SERVICE CORPORATION INTERNATIONAL
Form 10-Q/A
August 14, 2006

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended March 31, 2006

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 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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

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

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

YES o NO þ

The number of shares outstanding of the registrant s common stock as of May 4, 2006 was 295,753,231 (net of treasury shares).

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Explanatory Note:
The Company is amending its March 31, 2006 Form 10-Q filed May 10, 2006 to restate its condensed consolidated statement of operations and consolidated statement of cash flows for the three months ended March 31, 2006 and 2005, and its condensed consolidated balance sheet at March 31, 2006 and December 31, 2005. Included in this amended Form 10-Q are certain adjustments to correct errors related to 1) the miscalculation of the Company s actuarially determined pension benefit obligation, 2) the accounting for certain leases related to funeral home properties which were previously accounted for as operating leases, but should have been accounted for as capital leases, and 3) other out-of-period adjustments previously identified by the Company but deemed to be not material either individually or in the aggregate. All applicable amounts relating to this restatement have been reflected in the condensed consolidated financial statements and disclosed in the notes to the condensed consolidated financial statements in this amended Form 10-Q. For a discussion of the individual restatement adjustments, see Item 1. Financial Statements-note two. Restatement of Financial Statements. Additionally, see Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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GLOSSARY

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

Atneed Funeral and cemetery arrangements after the death has occurred.

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

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

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

General Agency (GA) Revenues Commissions earned as the general agent for an insurance company on preneed funeral life insurance or annuity policies. These commissions are based on a percentage per contract sold, are dependent on the type of product sold and are recognized as funeral revenues when the insurance purchase transaction between the customer and third party insurance provider is completed.

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

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

Marker A method of identifying the occupant of a particular grave or crypt. Permanent grave markers are usually of bronze or stone.

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

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

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

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

Preneed Backlog Future revenues from unfulfilled preneed funeral and cemetery sales.

Production Sales of preneed and/or atneed contracts.

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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 March 31, 2006 (Restated) note 2	Three months ended March 31, 2005 (Restated) note 2
Revenues	$ 441,798	$ 447,442
Costs and expenses	(354,191)	(349,642)
Gross profit	87,607	97,800
General and administrative expenses	(22,007)	(19,707)
Gains (losses) on dispositions and impairment charges, net	(4,510)	(5,741)
Operating income	61,090	72,352
Interest expense	(26,728)	(25,005)
Loss on early extinguishment of debt		(1,207)
Interest income	5,981	4,056
Other income (expense), net	2,414	(1,208)
	(18,333)	(23,364)
Income from continuing operations before income taxes and cumulative effect of accounting change	42,757	48,988
Provision for income taxes	(15,776)	(17,520)
Income from continuing operations before cumulative effect of accounting change	26,981	31,468
(Loss) income from discontinued operations (net of income tax benefit (provision) of $35 and $(1,155), respectively)	(55)	1,175
Cumulative effect of accounting change (net of income tax benefit of $117,428)		(187,538)
Net income (loss)	$ 26,926	$ (154,895)
Basic earnings (loss) per share:		
Income from continuing operations before cumulative effect of accounting change	$ .09	$ .10
Income from discontinued operations, net of tax		
Cumulative effect of accounting change, net of tax		(.59)
Net income (loss)	$ .09	$ (.49)

Diluted earnings (loss) per share:				
Income from continuing operations before cumulative effect of accounting change	$	.09	$	.10
Income from discontinued operations, net of tax				
Cumulative effect of accounting change, net of tax				(.59)
Net income (loss)	$	.09	$	(.49)
Basic weighted average number of shares		294,308		313,490
Diluted weighted average number of shares		298,678		317,751
Dividends declared per share	$	.025	$	.025

(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)

	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 490,408	$ 446,782
Receivables, net	76,400	97,747
Inventories	67,256	68,327
Other	31,017	37,527
Total current assets	665,081	650,383
Preneed funeral receivables and trust investments	1,227,556	1,226,192
Preneed cemetery receivables and trust investments	1,307,832	1,288,515
Cemetery property, at cost	1,366,323	1,355,654
Property and equipment, at cost, net	1,043,073	950,174
Deferred charges and other assets	264,366	249,581
Goodwill	1,122,205	1,123,888
Cemetery perpetual care trust investments	697,871	700,382
	$ 7,694,307	$ 7,544,769
Liabilities & Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 213,961	$ 231,693
Current maturities of long-term debt	35,996	20,716
Income taxes	18,203	20,359
Total current liabilities	268,160	272,768
Long-term debt	1,271,857	1,186,485
Deferred preneed funeral revenues	535,489	535,384
Deferred preneed cemetery revenues	783,520	792,485
Deferred income taxes	157,481	138,677
Other liabilities	317,778	326,985
Non-controlling interest in funeral and cemetery trusts	2,060,380	2,015,811
Non-controlling interest in cemetery perpetual care trust investments	695,456	694,619
Commitments and contingencies (note 9)		
Stockholders equity:		

