SERVICE CORPORATION INTERNATIONAL
Form 10-Q
July 28, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

R	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2011
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 1-6402-1
SERVICE CORPORATION INTERNATIONAL
(Exact name of registrant as specified in its charter)

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

713-522-5141
(Registrant's telephone number, including area code)

None
(Former name, former address, or former fiscal year, if changed since last report)

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

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if smaller reporting company)	

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

The number of shares outstanding of the registrant's common stock as of July 26, 2011 was 236,998,888 (net of treasury shares).

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GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	$576,774	$555,273	$1,156,473	$1,086,136
Costs and expenses	(461,751)	(445,975)	(915,004)	(864,480)
Gross profits	115,023	109,298	241,469	221,656
General and administrative expenses	(24,685)	(26,974)	(53,518)	(53,226)
(Losses) gains on divestitures and impairment charges, net	(9,843)	13,602	(10,263)	13,122
Operating income	80,495	95,926	177,688	181,552
Interest expense	(33,879)	(32,483)	(67,438)	(64,784)
Losses on early extinguishment of debt, net	(1,835)	(291)	(2,149)	(291)
Other income, net	46	4,273	720	2,389
Income before income taxes	44,827	67,425	108,821	118,866
Provision for income taxes	(18,089)	(27,198)	(42,154)	(47,314)
Net income	26,738	40,227	66,667	71,552
Net (income) loss attributable to noncontrolling interests	(645)	58	(1,810)	(355)
Net income attributable to common stockholders	$26,093	$40,285	$64,857	$71,197
Basic earnings per share:				
Net income attributable to common stockholders	$0.11	$0.16	$0.27	$0.28
Basic weighted average number of shares	238,498	251,763	239,131	253,074
Diluted earnings per share:				
Net income attributable to common stockholders	$0.11	$0.16	$0.27	$0.28
Diluted weighted average number of shares	241,435	253,583	241,589	254,862
Dividends declared per share	$0.05	$0.04	$0.10	$0.08

(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)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$132,994	$170,846
Receivables, net	101,616	107,185
Deferred tax assets	44,138	41,371
Inventories	27,017	34,770
Other	22,908	27,746
Total current assets	328,673	381,918
Preneed funeral receivables, net and trust investments	1,560,109	1,424,557
Preneed cemetery receivables, net and trust investments	1,632,774	1,563,893
Cemetery property, at cost	1,504,838	1,508,787
Property and equipment, net	1,636,787	1,627,698
Goodwill	1,378,076	1,307,484
Deferred charges and other assets	453,626	389,184
Cemetery perpetual care trust investments	1,018,188	987,019
Total assets	$9,513,071	$9,190,540
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$329,257	$342,651
Current maturities of long-term debt	23,392	22,502
Income taxes	1,406	1,474
Total current liabilities	354,055	366,627
Long-term debt	1,812,202	1,832,380
Deferred preneed funeral revenues	643,976	580,223
Deferred preneed cemetery revenues	842,060	813,493
Deferred tax liability	353,141	323,304
Other liabilities	414,232	399,619
Deferred preneed funeral and cemetery receipts held in trust	2,569,560	2,408,074
Care trusts' corpus	1,016,296	986,872
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $1 per share par value, 500,000,000 shares authorized, 243,647,265 and 242,019,650 shares issued, respectively, and 237,207,886 and 241,035,250 shares outstanding, respectively	237,208	241,035
Capital in excess of par value	1,539,664	1,603,112
Accumulated deficit	(412,602)	(477,459)
Accumulated other comprehensive income	122,684	112,768
Total common stockholders' equity	1,486,954	1,479,456
Noncontrolling interests	20,595	492
Total equity	1,507,549	1,479,948
Total liabilities and equity	$9,513,071	$9,190,540

(See notes to unaudited condensed consolidated financial statements)

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

	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$66,667	$71,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Losses on early extinguishment of debt, net	2,149	291
Depreciation and amortization	58,960	58,343
Amortization of intangible assets	12,672	12,136
Amortization of cemetery property	17,674	14,366
Amortization of loan costs	2,365	2,286
Provision for doubtful accounts	4,034	1,640
Provision for deferred income taxes	34,633	32,420
Losses (gains) on divestitures and impairment charges, net	10,263	(13,122)
Share-based compensation	4,542	4,545
Excess tax benefit from share-based awards	—	(695)
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease in receivables	6,306	11,034
(Increase) decrease in other assets	(3,663)	5,255
Decrease in payables and other liabilities	(17,317)	(7,925)
Effect of preneed funeral production and maturities:		
Decrease in preneed funeral receivables, net and trust investments	32,800	32,095
Decrease in deferred preneed funeral revenue	(34,076)	(5,805)
Decrease in deferred preneed funeral receipts held in trust	(12,679)	(26,897)
Effect of cemetery production and deliveries:		
Increase in preneed cemetery receivables, net and trust investments	(26,247)	(20,321)
Increase in deferred preneed cemetery revenue	24,314	17,536
Decrease in deferred preneed cemetery receipts held in trust	(7,221)	(2,227)
Other	(646)	(477)
Net cash provided by operating activities	175,530	186,030
Cash flows from investing activities:		
Capital expenditures	(57,075)	(41,614)
Acquisitions	(66,182)	(281,792)
Proceeds from divestitures and sales of property and equipment, net	10,038	59,878
Net withdrawals of restricted funds and other	4,549	26,441
Net cash used in investing activities	(108,670)	(237,087)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	175,000
Debt issuance costs	—	(6,203)
Payments of debt	(1,545)	(31,807)
Early extinguishment of debt	(28,137)	(23,091)
Principal payments on capital leases	(11,166)	(11,867)
Proceeds from exercise of stock options	6,862	1,456
Excess tax benefit from share-based awards	—	695
Purchase of Company common stock	(55,644)	(55,225)

Payments of dividends	(21,546)	(20,352)
Bank overdrafts and other	4,696	(7,336)
Net cash (used in) provided by financing activities	(106,480)	21,270
Effect of foreign currency on cash and cash equivalents	1,768	2,284
Net decrease in cash and cash equivalents	(37,852)	(27,503)
Cash and cash equivalents at beginning of period	170,846	179,745
Cash and cash equivalents at end of period	$132,994	$152,242

(See notes to unaudited condensed consolidated financial statements)

