STEWART ENTERPRISES INC
Form 10-Q
September 09, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended July 31, 2008

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: 1-15449

STEWART ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

LOUISIANA (State or other jurisdiction of incorporation or organization)	**72-0693290** (I.R.S. Employer Identification No.)
1333 South Clearview Parkway **Jefferson, Louisiana** (Address of principal executive offices)	**70121** (Zip Code)

Registrant s telephone number, including area code: (504) 729-1400

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, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares of the registrant s Class A common stock, no par value per share, and Class B common stock, no par value per share, outstanding as of August 31, 2008, was 88,691,827 and 3,555,020, respectively.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
INDEX

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended July 31,	
	2008	**2007**
Revenues:		
Funeral	$ 68,558	$ 66,914
Cemetery	61,870	60,665
	130,428	127,579
Costs and expenses:		
Funeral	53,524	52,589
Cemetery	48,906	48,481
	102,430	101,070
Gross profit	27,998	26,509
Corporate general and administrative expenses	(8,188)	(8,343)
Hurricane related charges, net	(341)	(210)
Separation charges		(48)
Gains on dispositions and impairment (losses), net	25	(46)
Other operating income, net	407	290
Operating earnings	19,901	18,152
Interest expense	(6,000)	(6,222)
Loss on early extinguishment of debt		(677)
Investment and other income, net	593	810
Earnings from continuing operations before income taxes	14,494	12,063
Income taxes	5,365	3,853
Earnings from continuing operations	9,129	8,210
Discontinued operations:		
Loss from discontinued operations before income taxes		(138)
Income tax benefit		(51)
Loss from discontinued operations		(87)
Net earnings	$ 9,129	$ 8,123
Basic earnings per common share:		

Earnings from continuing operations	$	.10	$	.08
Earnings from discontinued operations				
Net earnings	$	.10	$	.08
Diluted earnings per common share:				
Earnings from continuing operations	$	.10	$	.08
Earnings from discontinued operations				
Net earnings	$	.10	$	.08
Weighted average common shares outstanding (in thousands):				
Basic		92,203		102,479
Diluted		92,414		102,714
Dividends declared per common share	$	.025	$	.025

See accompanying notes to condensed consolidated financial statements.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(Dollars in thousands, except per share amounts)

	Nine Months Ended July 31, 2008	2007
Revenues:		
Funeral	$ 218,862	$ 212,410
Cemetery	178,658	184,043
	397,520	396,453
Costs and expenses:		
Funeral	163,260	160,415
Cemetery	143,558	145,757
	306,818	306,172
Gross profit	90,702	90,281
Corporate general and administrative expenses	(24,226)	(23,129)
Hurricane related charges, net	(351)	(2,343)
Separation charges		(580)
Gains on dispositions and impairment (losses), net	153	44
Other operating income, net	753	1,441
Operating earnings	67,031	65,714
Interest expense	(17,981)	(19,274)
Loss on early extinguishment of debt		(677)
Investment and other income, net	1,670	2,427
Earnings from continuing operations before income taxes	50,720	48,190
Income taxes	18,766	14,191
Earnings from continuing operations	31,954	33,999
Discontinued operations:		
Loss from discontinued operations before income taxes		(519)
Income tax benefit		(198)
Loss from discontinued operations		(321)
Net earnings	$ 31,954	$ 33,678
Basic earnings per common share:		
Earnings from continuing operations	$ .34	$ .32

Earnings from discontinued operations		
Net earnings	$ .34	$ .32
Diluted earnings per common share:		
Earnings from continuing operations	.34	.32
Earnings from discontinued operations		
Net earnings	.34	.32
Weighted average common shares outstanding (in thousands):		
Basic	94,504	104,215
Diluted	94,676	104,384
Dividends declared per common share	$ .075	$ .075

See accompanying notes to condensed consolidated financial statements.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except per share amounts)

