	$ 887,186

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Other (Expense) Income, Net

The components of *Other (expense) income, net* in our condensed consolidated statement of operations for the three and nine months ended September 30, 2007 and 2006 are detailed below. See Notes 6 through 8 to the condensed consolidated financial statements for further discussion of the amounts related to the funeral, cemetery and perpetual care trusts.

	Three Months Ended September 30, 2007				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
			(In thousands)		
Realized gains	$ 54,926	$ 65,959	$ 6,558	$	$ 127,443
Realized losses	(10,781)	(10,874)	(5,718)		(27,373)
Interest, dividend and other ordinary income	5,749	10,530	8,090		24,369
Trust expenses and income taxes	(2,036)	(2,962)	(630)		(5,628)
Net trust investment income	47,858	62,653	8,300		118,811
Interest expense related to non-controlling interest in funeral and cemetery trust investments	(47,858)	(62,653)			(110,511)
Interest expense related to non-controlling interest in perpetual care trust investments			(8,300)		(8,300)
Total non-controlling interest	(47,858)	(62,653)	(8,300)		(118,811)
Other (expense), net				(1,049)	(1,049)
Total other (expense), net	$	$	$	$ (1,049)	$ (1,049)

	Nine Months Ended September 30, 2007				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
			(In thousands)		
Realized gains	$ 87,677	$ 102,296	$ 30,990	$	$ 220,963
Realized losses	(26,418)	(26,493)	(13,101)		(66,012)
Interest, dividend and other ordinary income	17,400	25,223	30,409		73,032
Trust expenses and income taxes	(7,415)	(11,353)	(3,017)		(21,785)
Net trust investment income	71,244	89,673	45,281		206,198
Interest expense related to non-controlling interest in funeral and cemetery trust investments	(71,244)	(89,673)			(160,917)
			(45,281)		(45,281)

Interest expense related to non-controlling interest in perpetual care trust investments					
Total non-controlling interest	(71,244)	(89,673)	(45,281)		(206,198)
Other (expense), net				(3,981)	(3,981)
Total other (expense), net	$	$	$	$ (3,981)	$ (3,981)

	Three Months Ended September 30, 2006				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
			(In thousands)		
Realized gains	$ 15,255	$ 24,441	$ 20,780	$	$ 60,476
Realized losses	(13,739)	(25,465)	(17,349)		(56,553)
Interest, dividend and other ordinary income	3,804	6,842	6,002		16,648
Trust expenses and income taxes	(2,971)	(4,151)	(248)		(7,370)
Net trust investment income	2,349	1,667	9,185		13,201
Interest expense related to non-controlling interest in funeral and cemetery trust investments	(2,349)	(1,667)			(4,016)
Interest expense related to non-controlling interest in perpetual care trust investments			(9,185)		(9,185)
Total non-controlling interest	(2,349)	(1,667)	(9,185)		(13,201)
Other income				10,118	10,118
Total other income, net	$	$	$	$ 10,118	$ 10,118

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	Nine Months Ended September 30, 2006				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
			(In thousands)		
Realized gains	$ 49,059	$ 58,964	$ 32,183	$	$ 140,206
Realized losses	(25,494)	(39,220)	(25,151)		(89,865)
Interest, dividend and other ordinary income	11,960	25,955	29,726		67,641
Trust expenses and income taxes	(6,037)	(9,540)	(388)		(15,965)
Net trust investment income	29,488	36,159	36,370		102,017
Interest expense related to non-controlling interest in funeral and cemetery trust investments	(29,488)	(36,159)			(65,647)
Interest expense related to non-controlling interest in perpetual care trust investments			(36,370)		(36,370)
Total non-controlling interest	(29,488)	(36,159)	(36,370)		(102,017)
Other income				11,176	11,176
Total other income, net	$	$	$	$ 11,176	$ 11,176

10. Debt

Debt as of September 30, 2007 and December 31, 2006 was as follows:

	September 30, 2007	December 31, 2006
	(In thousands)	
6.875% notes due October 2007	$ 13,497	$ 13,497
6.5% notes due March 2008	45,209	195,000
7.7% notes due April 2009	28,731	202,588
7.875% debentures due February 2013	55,627	55,627
7.375% senior notes due October 2014	250,000	250,000
6.75% notes due April 2015	200,000	
6.75% notes due April 2016	250,000	250,000
7.0% notes due June 2017	300,000	300,000
7.625% senior notes due October 2018	250,000	250,000
7.5% notes due April 2027	200,000	
Term loan due 2009		100,000
Series A and Series B senior notes due November 2011	200,000	200,000
Convertible debentures, maturities through 2013, fixed interest rates from 5.00% to 5.25%, conversion prices from $13.02 to $50.00 per share	9,425	9,925
Obligations under capital leases	115,525	113,484
Mortgage notes and other debt, maturities through 2050	23,711	26,304
Unamortized pricing discounts and other	(5,429)	(7,553)

Total debt	1,936,296	1,958,872
Less current maturities	(156,466)	(46,176)
Total long-term debt	$ 1,779,830	$ 1,912,696

Current maturities of debt at September 30, 2007 were comprised primarily of our 6.5% notes due March 2008 and the October 2007 prepayment of our Series A Senior Notes due November 2011 (see further discussion below in ***Debt Extinguishments and Reductions***), our 6.875% notes due October 2007, convertible debentures, and capital leases. Our consolidated debt had a weighted average interest rate of 7.15% at September 30, 2007 and 7.30% at December 31, 2006. Approximately 87% and 82% of our total debt had a fixed interest rate at September 30, 2007 and December 31, 2006, respectively.

Bank Credit Facility

We entered into a new five-year $450 million bank credit facility in November 2006 with a syndicate of financial institutions, comprised of a $300 million revolving credit facility and a $150 million term loan facility, including a sublimit of $175 million for letters of credit. The term loan was funded under the credit facility. We repaid $50 million of the term loan in December 2006 and the remaining $100 million in the first quarter of 2007. The $300 million revolving credit facility remains unfunded.

The bank credit facility matures in November 2011. As of September 30, 2007, we have used the facility to support $57.1 million of letters of credit. The credit facility provides us with flexibility for working capital cash, 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. It covers the term of the credit facility, including extensions, and totaled a maximum potential amount of $57.1 million at September 30, 2007. The credit facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, maximum capital expenditure limitations, and certain cash distribution and share repurchase restrictions. As of September 30, 2007, we were in compliance with all of our debt covenants. We also pay a quarterly fee on the unused commitment, which ranges from 0.25% to 0.50%.

Debt Issuances and Additions

In April 2007, we completed a private offering of $400.0 million aggregate principal unsecured senior notes, consisting of $200.0 million aggregate principal amount of 6.75% Senior Notes due 2015 and $200.0 million aggregate principal amount of 7.50% Senior Notes due 2027. We are entitled to redeem the notes at any time by paying a make-whole premium. The notes are subject to the provisions of our 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. As of September 30, 2007, we were in compliance with all such debt covenants. We used the net proceeds from the offering to fund the closing of the tender offers for our 6.50% Notes due 2008 and 7.70% Notes due 2009 as further discussed below and for general corporate purposes. Under the terms of the registration rights agreement entered into in connection with the offerings of the notes, we filed a registration statement with the SEC with respect to an offer to exchange the notes for registered notes with substantially identical terms. The registration statement was declared effective by the SEC and the offering to exchange was completed in the third quarter of 2007.

Debt Extinguishments and Reductions

In the first quarter of 2007, we repaid $100.0 million aggregate principal amount of our term loan. As a result of this transaction, we recognized a loss of $2.4 million recorded in *Loss on early extinguishment of debt* in our condensed consolidated statement of operations, which represents the write-off of unamortized deferred loan costs of $1.7 million and a $0.7 million premium to early extinguish the debt.

In the second quarter of 2007, we purchased $149.8 million aggregate principal amount of our 6.50% Notes due 2008 and $173.8 million aggregate principal amount of our 7.70% Notes due 2009 in a tender offer. In connection with the repurchase of the notes, we recognized a *Loss on early extinguishment of debt* of approximately $12.1 million, which represents the write-off of unamortized deferred loan costs of $0.4 million, a $1.0 million loss on a related interest rate hedge, and $10.7 million in premiums paid to extinguish the debt.

