



## Service Corporation International Announces First Quarter 2002 Earnings Of \$.16 Per Diluted Share Before Non-Recurring Items and Additional Asset Divestiture Programs in North America

May 8, 2002

HOUSTON, May 8 /PRNewswire-FirstCall/ -- Service Corporation International (NYSE: SRV), the world's largest funeral and cemetery company, today announced pro forma earnings of \$.16 per diluted share for the first quarter of 2002 compared to pro forma earnings of \$.14 per diluted share for the first quarter of 2001, excluding non-recurring items in both periods. Non-recurring items consist of charges primarily related to planned joint ventures or sales of businesses, extraordinary gains on early extinguishments of debt and cumulative effects of accounting changes. These non-recurring items are discussed in more detail in a separate section at the end of this press release. Including these non-recurring items, the Company reported a diluted loss per share of \$.24 and breakeven diluted earnings per share for the first quarter of 2002 and 2001, respectively.

In the first quarter of 2002, the Company ceased amortization of goodwill pursuant to new accounting standards, changed the amortization period related to deferred prearranged funeral obtaining costs, revised its estimated allocation of overhead costs between the funeral and cemetery segments, began recognizing revenues associated with delivered caskets previously prearranged on cemetery contracts as part of funeral operations instead of cemetery operations and ceased depreciation of operating assets outside of North America as a result of the Company's plan to sell or joint venture these operations. The results for the first quarter of 2001 are presented in this press release in a pro forma format as if these changes were implemented on January 1, 2001 to provide a more relevant comparison to the results from the first quarter of 2002. These changes are discussed in more detail in a separate section at the end of this press release.

### Summary of Quarterly Financial Results

(In millions, except per share amounts)	Three Months Ended	
	March 31,	
	2002	2001
Total Revenues	\$585.8	\$677.8
Comparable Revenues (A)	\$565.9	\$573.5
Earnings Before Non-Recurring Items (A)	\$49.7	\$37.7
Diluted EPS Before Non-Recurring Items (A)	\$.16	\$.14
Net (Loss) Income	(\$88.7)	\$0.3
Diluted (Loss) Earnings Per Share	(\$.24)	\$0.0
Recurring Operating Free Cash Flow (A)	\$51.0	\$60.8
Total Debt (B)	\$2,441.2	\$2,534.6

(A) See descriptions and reconciliations related to non-recurring items and pro forma financial information in a separate section at the end of this press release.

(B) 2001 amount as of December 31, 2001.

Commenting on the results of the first quarter of 2002, SCI Chairman and Chief Executive Officer, Robert L. Waltrip, said:

"We are pleased to report this quarter's financial results demonstrating solid operating performance as we continue to consistently execute our plan and accomplish our financial and operating goals. We continue to believe our Company is uniquely positioned to provide growth on a long-term basis in this stable industry."

### Funeral Segment

(Dollars in millions, except average revenue per funeral service)	Three Months Ended		
	March 31,		
	2002	Pro Forma 2001	% Change
Total North America Funeral Revenues	\$307.4	\$319.8	(3.9%)
Total International Funeral Revenues	\$128.9	\$185.1	(30.4%)
Total Funeral Revenues	\$436.3	\$504.9	(13.6%)
Total North America Funeral Gross Profits	\$80.7	\$76.5	5.5%
Total International Funeral Gross Profits	\$20.1	\$26.7	4.7%
Total Funeral Gross Profits	\$100.8	\$103.2	5.3%
Comparable North America Funeral Revenues	\$304.4	\$302.7	0.6%
Comparable North America Funeral Gross Profits	\$81.0	\$76.4	6.0%