ASSETS	July 31, 2008	October 31, 2007
Current assets:		
Cash and cash equivalents	$ 48,693	$ 71,545
Marketable securities	38	262
Receivables, net of allowances	78,248	60,615
Inventories	35,900	36,061
Prepaid expenses	8,927	6,355
Deferred income taxes, net	8,479	8,621
Total current assets	180,285	183,459
Receivables due beyond one year, net of allowances	69,802	83,608
Preneed funeral receivables and trust investments	439,821	515,053
Preneed cemetery receivables and trust investments	223,293	255,679
Goodwill	273,188	273,286
Cemetery property, at cost	377,137	374,800
Property and equipment, at cost:		
Land	43,767	43,767
Buildings	317,035	310,968
Equipment and other	175,919	164,246
	536,721	518,981
Less accumulated depreciation	230,580	213,063
Net property and equipment	306,141	305,918
Deferred income taxes, net	181,060	192,859
Cemetery perpetual care trust investments	207,425	236,503
Other assets	17,302	17,809
Total assets	$ 2,275,454	$ 2,438,974

(continued)

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except per share amounts)

LIABILITIES AND SHAREHOLDERS EQUITY	July 31, 2008	October 31, 2007
Current liabilities:		
Current maturities of long-term debt	$ 27	$ 198
Accounts payable	23,286	26,606
Accrued payroll and other benefits	16,376	16,316
Accrued insurance	21,939	21,252
Accrued interest	6,589	5,576
Other current liabilities	15,461	17,958
Income taxes payable	1,131	4,177
Total current liabilities	84,809	92,083
Long-term debt, less current maturities	450,097	450,115
Deferred preneed funeral revenue	250,482	256,603
Deferred preneed cemetery revenue	279,855	284,507
Non-controlling interest in funeral and cemetery trusts	581,686	683,052
Other long-term liabilities	19,749	13,869
Total liabilities	1,666,678	1,780,229
Commitments and contingencies		
Non-controlling interest in perpetual care trusts	205,636	235,427
Shareholders equity:		
Preferred stock, $1.00 par value, 5,000,000 shares authorized; no shares issued		
Common stock, $1.00 stated value:		
Class A authorized 200,000,000 shares; issued and outstanding 88,681,765 and 94,865,387 shares at July 31, 2008 and October 31, 2007, respectively	88,682	94,865
Class B authorized 5,000,000 shares; issued and outstanding 3,555,020 shares at July 31, 2008 and October 31, 2007; 10 votes per share convertible into an equal number of Class A shares	3,555	3,555
Additional paid-in capital	538,778	583,789
Accumulated deficit	(227,903)	(258,902)
Accumulated other comprehensive income:		
Unrealized appreciation of investments	28	11
Total accumulated other comprehensive income	28	11
Total shareholders equity	403,140	423,318

Total liabilities and shareholders equity	$ 2,275,454	$ 2,438,974

See accompanying notes to condensed consolidated financial statements.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)
(Dollars in thousands, except per share amounts)

	Common Stock [1]	Additional Paid-In Capital	Accumulated Deficit	Unrealized Appreciation of Investments	Total Shareholders Equity
Balance October 31, 2007	$ 98,420	$ 583,789	$ (258,902)	$ 11	$ 423,318
Comprehensive income:					
Net earnings			31,954		31,954
Other comprehensive income:					
Unrealized appreciation of investments, net of deferred tax expense of ($9)				17	17
Total other comprehensive income				17	17
Total comprehensive income			31,954	17	31,971
Cumulative effect of adoption of FIN 48			(955)		(955)
Restricted stock activity	28	332			360
Issuance of common stock	160	1,013			1,173
Stock options exercised	247	1,162			1,409
Share-based compensation		1,431			1,431
Tax benefit associated with stock options exercised		127			127
Purchase and retirement of common stock	(6,618)	(42,009)			(48,627)
Dividends ($.075 per share)		(7,067)			(7,067)
Balance July 31, 2008	$ 92,237	$ 538,778	$ (227,903)	$ 28	$ 403,140

[1] Amount includes 88,682 and 94,865 shares (in thousands) of Class A common stock with a stated value of $1 per

share as of July 31, 2008 and October 31, 2007, respectively, and includes 3,555 shares (in thousands) of Class B common stock.

