

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

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1994

or

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-6402-1

SERVICE CORPORATION INTERNATIONAL
(Exact name of registrant as specified in charter)

TEXAS 74-1488375
(State or other jurisdiction of (I. R.S. employer identification
incorporation or organization) 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 and (2) has been subject to the filing
requirements for the past 90 days.

YES X NO

The number of shares outstanding of the registrant's common stock as of May 6,
1994, was 85,853,410 (excluding treasury shares).

SERVICE CORPORATION INTERNATIONAL

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SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED BALANCE SHEET

| (THOUSANDS) | MARCH 31, 1994 (UNAUDITED) | DECEMBER 31, 1993 |
|---|----------------------------------|----------------------|
| ----- | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 45,604 | \$ 20,822 |
| Receivables, net of allowances | 221,256 | 236,786 |
| Inventories | 52,300 | 45,211 |
| Other | 12,666 | 9,640 |
| | ----- | ----- |
| Total current assets | 331,826 | 312,459 |
| | ----- | ----- |
| Prearranged funeral contracts | 1,241,731 | 1,244,866 |
| Long-term receivables | 536,252 | 500,062 |
| Cemetery property, at cost | 455,784 | 417,050 |
| Property, plant and equipment, at cost (net) | 635,557 | 606,826 |
| Deferred charges and other assets | 191,178 | 174,345 |
| Names and reputations (net) | 445,457 | 427,696 |
| | ----- | ----- |
| | \$3,837,785 | \$3,683,304 |
| | ===== | ===== |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 95,955 | \$ 96,881 |
| Income taxes | 23,000 | 18,695 |
| Current maturities of long-term debt | 24,373 | 24,982 |
| | ----- | ----- |
| Total current liabilities | 143,328 | 140,558 |
| | ----- | ----- |
| Long-term debt | 1,099,052 | 1,062,222 |
| Deferred income taxes | 180,483 | 146,968 |
| Other liabilities | 194,983 | 185,636 |
| Deferred prearranged funeral contract revenues | 1,304,849 | 1,263,407 |
| Stockholders' equity: | | |
| Common stock, \$1 par value, 200,000,000 shares authorized, 85,839,377 and 84,859,110 issued and outstanding | 85,839 | 84,859 |
| Capital in excess of par value | 520,689 | 517,902 |
| Retained earnings | 313,680 | 284,879 |
| Foreign translation adjustment | (5,118) | (3,127) |
| | ----- | ----- |
| Total stockholders' equity | 915,090 | 884,513 |
| | ----- | ----- |
| | \$3,837,785 | \$3,683,304 |
| | ===== | ===== |

(See notes)

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

| (THOUSANDS, EXCEPT PER SHARE AMOUNTS) | THREE MONTHS ENDED MARCH 31, | |
|---|------------------------------|----------------------------|
| | 1994 | 1993 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Revenues | \$ 261,258 | \$ 224,371 |
| Costs and expenses | (171,716) | (152,900) |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Gross profit | 89,542 | 71,471 |
| General and administrative expenses | (13,501) | (9,890) |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Income from operations | 76,041 | 61,581 |
| Interest expense | (15,624) | (14,581) |
| Other income | 2,515 | 948 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Income before income taxes | 62,932 | 47,948 |
| Provision for income taxes | (25,487) | (18,700) |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Income before cumulative effect of change in accounting principles | 37,445 | 29,248 |
| Cumulative effect of change in accounting principles (net of income tax) | - | (2,031) |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Net income | \$ 37,445 | \$ 27,217 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Earnings per share: | | |
| Primary - | | |
| Income before cumulative effect of change in accounting principles | \$.44 | \$.37 |
| Cumulative effect of change in accounting principles (net of income tax) | - | (.03) |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Net income | \$.44 | \$.34 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Fully diluted - | | |
| Income before cumulative effect of change in accounting principles | \$.41 | \$.34 |
| Cumulative effect of change in accounting principles (net of income tax) | - | (.02) |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Net income | \$.41 | \$.32 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Dividends per share | \$.105 | \$.10 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Weighted average number of shares and equivalents | 85,785 | 79,930 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |

(See notes)

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

| (THOUSANDS, EXCEPT PER SHARE AMOUNTS) | THREE MONTHS ENDED MARCH 31, | |
|---|------------------------------|-----------|
| | 1994 | 1993 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash flows from operating activities: | | |
| Net income | \$ 37,445 | \$ 27,217 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,233 | 12,024 |
| Provision for deferred income taxes | 5,930 | 3,500 |
| (Gain) loss from dispositions (net) | (584) | 64 |
| Cumulative effect of change in accounting principles | - | 2,031 |
| Change in assets and liabilities net of effects from acquisitions: | | |
| (Increase) decrease in receivables | (10,195) | 2,581 |
| Change in prearranged funeral contracts and associated deferred revenues | 33,475 | (48) |
| (Increase) decrease in other assets | (9,143) | 3,110 |
| Increase in other liabilities | 21,298 | 2,055 |
| Other | (3,752) | (1,003) |
| | ----- | ----- |
| Net cash provided by operating activities | 88,707 | 51,531 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Capital expenditures | (18,091) | (14,353) |
| Proceeds from sales of property, plant and equipment | 5,618 | 6,482 |
| Acquisitions | (56,306) | (37,020) |
| Loans issued | (10,856) | (19,257) |
| Principal payments received on loans | 9,821 | 6,347 |
| Change in investments and other | (10,528) | 2,993 |
| | ----- | ----- |
| Net cash (used in) investing activities | (80,342) | (54,808) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Borrowings (payments) under lines of credit and commercial paper | 32,603 | (124,000) |
| Subordinated debentures issued | - | 150,000 |
| Payments of debt | (7,583) | (6,600) |
| Retirement of common stock | (805) | - |
| Dividends paid | (8,913) | (7,725) |
| | ----- | ----- |
| Exercise of stock options and other | 1,115 | 2,155 |
| | ----- | ----- |
| Net cash provided by financing activities | 16,417 | 13,830 |
| | ----- | ----- |
| Net increase in cash and cash equivalents | 24,782 | 10,553 |
| Cash and cash equivalents at beginning of year | 20,822 | 31,253 |
| | ----- | ----- |
| Cash and cash equivalents at March 31, 1994 and 1993 | \$ 45,604 | \$ 41,806 |
| | ===== | ===== |
| Cash used for: | | |
| Interest | \$ 12,481 | \$ 12,560 |
| | ===== | ===== |
| Taxes | \$ 3,505 | \$ 7,812 |
| | ===== | ===== |

(See notes)

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

| (THOUSANDS) | COMMON STOCK | CAPITAL IN EXCESS OF PAR VALUE | RETAINED EARNINGS | FOREIGN TRANSLATION ADJUSTMENT |
|--|-----------------|--------------------------------------|----------------------|--------------------------------------|
| Balance at December 31, 1993 | \$ 84,859 | \$ 517,902 | \$ 284,879 | \$ (3,127) |
| Net income | | | 37,445 | |
| Common stock issued: | | | | |
| Stock option exercises, restricted stock grants and other | 85 | 1,366 | | |
| Acquisitions | 888 | 1,295 | 370 | |
| Debenture conversion | 7 | 126 | | |
| Dividends on common stock (\$1.05 per share) | | | (9,014) | |
| Foreign translation adjustment | | | | (1,991) |
| Balance at March 31, 1994 | \$ 85,839 | \$ 520,689 | \$ 313,680 | \$ (5,118) |

(See notes)

SERVICE CORPORATION INTERNATIONAL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated financial statements for the three months ended March 31, 1994 and 1993 include the accounts of Service Corporation International and all majority-owned subsidiaries (The Company) and are unaudited but include all adjustments, consisting only of normal recurring accruals and any other adjustments, which management considers necessary for a fair presentation of the results for these periods. These financial statements have been prepared consistent with the accounting policies described in the annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 1993 and should be read in conjunction therewith. Certain reclassifications have been made to the prior period to conform to the current period presentation with no effect on previously reported net income.