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

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance at December 31, 2009	$254,027	$(10)	$1,735,493	$ (603,876)	$ 97,142	$ 12	$1,482,788
Net income	—	—	—	71,197	—	355	71,552
Dividends declared on common stock ($.08 per share)	—	—	(20,063)	—	—	—	(20,063)
Foreign currency translation	—	—	—	—	(2,505)	(1)	(2,506)
Employee share-based compensation earned	—	—	4,545	—	—	—	4,545
Stock option exercises	386	—	1,070	—	—	—	1,456
Tax benefits related to share based awards	—	—	875	—	—	—	875
Restricted stock awards, net of forfeitures	532	—	(532)	—	—	—	—
Purchase of Company common stock	—	(6,290)	(48,935)	—	—	—	(55,225)
Other	3	60	489	—	—	—	552
Balance at June 30, 2010	$254,948	$(6,240)	$1,672,942	$ (532,679)	$ 94,637	$ 366	$1,483,974
Balance at December 31, 2010	242,020	(985)	1,603,112	(477,459)	112,768	492	1,479,948
Net income	—	—	—	64,857	—	1,810	66,667
Dividends declared on common stock ($.10 per share)	—	—	(23,788)	—	—	—	(23,788)
Foreign currency translation	—	—	—	—	9,916	4	9,920
Employee share-based compensation earned	—	—	4,542	—	—	—	4,542
Stock option exercises	1,016	—	5,846	—	—	—	6,862
Restricted stock awards, net of forfeitures	539	—	(539)	—	—	—	—
Purchase of Company common stock	—	(5,455)	(50,189)	—	—	—	(55,644)
Acquisition	—	—	—	—	—	18,857	18,857
Noncontrolling interest payment	—	—	—	—	—	(568)	(568)

Other	72	1	680	—	—	—	753
Balance at June 30, 2011	$243,647	$(6,439)	$1,539,664	$ (412,602)	$ 122,684	$ 20,595	$1,507,549

(See notes to unaudited condensed consolidated financial statements)

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

1. Nature of Operations

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries primarily operating in the United States and Canada. Our operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. Funeral service locations provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles and preparation and embalming services. Funeral-related merchandise, including caskets, casket memorialization products, burial vaults, cremation receptacles, cremation memorial products, flowers, and other ancillary products and services, is sold at funeral service locations. Cemeteries provide cemetery property interment rights, including mausoleum spaces, lots, and lawn crypts, and sell cemetery-related merchandise and services, including stone and bronze memorials, markers, merchandise installations, and burial openings and closings. We also sell preneed funeral and cemetery products and services whereby a customer contractually agrees to the terms of certain products and services to be provided in the future.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

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

Reclassifications

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

Use of Estimates in the Preparation of Financial Statements

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as described in our Form 10-K for the year ended December 31, 2010. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. As a result, actual results could differ from these estimates.

Preneed Funeral and Cemetery Receivables

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

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.

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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 to deferred revenue.

Fair Value Measurements

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.

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 on January 1, 2011. The adoption did not impact our unaudited condensed consolidated financial statements.

Multi-Deliverable Arrangements

In October 2009, the FASB issued authoritative guidance 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. Recently Issued Accounting Standards

Receivables

In January 2011, the FASB amended the Receivables Topic of the ASC to defer the effective date of disclosures about troubled debt restructuring. The update proposed guidance to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment and for disclosure of troubled debt restructurings. We adopted the amended guidance in the second quarter of 2011 with no impact on our consolidated financial condition or results of operations.

Fair Value Measurements

In May 2011, the FASB amended the Fair Value Measurements 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 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.

4. Preneed Funeral Activities

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

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interest entities. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from Deferred preneed funeral revenues into Deferred preneed funeral and cemetery receipts held in trust. Amounts are withdrawn from the trusts after the contract obligations are performed. Cash flows from preneed funeral contracts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Deposits	$18,913	$21,350	$36,229	$42,523
Withdrawals	29,187	27,728	52,945	59,738
Purchases of available-for-sale securities	163,234	162,203	246,991	313,303
Sales of available-for-sale securities	224,805	136,713	334,512	314,499
Realized gains from sales of available-for-sale securities	25,388	9,005	38,265	20,498
Realized losses from sales of available-for-sale securities	(7,595)	(15,212)	(11,629)	(33,657)

The components of Preneed funeral receivables, net and trust investments in our unaudited condensed consolidated balance sheet at June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Trust investments, at market	$950,042	$875,043
Cash and cash equivalents	124,115	121,212
Insurance-backed fixed income securities	269,621	220,287
Trust investments	1,343,778	1,216,542
Receivables from customers	256,710	247,434
Unearned finance charge	(5,240)	(5,620)
	1,595,248	1,458,356
Allowance for cancellation	(35,139)	(33,799)
Preneed funeral receivables and trust investments	$1,560,109	$1,424,557

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair market value at June 30, 2011 and December 31, 2010 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments (including debt as well as the estimated fair value related to the contract holder’s equity in majority-owned real estate investments).

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	June 30, 2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
		(In thousands)		
Fixed income securities:				
U.S. Treasury	$77,820	$2,752	$(356)	$80,216
Canadian government	120,419	253	(9)	120,663
Corporate	44,858	2,346	(530)	46,674
Residential mortgage-backed	3,439	82	(25)	3,496
Asset-backed	126	6	—	132
Equity securities:				
Preferred stock	2,093	178	(56)	2,215
Common stock:				
United States	267,423	55,561	(11,373)	311,611
Canada	21,528	4,457	(637)	25,348
Other international	17,039	1,500	(1,164)	17,375
Mutual funds:				
Equity	138,898	6,605	(16,271)	129,232
Fixed income	185,728	5,006	(6,685)	184,049
Private equity	36,743	1,408	(18,126)	20,025
Other	8,152	854	—	9,006
Trust investments	$924,266	$81,008	$(55,232)	$950,042

	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.

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

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

As of June 30, 2011, our unfunded commitment for our private equity and other investments was $13.2 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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

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

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Market Value
		(In thousands)		
Trust investments at June 30, 2011	$667,615	$253,396	$29,031	$950,042
Trust investments at December 31, 2010	$610,240	$243,444	$21,359	$875,043

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Fair market value, beginning balance	$25,370	$12,117	$21,359	$12,052
Net unrealized gains (losses) included in Accumulated other comprehensive income(1)	2,894	(724)	6,756	(1,070)
Net realized losses included in Other income, net(2)	(52)	(11)	(59)	(23)
Purchases	—	7,605	—	7,605
Sales	—	—	(186)	—
Contributions	1,296	994	1,782	1,436
Distributions and other	(477)	(274)	(621)	(293)
Fair market value, ending balance	$29,031	$19,707	$29,031	$19,707

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

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

(2) All losses recognized in Other income, net for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Other income, 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.