See accompanying notes to condensed consolidated financial statements.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands, except per share amounts)

	Nine Months Ended July 31, 2008	2007
Cash flows from operating activities:		
Net earnings	$ 31,954	$ 33,678
Adjustments to reconcile net earnings to net cash provided by operating activities:		
(Gains) on dispositions and impairment losses, net	(153)	514
Depreciation and amortization	21,188	20,033
Provision for doubtful accounts	5,742	6,934
Share-based compensation	1,431	1,146
Loss on early extinguishment of debt		677
Excess tax benefits from share-based payment arrangements	(171)	(108)
Provision for deferred income taxes	5,844	5,062
Other	973	1,160
Changes in assets and liabilities:		
(Increase) decrease in receivables	(3,902)	1,652
Increase in prepaid expenses	(2,574)	(3,193)
Increase in inventories and cemetery property	(2,072)	(2,261)
Decrease in accounts payable and accrued expenses	(477)	(6,545)
Net effect of preneed funeral production and maturities:		
(Increase) decrease in preneed funeral receivables and trust investments	7,711	(665)
Decrease in deferred preneed funeral revenue	(5,767)	(5,260)
Increase (decrease) in funeral non-controlling interest	(5,395)	3,247
Net effect of preneed cemetery production and deliveries:		
Increase in preneed cemetery receivables and trust investments	(52)	(2,710)
Decrease in deferred preneed cemetery revenue	(4,652)	(7,884)
Increase in cemetery non-controlling interest	3,712	9,238
Increase (decrease) in other	(1,087)	84
Net cash provided by operating activities	52,253	54,799
Cash flows from investing activities:		
Proceeds from sales of marketable securities	20,219	
Purchases of marketable securities	(19,955)	(148)
Proceeds from sale of assets, net	358	1,645
Purchase of subsidiaries and other investments, net of cash acquired	(1,378)	(6,134)
Insurance proceeds related to hurricane damaged properties		1,400
Additions to property and equipment	(20,370)	(23,120)
Other	75	56
Net cash used in investing activities	(21,051)	(26,301)

Cash flows from financing activities:		
Proceeds from long-term debt		250,000
Repayments of long-term debt	(190)	(176,461)
Debt issue costs		(5,572)
Proceeds from sale of common stock warrants		43,850
Issuance of common stock	1,659	2,521
Purchase of call options		(60,000)
Purchase and retirement of common stock	(48,627)	(64,201)
Dividends	(7,067)	(7,724)
Excess tax benefits from share-based payment arrangements	171	108
Net cash used in financing activities	(54,054)	(17,479)
Net increase (decrease) in cash	(22,852)	11,019
Cash and cash equivalents, beginning of period	71,545	43,870
Cash and cash equivalents, end of period	$ 48,693	$ 54,889
Supplemental cash flow information:		
Cash paid during the period for:		
Income taxes, net	$ 11,767	$ 9,044
Interest	$ 15,799	$ 18,096
Non-cash investing and financing activities:		
Issuance of common stock to executive officers and directors	$ 923	$ 1,028
Issuance of restricted stock, net of forfeitures	$ 260	$ 4,186

See accompanying notes to condensed consolidated financial statements.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(1) Basis of Presentation

(a) *The Company*

Stewart Enterprises, Inc. (the Company) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, the Company offers a complete line of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a preneed basis. As of July 31, 2008, the Company owned and operated 221 funeral homes and 139 cemeteries in 24 states within the United States and Puerto Rico. The Company has five operating and reportable segments consisting of a corporate trust management segment and a funeral and cemetery segment for each of two geographic areas: Eastern and Western.

(b) *Principles of Consolidation*

The accompanying condensed consolidated financial statements include the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

(c) *Interim Disclosures*

The information as of July 31, 2008, and for the three and nine months ended July 31, 2008 and 2007, is unaudited but, in the opinion of management, reflects all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position and results of operations for the interim periods. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2007 (the 2007 Form 10-K).

The October 31, 2007 condensed consolidated balance sheet data was derived from audited financial statements in the Company s 2007 Form 10-K, but does not include all disclosures required by accounting principles generally accepted in the United States of America, which are presented in the Company s 2007 Form 10-K.

The results of operations for the three and nine months ended July 31, 2008 are not necessarily indicative of the results to be expected for the fiscal year ending October 31, 2008.

(d) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company s significant estimates are disclosed in Note 2 in the Company s 2007 Form 10-K.