2. CHANGE IN ACCOUNTING PRINCIPLES

On January 1, 1993 the Company changed its method of accounting for prearranged funeral sales contracts, trust earnings, sales of cemetery interment rights and other related products and services and cemetery perpetual care trust funds. These changes are more fully discussed in Note 2 in the Company's annual report filed on Form 10-K for the year ended December 31, 1993. The cumulative effect of these changes resulted in an after tax charge of \$2,031,000 or \$.03 per share in the first quarter of 1993.

3. ACQUISITIONS

The Company has acquired certain funeral and cemetery operations during each three month period ended March 31, 1994 and 1993. The consideration for these acquisitions consisted of cash, common stock of the Company and issued or assumed debt. The excess of purchase price over the fair value of assets acquired and liabilities assumed is included in names and reputations on the Consolidated Balance Sheet and will be amortized over a 40 year period. The operating results of all of these acquisitions have been included since their respective dates of acquisitions.

The effect of acquisitions on the Consolidated Balance Sheet was as follows:

| (Thousands) | Three Months Ended March 31, | |
|--|------------------------------|------------|
| | 1994 | 1993 |
| Current assets | \$ 784 | \$ (3,013) |
| Prearranged funeral contracts | 18,356 | 14,963 |
| Long-term receivables | 1,920 | 12,090 |
| Cemetery property | 32,862 | 31,952 |
| Property, plant and equipment | 26,709 | 5,488 |
| Deferred charges and other assets | 6,490 | (2,922) |
| Names and reputations | 21,467 | 4,048 |
| Current liabilities | (5,287) | 9,615 |
| Long-term debt | (10,763) | (1,592) |
| Other liabilities | (15,045) | (12,479) |
| Deferred prearranged funeral contract revenues ... | (18,634) | (14,891) |
| Stockholders' equity | (2,553) | (6,239) |
| | ----- | ----- |
| Cash used for acquisitions | \$ 56,306 | \$ 37,020 |
| | ===== | ===== |

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The following represents the unaudited pro forma results of consolidated operations as if these acquisitions had occurred on January 1, 1993. This information does not purport to be indicative of results which may occur in the future.

| (Thousands, except per share amounts) | Three Months Ended March 31, | |
|---|------------------------------|------------|
| | 1994 | 1993 |
| Revenues | \$ 267,284 | \$ 256,824 |
| Income before cumulative effect | | |
| of change in accounting principles | \$ 37,628 | \$ 32,525 |
| Net income | \$ 37,628 | \$ 30,494 |
| Primary earnings per share before cumulative | | |
| effect of change in accounting principles | \$.44 | \$.40 |
| Primary earnings per share | \$.44 | \$.37 |

4. DEFERRED PREARRANGED FUNERAL CONTRACT REVENUES

Deferred prearranged funeral contract revenues include the contract amount of all price guaranteed prearranged funeral service contracts as well as the accrued trust earnings and increasing insurance benefits earned through the balance sheet date. The Company will continue to defer additional accruals of trust earnings and insurance benefits as they are earned until the performance of the funeral service. Upon performance of the funeral service, the Company will recognize the fixed contract price as well as total accumulated trust earnings and increasing insurance benefits as funeral service revenues.