Comparable North America Funeral Gross Margin Percentage	26.6%	25.2%	---
Funeral Services Performed:			
Total North America	76,735	80,379	(4.5%)
Comparable North America	76,038	75,994	0.1%
Total and Comparable France	37,180	35,817	3.8%
Average Revenue Per Funeral Service:			
Comparable North America	\$3,989	\$3,960	0.7%
France, Excluding Currency Effect	\$1,931	\$1,837	5.1%
Percentage of Cremation Cases Performed in Comparable North America Funeral Service Locations			
	37.8%	37.0%	---
Percentage of Previously Prearranged Funeral Services Performed in Comparable North America			
	31.3%	30.1%	---

Comparable North America funeral revenues for the first quarter of 2002 were favorably impacted by an increase of 0.1% and 0.7% in funeral services performed and the average revenue per funeral service, respectively. The increase in comparable North America funeral gross profits of 6.0% is a result of increases in revenues, cost rationalization programs and the operational leverage inherent in the Company's funeral network. The comparable North America funeral gross margin percentage of 26.6% for the first quarter of 2002 exceeded the Company's annual 2002 targeted range of 18% to 23%. The Company remains comfortable with the annual 2002 comparable North America funeral gross margin percentage targeted range.

Excluding the currency effect, funeral revenues and gross profits in France increased approximately \$9.4 million and \$9.0 million, respectively, in the first quarter of 2002 compared to the same period of 2001. These funeral operations continue to be positively impacted by increases in the number of funeral services performed, the expansion of funeral product and services, the increased selection by consumers of packaged funeral plans and an increase in the delivery of cemetery burial monuments.

Commenting on the funeral results of the first quarter of 2002, SCI President and Chief Operating Officer, Jerald L. Pullins, said:

"We are pleased to report funeral results showing increases in our comparable North America funeral revenues, gross profits and gross margin percentage as a result of more comparable funeral services performed and higher average revenues per funeral service compared to the first quarter of 2001. We continue to be pleased with our comparable growth in our North America funeral operations as several of our operating initiatives are providing positive operational improvements and positioning our Company for continued operational growth."

#### Cemetery Segment

(In millions)	Three Months Ended March 31,		
	2002	Pro Forma 2001	% Change
Total North America Cemetery Revenues	\$139.6	\$151.8	(8.0%)
Total International Cemetery Revenues	\$9.9	\$21.1	(53.1%)
Total Cemetery Revenues	\$149.5	\$172.9	(13.5%)
Total North America Cemetery Gross Profits	\$16.4	\$24.3	(32.5%)
Total International Cemetery Gross Profits	\$2.0	\$6.3	(60.0%)
Total Cemetery Gross Profits	\$18.4	\$30.6	(37.2%)
Comparable North America Cemetery Revenues	\$139.2	\$148.7	(6.4%)
Comparable North America Cemetery Gross Profits	\$16.3	\$23.6	(30.9%)
Comparable North America Cemetery Gross Margin Percentage	11.7%	15.9%	

Comparable North America cemetery revenues and gross profits decreased in the first quarter of 2002 as a result of changes in estimates of deferred preneed cemetery contract revenues and timing of the completion of cemetery property development projects. The Company has had an ongoing review of its \$1.7 billion backlog of deferred preneed cemetery contract revenues related to obligations to deliver cemetery merchandise and services to customers. The changes in estimates of deferred preneed cemetery contract revenues resulted in approximately \$6.3 million less in comparable North America cemetery gross profits in the first quarter of 2002 compared to the same period of 2001. Preneed cemetery property revenues are recognized upon completion of the development of the property coupled with customer payment of at least 10 percent of the total contract amount.

Gross profits generated by the completion of cemetery property development projects in the first quarter of 2002 were below the first quarter of 2001 related to the timing of the completion of such projects. The comparable North America cemetery gross margin percentage of 11.7% for the first quarter of 2002 was in line with the Company's annual 2002 targeted range of 11% to 16%. The Company remains comfortable with the annual 2002 comparable North America cemetery gross margin percentage targeted range.