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Maturity dates of our fixed income securities range from 2011 to 2041. Maturities of fixed income securities at June 30, 2011 are estimated as follows:

	Fair Market Value (In thousands)
Due in one year or less	$135,992
Due in one to five years	59,381
Due in five to ten years	35,374
Thereafter	20,434
	$251,181

Earnings from all our funeral merchandise and service trust investments are recognized in funeral revenues when a service is performed or merchandise is delivered. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to these trust investments were $9.1 million and $7.7 million for the three months ended June 30, 2011 and 2010, respectively. Recognized earnings (realized and unrealized) related to these trust investments were $18.7 million and $15.8 million for the six months ended June 30, 2011 and 2010, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other income, net and a decrease to Preneed funeral receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other income, net, which reduces Deferred preneed funeral receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral receipts held in trust. For the three months ended June 30, 2011 and 2010, we recorded a $0.1 million and a $1.0 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments. For the six months ended June 30, 2011 and 2010, we recorded a $3.3 million and a $6.2 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 funeral merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings and the severity and duration of the unrealized losses. Our funeral merchandise and service trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of June 30, 2011 and December 31, 2010, respectively, are shown in the following tables:

	June 30, 2011					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
			(In thousands)			
Fixed income securities:						
U.S. Treasury	$9,558	$(79)	$8,958	$(277)	$18,516	$(356)
Canadian government	5,973	(7)	113	(2)	6,086	(9)
Corporate	9,391	(374)	1,190	(156)	10,581	(530)
Residential mortgage-backed	130	(4)	290	(21)	420	(25)
Equity securities:						
Preferred stock	855	(56)	—	—	855	(56)

Common stock:						
United States	71,668	(8,477)	21,237	(2,896)	92,905	(11,373)
Canada	1,864	(339)	975	(298)	2,839	(637)
Other international	4,066	(315)	3,339	(849)	7,405	(1,164)
Mutual funds:						
Equity	27,627	(631)	57,458	(15,640)	85,085	(16,271)
Fixed income	66,063	(864)	13,357	(5,821)	79,420	(6,685)
Private equity	1,496	(1,452)	13,043	(16,674)	14,539	(18,126)
Total temporarily impaired securities	$198,691	$(12,598)	$119,960	$(42,634)	$318,651	$(55,232)

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

5. Preneed Cemetery Activities

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Deposits	$26,404	$27,188	$50,496	$49,419

Withdrawals	28,583	28,879	58,527	52,777
Purchases of available-for-sale securities	189,112	210,886	322,677	465,204
Sales of available-for-sale securities	194,996	191,911	328,551	412,360
Realized gains from sales of available-for-sale securities	24,244	13,808	41,091	25,061
Realized losses from sales of available-for-sale securities	(5,615)	(19,744)	(11,236)	(37,265)

The components of Preneed cemetery receivables, net and trust investments in our unaudited condensed consolidated balance sheet at June 30, 2011 and December 31, 2010 are as follows:

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	June 30, 2011	December 31, 2010
	(In thousands)	
Trust investments, at market	$1,099,940	$1,062,771
Cash and cash equivalents	128,703	122,866
Insurance backed fixed income securities	6	9,158
Trust investments	1,228,649	1,194,795
Receivables from customers	484,094	452,296
Unearned finance charges	(36,427)	(39,205)
	1,676,316	1,607,886
Allowance for cancellation	(43,542)	(43,993)
Preneed cemetery receivables and trust investments	$1,632,774	$1,563,893

The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair market value at June 30, 2011 and December 31, 2010 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments.

	June 30, 2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
		(In thousands)		
Fixed income securities:				
U.S. Treasury	$50,754	$3,594	$(251)	$54,097
Canadian government	18,000	253	(3)	18,250
Corporate	42,905	3,176	(603)	45,478
Residential mortgage-backed	175	5	(1)	179
Equity securities:				
Preferred stock	3,394	282	(69)	3,607
Common stock:				
United States	394,147	88,547	(12,788)	469,906
Canada	16,413	4,373	(837)	19,949
Other international	25,287	2,457	(1,211)	26,533
Mutual funds:				
Equity	204,824	17,484	(16,952)	205,356
Fixed income	243,643	9,130	(10,862)	241,911
Private equity	29,916	14	(15,665)	14,265
Other	287	122	—	409
Trust investments	$1,029,745	$129,437	$(59,242)	$1,099,940

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	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 June 30, 2011, our unfunded commitment for our private equity and other investments was $13.7 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

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

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	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Market Value
	(In thousands)			
Trust investments at June 30, 2011	$963,655	$121,611	$14,674	$1,099,940
Trust investments at December 31, 2010	$932,782	$123,738	$6,251	$1,062,771

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Fair market value, beginning balance	$10,664	$4,425	$6,251	$4,341
Net unrealized gains (losses) included in Accumulated other comprehensive income(1)	2,860	(87)	6,985	(365)
Net realized losses included in Other income, net(2)	(57)	(12)	(65)	(23)
Sales	—	(11)	—	(23)
Contributions	1,349	919	1,852	1,338
Distributions and other	(142)	(304)	(349)	(338)
Fair market value, ending balance	$14,674	$4,930	$14,674	$4,930

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

(2) All losses recognized in Other income, net for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Other income, 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 June 30, 2011 are estimated as follows:

	Fair Market Value
	(In thousands)
Due in one year or less	$4,177
Due in one to five years	54,055
Due in five to ten years	33,012
Thereafter	26,760
	$118,004

Earnings from all our cemetery merchandise and service trust investments are recognized in current cemetery revenues when a service is performed or merchandise is delivered. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to these trust investments were $5.1 million and $3.2 million for the three months ended June 30, 2011 and 2010, respectively. Recognized earnings (realized and unrealized) related to these trust investments were $11.1 million and $6.6 million for the six months ended June 30, 2011 and 2010, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other income, net and a decrease to Preneed cemetery receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other income, net, which reduces Deferred preneed cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed cemetery receipts held in trust. For the three months ended June 30, 2011 and 2010, we recorded a $0.2 million

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and a $1.2 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments. For the six months ended June 30, 2011 and 2010, we recorded a $1.2 million and a $3.4 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments. We have determined that the remaining unrealized losses in our cemetery merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery merchandise and service trust investment unrealized losses, their associated fair market values and the duration of unrealized losses as of June 30, 2011 are shown in the following tables:

	June 30, 2011					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
			(In thousands)			
Fixed income securities:						
U.S. Treasury	$2,395	$(31)	$3,061	$(220)	$5,456	$(251)
Canadian government	4,172	(3)	—	—	4,172	(3)
Corporate	12,047	(523)	587	(80)	12,634	(603)
Residential mortgage-backed	—	—	15	(1)	15	(1)
Equity securities:						
Preferred stock	1,443	(69)	—	—	1,443	(69)
Common stock:						
United States	90,705	(10,301)	21,976	(2,487)	112,681	(12,788)
Canada	3,005	(376)	526	(461)	3,531	(837)
Other international	5,753	(284)	4,128	(927)	9,881	(1,211)
Mutual funds:						
Equity	28,900	(861)	76,063	(16,091)	104,963	(16,952)
Fixed income	33,971	(1,304)	12,349	(9,558)	46,320	(10,862)
Private equity	535	(267)	13,432	(15,398)	13,967	(15,665)
Total temporarily impaired securities	$182,926	$(14,019)	$132,137	$(45,223)	$315,063	$(59,242)