The recognition of the March 31, 1994 balance in future funeral revenue is expected to occur in the following years based on actuarial assumptions as follows:

| | (Thousands) |
|------------------------------------|-------------|
| | ----- |
| 1994 (remaining nine months) | \$ 85,973 |
| 1995 | 107,091 |
| 1996 | 99,713 |
| 1997 | 92,541 |

| | |
|-----------------------------|--------------|
| 1998 | 85,628 |
| 1999 and through 2003 | 328,305 |
| 2004 and thereafter | 505,598 |
| | ----- |
| | \$ 1,304,849 |

5. DEBT

The Company's revolving credit loan agreement borrowings have been reduced by \$230,000,000 since year end to \$155,000,000 at March 31, 1994 with an average interest rate of 3.73%. The credit loan agreement was also used to support the selling of short-term commercial paper totaling \$255,540,000 at March 31, 1994, with an average interest rate of 3.8%. The credit loan agreement borrowings and the commercial paper are classified as long-term since it is the Company's intent to renew or refinance with long-term borrowings.

In March 1994, the Company issued \$5,500,000 of 5% registered convertible debentures due in 2004. These debentures carry a conversion price of \$34 and were used to partially fund acquisitions.

The Company's Canadian subsidiary borrowed \$5,057,000 United States dollars (USD) under its separate bank line of credit during the current quarter to fund the acquisition of Canadian funeral service operations.

On August 31, 1993, the Company entered a currency swap agreement with a bank that hedged the borrowings for the Company's initial investment in its Australian subsidiary. As part of this agreement, the Company pays the bank a blended interest rate (6.28% at March 31, 1994) on \$110,000,000 Australian dollars (AUD) and receives a floating interest rate (3.5% at March 31, 1994) on \$73,590,000 USD. This agreement expires December 29, 2000.

On December 31, 1993, effective February 1, 1994, the Company entered into an interest rate swap agreement with a bank having a notional amount of \$150,000,000 USD. Under this agreement, the Company pays a floating interest rate (3.375% at March 31, 1994) on \$150,000,000 and receives a 5.36% fixed interest rate on \$150,000,000. This agreement terminates February 1, 1999 subject to an option, exercisable by the bank, to terminate on August 1, 1994.

On February 17, 1994, effective March 1, 1994, the Company entered a currency swap agreement with a bank that hedged the borrowings for an additional Australian acquisition. Under this agreement, the Company pays the bank a fixed interest rate of 6.61% on \$32,715,000 AUD and receives a variable interest rate (3.62% at March 31, 1994) on \$23,414,000 USD. This agreement expires March 1, 1999.

6. SUPPLEMENTAL INFORMATION - NON-CASH TRANSACTIONS

| (Thousands) | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 1994 | 1993 |
| ----- | ----- | ----- |
| Common stock issued under restricted stock plans | \$ 1,188 | \$ 2,380 |
| Debenture conversion | - | 97,164 |
| Cumulative effect of change in accounting principles | - | 2,031 |

7. RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for the three months ended March 31, 1994 was 4.08. For purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes, less undistributed income of equity investees which are less than 50% owned, plus the minority interest of majority-owned subsidiaries with fixed charges, and plus fixed charges (excluding

capitalized interest and preferred dividends). Fixed charges consist of interest expense, whether capitalized or expensed, amortization of debt costs, one-third of rental expense which the Company considers representative of the interest factor in the rentals and preferred dividends.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION
THREE MONTHS ENDED MARCH 31, 1994
COMPARED TO THREE MONTHS ENDED MARCH 31, 1993

OVERVIEW:

The majority of the Company's funeral homes and cemeteries are managed in groups called clusters. Clusters are primarily designated in metropolitan areas to take advantage of operational efficiencies, including the sharing of operating expenses such as service personnel, vehicles, preparation services, clerical staff and certain building facility costs. The Company has approximately 165 clusters which range in size from two operations to 53 operations. There may be more than one cluster in a given metropolitan area, depending upon the level and degree of shared costs.