Common stock, $1 per share par value, 500,000,000 shares authorized, 295,454,597 and 294,808,872, issued and outstanding (net of 48,606,563 and 48,962,063 treasury shares, at par)	295,455	294,809
Capital in excess of par value	2,174,541	2,182,745
Unearned compensation		(3,593)
Accumulated deficit	(935,979)	(962,905)
Accumulated other comprehensive income	70,169	70,499
Total stockholders equity	1,604,186	1,581,555
	$ 7,694,307	$ 7,544,769

(See notes to unaudited condensed consolidated financial statements)

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

	Three months ended March 31,	
	2006 (Restated) note 2	2005 (Restated) note 2
Cash flows from operating activities:		
Net income (loss)	$ 26,926	$ (154,895)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net loss (income) from discontinued operations, net of tax	55	(1,175)
Loss on early extinguishment of debt		1,207
Premiums paid on early extinguishment of debt		(542)
Cumulative effect of accounting change, net of tax		187,538
Depreciation and amortization	25,091	20,645
Provision for doubtful accounts	2,356	2,347
Provision for deferred income taxes	13,555	16,064
(Gains) losses on dispositions and impairment charges, net	4,510	5,741
Share-based compensation	2,145	447
Other non-cash adjustments		(1,950)
Change in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (increase) in receivables	7,407	(8,835)
Decrease in other assets	3,591	28,740
Decrease in payables and other liabilities	(27,566)	(5,532)
Net effect of preneed funeral production and maturities	3,833	12,470
Net effect of cemetery production and deliveries	18,365	23,289
Other	(54)	102
Net cash provided by operating activities from continuing operations	80,214	125,661
Net cash provided by operating activities from discontinued operations		1,453
Net cash provided by operating activities	80,214	127,114
Cash flows from investing activities:		
Capital expenditures	(19,049)	(20,559)
Proceeds from divestitures and sales of property and equipment	7,463	8,236
Proceeds from dispositions of foreign operations, net of cash retained		21,597
Proceeds from sale of investments	5,900	
Acquisitions, net of cash acquired	(14,662)	(5)
Net (deposits) withdrawals of restricted funds and other	(3,353)	6,194
Net cash (used in) provided by investing activities from continuing operations	(23,701)	15,463
Net cash used in investing activities from discontinued operations		(54)
Net cash (used in) provided by investing activities	(23,701)	15,409
Cash flows from financing activities:		

Payments of debt	(1,182)	(1,951)
Principal payments on capital leases	(5,437)	(71)
Early extinguishment of debt		(7,131)
Proceeds from exercise of stock options	1,219	3,904
Purchase of Company common stock		(103,570)
Payments of dividends	(7,371)	
Purchase of subsidiary stock		(844)
Net cash used in financing activities	(12,771)	(109,663)
Effect of foreign currency	(116)	(152)
Net increase in cash and cash equivalents	43,626	32,708
Cash and cash equivalents at beginning of period	446,782	287,785
Cash and cash equivalents at end of period	$ 490,408	$ 320,493

(See notes to unaudited condensed consolidated financial statements)

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

	Outstanding Shares	Common stock	Treasury stock, par value	Capital in excess of par value	Unearned Compensation	Accumulated deficit (Restated) note 2	Accumulated other comprehensive income
Balance at December 31, 2005	294,809	$ 343,771	$ (48,962)	$ 2,182,745	$ (3,593)	$ (962,905)	$ 70,499
Net income						26,926	
Dividends declared on common stock ($.025 per share)				(7,329)			
Total other comprehensive income							(330)
Share based compensation earned				2,145			
Reclassification of unearned compensation for restricted stock				(3,593)	3,593		
Stock option exercises and other	290	290		929			
Restricted stock award	356		356	(356)			
Balance at March 31, 2006	295,455	$ 344,061	$ (48,606)	$ 2,174,541	$	$ (935,979)	$ 70,169

(See notes to unaudited condensed consolidated financial statements)

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

1. Nature of Operations

Service Corporation International (SCI or the Company) is a provider of deathcare products and services, with a network of funeral service locations and cemeteries primarily operating in the United States and Canada. The Company also owns a 25 percent equity interest in funeral operations of an entity in France. Additionally, the Company owns Kenyon International Emergency Services (Kenyon), a wholly owned subsidiary that specializes in providing disaster management services in mass fatality incidents. Kenyon s results are included in the Company s funeral operations segment.