Commenting on the cemetery results of the first quarter of 2002, SCI President and Chief Operating Officer, Jerald L. Pullins, said:

"The completion of cemetery property development projects in North America in the first quarter of 2002 was in line with our expectations despite being below completion levels in the first quarter of 2001. Our expectations for each of the remaining quarters of 2002 are for the completion of cemetery property development projects to exceed completion levels experienced in the first quarter of 2002, and coupled with our other operational initiatives, we expect our comparable North America cemetery results for the remainder of 2002 to be more in line with 2001 levels."

#### Other Income and Expenses

Other income was \$7.2 million in the first quarter of 2002 compared to \$3.5 million in the first quarter of 2001. The increase primarily relates to higher levels of interest income from cash investments as a result of having a substantially higher cash balance in the first quarter of 2002 compared to the same period of 2001.

General and administrative expenses were \$15.7 million and \$18.0 million in the first quarter of 2002 and 2001, respectively. The decrease of 12.8% resulted from general cost reductions at the corporate level primarily related to less information technology costs. In the second quarter of 2002, the Company decided to implement new information systems including a new North America point of sale system and an upgraded general ledger system. This decision was not included in the Company's 2002 target for general and administrative expenses, which was expected to be modestly below 2001 levels. As a result of this decision, the Company will accelerate amortization of existing capitalized systems costs and begin to incur process engineering costs in the second quarter of 2002. The Company now expects general and administrative expenses on an annualized basis to increase by approximately \$15 to \$20 million from current levels, of which \$2 to \$5 million will be cash costs.

Interest expense was \$43.4 million and \$60.8 million in the first quarter of 2002 and 2001, respectively. The 28.6% decrease is related to the reduction in the Company's average levels of debt quarter over quarter.

#### North America Facility and Contract Review

The Company is currently completing a comprehensive facility review of all funeral and cemetery operations in North America, including identifying certain funeral and cemetery operations that are expected to be held for sale in addition to funeral and cemetery operations currently being held for sale in North America. The Company expects to recognize an impairment charge in the second quarter of 2002 of approximately \$150 to \$185 million on a pretax basis as a result of the Company's expectations to divest of an additional 130 to 160 operations in North America.

In connection with the facility review, the Company is in the process of reviewing its consulting and/or covenant-not-to-compete contractual agreements in the funeral and cemetery operations to determine their value to the Company. The Company expects certain individuals to be relieved of their obligations or restrictions under their agreements, but will be paid by the Company pursuant to such contractual items. The Company expects to recognize a charge of approximately \$35 to \$50 million on a pretax basis in the second quarter of 2002 as a result of individuals being relieved from their contractual obligations.

#### Operating Free Cash Flow

Recurring operating free cash flow is calculated by adjusting cash flows provided by operating activities to exclude (i) cash payments associated with the Company's restructuring and non-recurring charges and (ii) other cash receipts or payments (included in cash flows provided by operating activities) which are of a non-recurring operational nature, and then subtracting maintenance capital expenditures. Total operating free cash flow is calculated in the same manner as above except the amount includes all non-recurring cash payments and receipts and non-recurring or growth capital expenditures. The Company's total operating free cash flow does not include proceeds from business sales or joint ventures. Maintenance capital expenditures are considered expenditures reasonably necessary to maintain the Company's funeral service locations, cemeteries, crematoria and other facilities in a condition conducive for normal business practices. Growth capital expenditures are considered expenditures made for the purpose of generating additional or incremental revenues.

	Three Months Ended	
	March 31,	
	2002	2001
Total Operating Free Cash Flow	\$67.1	\$185.3
Recurring Operating Free Cash Flow	\$51.0	\$60.8

Total operating free cash flow in the first quarter of 2002 included approximately \$22.0 million of non-recurring cash tax refunds, which was approximately \$94 million less than the first quarter of 2001. Recurring operating free cash flow in the first quarter of 2002 included reductions in maintenance capital expenditures, cash interest and cash taxes paid, which were offset by increases in uses of cash for working capital and prearranged funeral activities. The increase in the use of cash for working capital purposes primarily related to the timing of customer cash receipts and cash payments to vendors. The Company's annual guidance for 2002 for recurring operating free cash flow remains a range from \$160 to \$180 million.