(e) *Share-Based Compensation*

The Company has share-based compensation plans, which are described in more detail in Note 18 to the consolidated financial statements in the Company s 2007 Form 10-K. Net earnings for the three months ended July 31, 2008 and 2007 include $481 and $455, respectively, of share-based compensation costs. Net earnings for the nine months ended July 31, 2008 and 2007 include $1,431 and $1,146, respectively, of share-based compensation costs all of which are included in corporate general and administrative expenses in the condensed consolidated statements of earnings. As of July 31, 2008, there was $3,017 of total unrecognized compensation costs related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.53 years of which $1,819 of total share-based compensation is expected for fiscal year 2008. The expense related to restricted stock is reflected in earnings and amounted to $187 and $354 for the three months ended July 31, 2008

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(1) Basis of Presentation (Continued)

and 2007, respectively, and $557 and $501 for the nine months ended July 31, 2008 and 2007, respectively.

On January 17, 2008, the Company issued a total of 72,000 shares of Class A common stock to the independent directors of the Company. The expense related to this stock amounted to $531 and was recorded in corporate general and administrative expenses during the first quarter of 2008. Each independent director must hold at least 75 percent of the shares received until completion of service as a member of the Board of Directors.

The table below presents all stock options and restricted stock granted to employees during the nine months ended July 31, 2008:

Grant Type	Number of Shares Granted	Weighted Average Exercise Price per Share	Vesting Period	Vesting Condition
Stock Options	403,750	$ 8.12	Primarily equal one-fourth portions over 4 years	Service condition
Stock Options	157,500	$ 8.34	Primarily equal one-third portions over 3 years	Market condition
Restricted Stock	55,000	$ 8.31	Primarily equal one-third portions over 3 years	Performance condition

The fair value of the Company s service based stock options is the estimated present value at grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the service based stock options granted during the nine months ended July 31, 2008: expected dividend yield of 1.2 percent; expected volatility of 37.5 percent; risk-free interest rate of 3.6 percent; and an expected term of 6.9 years. The Company also issued stock options in the first and third quarters of fiscal year 2008 with market conditions based on reaching certain target stock prices in fiscal years 2008, 2009 and 2010. The Company records this expense over the requisite service period. The fair value of the Company s market based stock options is the estimated present value at the grant date using the Monte Carlo lattice model approach with the following weighted average assumptions for the market based stock options granted during the nine months ended July 31, 2008: expected dividend yield of 1.2 percent; expected volatility of 31.0 percent; risk-free interest rate of 3.4 percent; and an expected term of 2.8 years.

(f) *Reclassifications*

Certain reclassifications have been made to the 2007 condensed consolidated statements of earnings and cash flows in order for these periods to be comparable. Businesses sold in fiscal year 2007 that met the criteria for discontinued operations have been classified as discontinued operations for all periods presented. These reclassifications had no effect on net earnings or operating cash flows.

(2) New Accounting Principles

Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48)

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

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(2) New Accounting Principles (Continued)

and transition. This interpretation was adopted by the Company on November 1, 2007. The Company has reviewed its income tax positions and identified certain tax deductions or revenue deferrals that are not certain. As a result of the adoption, the Company recognized a charge of $955 to the November 1, 2007 accumulated deficit balance. As of the adoption date, the Company had gross tax affected unrecognized tax benefits of $3,615 of which $551, if recognized, would affect the effective tax rate. Also, as of the adoption date, we had accrued interest and penalties related to the unrecognized tax benefits of $733. The Company s policy with respect to potential penalties and interest is to record them as other expense and interest expense, respectively.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2002. During the nine months ended July 31, 2008, we recognized an additional $178 in potential interest associated with uncertain tax positions. To the extent tax, interest and penalties are not assessed with respect to uncertain tax positions in the future, amounts accrued will be reduced and reflected as a reduction of tax expense, interest expense or other expense.

Other, not yet adopted

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. This statement is effective for financial assets and liabilities as well as for any assets and liabilities that are carried at fair value on a recurring basis in financial statements as of the beginning of an entity s first fiscal year that begins after November 15, 2007, which corresponds to the Company s fiscal year beginning November 1, 2008. In February 2008, the FASB issued a one-year deferral for non-financial assets and liabilities to comply with SFAS No. 157. The Company is currently evaluating the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159). This statement permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007, which corresponds to the Company s fiscal year beginning November 1, 2008. The Company is currently evaluating the impact the adoption of SFAS No. 159 will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)) (SFAS No. 141R). SFAS No. 141R states that all business combinations, whether full, partial, or step acquisitions, will result in all assets and liabilities of an acquired business being recorded at their fair values at the acquisition date. In subsequent periods, contingent liabilities will be measured at the higher of their acquisition date fair value or the estimated amounts to be realized. SFAS No. 141R applies to all transactions or other events in which an entity obtains control of one or more businesses. This statement is effective as of the beginning of an entity s first fiscal year beginning after December 15, 2008, which corresponds to the Company s fiscal year beginning November 1, 2009. This statement will apply to any future business combinations as of that date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statement amendments of ARB No. 51 (SFAS No. 160). SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of shareholders equity. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity s