Funeral service locations provide all professional services relating to atneed funerals, including the use of funeral facilities and motor vehicles, and preparation and embalming services. Funeral related merchandise (including caskets, burial vaults, cremation receptacles, flowers, and other ancillary products and services) is sold at funeral service locations. Certain funeral service locations contain crematoria. The Company also sells preneed funeral services whereby a customer contractually agrees to the terms of a funeral to be performed in the future. The Company s cemeteries provide cemetery property interment rights (including mausoleum spaces, lots, and lawn crypts) and sell cemetery related merchandise (including stone and bronze memorials, markers, and cremation memorialization products) and services (primarily merchandise installations and burial openings and closings). Cemetery items are sold on an atneed or preneed basis. Personnel at cemeteries perform interment services and provide management and maintenance of cemetery grounds. Certain cemeteries operate crematoria, and certain cemeteries contain gardens specifically for the purpose of cremation memorialization.

2. Restatement of Financial Statements

The Company has restated herein its previously issued condensed consolidated statement of operations and condensed consolidated statement of cash flows for the three months ended March 31, 2006 and 2005, and its condensed consolidated balance sheet as of March 31, 2006 and December 31, 2005. This restatement corrects errors related to 1) the miscalculation of the Company s actuarially determined pension benefit obligation, 2) the accounting for certain leases related to funeral home properties which were previously accounted for as operating leases, but should have been accounted for as capital leases, and 3) other out-of-period adjustments previously identified by the Company but deemed to be not material either individually or in the aggregate. All applicable amounts related to this restatement have been reflected in the Company s condensed consolidated financial statements and disclosed in the notes to the condensed consolidated statements in this amended Form 10-Q.

Pension Benefit Obligation

As previously disclosed in the Company s 2004 Form 10-K, effective January 1, 2004, the Company adopted a new accounting policy related to the accounting for actuarial gains and losses in its pension plan. Under the new accounting policy, the Company began to recognize such gains and losses in its consolidated statement of operations as they occurred. Previously, the Company amortized the difference between actual and expected investment returns and other actuarial gains and losses over seven years (except to the extent that settlements with employees required earlier recognition). As a result of this accounting change, the Company initially recognized an after tax charge in its 2004 financial statements, representing the cumulative effect of this accounting change, of $33,599 ($54,873 before tax). This amount represented the accumulated unrecognized net losses related to the pension plan assets and liabilities as of January 1, 2004.

During the second quarter of 2006, the Company discovered that its actuarially determined pension benefit obligation (PBO) had been incorrectly calculated for the years ended December 31, 2005, 2004, 2003, and 2002 as the impact of pending lump sum cash settlements in the PBO calculation at the end of each respective year had been inadvertently omitted. The net aggregate pre-tax impact of this error over the four-year period ended December 31, 2005 was $4,233. Had this PBO calculation been correct at the time the Company adopted its new accounting policy effective January 1, 2004, the Company would have recognized an additional cumulative effect of accounting change of $4,961 ($3,037 after tax) in its December 31, 2004 consolidated statement of operations, as the vast majority of the impact of previously unrecognized pending lump sum settlements for 2002 and 2003 would have been recognized in connection with the accounting policy change.

In addition, in connection with the preparation of its second quarter 2006 condensed consolidated financial statements; the Company also identified an actuarial calculation error that resulted in an understatement of pension expense of $1,940 in the fourth quarter of 2005.

Lease Accounting

As previously disclosed in the Company s initial first quarter 2006 Form 10-Q filing, the Company determined, in the first quarter of 2006, that certain of its leases related to funeral home properties that were previously accounted for as operating leases should have been accounted for as capital leases. The aggregate pre-tax adjustment to the Company s previously issued consolidated financial statements is $2,677, of which $657 relates to the three-year period ended December 31, 2005. The remaining $2,020 relates to periods prior to January 1, 2003.

Other Out-of-Period Adjustments

The Company has also included other adjustments that were previously identified but deemed to be not material either individually or in the aggregate and therefore corrected in a subsequent period. Such adjustments impacted the timing of expense items, including income tax expenses previously recognized in the first quarter of 2006. The cumulative amount of such out-of-period adjustments was a net aggregate decrease to pre-tax income of $1,079 and an additional $496 of income tax expense for the year ended December 31, 2005.

Materiality Assessment

The Company evaluated the materiality of these adjustments to its previously issued interim and annual financial statements including its interim financial statements as of and for the three months ended March 31, 2006. The Company determined that the impact of these errors was not material to its previously issued consolidated financial statements; however, the Company has determined that the cumulative correction of the errors in the second quarter of 2006 would have been material to the current period. Therefore, in accordance with paragraph 29 of Accounting Principles Board Opinion No. 28 and the SEC s Staff Accounting Bulletin (SAB) Topic 5-F, the Company is restating its previously issued financial statements to reflect the corrections of the errors in each of the periods affected. As a result, the Company has restated its condensed consolidated statements of operations and cash flows for the three months ended March 31, 2006 and 2005 and its condensed consolidated balance sheet at March 31, 2006 and December 31, 2005. The effect of the adjustments to the Company s condensed consolidated statement of operations for the three months ended March 31, 2006 and 2005 is as follows:

	For the three months ended March 31, 2006		**For the three months ended March 31, 2005**	
	As previously reported (unaudited)	**As restated (unaudited)**	**As previously reported (unaudited)**	**As restated (unaudited)**
Costs and expenses	(355,995)	(354,191)	(350,215)	(349,642)
Gross profit	85,803	87,607	97,227	97,800
General and administrative expenses	(22,007)	(22,007)	(19,716)	(19,707)
Other operating expense	(2,884)			
Operating income	56,402	61,090	71,770	72,352
Interest expense	(26,724)	(26,728)	(24,656)	(25,005)
Income from continuing operations before income taxes and cumulative effects of accounting changes	38,073	42,757	48,755	48,988
Provision for income taxes	(13,824)	(15,776)	(17,338)	(17,520)
Income from continuing operations before cumulative effects of accounting changes	24,249	26,981	31,417	31,468
Net income (loss)	24,194	26,926	$ (154,946)	$ (154,895)
Earnings per share:				
Basic	0.08	0.09	$ (.49)	$ (.49)

Diluted	0.08	0.09	$ (.49)	$ (.49)

The effect of the above restatement on the Company s previously reported condensed consolidated balance sheet as of March 31, 2006 and December 31, 2005 is as follows:

	March 31, 2006		December 31, 2005	
	As previously reported (unaudited)	As restated (unaudited)	As previously reported	As restated
Selected condensed consolidated balance sheet data:				
Property and equipment, at cost, net	$ 1,043,544	$ 1,043,073	$ 942,229	$ 950,174
Deferred charges and other assets	264,234	264,366	249,449	249,581
Total assets	7,694,646	7,694,307	7,536,692	7,544,769
Accounts payable and accrued liabilities	215,196	213,961	231,129	231,693
Current maturities of long-term debt	36,055	35,996	20,468	20,716
Long-term debt	1,271,828	1,271,857	1,175,463	1,186,485
Deferred income taxes	158,527	157,481	141,676	138,677
Other liabilities	311,607	317,778	320,812	326,985
Stockholders equity	1,608,385	1,604,186	1,588,486	1,581,555
Total liabilities and stockholders equity	7,694,646	7,694,307	$ 7,536,692	$ 7,544,769

The effect of the above restatement on the Company s previously reported condensed consolidated statement of cash flows for the three months ended March 31, 2005 is as follows:

	Three months ended March 31, 2005	
	As previously reported	As restated
Net cash provided by operating activities	127,066	127,114
Net cash used in financing activities	(109,615)	(109,663)

The restatement had no impact to the Company s net cash provided by operating activities or net cash used in financing activities for the three months ended March 31, 2006.

The Company has also reflected the effects of this restatement in notes four, five, six, seven, eight and ten to these condensed financial statements.

3. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements for the three months ended March 31, 2006 and 2005 include the accounts of SCI and all majority-owned subsidiaries. These statements also include the accounts of the funeral trusts, cemetery merchandise and services trusts and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The interim condensed consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair presentation of the results for these periods. These condensed consolidated financial statements have been prepared in a manner consistent with the accounting policies described in the Company s amended Annual Report on Form 10-K, for the year ended December 31, 2005, unless otherwise disclosed herein, and should be read in conjunction therewith. The accompanying year-end condensed 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.

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

Use of Estimates in the Preparation of Financial Statements

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

4. Share-Based Compensation and Stockholders Equity

(All shares reported in whole numbers)

Share-Based Payment

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123R, *Share-Based Payment* (SFAS 123R). SFAS 123R is a revision of SFAS No. 123, *Accounting for Stock-Based*

Compensation , and supersedes Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees* . Among other items, SFAS 123R eliminates the use of the intrinsic value method of accounting, and requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. The Company adopted SFAS 123R on January 1, 2006 and utilizes the modified-prospective transition method.

Prior to January 1, 2006, the Company accounted for share-based payments using the intrinsic value recognition method prescribed by APB 25. Because all of the Company s stock options were granted at market value on the date of each grant, no stock-based compensation expense related to stock options was reflected in net income prior to adopting SFAS 123R.

Under the modified-prospective transition method, the Company recognizes compensation expense on a straight-line basis in its condensed consolidated financial statements issued subsequent to the date of adoption for all share-based payments granted, modified or settled after December 31, 2005, as well as for any awards that were granted prior to December 31, 2005 for which requisite service will be provided after December 31, 2005. The compensation expense on awards granted prior to December 31, 2005 is recognized using the fair values determined for the pro forma disclosures on stock-based compensation included in prior filings. The amount of compensation expense recognized on awards that were not fully vested at the date of SFAS 123R adoption excludes the compensation expense cumulatively recognized in the pro forma disclosures on stock-based compensation. Further, the Company assumed no forfeitures on restricted shares granted prior to the adoption of SFAS 123R due to the nature of the employees to whom the shares were granted, thus the Company recorded no cumulative effect of accounting change upon the adoption of SFAS 123R.