#### Debt Reduction

	March 31, 2002	December 31, 2001
Total Debt	\$2,441.2	\$2,534.6
Cash and Cash Equivalents	304.9	29.3
Net Debt (Total Debt Less Cash)	\$2,136.3	\$2,505.3

The Company's debt balance at March 31, 2002 and December 31, 2001 included approximately \$110 million of current maturing debt associated with the financial restructuring of the Company's French subsidiary, which is expected to be satisfied with non-cash French assets in 2002. The Company completed a joint venture transaction relating to its operations in the United Kingdom during the first quarter of 2002 which generated approximately \$273 million in net pretax cash proceeds and resulted in a substantial cash balance as of March 31, 2002. The Company's goals remain to continue asset sales and joint venture transactions to produce cash proceeds that, when coupled with current cash balances and operating free cash flow, will result in the Company meeting its targeted debt balance of \$1.8 billion by the end of 2002.

#### EBITDA Before Non-Recurring Items

The Company calculates EBITDA for each period presented by adding interest, tax, depreciation and amortization expenses back to net income before non-recurring items and then deducting gains from dispositions. EBITDA before non-recurring items was \$139.4 million and \$146.7 million for the first quarter of 2002 and 2001, respectively. EBITDA before non-recurring items for the Company's North America operations was \$116.1 million and \$113.5 million for the first quarter of 2002 and 2001, respectively. Descriptions of non-recurring items for both periods are discussed in a separate section at the end of this press release.

#### Conference Call

The Company will host a conference call tomorrow morning (Thursday, May 9, 2002) at 8:00 a.m. Central time. A question and answer session will follow a brief presentation made by the Company. The conference call dial-in number is (913) 981-5509. The conference call will also be broadcast live via the Internet at <http://www.videonewswire.com/event.asp?id=4802>. After the completion of the live conference call, a replay can be accessed at (719) 457-0820 with the confirmation code 692544 through May 23, 2002.

#### Cautionary Statement on Forward-Looking Statements

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

- 1) Changes in general economic conditions, both domestically and internationally, impacting financial markets (e.g., marketable security values, as well as currency and interest rate fluctuations) that could negatively affect the Company, particularly, but not limited to, levels of interest expense and negative currency translation effects.
- 2) Changes in credit relationships impacting the availability of credit and the general availability of credit in the marketplace.
- 3) The Company's ability to successfully implement its strategic plan as defined in the Company's Form 10-K for the year ended December 31, 2001, including:
  - the continuation of cost reduction initiatives,
  - the continuation of actions to improve operating free cash flow,
  - the continuation of debt reduction initiatives, including the sale of certain funeral and cemetery operations,
  - the implementation of strategic revenue and marketing initiatives resulting in increased volume through its existing facilities, and
  - the interest of third parties to enter into and consummate alliances and joint ventures with the Company.
- 4) Changes in consumer demand and/or pricing for the Company's products and services caused by several factors, such as changes in local death rates, cremation rates, competitive pressures and local economic conditions.
- 5) Changes in domestic and international political and/or regulatory environments in which the Company operates, including potential changes in tax and accounting policies.
- 6) The Company's ability to successfully access the surety market to procure bonds for prearranged funeral and preneed cemetery activities.
- 7) The Company's ability to successfully exploit its substantial purchasing power with certain of the Company's vendors.
- 8) The outcomes of pending lawsuits against the Company involving alleged violations of securities laws.
- 9) The outcomes of lawsuits in Florida involving certain cemetery locations, including the possibility of criminal charges or other civil claims being filed against the Company, its subsidiaries or its employees.