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(2) New Accounting Principles (Continued)

first fiscal year beginning after December 15, 2008, which corresponds to the Company s fiscal year beginning November 1, 2009. The Company is currently evaluating the impact the adoption of SFAS No. 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (1) the ways in which an entity uses derivatives, (2) the accounting for derivatives and hedging activities, and (3) the impact that derivatives have (or could have) on an entity s financial position, financial performance and cash flows. This statement is effective for financial statements of fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 161 will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). This statement identifies sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with GAAP in the United States. SFAS No. 162 moves the hierarchy of GAAP sources for non-governmental entities from the auditing literature to the accounting literature. This statement will become effective 60 days following approval by the Securities and Exchange Commission (SEC) of amendments made by the Public Company Accounting Oversight Board to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Any effect of applying SFAS No. 162 should be reported as a change in accounting principle. The Company does not expect this statement to have any impact on its consolidated financial statements.

In May 2008, FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP No. APB 14-1) was issued. FSP No. APB 14-1 states that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of Accounting Principles Board Opinion No. 14 and that issuers of such instruments should account separately for the liability and equity components of the instruments in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This opinion is effective as of the beginning of an entity s first fiscal year beginning after December 15, 2008, which corresponds to the Company s fiscal year beginning November 1, 2009, and must be applied retrospectively to all periods presented. The Company is currently evaluating the impact the adoption of FSP No. APB 14-1 will have on its consolidated financial statements, but expects to record higher interest expense related to its senior convertible notes beginning in fiscal year 2010.

(3) Preneed Funeral Activities

The Company maintains three types of trust and escrow accounts: (1) preneed funeral merchandise and services, (2) preneed cemetery merchandise and services and (3) cemetery perpetual care, the activity of which is detailed below and in Notes 4 and 5. The Company marks its trust portfolio to market value each quarter. Changes in the market value of the trusts are recorded by increasing or decreasing trust assets included in the preneed funeral and cemetery receivables and trust investments line items in the condensed consolidated balance sheet, with a corresponding increase or decrease in the deferred preneed revenue and non-controlling interest line items in the condensed consolidated balance sheet. Therefore, there is no effect on current period net income.

The Company determines whether or not the investment portfolio has an other than temporary impairment on a security-by-security basis. A loss is considered other than temporary if the security has a reduction in market value compared with its cost basis of 20 percent or more for a period of six months or longer. In addition, the Company periodically reviews its investment portfolio to determine if any of the temporarily impaired assets should

12

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(3) Preneed Funeral Activities (Continued)

be designated as other than temporarily impaired due to changes in market conditions or concerns specific to the issuer of the securities. If a loss is other than temporary, the cost basis of the security is adjusted downward to its market value, which is allocated to the non-controlling interests in the trusts. This affects the Company s footnote disclosure but does not have an effect on its financial statements, since the trust portfolio is already marked to market value each quarter. Realized earnings on the trust assets flow into and out of the statement of earnings through investment and other income, net with no net effect on revenue or net earnings.

Preneed Funeral Receivables and Trust Investments

Preneed funeral receivables and trust investments represent trust assets and customer receivables related to unperformed, price-guaranteed trust-funded preneed funeral contracts. An allowance for cancellations is estimated based on historical experience. The components of preneed funeral receivables and trust investments in the condensed consolidated balance sheets at July 31, 2008 and October 31, 2007 are as follows:

	July 31, 2008	October 31, 2007
Trust assets	$ 404,603	$ 477,335
Receivables from customers	45,975	48,488
	450,578	525,823
Allowance for cancellations	(10,757)	(10,770)
Preneed funeral receivables and trust investments	$ 439,821	$ 515,053

The cost and market values associated with preneed funeral merchandise and services trust assets as of July 31, 2008 are detailed below. The adjusted cost basis of the funeral merchandise and services trust assets below reflects an other than temporary decline in the trust assets of approximately $95,560 as of July 31, 2008 from their original cost basis. The Company believes the unrealized losses reflected below of $44,134 related to trust investments are temporary in nature.