Subsequent to September 30, 2007, we repaid $13.5 million aggregate principal amount of our 6.875% notes due October 2007. In addition to this repayment, we also prepaid $50 million of our Series A Senior Notes due November 2011, pursuant to a contractual commitment we entered into prior to September 30, 2007.

Capital Leases

In the first nine months of 2007, we acquired $27.8 million of transportation vehicles and other assets, which primarily relate to Alderwoods operations, using capital leases.

11. Retirement Plans

The components of net periodic pension plan benefit cost for the three and nine months ended September 30 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(In thousands)			
Interest cost on projected benefit obligation	$ 860	$ 1,973	$ 5,026	$ 5,919
Actual loss (return) on plan assets	323	(1,556)	(1,612)	(4,183)
Amortization of prior service cost	46	45	138	137
Plan dissolution and other	5,089		5,089	
	$ 6,318	$ 462	$ 8,641	$ 1,873

During the third quarter of 2007, we initiated the dissolution of our SCI Cash Balance Plan by making distributions out of plan assets of $51.6 million. These distributions reduced both Plan assets and the accumulated benefit obligation. In connection with this dissolution process, we recognized $5.1 million in non-cash charges.

12. Share-Based Compensation

Stock Benefit Plans

We utilize the Black-Scholes valuation model for estimating the fair value of our stock options. This model allows the use of a range of assumptions related to volatility, the risk-free interest rate, the expected life, and the dividend yield. The fair values of our stock options are calculated using the following weighted average assumptions for the three and nine months ended September 30, 2007:

Assumptions	Three months ended September 30, 2007	Nine months ended September 30, 2007
Dividend yield	1.4%	1.4%
Expected volatility	39.1%	38.9%
Risk-free interest rate	5.0%	4.8%
Expected holding period	6.0 years	5.9 years

Stock Options

The following table sets forth stock option activity for the nine months ended September 30, 2007:

	Options	Weighted-average exercise price
Outstanding at December 31, 2006	22,531,316	$ 7.79
Granted	2,234,900	10.86
Exercised	(3,519,147)	5.69
Expired	(3,465,034)	17.92
Outstanding at September 30, 2007	17,782,035	$ 6.61
Exercisable at September 30, 2007	14,181,578	$ 5.83

Restricted Shares

Restricted share activity for the nine months ended September 30, 2007 was as follows:

	Restricted	Weighted-average grant-date

	shares	fair value
Nonvested restricted shares at December 31, 2006	795,176	$ 7.50
Granted	313,800	10.73
Vested	(404,480)	7.29
Nonvested restricted shares at September 30, 2007	704,496	$ 9.08

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13. Stockholders Equity

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

	Foreign currency translation adjustment	Pension related adjustments	Unrealized gains and losses	Accumulated other comprehensive income
		(In thousands)		
Balance at December 31, 2006	$ 76,652	$ (623)	$ (3,731)	$ 72,298
Activity in 2007	84,909	380	3,731	89,020
Decrease in net unrealized gains associated with available-for-sale securities of the trusts			(33,481)	(33,481)
Reclassification of unrealized loss activity attributable to the non-controlling interest holders			33,481	33,481
Balance at September 30, 2007	$ 161,561	$ (243)	$	$ 161,318

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*. The activity in 2007 for unrealized gains and losses includes $5.7 million of unrealized losses on investment securities through the date of sale and the reclassification adjustments for investment losses realized in discontinued operations upon the sale of Mayflower Insurance Company. Income taxes are generally not provided for foreign currency translation.

The components of Comprehensive income are as follows for the three and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
		(In thousands)		
Comprehensive income:				
Net income	$ 28,170	$ 3,365	$ 80,930	$ 55,741
Total other comprehensive income (loss)	47,424	(1,232)	89,020	9,729
Comprehensive income	$ 75,594	$ 2,133	$ 169,950	$ 65,470

Cash Dividends

On August 8, 2007, our Board of Directors approved a cash dividend of $.03 per common share. At September 30, 2007, this dividend totaling $8.6 million was recorded in *Accounts payable and accrued liabilities* and *Capital in excess of par value* in the condensed consolidated balance sheet. This dividend was subsequently paid on October 31, 2007.