The cluster management approach recognizes that, as the Company adds operations to a geographic area that contains an existing Company presence, additional economies of scale through cost sharing will be achieved and the Company will also be in a better position to serve the population that resides within the area served by the cluster. Funeral service and cemetery operations primarily depend upon a long-term development of customer relationships and loyalty. Over time, these client families may relocate within a cluster area which may justify the relocation or addition of Company locations. The Company attempts to satisfy this need for convenient locations by either acquiring existing independent locations within the Company's cluster areas or constructing satellite funeral homes (sometimes on Company-owned cemeteries) while still maintaining the sharing of certain expenses within that cluster of operations.

RESULTS OF OPERATIONS:

Segment information for the Company's three lines of business are as follows:

| (Thousands) | Three Months Ended March 31, | | Increase | Percentage Increase |
|-------------------------------------|------------------------------|------------|-----------|---------------------|
| | 1994 | 1993 | | |
| Revenues: | | | | |
| Funeral..... | \$ 177,357 | \$ 153,812 | \$ 23,545 | 15.3% |
| Cemetery..... | 79,383 | 67,020 | 12,363 | 18.4 |
| Financial services..... | 4,518 | 3,539 | 979 | 27.7 |
| | ----- | ----- | ----- | |
| | 261,258 | 224,371 | 36,887 | 16.4 |
| | ----- | ----- | ----- | |
| Costs and expenses: | | | | |
| Funeral..... | 116,983 | 103,446 | 13,537 | 13.1 |
| Cemetery..... | 52,497 | 47,601 | 4,896 | 10.3 |
| Financial services..... | 2,236 | 1,853 | 383 | 20.7 |
| | ----- | ----- | ----- | |
| | 171,716 | 152,900 | 18,816 | 12.3 |
| | ----- | ----- | ----- | |
| Gross profit and margin percentage: | | | | |
| Funeral..... | 60,374 | 50,366 | 10,008 | 34.0% |
| Cemetery..... | 26,886 | 19,419 | 7,467 | 33.9 |
| Financial services..... | 2,282 | 1,686 | 596 | 50.5 |
| | ----- | ----- | ----- | |
| | \$ 89,542 | 71,471 | \$ 18,071 | 31.9% |
| | ----- | ----- | ----- | 25.3% |

Funeral

Funeral revenues were generated as follows:

| (Thousands) | Three Months Ended | | Increase/ (Decrease) | Percentage Increase |
|-------------------------------------|--------------------|-------------------|-------------------------|------------------------|
| | 1994 | March 31, 1993 | | |
| Existing clusters | \$ 160,995 | \$ 144,664 | \$ 16,331 | 11.3% |
| New clusters* | 8,814 | 619 | 8,195 | |
| Total clusters | 169,809 | 145,283 | 24,526 | 16.9% |
| Non-cluster and disposed operations | 7,548 | 8,529 | (981) | |
| Total funeral revenues | \$ 177,357 | \$ 153,812 | \$ 23,545 | 15.3% |

The \$16,331,000 increase in revenues at existing clusters was the result of 2,857 or 6.7% more funeral services performed and a \$146 or 4.3 % higher average sales price. Included in this increase was \$9,782,000 in revenues from locations acquired after December 31, 1992. The winter months typically result in increased numbers of funeral services performed. Overall, funeral services performed are expected to grow slowly for the near future indicative of past mortality rates and it is expected that the Company's revenue growth will primarily be generated from acquired operations (added to existing clusters and the creation of new clusters) as well as higher average sales prices.

During the three months ended March 31, 1994, the Company sold \$47,751,000 of prearranged funeral services compared to \$35,029,000 for the same period in 1993. These prearranged funeral services are deferred and will be reflected in funeral revenues in the periods that the funeral services are performed. An increased emphasis on sales of prearranged funerals is expected to continue.