For further information on these and other risks and uncertainties, see the Company's Securities and Exchange Commission filings, including the

Company's 2001 Annual Report on Form 10-K. The Company assumes no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by the Company, whether as a result of new information, future events or otherwise.

As of March 31, 2002, the Company and its affiliates operated 2,507 funeral service locations, 467 cemeteries and 154 crematoria and provides funeral and cemetery services in 8 countries.

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Other Service Corporation International information and news releases are available through SCI's corporate website at: <http://www.sci-corp.com> .

SERVICE CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share amounts)	Three Months Ended	
	March 31,	
	2002	2001*
Revenues:		
Funeral	\$436,333	\$504,840
Cemetery	149,425	172,936
	585,758	677,776
Gross profit:		
Funeral	100,785	86,102
Cemetery	18,379	24,786
	119,164	110,888
General and administrative expenses	(15,731)	(17,979)
Restructuring and non-recurring charges	(4,894)	(25,023)
Operating income	98,539	67,886
Interest expense	(43,386)	(60,806)
Other income	7,238	3,463
Gains (losses) from dispositions	1,982	(509)
Income from continuing operations before income taxes, extraordinary gains and cumulative effect of accounting changes	64,373	10,034
Income tax expense	(18,205)	(6,715)
Income from continuing operations before extraordinary gains and cumulative effect of accounting changes	46,168	3,319
Extraordinary gains on early extinguishments of debt (net of income tax expense of \$265 and \$2,907, respectively)	681	4,547
Cumulative effect of accounting changes (net of income tax benefit of \$11,234 and \$5,318, respectively)	(135,560)	(7,601)
Net (loss) income	(\$88,711)	\$265
Earnings per share:		
Basic:		
Income from continuing operations	\$ .16	\$ .01
Extraordinary gains on early		

extinguishments of debt	.00	.02
Cumulative effect of accounting changes	(.46)	(.03)
Net (loss) income	\$ (.30)	\$ .00
Diluted:		
Income from continuing operations	\$ .15	\$ .01
Extraordinary gains on early extinguishments of debt	.00	.02
Cumulative effect of accounting changes	(.39)	(.03)
Net (loss) income	\$ (.24)	\$ .00
Basic weighted average number of shares	292,653	273,637
Diluted weighted average number of shares	345,554	273,966

\* Operating results for the first quarter of 2001 have been restated to recognize revenues associated with delivered caskets previously prearranged on cemetery contracts as part of funeral operations instead of cemetery operations.

#### Non-Recurring Items and Pro Forma Financial Information

Non-recurring items are excluded from certain financial information in this press release to enhance the comparability of financial information from period to period. Non-recurring items are a component of the reconciling differences between generally accepted accounting principles and pro forma financial information that the Company considers to be outside the scope of its recurring operating activities. In the first quarters of 2002 and 2001, such non-recurring items are charges primarily related to planned joint ventures or sales of businesses, extraordinary gains on early extinguishments of debt and cumulative effects of accounting changes. The most significant non-recurring item relates to the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). This standard requires goodwill to no longer be amortized but instead tested for impairment annually. As a result of the adoption of SFAS No. 142, the Company has recognized a charge reflected as a cumulative effect of accounting change of \$146.8 million on a pretax basis and \$135.6 million on an after tax basis.

In the first quarter of 2002, the Company ceased amortization of goodwill as required by SFAS No. 142, changed the amortization period of deferred prearranged funeral obtaining costs from 20 years to 12 years, changed the allocation methodology of overhead costs to be based on funeral and cemetery segment revenues, began recognizing revenues associated with delivered caskets previously prearranged on cemetery contracts as part of funeral operations instead of cemetery operations and ceased depreciation of operating assets outside of North America as a result of the Company's plan to sell or joint venture these operations. For comparability purposes, the Company has presented financial information in the press release for the first quarter of 2001 on a pro forma basis as if the above changes were implemented on January 1, 2001.