	July 31, 2008			
	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Market
Cash, money market and other short-term investments	$ 32,672	$	$	$ 32,672
U.S. Government, agencies and municipalities	12,584	268	(1)	12,851
Corporate bonds	57,636	454	(4,470)	53,620
Preferred stocks	72,954	100	(13,017)	60,037
Common stocks	198,901	17,391	(23,995)	192,297
Mutual funds	34,464	336	(2,651)	32,149
Insurance contracts and other long-term investments	19,629	104		19,733

Trust investments	$ 428,840	$ 18,653	$ (44,134)	403,359	
Market value as a percentage of cost					94.1%
Accrued investment income				1,244	
Trust assets				$ 404,603	

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(3) Preneed Funeral Activities (Continued)

The estimated maturities and market values of debt securities included above are as follows:

	July 31, 2008
Due in one year or less	$ 5,146
Due in one to five years	32,810
Due in five to ten years	28,459
Thereafter	56
	$ 66,471

Activity related to preneed funeral trust investments is as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
Purchases	$ 10,153	$14,337	$ 19,009	$96,423
Sales	7,743	15,128	20,517	92,546
Realized gains on sales	1,087	1,020	2,825	6,782
Realized losses on sales	(309)	(57)	(620)	(977)
Impairment losses on other than temporarily impaired trust assets	(10,614)		(21,876)	(371)
Deposits	8,129	8,250	24,111	24,364
Withdrawals	11,362	11,137	35,499	33,943

Cash flows from preneed funeral contracts are presented as operating cash flows in the Company s condensed consolidated statements of cash flows.

(4) Preneed Cemetery Merchandise and Service Activities

Preneed Cemetery Receivables and Trust Investments

Preneed cemetery receivables and trust investments represent trust assets and customer receivables for contracts sold in advance of when the merchandise or services are needed. An allowance for cancellations is estimated based on historical experience. The receivables related to the sale of preneed property interment rights are included in the Company s current and long-term receivables. The components of preneed cemetery receivables and trust investments in the condensed consolidated balance sheets as of July 31, 2008 and October 31, 2007 are as follows:

	July 31, 2008	October 31, 2007
Trust assets	$ 186,846	$ 215,541
Receivables from customers	41,333	46,906
	228,179	262,447
Allowance for cancellations	(4,886)	(6,768)
Preneed cemetery receivables and trust investments	$ 223,293	$ 255,679

The cost and market values associated with the preneed cemetery merchandise and services trust assets as of July 31, 2008 are detailed below. The adjusted cost basis of the cemetery merchandise and services trust assets below reflects an other than temporary decline in the trust assets of approximately $49,728 as of July 31, 2008 from their original cost basis. The Company believes the unrealized losses reflected below of $23,570 related to trust investments are temporary in nature.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(4) Preneed Cemetery Merchandise and Service Activities (Continued)

	July 31, 2008				
	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Market	
Cash, money market and other short-term investments	$ 15,496	$	$	$ 15,496	
U.S. Government, agencies and municipalities	13,908	550	(3)	14,455	
Corporate bonds	12,187	158	(868)	11,477	
Preferred stocks	26,054	20	(4,878)	21,196	
Common stocks	103,321	7,806	(12,968)	98,159	
Mutual funds	30,002	117	(4,853)	25,266	
Insurance contracts and other long-term investments	298			298	
Trust investments	$ 201,266	$ 8,651	$ (23,570)	186,347	
Market value as a percentage of cost					92.6%
Accrued investment income				499	
Trust assets				$ 186,846	

The estimated maturities and market values of debt securities included above are as follows:

	July 31, 2008
Due in one year or less	$ 3,700
Due in one to five years	14,334
Due in five to ten years	7,692
Thereafter	206
	$ 25,932

Activity related to preneed cemetery merchandise and services trust investments is as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
Purchases	$ 7,302	$ 38,419	$ 13,933	$ 182,756
Sales	3,356	36,162	10,014	174,969
Realized gains on sales	577	2,634	1,650	9,372
Realized losses on sales	(89)	(20)	(285)	(193)

Impairment losses on other than temporarily impaired trust assets	(3,259)	(4)	(9,178)	(549)
Deposits	4,815	4,622	13,432	13,551
Withdrawals	4,327	4,926	14,897	14,329

Cash flows from preneed cemetery merchandise and services contracts are presented as operating cash flows in the Company s condensed consolidated statements of cash flows.