Funeral costs were incurred as follows:

| (Thousands) | Three Months Ended | | Increase/ (Decrease) | Percentage Increase |
|-------------------------------------|--------------------|-------------------|-------------------------|------------------------|
| | 1994 | March 31, 1993 | | |
| Existing clusters | \$ 97,540 | \$ 90,520 | \$ 7,020 | 7.8% |
| New clusters* | 6,930 | 400 | 6,530 | |
| Total clusters | 104,470 | 90,920 | 13,550 | 14.9% |
| Non-cluster and disposed operations | 5,294 | 6,319 | (1,025) | |
| Administrative overhead | 7,219 | 6,207 | 1,012 | |
| Total funeral costs | \$ 116,983 | \$ 103,446 | \$ 13,537 | 13.1% |

Total funeral gross profit margin increased to 34.0% compared to 32.7% recorded last year. This gross profit margin improvement was achieved despite the large number of acquisitions, added to both existing and new clusters, which have occurred since the beginning of 1993. Typically, acquisitions will temporarily exhibit slightly lower gross profit margins than the Company's existing locations. Acquisitions accounted for \$7,355,000 of the existing cluster cost increase. The improved gross profit margin for existing clusters reflects the increased revenues discussed above, as well as, a slight decline in costs at other funeral homes included in existing clusters. Administrative overhead costs related to funeral operations remained at approximately 4.0% of revenues in both periods.

*Represents new geographic areas entered into after December 31, 1992 for the period that those businesses were owned by the Company.

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Cemetery

Cemetery revenues were generated as follows:

| (Thousands) | Three Months Ended | | | Increase | Percentage Increase |
|--|--------------------|-----------|-----------|----------|---------------------|
| | March 31, | | | | |
| | 1994 | 1993 | | | |
| Existing clusters..... | \$ 73,045 | \$ 63,642 | \$ 9,403 | 14.8% | |
| New clusters*..... | 2,955 | - | 2,955 | | |
| Total clusters..... | 76,000 | 63,642 | 12,358 | 19.4% | |
| Non-cluster and disposed operations..... | 3,383 | 3,378 | 5 | | |
| Total cemetery revenues..... | \$ 79,383 | \$ 67,020 | \$ 12,363 | 18.4% | |

Revenues for the existing clusters increased primarily due to increased preneed sales of merchandise and services and additional earnings from cemetery perpetual care and merchandise and services trust funds. Included in the existing cluster increase was \$4,750,000 in increased revenues from cemeteries acquired after December 31, 1992.

Cemetery costs were incurred as follows:

| (Thousands) | Three Months Ended | | | Increase/ (Decrease) | Percentage Increase |
|--|--------------------|-----------|----------|-------------------------|---------------------|
| | March 31, | | | | |
| | 1994 | 1993 | | | |
| Existing clusters..... | \$ 44,371 | \$ 41,623 | \$ 2,748 | 6.6% | |
| New clusters*..... | 1,643 | - | 1,643 | | |
| Total clusters..... | 46,014 | 41,623 | 4,391 | 10.5% | |
| Non-cluster and disposed operations..... | 1,868 | 2,507 | (639) | | |
| Administrative overhead..... | 4,615 | 3,471 | 1,144 | | |
| Total cemetery costs..... | \$ 52,497 | \$ 47,601 | \$ 4,896 | 10.3% | |

Costs at existing clusters increased \$2,748,000 due to an increase of \$3,027,000 from cemeteries acquired after December 31, 1992, partially offset by a decrease in costs from other existing cluster cemeteries of \$279,000. The decline in costs at the other existing cluster cemeteries results from an increased emphasis on reducing selling costs in the preneed sales area. Administrative overhead costs have increased primarily from accruals of incentive compensation for cemetery personnel in the current year.

Financial Services

Financial service revenues and costs have increased as a result of increased loans outstanding. Improved interest rate spreads have increased the gross margin percentage. The average outstanding loan portfolio during the current quarter was \$252,694,000 with an average interest rate spread of 3.4% compared to \$197,658,000 and 3.2%, respectively, last year.