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	December 31, 2010					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
			(In thousands)			
Fixed income securities:						
U.S. Treasury	$6,057	$(295)	$315	$(12)	$6,372	$(307)
Canadian government	2,908	(4)	—	—	2,908	(4)
Corporate	8,577	(402)	—	—	8,577	(402)
Residential mortgage-backed	—	—	20	(1)	20	(1)
Asset-backed	766	(4)	56	(1)	822	(5)
Equity securities:						
Preferred stock	1,749	(124)	—	—	1,749	(124)
Common stock:						
United States	63,027	(4,450)	31,108	(6,371)	94,135	(10,821)
Canada	3,131	(181)	1,475	(669)	4,606	(850)
Other international	8,542	(1,403)	5,259	(2,242)	13,801	(3,645)
Mutual funds:						
Equity	5,107	(112)	92,630	(18,457)	97,737	(18,569)
Fixed income	25,887	(354)	14,600	(9,605)	40,487	(9,959)
Private equity	—	—	5,557	(13,890)	5,557	(13,890)
Other	7	(1)	303	(384)	310	(385)
Total temporarily impaired securities	$125,758	$(7,330)	$151,323	$(51,632)	$277,081	$(58,962)

6. Cemetery Perpetual Care Trusts

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Deposits	$6,514	$6,528	$12,303	$11,901
Withdrawals	9,442	7,723	17,829	19,277
Purchases of available-for-sale securities	122,955	116,245	326,041	180,442
Sales of available-for-sale securities	70,344	83,221	338,010	109,771
Realized gains from sales of available-for-sale securities	5,879	2,634	27,120	4,693
Realized losses from sales of available-for-sale securities	(2,081)	(3,783)	(12,742)	(5,456)

The components of Cemetery perpetual care trust investments in our unaudited condensed consolidated balance sheet at June 30, 2011 and December 31, 2010 are as follows:

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	June 30, 2011	December 31, 2010
	(In thousands)	
Trust investments, at market	$956,254	$922,228
Cash and cash equivalents	61,934	64,791
Cemetery perpetual care trust investments	$1,018,188	$987,019

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair market value at June 30, 2011 and December 31, 2010 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair market value represents the value of the underlying securities or cash held by the common trust funds, mutual funds at published values, and the estimated market value of private equity investments.

	June 30, 2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
		(In thousands)		
Fixed income securities:				
U.S. Treasury	$2,034	$800	$(2)	$2,832
Canadian government	29,858	453	(5)	30,306
Corporate	21,362	538	(42)	21,858
Residential mortgage-backed	1,633	57	(9)	1,681
Equity securities:				
Preferred stock	5,801	475	(230)	6,046
Common stock:				
United States	132,085	16,215	(5,997)	142,303
Canada	11,508	2,607	(678)	13,437
Other international	20,379	2,310	(1,367)	21,322
Mutual funds:				
Equity	20,903	1,866	(449)	22,320
Fixed income	651,130	27,007	(3,043)	675,094
Private equity	27,709	383	(15,310)	12,782
Other	6,782	804	(1,313)	6,273
Cemetery perpetual care trust investments	$931,184	$53,515	$(28,445)	$956,254

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	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.

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

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

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

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

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

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	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 June 30, 2011	$874,476	$62,723	$19,055	$956,254
Trust investments at December 31, 2010	$806,828	$98,311	$17,089	$922,228

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Fair market value, beginning balance	$20,259	$15,211	$17,089	$14,943
Net unrealized gains included in Accumulated other comprehensive income(1)	1,791	3,539	7,902	4,125
Net realized losses included in Other income, net(2)	(164)	(52)	(191)	(77)
Sales	—	—	(44)	—
Contributions	96	1,510	97	1,881
Distributions and other	(2,927)	(5,999)	(5,798)	(6,663)
Fair market value, ending balance	$19,055	$14,209	$19,055	$14,209

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

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

Maturity dates of our fixed income securities range from 2011 to 2041. Maturities of fixed income securities at June 30, 2011 are estimated as follows:

	Fair Market Value (In thousands)
Due in one year or less	$3,989
Due in one to five years	30,368
Due in five to ten years	21,249
Thereafter	1,071
	$56,677

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenues to the extent we incur qualifying cemetery maintenance costs. Recognized earnings related to these trust investments were $12.8 million and $9.2 million for the three months ended June 30, 2011 and 2010, respectively. Recognized earnings related to these trust investments were $22.0 million and $18.8 million for the six months ended June 30, 2011 and 2010, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other income, net and a decrease to Cemetery perpetual care trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other income, net, which reduces Care trusts' corpus. See Note 7 for further information related to our Care trusts' corpus. For the three months ended June 30, 2011 and 2010, we recorded a $0.0 million and a $0.1

million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments. For the six months ended June 30, 2011 and 2010, we recorded a $0.3 million and a $1.6 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

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

	June 30, 2011 In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value (In thousands)	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
U.S. Treasury	$687	$(2)	$—	$—	$687	$(2)
Canadian government	6,938	(5)	—	—	6,938	(5)
Corporate	2,498	(32)	254	(10)	2,752	(42)
Residential mortgage-backed	28	(1)	114	(8)	142	(9)
Equity securities:						
Preferred stock	2,618	(214)	34	(16)	2,652	(230)
Common stock:					—	
United States	26,854	(1,402)	12,344	(4,595)	39,198	(5,997)
Canada	1,384	(134)	982	(544)	2,366	(678)
Other international	7,596	(690)	1,388	(677)	8,984	(1,367)
Mutual funds:						
Equity	7,913	(162)	3,244	(287)	11,157	(449)
Fixed income	106,301	(1,225)	50,963	(1,818)	157,264	(3,043)
Private equity	301	(389)	12,067	(14,921)	12,368	(15,310)
Other	126	(165)	5,101	(1,148)	5,227	(1,313)
Total temporarily impaired securities	$163,244	$(4,421)	$86,491	$(24,024)	$249,735	$(28,445)

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	December 31, 2010					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
			(In thousands)			
Fixed income securities:						
U.S. Treasury	$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)
Private equity	1	(1)	10,060	(13,343)	10,061	(13,344)
Other	1	(2)	5,568	(2,655)	5,569	(2,657)
Total temporarily impaired securities	$56,687	$(2,286)	$120,207	$(32,936)	$176,894	$(35,222)

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

Deferred Preneed Funeral and Cemetery Receipts Held in Trust

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

The components of Deferred preneed funeral and cemetery receipts held in trust in our unaudited condensed consolidated balance sheet at June 30, 2011 and December 31, 2010 are detailed below.