Stock Benefit Plans

The Company maintains benefit plans whereby shares of its common stock may be issued pursuant to the exercise of stock options or restricted stock granted to officers and key employees. The Company s Amended 1996 Incentive Plan reserves 24,000,000 shares of common stock for outstanding and future awards of stock options, restricted stock and other stock based awards to officers and key employees of the Company. The Company s 1996 Non-qualified Incentive Plan reserves 8,700,000 shares of common stock for outstanding and future awards of nonqualified stock options to employees who are not officers of the Company.

The benefit plans allow for options to be granted as either non-qualified or incentive stock options. The options are granted with an exercise price equal to the market price of the Company s common stock at the date of grant. The options are generally exercisable at a rate of 33 1/3% each year unless alternative vesting methods are approved by the Company s Compensation Committee of the Board of Directors. Restricted stock awards generally vest at a rate of 33 1/3% each year. The Company issues new shares for option exercises and treasury shares for restricted stock awards. At March 31, 2006 and December 31, 2005, 2,800,550 and 4,856,459 shares, respectively, were reserved for future option and restricted stock grants under these stock benefit plans.

Options of 1,868,163 and 1,959,283, respectively, were outstanding with alternative vesting methods at March 31, 2006 and December 31, 2005. These shares were fully vested prior to the implementation of FAS 123R and as such compensation expense for these options is not included in the Statement of Operations for the period ended March 31, 2006.

The Company utilizes the Black-Scholes option valuation model for estimating the fair value of its 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 expected volatility utilized in the valuation model is based on implied volatilities from traded options on the Company s stock and the historical volatility of the Company s stock price. The decrease in expected volatility from the three months ended March 31, 2005 to the three months ended March 31, 2006 is primarily the result of a lower implied volatility. Similarly, the dividend yield and the expected holding period are both based on historical experience and management s estimate of future events. The risk-free interest rate is derived from the U.S. Treasury yield curve based on the expected life of the grant in effect at the time of grant. The fair values of the Company s stock options are calculated using the following weighted average assumptions based on the methods described above for the three months ended March 31, 2006 and 2005:

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	Three months ended March 31,	
Assumptions	**2006**	**2005**
Dividend yield	1.3%	1.5%
Expected volatility	37.9%	43.3%
Risk-free interest rate	4.5%	3.7%
Expected holding period	5.6 years	5.5 years

As a result of the adoption of SFAS 123R, income from continuing operations before income taxes was reduced by $1,433, income from continuing operations and net income were both reduced by $931 and basic and diluted earnings per share were both reduced by less than $.01 for the three months ended March 31, 2006.

Results for the first quarter of 2005 have not been restated for SFAS 123R. If, prior to January 1, 2006, the Company had elected to recognize compensation expense for its stock option plans, based on the fair value of awards at the grant dates, net loss and loss per share would have changed for the three months ended March 31, 2005 to the following pro forma amounts:

		Three months ended March 31, 2005 (Restated) note 2
Net loss, as reported	$	(154,895)
Deduct: Total pro forma stock-based employee compensation expense determined under fair value based method, net of related tax expense		(391)
Pro forma net loss	$	(155,286)
Basic loss per share:		
Net loss, as reported	$	(.49)
Deduct: Total pro forma stock-based employee compensation expense determined under fair value based method, net of related tax expense		
Pro forma basic loss per share	$	(.49)
Diluted loss per share:		
Net loss, as reported	$	(.49)
Deduct: Total pro forma stock-based employee compensation expense determined under fair value based method, net of related tax expense		
Pro forma diluted loss per share	$	(.49)

The tax benefit associated with this additional compensation expense would have been $211 for the three months ended March 31, 2005.

Prior to the implementation of SFAS 123R, the Company computed stock-based compensation cost for employees eligible to retire over the three-year standard vesting period of the grants. Upon adoption of SFAS 123R, the Company amortizes new option grants to such retirement-eligible employees immediately upon grant, consistent with the retirement vesting acceleration provisions of these grants. If the Company had historically computed stock-based compensation cost for these employees under this accelerated method, $559 or less than $.01 per diluted share of after-tax compensation cost would have been accelerated and cumulatively included in the pro forma expense above through March 31, 2005.

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The following table shows a summary of information with respect to stock option and restricted share compensation for 2006 and restricted share compensation for 2005, which are included in the condensed consolidated statement of operations for those respective periods:

	For the Three Months Ended March 31, 2006	2005
Total pretax share-based compensation expense included in net income (loss)	$2,145	$447
Income tax benefit related to share-based compensation included in net income (loss)	$ 778	$156

Stock Options

The following tables set forth certain stock option information:

(Shares reported in whole numbers)

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	24,250,429	$ 9.21
Granted	1,602,800	8.24
Exercised	(298,653)	4.31
Forfeited	(11,150)	6.88
Expired	(557,253)	21.56
Outstanding at March 31, 2006	24,986,173	$ 8.93
Exercisable at March 31, 2006	22,436,321	$ 9.07

As of March 31, 2006, the aggregate intrinsic value for stock options outstanding and exercisable was $51,198 and $50,328, respectively.