(5) Cemetery Interment Rights and Perpetual Care Trusts

Earnings realized from cemetery perpetual care trust investments that the Company is legally permitted to withdraw are recognized in current cemetery revenues and are used to defray cemetery maintenance costs which are expensed as incurred. Recognized earnings related to these cemetery perpetual care trust investments were $2,635

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(5) Cemetery Interment Rights and Perpetual Care Trusts (Continued)

and $2,498 for the three months ended July 31, 2008 and 2007, respectively, and $8,040 and $7,323 for the nine months ended July 31, 2008 and 2007, respectively.

The cost and market values of the trust investments held by the cemetery perpetual care trusts as of July 31, 2008 are detailed below. The adjusted cost basis of the cemetery perpetual care trusts below reflects an other than temporary decline in the trust assets of $40,118 as of July 31, 2008 from their original cost basis. The Company believes the unrealized losses reflected below of $26,610 related to trust investments are temporary in nature.

	July 31, 2008				
	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Market	
Cash, money market and other short-term investments	$ 12,174	$	$	$ 12,174	
U.S. Government, agencies and municipalities	8,934	300	(61)	9,173	
Corporate bonds	45,078	830	(2,076)	43,832	
Preferred stocks	68,749	13	(14,451)	54,311	
Common stocks	77,315	9,258	(9,413)	77,160	
Mutual funds	9,581	162	(609)	9,134	
Insurance contracts and other long-term investments	708	80		788	
Trust investments	$ 222,539	$ 10,643	$ (26,610)	206,572	
Market value as a percentage of cost					92.8%
Accrued investment income				853	
Trust assets				$ 207,425	

The estimated maturities and market values of debt securities included above are as follows:

	July 31, 2008
Due in one year or less	$ 535
Due in one to five years	31,483
Due in five to ten years	20,383
Thereafter	604
	$ 53,005

Activity related to preneed cemetery perpetual care trust investments is as follows:

Nine Months Ended July 31,

	Three Months Ended July 31,			
	2008	2007	2008	2007
Purchases	$16,376	$23,564	$46,640	$56,330
Sales	17,841	14,331	42,899	47,104
Realized gains on sales	1,287	1,749	4,334	4,136
Realized losses on sales		(35)	(7)	(325)
Impairment losses on other than temporarily impaired trust assets	(5,032)		(8,577)	(770)
Deposits	2,186	2,153	6,147	6,066
Withdrawals	2,350	2,357	7,351	7,778

During the three months ended July 31, 2008 and 2007, cemetery revenues were $61,870 and $60,665, respectively, of which $2,210 and $2,677, respectively, were required to be placed into perpetual care trusts and

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(5) Cemetery Interment Rights and Perpetual Care Trusts (Continued)

were recorded as revenues and expenses. During the nine months ended July 31, 2008 and 2007, cemetery revenues were $178,658 and $184,043, respectively, of which $6,800 and $7,628, respectively, were required to be placed into perpetual care trusts and were recorded as revenues and expenses.

Cash flows from cemetery perpetual care contracts are presented as operating cash flows in the Company s condensed consolidated statements of cash flows.

(6) Non-Controlling Interest in Funeral and Cemetery Trusts and in Perpetual Care Trusts

The components of non-controlling interest in funeral and cemetery trusts and non-controlling interest in perpetual care trusts at July 31, 2008 are as follows:

	Non-controlling Interest			Non-controlling Interest in Perpetual Care Trusts
	Preneed Funeral	Preneed Cemetery	Total	
Trust assets at market value	$ 404,603	$ 186,846	$ 591,449	$ 207,425
Less:				
Pending withdrawals	(9,090)	(4,214)	(13,304)	(2,570)
Pending deposits	2,238	1,303	3,541	781
Non-controlling interest	$ 397,751	$ 183,935	$ 581,686	$ 205,636

Investment and other income, net

The components of investment and other income, net in the condensed consolidated statements of earnings for the three and nine months ended July 31, 2008 and 2007 are detailed below.