	June 30, 2011			December 31, 2010		
	Preneed Funeral	Preneed Cemetery	Total	Preneed Funeral	Preneed Cemetery	Total
	(In thousands)			(In thousands)		
Trust investments	$1,343,778	$1,228,649	$2,572,427	$1,216,542	$1,194,795	$2,411,337
Accrued trust operating payables and other	(1,137)	(1,730)	(2,867)	(975)	(2,288)	(3,263)
Deferred preneed funeral and cemetery receipts held in trust	$1,342,641	$1,226,919	$2,569,560	$1,215,567	$1,192,507	$2,408,074

Care Trusts' Corpus

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

The components of Care trusts' corpus in our unaudited condensed consolidated balance sheet at June 30, 2011 and December 31, 2010 are detailed below.

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	June 30, 2011	December 31, 2010
	(In thousands)	
Cemetery perpetual care trust investments	$1,018,188	$987,019
Accrued trust operating payables and other	(1,892)	(147)
Care trusts' corpus	$1,016,296	$986,872

Other Income, Net

The components of Other income, net in our unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2011 and 2010 are detailed below. See Notes 4, 5, and 6 for further discussion of the amounts related to the funeral, cemetery, and cemetery perpetual care trusts.

	Three Months Ended June 30, 2011				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
		(In thousands)			
Realized gains	$25,388	$24,244	$5,879	$—	$55,511
Realized losses	(7,595)	(5,615)	(2,081)	—	(15,291)
Impairment charges	(142)	(218)	(14)	—	(374)
Interest, dividend, and other ordinary income	7,752	7,419	11,410	—	26,581
Trust expenses and income taxes	(1,483)	(2,511)	(510)	—	(4,504)
Net trust investment income	23,920	23,319	14,684	—	61,923
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus	(23,920)	(23,319)	(14,684)	—	(61,923)
Other income, net	—	—	—	46	46
Total other income, net	$—	$—	$—	$46	$46

	Six Months Ended June 30, 2011				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
		(In thousands)			
Realized gains	$38,265	$41,091	$27,120	$—	$106,476
Realized losses	(11,629)	(11,236)	(12,742)	—	(35,607)
Impairment charges	(3,288)	(1,196)	(311)	—	(4,795)
Interest, dividend, and other ordinary income	11,174	12,328	19,590	—	43,092
Trust expenses and income taxes	(2,866)	(4,266)	(2,106)	—	(9,238)
Net trust investment income	31,656	36,721	31,551	—	99,928
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus	(31,656)	(36,721)	(31,551)	—	(99,928)
Other income, net	—	—	—	720	720
Total other income, net	$—	$—	$—	$720	$720

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	Three Months Ended June 30, 2010				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
		(In thousands)			
Realized gains	$9,005	$13,808	$2,634	$—	$25,447
Realized losses	(15,212)	(19,744)	(3,783)	—	(38,739)
Impairment charges	(1,044)	(1,152)	(95)	—	(2,291)
Interest, dividend, and other ordinary income	6,805	4,753	8,428	—	19,986
Trust expenses and income taxes	(777)	(2,079)	(1,788)	—	(4,644)
Net trust investment (loss) income	(1,223)	(4,414)	5,396	—	(241)
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus	1,223	4,414	(5,396)	—	241
Other income, net	—	—	—	4,273	4,273
Total other income, net	$—	$—	$—	$4,273	$4,273

	Six Months Ended June 30, 2010				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
		(In thousands)			
Realized gains	$20,498	$25,061	$4,693	$—	$50,252
Realized losses	(33,657)	(37,265)	(5,456)	—	(76,378)
Impairment charges	(6,169)	(3,383)	(1,573)	—	(11,125)
Interest, dividend, and other ordinary income	9,932	9,423	16,075	—	35,430
Trust expenses and income taxes	(1,826)	(4,469)	(1,547)	—	(7,842)
Net trust investment (loss) income	(11,222)	(10,633)	12,192	—	(9,663)
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus	11,222	10,633	(12,192)	—	9,663
Other income, net	—	—	—	2,389	2,389
Total other income, net	$—	$—	$—	$2,389	$2,389

8. Income Taxes

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items which are recorded in the period in which they occur. Discrete items include, among others, such events as changes in estimates due to the finalization of tax returns, tax audit settlements, expiration of statute of limitations, and increases or decreases in valuation allowances on deferred tax assets. Our effective tax rate was 40.4% and 40.3% for the three months ended June 30, 2011 and 2010, respectively. Our effective tax rate was 38.7% and 39.8% for the six months ended June 30, 2011 and 2010, respectively. The decrease in the effective tax rate for the six months ended is primarily due to the following: lower Canadian income tax rates, a reduction in permanent non-deductible goodwill associated with divestitures, and lower taxable income from our foreign subsidiaries partially offset by higher state taxable income and legislative changes.

We file numerous federal, state and foreign income tax returns. A number of years may elapse before particular tax matters, for which we have unrecognized tax benefits, are audited and finally settled. In the United States, the tax years 1999 through 2002 remain under examination by the Internal Revenue Service and we are at the IRS Appeals administrative level on certain disputed issues that came out of its examination of tax years 2003 through 2005. Various state and foreign jurisdictions are auditing years through 2009. The outcome of each of these audits cannot be predicted at this time. It is reasonably possible that changes to our global unrecognized tax benefits could be significant; however, due to the uncertainty regarding the timing of completion of audits and possible outcomes, a current estimate of the range of increases or decreases that may occur within the next twelve months cannot be made.

9. Debt

Debt as of June 30, 2011 and December 31, 2010 was as follows:

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	June 30, 2011	December 31, 2010
	(In thousands)	
7.875% Debentures due February 2013	4,857	8,557
7.375% Senior Notes due October 2014	180,692	180,692
6.75% Senior Notes due April 2015	141,700	157,250
6.75% Senior Notes due April 2016	205,907	212,927
7.0% Senior Notes due June 2017	295,000	295,000
7.625% Senior Notes due October 2018	250,000	250,000
7.0% Senior Notes due May 2019	250,000	250,000
8.0% Senior Notes due November 2021	150,000	150,000
7.5% Senior Notes due April 2027	200,000	200,000
Obligations under capital leases	125,960	118,339
Mortgage notes and other debt, maturities through 2047	36,452	38,223
Unamortized pricing discounts and other	(4,974)	(6,106)
Total debt	1,835,594	1,854,882
Less current maturities	(23,392)	(22,502)
Total long-term debt	$1,812,202	$1,832,380

Current maturities of debt at June 30, 2011 were primarily comprised of our capital leases. Our consolidated debt had a weighted average interest rate of 6.79% at June 30, 2011 and 6.80% at December 31, 2010. Approximately 92% and 93% of our total debt had a fixed interest rate at June 30, 2011 and December 31, 2010, respectively.