(Shares reported in whole numbers)

		Options outstanding			Options exercisable	
Range of Exercise Price		Number Outstanding at March 31, 2006	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at March 31, 2006	Weighted-Average Exercise Price
$0.00	3.00	2,068,212	2.3	$ 2.61	2,068,212	$ 2.61
3.01	4.00	5,641,334	2.9	3.74	5,641,334	3.74
4.01	6.00	4,374,512	3.6	4.96	4,374,512	4.96
6.01	9.00	6,414,017	4.6	7.11	3,864,165	6.70
9.01	15.00	2,898,003	1.3	13.73	2,898,003	13.73
15.01	21.00	2,285,160	1.4	19.18	2,285,160	19.18
21.01	38.00	1,304,935	0.5	35.05	1,304,935	35.05

$0.00	38.00	24,986,173	2.9	$	8.93	22,436,321	$	9.07

Other information pertaining to option activity during the three months ended March 31 was as follows:

	For the Three Months Ended March 31,	
	2006	**2005**
Weighted average grant-date fair value of stock options granted	$ 3.11	$ 2.71
Total fair value of stock options vested	$ 1,987	$ 6,003
Total intrinsic value of stock options exercised	$ 1,112	$ 3,098

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The Company calculated its historical pool of windfall tax benefits by comparing the book expense for individual stock grants and the related tax deduction for options granted after January 1, 1995. Adjustments were made to exclude windfall tax benefits which were not realized due to the Company s net operating loss position. The Company has completed this calculation and has determined an additional paid in capital pool of $2,140.

For the three months ended March 31, 2006, cash received from the exercise of stock options was $1,219. As of March 31, 2006, the unrecognized compensation expense related to stock options of $6,415 is expected to be recognized over a weighted average period of 2.1 years.

Restricted Shares

Restricted shares awarded under the Amended 1996 Incentive Plan were 355,500 in the first quarter of 2006 and 498,800 in the first quarter of 2005. The weighted average fair market value per share at the date of grant for shares granted during the first quarter of 2006 and 2005 was $8.24 and $6.90, respectively. The fair market value of the stock, as determined on the grant date, is being amortized and charged to income (with similar credits to capital in excess of par value) generally over the average period during which the restrictions lapse. At March 31, 2006, unrecognized compensation expense related to restricted shares totaling $5,811 is expected to be recognized over a weighted average period of 1.8 years. The Company recognized compensation cost of $712 in the first quarter of 2006 and $447 in the first quarter of 2005 related to the restricted shares of this Plan.

Restricted share activity for the three months ended March 31, 2006 was as follows:

(Shares reported in whole numbers)	**Restricted Shares**	**Weighted Average Grant-Date Fair Value**
Nonvested restricted shares at December 31, 2005	779,850	$ 6.87
Granted	355,500	8.24
Vested	(308,867)	6.86
Nonvested restricted shares at March 31, 2006	826,483	$ 7.46

Share Authorization

The Company is authorized to issue 1,000,000 shares of preferred stock, $1 per share par value. No preferred shares were issued as of March 31, 2006. At March 31, 2006 and December 31, 2005, 500,000,000 common shares of $1 par value were authorized. The Company had 295,454,597 and 294,808,872 common shares issued and outstanding, net of 48,606,563 and 48,962,063 common shares held in treasury at par at March 31, 2006 and December 31, 2005, respectively.

Share Purchase Rights Plan

The Company s preferred share purchase rights plan declares a dividend of one preferred share purchase right for each share of common stock outstanding. The rights are exercisable in the event certain investors attempt to acquire 20% or more of the common stock of the Company and entitle the rights holders to purchase certain securities of the Company or the acquiring company. The rights, which are redeemable by the Company for $.01 per right, expire in July 2008 unless otherwise extended.

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Accumulated Other Comprehensive Income

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

	Foreign currency translation adjustment	Unrealized gains and losses	Accumulated other comprehensive income
Balance at December 31, 2005	$ 70,499	$	$ 70,499
Activity in 2006	(330)		(330)
Increase in net unrealized gains associated with available-for-sale securities of the trusts		16,210	16,210
Reclassification of net unrealized gains activity attributable to the non-controlling interest holders		(16,210)	(16,210)
Balance at March 31, 2006	$ 70,169	$	$ 70,169

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

The components of Comprehensive income (loss) are as follows for the three months ended March 31, 2006 and 2005:

	Three months ended March 31, 2006 (Restated) note 2	Three months ended March 31, 2005 (Restated) note 2
Comprehensive income (loss):		
Net income (loss)	$ 26,926	$ (154,895)
Total other comprehensive (loss) income	(330)	65,301
Comprehensive income (loss)	$ 26,596	$ (89,594)

Cash Dividends

On January 31, 2006, the Company paid a cash dividend of $7,371 to shareholders of record at the close of business on January 16, 2006. In the first quarter of 2006, the Company s Board of Directors approved a cash dividend of $.025 per common share that was paid on April 28, 2006 based on the Company s fourth quarter 2005 financial results. At March 31, 2006, this dividend totaling $7,329 was recorded in *Accrued Liabilities* and *Capital in Excess of Par Value* in the condensed consolidated balance sheet. Subsequent to March 31, 2006, the company s Board of Directors approved a cash dividend of $.025 per common share based on the company s first quarter 2006 financial results.