Other Income and Expenses

General and administrative expenses increased by \$3,611,000 or 36.5%. Of the increase, \$2,685,000 is attributable to personnel expenses primarily in the form of restricted stock costs. Professional fees have increased \$1,064,000 in the current year.

Interest expense, which excludes the amount incurred through financial service operations, increased \$1,043,000 or 7.2% during the current quarter primarily due to the issuance of \$150,000,000 of 7.875% debentures in February 1993 and increased borrowings under the Company's lines of credit and commercial paper during the current quarter.

The \$1,567,000 increase in other income results primarily from the sale of excess real estate in 1994.

*Represents new geographic areas entered into after December 31, 1992 for the period that those businesses were owned by the Company.

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The provision for income taxes has increased to 40.5% from 39.0% last year primarily due to the August 1993 increase in the federal corporate tax rate.

FINANCIAL CONDITION AT MARCH 31, 1994:

The Company's acquisition of funeral homes and cemeteries and capital expenditures, including major improvements to existing properties, continue to require significant amounts of cash. Funds generated from earnings of existing funeral and cemetery operations, together with unused lines of credit or other available borrowings, are expected to be sufficient for the Company to continue its current acquisition and operating policies. At March 31, 1994, the Company had available approximately \$221,000,000 of borrowing ability under its various credit lines.

In addition to the sources of cash from operations and credit lines, the Company has 12,340,000 shares of common stock, \$87,165,000 of guarantees of promissory notes and \$81,603,000 of convertible debentures registered with the Securities and Exchange Commission (the Commission) to be used exclusively for future acquisitions.

No unusual fluctuations in current assets and liabilities occurred during the period as the current ratio improved slightly to 2.3:1. In addition, the Company's debt to capitalization ratio remained at 54.6%.

HEDGING TRANSACTIONS (SEE NOTE 5):

The Company has entered into hedging transactions to reduce its exposure to adverse fluctuations in interest and foreign exchange rates. While the hedging transactions are subject to risk of loss from change in interest rates and exchange rates, these losses would generally be offset by gains on the exposures being hedged. The Company has realized \$3,600,000 USD gains on contracts entered into as hedge transactions since the beginning of 1993. These realized gains were deferred and are being recognized into income over periods ranging from eight months to five years.

At March 31, 1994, the Company has outstanding foreign currency and interest rate swaps in the notional amounts of \$142,715,000 AUD and \$150,000,000 USD. As of March 31, 1994, net unrealized losses before taxes from these hedging agreements were estimated to be \$7,100,000 USD (which is the estimated cost to terminate these hedging agreements). In the opinion of management, such losses were offset by the increased value of the exposures being hedged.

OTHER MATTERS:

See Item 1. Legal Proceedings in Part II of this report for information regarding an informal investigation by the Commission.

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SERVICE CORPORATION INTERNATIONAL

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The staff of the Securities and Exchange Commission (the "Commission") is conducting an informal private investigation relating to the change in the Company's principal independent

accountants and the Company's Current Report on Form 8-K dated March 31, 1993, as amended, filed with the Commission reporting such change, as well as the Company's current accounting and reporting of pre-need sales. The Commission staff has advised the Company that the investigation should not be construed as an indication by the Commission or its staff that any violations of law have occurred, or as a reflection upon any person, entity or security. The investigation is continuing.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibits

- 11.1 Computation of earnings per share.
- 12.1 Ratio of earnings to fixed charges.