Bank Credit Facility

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

As of June 30, 2011, we have no outstanding cash advances under our bank credit facility and have used it to support $33.3 million of letters of credit. The bank credit facility provides us with flexibility for working capital, if needed, and is guaranteed by a majority of our domestic subsidiaries. The subsidiary guaranty is a guaranty of payment of the outstanding amount of the total lending commitment, including letters of credit. The bank credit facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, and certain dividend and share repurchase restrictions. We pay a quarterly fee on the unused commitment. As of June 30, 2011, we have $466.7 million in borrowing capacity under the bank credit facility.

Debt Extinguishments and Reductions

During the first half of 2011, we paid $28.1 million to retire $15.6 million aggregate principal amount of our 6.75% Senior Notes due April 2015, $7.0 million aggregate principal amount of our 6.75% Senior Notes due April 2016, and $3.7 million aggregate principal amount of our 7.875% Senior Notes due February 2013. Certain of the above transactions resulted in the recognition of a $2.1 million loss recorded in Losses on early extinguishment of debt, net in our unaudited condensed consolidated statement of operations.

In the first half of 2010, we repaid $30.0 million of amounts drawn on our bank credit facility, $20.2 million aggregate principal amount of our 6.75% Senior Notes due April 2016, and $3.0 million aggregate principal amount of our 6.75% Senior Notes due April 2015. As a result of these transactions, we recognized a $0.3 million loss recorded in Losses on early extinguishment of debt, net in our unaudited condensed consolidated statement of operations.

Capital Leases

During the six months ended June 30, 2011 and 2010, we acquired $19.1 million and $11.7 million, respectively, of primarily transportation equipment using capital leases.

10. Credit Risk and Fair Value of Financial Instruments

Fair Value Estimates

The fair value estimates of the following financial instruments have been determined using available market information and

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

The fair value of our debt instruments at June 30, 2011 and December 31, 2010 was as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
7.875% Debentures due February 2013	$5,173	$9,092
7.375% Senior Notes due October 2014	199,665	194,244
6.75% Senior Notes due April 2015	152,859	161,968
6.75% Senior Notes due April 2016	222,380	216,653
7.0% Senior Notes due June 2017	317,125	302,375
7.625% Senior Notes due October 2018	275,313	262,500
7.0% Senior Notes due May 2019	263,125	251,250
8.0% Senior Notes due November 2021	162,750	158,063
7.5% Senior Notes due April 2027	192,376	194,920
Mortgage notes and other debt, maturities through 2047	36,394	37,991
Total fair value of debt instruments	$1,827,160	$1,789,056

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

11. Share-Based Compensation

Stock Benefit Plans

We utilize the Black-Scholes option valuation model for estimating the fair value of our stock options. This model allows the use of a range of assumptions related to volatility, the risk-free interest rate, the expected life, and the dividend yield. The fair values of our stock options are calculated using the following weighted average assumptions for the six months ended June 30, 2011:

Assumptions	Six Months Ended June 30, 2011	
Dividend yield	2.4	%
Expected volatility	38.4	%
Risk-free interest rate	2.4	%
Expected holding period (in years)	5.0	

Stock Options

The following table sets forth stock option activity for the six months ended June 30, 2011:

	Options		Weighted-Average Exercise Price
Outstanding at December 31, 2010	12,312,783		$ 7.53
Granted	2,394,430		9.09
Exercised	(1,055,758	)	6.73
Cancelled	(94,857	)	5.32
Outstanding at June 30, 2011	13,556,598		$ 7.88
Exercisable at June 30, 2011	8,369,351		$ 8.15

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As of June 30, 2011, the unrecognized compensation expense related to stock options of $9.1 million is expected to be recognized over a weighted average period of 1.5 years.

Restricted Shares

Restricted share activity for the six months ended June 30, 2011 was as follows:

	Restricted shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted shares at December 31, 2010	1,167,273	$ 6.35
Granted	538,620	9.13
Vested	(540,723)	6.58
Nonvested restricted shares at June 30, 2011	1,165,170	$ 7.53

As of June 30, 2011, the unrecognized compensation expense related to restricted shares of $7.2 million is expected to be recognized over a weighted average period of 1.5 years.

12. Equity

(All shares reported in whole numbers)

Our components of Accumulated other comprehensive income are as follows:

	Foreign Currency Translation Adjustment	Unrealized Gains and Losses	Accumulated Other Comprehensive Income
		(In thousands)	
Balance at December 31, 2010	$112,768	$—	$ 112,768
Activity in 2011	9,916	—	9,916
Increase in net unrealized gains associated with available-for-sale securities of the trusts, net of taxes	—	2,727	2,727
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	—	(2,727)	(2,727)
Balance at June 30, 2011	$122,684	$—	$ 122,684

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

The components of comprehensive income are as follows for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Comprehensive income:				
Amounts attributable to common stockholders:				
Net income	$26,093	$40,285	$64,857	$71,197
Other comprehensive (loss) income	(1,586)	(16,332)	9,916	(2,505)
Amounts attributable to noncontrolling interests:				
Net income (loss)	645	(58)	1,810	355
Other comprehensive (loss) income	(2)	(6)	4	(1)
Comprehensive income	$25,150	$23,889	$76,587	$69,046

Cash Dividends

On May 11, 2011, our Board of Directors approved a cash dividend of $.05 per common share. At June 30, 2011, this dividend

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totaling $11.9 million was recorded in Accounts payable and accrued liabilities and Capital in excess of par value in our unaudited condensed consolidated balance sheet. This dividend will be paid on July 29, 2011.

Share Repurchase Program

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our stock repurchase program. During the six months ended June 30, 2011, we repurchased 5,311,303 shares of common stock at an aggregate cost of $54.1 million, which is an average cost per share of $10.18. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately $124.7 million at June 30, 2011. Subsequent to June 30, 2011, we repurchased an additional 734,524 shares of common stock at an aggregate cost of $8.4 million, which is an average cost per share of $11.47. After these third quarter repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program is approximately $116.3 million.