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5. Debt

Debt as of March 31, 2006 and December 31, 2005 was as follows:

	March 31, 2006 (Restated) note 2	December 31, 2005 (Restated) note 2
7.2% notes due June 2006	$ 10,698	$ 10,698
6.875% notes due October 2007	13,497	13,497
6.5% notes due March 2008	195,000	195,000
7.7% notes due April 2009	341,635	341,635
7.875% debentures due February 2013	55,627	55,627
6.75% notes due April 2016	250,000	250,000
7.0% notes due June 2017	300,000	300,000
Convertible debentures, maturities through 2013, fixed interest rates from 4.75% to 5.25%, conversion prices from $13.02 to $50.00 per share	22,213	22,213
Obligations under capital leases	110,998	11,425
Mortgage notes and other debt, maturities through 2050	28,406	29,588
Unamortized pricing discounts and other	(20,221)	(22,482)
Total debt	1,307,853	1,207,201
Less current maturities	(35,996)	(20,716)
Total long-term debt	$ 1,271,857	$ 1,186,485

Current maturities of debt at March 31, 2006 were comprised primarily of the 7.2% notes due June 2006, convertible debentures and capital leases. The Company s consolidated debt had a weighted average interest rate of 7.21% at March 31, 2006 and 7.11% at December 31, 2005. Approximately 95% and 99% of the total debt had a fixed interest rate at March 31, 2006 and December 31, 2005, respectively.

Capital Leases

In the first quarter of 2006, the Company acquired $105,085 of transportation equipment utilizing capital leases, of which $102,322 were classified as operating leases in prior periods. See additional information regarding these leases in note nine to these condensed consolidated financial statements.

Bank Credit Agreements

The Company s bank credit facility matures in August of 2007 and provides a total lending commitment of $200,000, including a sublimit of $175,000 for letters of credit. The Company will commence negotiations on an amendment or a new credit facility during 2006. As of March 31, 2006, the Company has no cash borrowings under this credit facility, but has used it to support $51,193 of letters of credit. The credit facility provides the Company with flexibility for acquisitions, dividends, and share repurchases. It is secured by the stock of the Company s domestic subsidiaries and these domestic subsidiaries have guaranteed the Company s indebtedness associated with this credit facility. The subsidiary guarantee is a guarantee of payment of the outstanding amount of the total lending commitment. It covers the term of the credit facility, including extensions of our letters of credit, and totaled a maximum potential amount of $51,193 and $54,727 at March 31, 2006 and December 31, 2005, respectively. The credit facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, maximum capital expenditure limitations, minimum net worth requirements and certain cash distribution restrictions. As of March 31, 2006, the Company was in compliance with all of its debt covenants. Interest rates for the outstanding borrowings are based on various indices as determined by the Company. The Company also pays a quarterly fee on the unused commitment that ranges from 0.25% to 0.50%.

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Early Extinguishment

In the first quarter of 2005, the Company purchased $7,131 aggregate principal amount of its 7.70% notes due in the open market. As a result of this transaction, the Company recognized a loss of $1,207 recorded in *loss on early extinguishment of debt* in its condensed consolidated statement of operations.

6. Retirement Plans

The components of net periodic pension plan benefit cost for the three months ended March 31 were as follows:

	Three months ended March 31,	
	2006 Restated (note 2)	2005 Restated (note 2)
Interest cost on projected benefit obligation	$ 1,973	$ 2,027
Actual return on plan assets	(1,038)	(1,806)
Actuarial loss		305
Amortization of prior service cost	46	46
	$ 981	$ 572

7. Segment Reporting

The Company s operations are both product based and geographically based. The Company s reportable segments include its funeral operations and its cemetery operations and collectively represent 100% of the Company s revenues.