Share Repurchase Program

Subject to market conditions and normal trading and bank covenant restrictions, we make purchases in the open market or through privately negotiated transactions under our stock repurchase program. In August, our Board of Directors approved an increase in our share repurchase program authorizing the investment of up to an additional $200 million to repurchase our common stock. In the nine months ended September 30, 2007, we repurchased 16,855,762 shares of common stock at an aggregate cost of $211.8 million and an average cost per share of $12.56.

After these events, the remaining dollar value of shares authorized to be purchased under the share repurchase program was approximately $189.0 million.

Subsequent to September 30, 2007, we repurchased an additional 5,867,800 shares of common stock at an aggregate cost of $79.4 million including commissions (average cost per share of $13.54). After these fourth quarter repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately $109.5 million.

14. Segment Reporting

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

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Alderwoods operating results are included in our 2007 results. Please refer to Note 5 for pro forma presentations related to the Alderwoods acquisition for 2006.

Foreign operations consists of our operations in Canada and Germany. Results from our funeral business in Singapore, which was sold in the fourth quarter of 2006, are reflected as discontinued operations. We conduct both funeral and cemetery operations in the United States and Canada and funeral operations in Germany.

Our reportable segment information is as follows:

	Funeral	Cemetery (In thousands)	Reportable segments
Revenues from external customers:			
Three months ended September 30,			
2007	$ 355,738	$183,596	$ 539,334
2006	$ 263,935	$136,454	$ 400,389
Nine months ended September 30,			
2007	$1,154,468	$557,913	$1,712,381
2006	$ 846,811	$426,979	$1,273,790
Gross profit:			
Three months ended September 30,			
2007	$ 63,587	$ 38,933	$ 102,520
2006	$ 53,608	$ 19,440	$ 73,048
Nine months ended September 30,			
2007	$ 236,522	$110,513	$ 347,035
2006	$ 173,572	$ 72,358	$ 245,930
Depreciation and amortization:			
Three months ended September 30,			
2007	$ 24,287	$ 5,451	$ 29,738
2006	$ 17,068	$ 4,365	$ 21,433
Nine months ended September 30,			
2007	$ 74,655	$ 17,215	$ 91,870
2006	$ 49,732	$ 13,177	$ 62,909
Amortization of cemetery property:			
Three months ended September 30,			
2007	$	$ 7,183	$ 7,183
2006	$	$ 5,846	$ 5,846
Nine months ended September 30,			
2007	$	$ 24,983	$ 24,983
2006	$	$ 18,589	$ 18,589
Capital expenditures:			
Nine months ended September 30,			
2007	$ 39,461	$ 60,769	$ 100,230
2006	$ 23,224	$ 35,384	$ 58,608

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

	Reportable Segments	Corporate	Consolidated
Depreciation and amortization:			
Three months ended September 30,			
2007	$ 29,738	$ 2,694	$ 32,432

2006	$ 21,433	$ 2,498	$ 23,931
Nine months ended September 30,			
2007	$ 91,870	$ 7,438	$ 99,308
2006	$ 62,909	$ 6,692	$ 69,601
Capital expenditures			
Nine months ended September 30,			
2007	$100,230	$13,377	$113,607
2006	$ 58,608	$ 4,591	$ 63,199

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
	(In thousands)			
Gross profit from reportable segments	$ 102,520	$ 73,048	$ 347,035	$ 245,930
General and administrative expenses	(32,074)	(20,956)	(97,754)	(63,885)
Gains (losses) on dispositions and impairment charges, net	4,886	(30,750)	6,949	(38,141)
Operating income	75,332	21,342	256,230	143,904
Interest expense	(38,090)	(33,330)	(111,852)	(86,667)
Loss on early extinguishment of debt			(14,480)	
Interest income	4,254	8,259	8,324	21,022
Equity in earnings of unconsolidated subsidiaries	2,460	1,214	8,730	1,351
Other (expense) income, net	(1,049)	10,118	(3,981)	11,176