13. Segment Reporting

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

Our reportable segment information is as follows:

	Funeral	Cemetery	Reportable Segments
	(In thousands)		
Three months ended June 30,			
Revenues from external customers:			
2011	$385,924	$190,850	$576,774
2010	$377,827	$177,446	$555,273
Gross profits:			
2011	$75,450	$39,573	$115,023
2010	$77,510	$31,788	$109,298
Six months ended June 30,			
Revenues from external customers:			
2011	$794,359	$362,114	$1,156,473
2010	$746,756	$339,380	$1,086,136
Gross profits:			
2011	$174,805	$66,664	$241,469
2010	$162,109	$59,547	$221,656

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Gross profits from reportable segments	$115,023	$109,298	$241,469	$221,656
General and administrative expenses	(24,685)	(26,974)	(53,518)	(53,226)
(Losses) gains on divestitures and impairment charges, net	(9,843)	13,602	(10,263)	13,122
Operating income	80,495	95,926	177,688	181,552
Interest expense	(33,879)	(32,483)	(67,438)	(64,784)
Loss on early extinguishment of debt, net	(1,835)	(291)	(2,149)	(291)
Other income, net	46	4,273	720	2,389

Income before income taxes	$44,827	$67,425	$108,821	$118,866

Our geographic area information is as follows:

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	United States	Canada	Germany	Total
		(In thousands)		
Three months ended June 30,				
Revenues from external customers:				
2011	$526,098	$48,963	$1,713	$576,774
2010	$499,553	$54,322	$1,398	$555,273
Six months ended June 30,				
Revenues from external customers:				
2011	$1,050,994	$101,882	$3,597	$1,156,473
2010	$979,763	$103,098	$3,275	$1,086,136

14. Supplementary Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Merchandise revenues:				
Funeral	$124,877	$124,712	$257,140	$244,471
Cemetery	134,073	123,694	248,994	230,878
Total merchandise revenues	258,950	248,406	506,134	475,349
Services revenues:				
Funeral	235,607	234,237	491,892	467,953
Cemetery	50,454	45,793	99,676	93,052
Total services revenues	286,061	280,030	591,568	561,005
Other revenues	31,763	26,837	58,771	49,782
Total revenues	$576,774	$555,273	$1,156,473	$1,086,136
Merchandise costs and expenses:				
Funeral	$63,369	$62,579	$133,383	$127,474
Cemetery	56,668	53,906	110,233	99,807
Total cost of merchandise	120,037	116,485	243,616	227,281
Services costs and expenses:				
Funeral	125,902	116,524	243,840	220,763
Cemetery	25,441	23,854	49,940	48,108
Total cost of services	151,343	140,378	293,780	268,871
Overhead and other expenses	190,371	189,112	377,608	368,328
Total costs and expenses	$461,751	$445,975	$915,004	$864,480

15. Commitments and Contingencies

Insurance Loss Reserves

We purchase comprehensive general liability, morticians' and cemetery professional liability, automobile liability, and workers' compensation insurance coverage structured with high deductibles. The high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. As of June 30, 2011 and December 31, 2010, we have self-insurance reserves of $54.8 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

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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 also seeks the appointment of a receiver to oversee cemetery operations. The plaintiff claims the cemetery damaged and desecrated burials in order to prepare adjoining graves for subsequent burials. 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, and Stickle lawsuits described in the following paragraphs.

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

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

Bryant, et al. v. Alderwoods Group, Inc., Service Corporation International, et al.; Case No. 3:07-CV-5696-SI; in the U.S. District Court for the Northern District of California. This lawsuit was filed on November 8, 2007 against SCI and various subsidiaries and individuals. It is related to the Wage and Hour Lawsuit, raising similar claims and brought by the same attorneys. This lawsuit has been transferred to the U.S. District Court for the Western District of Pennsylvania and is now Case No. 08-

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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 numerous 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.

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

16. Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
Amounts attributable to common stockholders:				
Net income:				
Net income — basic	$26,093	$40,285	$64,857	$71,197
After tax interest on convertible debt	13	13	25	25
Net income — diluted	$26,106	$40,298	$64,882	$71,222
Weighted average shares (denominator):				
Weighted average shares — basic	238,498	251,763	239,131	253,074
Stock options	2,816	1,699	2,337	1,667
Convertible debt	121	121	121	121
Weighted average shares — diluted	241,435	253,583	241,589	254,862
Net income per share:				
Basic	$0.11	$0.16	$0.27	$0.28
Diluted	$0.11	$0.16	$0.27	$0.28

The computation of diluted EPS excludes outstanding stock options and convertible debt in certain periods in which the inclusion of such options and debt would be anti-dilutive in the periods presented. For the three months ended June 30, 2011 and June 30, 2010, total options and convertible debentures not currently included in the computation of dilutive EPS were 3.1 million and 5.7 million, respectively. For the six months ended June 30, 2011 and June 30, 2010, total options and convertible debentures not currently included in the computation of dilutive EPS were 5.4 million and 5.2 million, respectively.

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17. Acquisitions

Keystone

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

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

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

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

	(In thousands)
Accounts receivable	$6,131
Other current assets	20,200
Cemetery property	19,949
Property and equipment, net	105,888
Preneed funeral and cemetery receivables and trust investments	66,395
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:

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

The unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2011 includes the results of operations of Keystone. The following unaudited pro forma information presents information as if the merger occurred on January 1, 2010:

	Six Months Ended
	2010
	(In thousands)
Revenue	$1,115,788
Net income	$74,521

Neptune

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 segment of the market that will continue to grow and that we do not currently target through our traditional funeral service and cemetery network. As a result of this acquisition, we recognized $54.3 million in intangible assets and $60.0 million of goodwill.

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

The Company

We are North America’s largest provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At June 30, 2011, we operated 1,429 funeral service locations and 379 cemeteries (including 215 combination locations) in North America, which are geographically diversified across 43 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral segment also includes the operations of 12 funeral homes in Germany that we intend to exit when economic values and conditions are conducive to a sale. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We sell cemetery property and funeral and cemetery products and services at the time of need and on a preneed basis.

Our financial position is enhanced by our $7.0 billion backlog of future revenues from both trust and insurance-funded sales at June 30, 2011, which is the result of preneed funeral and cemetery sales. We believe we have the financial strength and flexibility to reward shareholders through dividends while maintaining a prudent capital structure and pursuing new opportunities for profitable growth. We currently have approximately $116.3 million authorized to repurchase our common stock.

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 SCI will be expanding the footprint into a segment of the market that will continue to grow and that we do not currently target through our traditional funeral service and cemetery network. In addition to building on Neptune's successful growth and customer service we will be able to yield immediate synergies by providing back office and fulfillment support through SCI's infrastructure.

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

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and cemetery contracts, which provide for future funeral or cemetery services and merchandise. Since preneed funeral and cemetery services or merchandise will not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into trusts and/or preneed escrow accounts until the merchandise is delivered or the service is performed. Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery services and merchandise in the future for the prices that were guaranteed at the time of sale. Also, we are required by state and provincial law to pay a portion of the proceeds from the sale of cemetery property interment rights into perpetual care trusts. For these investments, the original corpus remains in the trust in perpetuity and the net ordinary earnings are intended to offset the expense to maintain the cemetery property. The majority of states require that net gains or losses are retained and added to the corpus, but certain states allow the net realized gains and losses to be included in the income that is distributed.