The Company s reportable segment information is as follows:

	Funeral	Cemetery	Reportable segments
Revenues from external customers:			
Three months ended March 31,			
2006	$302,984	$138,814	$ 441,798
2005	$319,451	$127,991	$ 447,442
Gross profit:			
Three months ended March 31,			
2006 (Restated note 2)	$ 65,396	$ 22,211	$ 87,607
2005 (Restated note 2)	$ 80,126	$ 17,674	$ 97,800

The following table reconciles gross profit from reportable segments to the Company s consolidated income from continuing operations before income taxes and cumulative effect of accounting change:

	Three months ended March 31,	
	2006 (Restated) note 2	2005 (Restated) note 2
Gross profit from reportable segments	$ 87,607	$ 97,800
General and administrative expenses	(22,007)	(19,707)
Gains (losses) on dispositions and impairment charges, net	(4,510)	(5,741)
Operating income	61,090	72,352
Interest expense	(26,728)	(25,005)

Loss on early extinguishment of debt, net		(1,207)
Interest income	5,981	4,056
Other income (expense), net	2,414	(1,208)
Income from continuing operations before income taxes and cumulative effect of accounting change	$ 42,757	$ 48,988

The Company s geographic areas include North America and Other Foreign. North America includes funeral and cemetery operations in the United States and Canada. Other Foreign consists of the Company s operations in Singapore and Germany. Results from the Company s funeral and cemetery businesses in Argentina, Uruguay, and Chile, which were sold in 2005, are classified as

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discontinued operations for all periods presented. The Company conducts both funeral and cemetery operations in North America and funeral operations in Other Foreign geographic areas.

The Company s geographic area information is as follows:

	North America	Other Foreign	Total
Revenues from external customers:			
Three months ended March 31,			
2006	$438,890	$ 2,908	$441,798
2005	$444,177	$ 3,265	$447,442
Gains (losses) on dispositions and impairment charges, net:			
Three months ended March 31,			
2006	$ (4,510)	$	$ (4,510)
2005	$ (5,741)	$	$ (5,741)
Operating income:			
Three months ended March 31,			
2006 (Restated note 2)	$ 60,485	$ 605	$ 61,090
2005 (Restated note 2)	$ 71,835	$ 517	$ 72,352
Depreciation and amortization:			
Three months ended March 31,			
2006 (Restated note 2)	$ 25,077	$ 14	$ 25,091
2005 (Restated note 2)	$ 20,577	$ 68	$ 20,645

Included in the North America figures above are the following United States amounts:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Revenues from external customers	$410,482	$416,699
Operating income (Restated note 2)	$ 55,995	$ 65,176
Depreciation and amortization (Restated note 2)	$ 23,474	$ 19,391

8. Supplementary Information

Prior to the fourth quarter of 2005, certain costs, specifically salaries and facility costs, were allocated based upon each of the respective segments revenue components within goods and services.

Beginning in the fourth quarter of 2005, the Company refined its allocation of the costs described above to more accurately reflect the cost of goods and services for its funeral and cemetery segments. Such costs are now allocated based on an hourly factor, which represents the average amount of time spent by employees when selling or providing goods and services to a consumer. The Company has made certain disclosure reclassifications to comparative prior periods to conform to the current period presentation. The disclosure reclassifications made to these prior periods to conform to the current period presentation have no effect on the Company s condensed consolidated financial position, results of operations or statement of cash flows.

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The detail of certain income statement accounts is as follows for the three months ended March 31:

	2006 (Restated) note 2	2005 (Restated) note 2
North America goods and services revenues		
Goods		
Funeral	$ 120,173	$ 140,334
Cemetery	89,452	82,768
Total goods	209,625	223,102
Services		
Funeral	171,920	169,198
Cemetery	41,215	36,287
Total services	213,135	205,485
North America goods and services revenues	422,760	428,587
International revenues	2,908	3,265
Other revenues	16,130	15,590
Total revenues	$ 441,798	$ 447,442
North America goods and services costs		
Goods		
Funeral	$ 56,100	$ 53,502
Cemetery	37,343	34,605
Total cost of goods	93,443	88,107
Services		
Funeral	88,856	92,491
Cemetery	23,477	23,877
Total cost of services	112,333	116,368
North America goods and services costs	205,776	204,475
International costs and expenses	2,303	2,748
Overhead and other expenses	146,112	142,419
Total costs and expenses	$ 354,191	$ 349,642

9. Commitments and Contingencies

Leases

The Company s leases principally relate to funeral home facilities and transportation equipment. Rental expense for operating leases was $7,375 and $14,043 for the quarters ended March 31, 2006 and 2005, respectively. As of March 31, 2006, future minimum lease payments for non-cancelable operating and capital leases exceeding one year are as follows:

	Operating (Restated) note 2	Capital (Restated) note 2
Remainder of 2006	$ 6,456	$ 19,695
2007	7,581	23,004
2008	7,116	18,878
2009	6,791	15,179
2010	5,617	37,745
2011 and thereafter	54,995	30,525
Subtotal	88,556	145,026
Less: Subleases	(1,644)	
Total	$ 86,912	$ 145,026
Less: Interest on capital leases		(34,028)
Total principal payable on capital leases		$ 110,998

To eliminate the variable interest rate risk in the Company s operating margins and improve the transparency of our financial statements, we amended certain of our transportation lease agreements in the first quarter of 2006. Based on the amended terms, these leases have been classified as capital leases as of March 31, 2006 and are presented as such in the table above. For additional information, see note five to these condensed consolidated financial statements.