(b) Reports on Form 8-K

There were no reports on Form 8-K during the three months ended March 31, 1994.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 16, 1994

SERVICE CORPORATION INTERNATIONAL

By:/s/ Samuel W. Rizzo

Samuel W. Rizzo
Executive Vice President
Chief Financial Officer/Treasurer
(Principal Financial Officer)

SERVICE CORPORATION INTERNATIONAL
COMPUTATION OF EARNINGS PER SHARE
(Thousands, except per share amounts)

| | THREE MONTHS ENDED MARCH 31, | |
|---|------------------------------|-----------|
| | 1994 | 1993 |
| ----- | | |
| PRIMARY: | | |
| Income before cumulative effect of change in accounting principles..... | \$ 37,445 | \$ 29,248 |
| Cumulative effect of change in accounting principles (net of tax)..... | - | (2,031) |
| | ===== | ===== |
| | \$ 37,445 | \$ 27,217 |
| Average number of common shares outstanding..... | | |
| Common stock equivalents applicable to options outstanding resulting from application of the "treasury stock method" using average stock price..... | 85,359 | 79,619 |
| | ----- | ----- |
| | 426 | 311 |
| Average common and common equivalent shares used in earnings per share | | |
| | 85,785 | 79,930 |
| | ===== | ===== |
| Primary Earnings Per Common Share: | | |
| Income before cumulative effect of change in accounting principles..... | \$.44 | \$.37 |
| Cumulative effect of change in accounting principles (net of tax)..... | - | (.03) |
| | ----- | ----- |
| Net income..... | \$.44 | \$.34 |
| | ===== | ===== |
| FULLY DILUTED: | | |
| Income before cumulative effect of change in accounting principles..... | \$ 37,445 | \$ 29,248 |
| Add after tax interest expense applicable to convertible debentures..... | 2,001 | 2,565 |
| | ----- | ----- |
| Income as adjusted..... | 39,446 | 31,813 |
| | ===== | ===== |
| Cumulative effect of change in accounting principles (net of tax)..... | - | (2,031) |
| | ----- | ----- |
| | \$ 39,446 | \$ 29,782 |
| | ===== | ===== |
| Average number of common shares outstanding..... | | |
| Common stock | 85,359 | 79,619 |
| | ----- | ----- |
| equivalents applicable to options outstanding resulting from application of the "treasury stock method" using end of period stock price (if greater than average stock price for period)..... | 426 | 363 |
| Assuming conversion of convertible debentures..... | 10,030 | 13,120 |
| | ----- | ----- |
| Average shares used in fully diluted earnings per share..... | 95,815 | 93,102 |
| | ===== | ===== |
| FULLY DILUTED EARNINGS PER COMMON SHARE: | | |
| Income before cumulative effect of change in accounting principles..... | \$.41 | \$.34 |
| Cumulative effect of change in accounting principles (net of tax)..... | - | (.02) |
| | ----- | ----- |
| Net income..... | \$.41 | \$.32 |
| | ===== | ===== |

SERVICE CORPORATION INTERNATIONAL
 RATIO OF EARNINGS TO FIXED CHARGES
 (Thousands, except ratio amounts)

Exhibit 12.1

| | THREE MONTHS 1994 | ENDED MARCH 31, 1993 |
|---|----------------------|-------------------------|
| Pretax income..... | \$ 62,932 | \$ 47,948 |
| Undistributed income of less than 50% owned equity investees..... | (30) | (75) |
| Minority interest in income of majority owned subsidiaries with fixed charges..... | 612 | 564 |
| Add fixed charges as adjusted (from below)..... | 20,471 | 18,806 |
| | <u>\$ 83,985</u> | <u>\$ 67,243</u> |
| Fixed charges: | | |
| Interest expense: | | |
| Corporate..... | \$ 15,624 | \$ 14,581 |
| Financial services..... | 2,147 | 1,760 |
| Capitalized..... | 129 | 15 |
| Amortization of debt costs..... | 71 | 73 |
| 1/3 of rental expense..... | 2,629 | 2,392 |
| Fixed charges..... | 20,600 | 18,821 |
| Less: Capitalized interest..... | (129) | (15) |
| Fixed charges as adjusted..... | <u>\$ 20,471</u> | <u>\$ 18,806</u> |
| Ratio (earnings divided by fixed charges)..... | <u>4.08</u> | <u>3.57</u> |