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

As of June 30, 2011, 84% of our trusts were under the control and custody of two large financial institutions engaged as preferred trustees. The U.S. trustees primarily use common trust fund structures as the investment vehicle for their trusts. Through the common trust fund structure, each respective trustee manages the allocation of assets through individual managed accounts or institutional mutual funds. In the event a particular state prohibits the use of a common trust fund as a qualified investment, the trustee utilizes institutional mutual funds. The U.S. trusts include a modest allocation to alternative investments, which are comprised primarily of private equity and real estate investments. These investments are structured as limited liability companies (LLCs) and are managed by certain trustees. The trusts that are eligible to allocate a portion of their investments to alternative investments purchase units of the respective LLCs.

Fixed Income Securities

Fixed income investments are intended to preserve principal, provide a source of current income, and reduce overall portfolio volatility. The SCI trusts have direct investments primarily in government fixed income securities. Canadian government fixed income securities are investments in Canadian federal and provincial government instruments. In many cases, regulatory restrictions mandate that the funds from the sales of preneed funeral and cemetery products sold in certain Canadian jurisdictions must be invested in these instruments.

Equity Securities

Equity investments have historically provided long-term capital appreciation in excess of inflation. The SCI trusts have direct investments primarily in domestic equity portfolios that include large, mid, and small capitalization companies of different investment objectives (i.e., growth and value). The majority of the equity portfolio is managed by multiple institutional investment managers that specialize in an objective-specific area of expertise. Our equity securities are exposed to market risk; however, these securities are well-diversified. As of June 30, 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

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

Trust Performance

The trust fund income recognized from these investment assets continues to be volatile. During the twelve months ended June 30, 2011, the Standard and Poor's 500 Index increased approximately 30.7% and the Barclay's Aggregate Index increased approximately 3.9%, while the combined SCI trusts increased approximately 18.8%.

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 $175.5 million in the first half of 2011. In addition, we have $466.7 million in excess borrowing capacity under our bank credit facility. We currently have no significant maturities of long-term debt until October 2014.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. As of June 30, 2011 we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of June 30, 2011 are as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.00 (Max)	3.10
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 credit facility will be adequate to meet our financial obligations over the next 12 months.

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

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

Currently, we have approximately $116.3 million authorized under our share repurchase program. We intend to make purchases from time to time in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. Our credit agreement contains covenants that limit our ability to repurchase our common stock. There can be no assurance that we will buy our common stock under our share repurchase program in the future.

Cash Flow

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

Operating Activities

Net cash provided by operating activities decreased $10.5 million to $175.5 million in the first half of 2011 from $186.0 million in the first half of 2010. This decrease was driven by:

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a $57.3 million increase in vendor payments resulting primarily from increases in variable costs from the Keystone acquisition;

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- a $31.4 million increase in employee compensation in the first half of 2011 compared to the first half of 2010 primarily from the Keystone acquisition;
- a $4.3 million decrease in net trust fund withdrawals due to decreased preneed funeral maturities; partially offset by,
- a $62.9 million increase in cash receipts from customers resulting from increased revenues primarily from the Keystone acquisition and improved collection rates at existing locations;
- a $10.0 million increase in net tax refunds primarily due to favorable rulings from the Internal Revenue Service on three tax accounting method changes; and
- a $9.8 million increase in General Agency (GA) receipts.

Investing activities

Cash flows from investing activities used $108.7 million in the first half of 2011 compared to using $237.1 million in the same period of 2010. This decrease was primarily attributable to a decrease of $215.6 million in cash spent on acquisitions (primarily the Keystone North American acquisition in 2010), partially offset by a $49.8 million decrease in cash receipts from divestitures and asset sales, a $21.9 million decrease in withdrawals of restricted funds, and a $15.5 million increase in capital expenditures.

Financing activities

Financing activities used $106.5 million in the first half of 2011 compared to providing $21.3 million in the same period of 2010. This decrease was primarily driven by a $168.8 million decrease in proceeds from the issuance of long-term debt (net of debt issuance costs), partially offset by a $26.0 million decrease in debt payments, a $12.0 increase in bank overdrafts and other, and a $5.4 million increase from proceeds from exercise of stock options.

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

The table below sets forth the payments of debt for the six months ended June 30, 2011 and 2010 (in millions):

	Six Months Ended June 30,	
	2011	2010
7.875% Debentures due February 2013	$3.9	$—
6.75% Senior Notes due April 2015	16.6	3.0
6.75% Senior Notes due April 2016	7.6	20.1
Bank credit facility due March 2016	—	30.0
Obligations under capital leases	11.2	11.9
Mortgage notes and other debt, maturities through 2047	1.5	1.8
Total Debt Payments	$40.8	$66.8

We repurchased 5.5 million shares in the first half of 2011 for $55.6 million and 6.3 million shares in the same period of 2010 for $55.2 million.

We paid cash dividends of $21.5 million in the first half of 2011 and $20.4 million in the same period of 2010.

Financial Assurances

In support of our operations, we have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance and/or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been used to support our preneed funeral and cemetery sales activities. The obligations underlying these surety bonds are recorded on the unaudited condensed consolidated balance sheet as Deferred preneed funeral revenues and Deferred preneed cemetery revenues. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.

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	June 30, 2011	December 31, 2010
	(Dollars in millions)	
Preneed funeral	$116.6	$121.0
Preneed cemetery:		
Merchandise and services	116.6	120.2
Pre-construction	5.1	5.1
Bonds supporting preneed funeral and cemetery obligations	238.3	246.3
Bonds supporting preneed business permits	2.2	5.1
Other bonds	24.3	14.2
Total surety bonds outstanding	$264.8	$265.6

When selling preneed funeral and cemetery contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law. For the three months ended June 30, 2011 and 2010, we had $5.1 million and $4.9 million, respectively, of cash receipts attributable to bonded sales. For the six months ended June 30, 2011 and 2010, we had $9.7 million and $9.9 million, respectively, of cash receipts attributable to bonded sales. These amounts do not consider reductions associated with taxes, obtaining costs, or other costs.

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

Preneed Funeral and Cemetery Activities and Backlog of Contracts

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

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

The tables below detail our results of preneed funeral and cemetery production and maturities, excluding insurance contracts, for the three and six months ended June 30, 2011 and 2010.

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	North America			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in millions)		(Dollars in millions)	
Funeral:				
Preneed trust-funded (including bonded):				
Sales production	$25.9	$33.1	$48.8	$63.1
Sales production (number of contracts)	5,761	7,998		