The following tables reconcile net (loss) income and diluted (loss) earnings per share under generally accepted accounting principles to pro forma earnings before non-recurring items and pro forma diluted EPS before non-recurring items.

(In millions)	Three Months Ended	
	March 31,	
	2002	2001
Net (Loss) Income	(\$88.7)	\$0.3
Add Back Non-Recurring Items (After Tax):		
Restructuring and Non-Recurring Charges	\$3.5	\$18.1
Extraordinary Gains on Early Extinguishments of Debt	(\$0.7)	(\$4.6)
Cumulative Effects of Accounting Changes	\$135.6	\$7.6
Add Back Accounting Changes and Changes in Estimates (After Tax):		
Goodwill Amortization	---	\$12.0
Amortization of Deferred Prearranged Funeral Obtaining Costs	---	(\$1.0)
Depreciation Expense Related to Operations Outside of North America	---	\$5.3
Pro Forma Earnings Before Non-Recurring Items	\$49.7	\$37.7
Diluted (Loss) Earnings Per Share	(\$.24)	\$ .00
Add Back Non-Recurring Items:		
Restructuring and Non-Recurring Charges	\$ .01	\$ .07
Extraordinary Gains on Early Extinguishments of Debt	(\$ .00)	(\$ .02)
Cumulative Effects of Accounting Changes	\$ .39	\$ .03
Add Back Accounting Changes and Changes in Estimates:		
Goodwill Amortization	---	\$ .04
Amortization of Deferred Prearranged Funeral Obtaining Costs	---	(\$ .00)

Depreciation Expense Related to Operations Outside of North America	---	\$ .02
Pro Forma Diluted EPS Before Non-Recurring Items	\$ .16	\$ .14

Comparable revenues for the first quarters of 2002 and 2001 represent revenues excluding operations that have been acquired or constructed after January 1, 2001 or operations that have been divested by the Company prior to March 31, 2002.

(In millions)	Three Months Ended March 31,	
	2002	2001
Total Revenues	\$585.8	\$677.8
Less: Revenues From Operations Acquired/Constructed After 01/01/01 or Divested Prior to 03/31/02	(\$19.9)	(\$104.3)
Comparable Revenues	\$565.9	\$573.5

The following tables reconcile funeral and cemetery revenues and gross profits previously reported for the first quarter of 2001 to pro forma amounts used in this release for the first quarter of 2001 including the accounting changes and changes in estimates discussed above.

(In millions)	Three Months Ended March 31, 2001	
	Funeral Revenues	Cemetery Revenues
First Quarter of 2001 as Previously Reported	\$500.6	\$177.2
Less: Revenues from Operations Acquired/Constructed After 01/01/01 or Divested Prior to 03/31/02	(\$89.6)	(\$14.7)
Less: Comparable Revenues Outside of North America	(\$112.5)	(\$9.6)
Comparable North America Revenues	\$298.5	\$152.9
Reclass of Casket Revenues Pro Forma Comparable North America Revenues	\$4.2	(\$4.2)
	\$302.7	\$148.7

(In millions)	Three Months Ended March 31, 2001	
	Funeral Gross Profits	Cemetery Gross Profits
First Quarter of 2001 as Previously Reported	\$83.9	\$27.0
Less: Gross Profits from Operations Acquired/Constructed After 01/01/01 or Divested Prior to 03/31/02	(\$9.7)	(\$4.8)
Less: Comparable Gross Profits Outside of North America	(\$4.9)	\$0.1
Comparable North America Gross Profits	\$69.3	\$22.3
Reclass of Casket Revenues	\$2.2	(\$2.2)
Goodwill Amortization	\$8.9	\$1.1
Amortization of Deferred Prearranged Funeral Obtaining Costs	(\$1.6)	---

Allocation of Overhead Costs	(\$2.4)	\$2.4
Pro Forma Comparable North America Gross Profits	\$76.4	\$23.6

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