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
Non-controlling interest:				
Realized gains	$ 2,951	$ 5,403	$ 8,809	$ 20,290
Realized losses	(398)	(112)	(912)	(1,495)
Impairment losses on other than temporarily impaired trust assets	(18,905)	(4)	(39,631)	(1,690)
Interest income, dividend and other ordinary income	7,876	7,644	23,257	20,878
Trust expenses and income taxes	(2,639)	(3,135)	(8,380)	(8,571)
Net trust investment income	(11,115)	9,796	(16,857)	29,412
Non-controlling interest in funeral and cemetery trust investment income	9,182	(6,690)	18,140	(21,755)
Non-controlling interest in perpetual care trust investment income	1,933	(3,106)	(1,283)	(7,657)
Total non-controlling interest				

Investment and other income, net [1]	593	810	1,670	2,427
Total investment and other income, net	$ 593	$ 810	$ 1,670	$ 2,427

(1) Investment and other income, net consists of interest income primarily on the Company s cash, cash equivalents and marketable securities not held in trust.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(7) Commitments and Contingencies

Litigation

Henrietta Torres and Teresa Fiore, on behalf of themselves and all others similarly situated and the General Public v. Stewart Enterprises, Inc., et al.; No. BC328961, on the docket of the Superior Court for the State of California for the County of Los Angeles, Central District. This purported class action was filed on February 17, 2005 on behalf of a nationwide class defined to include all persons who purchased funeral goods and/or services in the United States from defendants at any time on or after February 17, 2001. The suit named the Company and several of its Southern California affiliates as defendants and also sought to assert claims against a class of all entities located anywhere in the United States whose ultimate parent corporation has been the Company at any time on or after February 17, 2001.

In May 2005, the court ruled that this case was related to similar actions against Service Corporation International (SCI) and Alderwoods Group, Inc., and designated the SCI case as the lead case. The case against the Company effectively has been held in abeyance while the court tests plaintiff s legal theories in the lead case. Rulings on legal issues in the lead case will apply equally in the case against the Company, and the court has allowed the Company to participate in hearings and briefings in the lead case.

As a result of demurrers, the plaintiff in the lead case amended her case twice. On January 31, 2006, however, the court overruled SCI s demurrer to the third amended complaint and established a schedule leading to a hearing on a motion for summary judgment to test the viability of the named plaintiff s claim against SCI. The third amended complaint in the lead case alleges that the SCI defendants violated the Funeral Rule promulgated by the Federal Trade Commission by failing to disclose that the prices charged to the plaintiffs for certain goods and services the SCI defendants obtained from third parties specifically on the plaintiff s behalf exceeded what the defendants paid for them. The plaintiff alleges that by failing to comply with the Funeral Rule, defendants (i) breached contracts with the plaintiffs, (ii) were unjustly enriched, and (iii) engaged in unfair, unlawful and fraudulent business practices in violation of a provision of California s Business and Professions Code. The plaintiff seeks restitution damages, disgorgement, interest, costs and attorneys fees.

In September and October 2006, the court granted the motion for summary judgment filed by the SCI affiliate with whom the plaintiff had contracted and entered a judgment of dismissal in favor of that SCI affiliate. On December 8, 2006, the plaintiff noticed an appeal of this judgment.

Because the matter is being appealed, the likelihood of liability and the extent of any damages cannot be reasonably assessed at this time. The Company intends to aggressively defend itself in this matter. The Company has not recorded a liability related to this litigation given that it does not believe that a loss is probable and estimatable.

Funeral Consumers Alliance, Inc., et al. v. Service Corporation International, Alderwoods Group, Inc., Stewart Enterprises, Inc., Hillenbrand Industries, Inc., and Batesville Casket Co., number H-05-3394 on the docket of the United States District Court for the Southern District of Texas. This purported class action was originally filed on May 2, 2005, in the United States District Court for the Northern District of California, on behalf of a nationwide class defined to include all consumers who purchased a Batesville casket from the funeral home defendants at any time. The court consolidated it with five subsequently filed, substantially similar cases (the Consolidated Consumer Cases).

The Consolidated Consumer Cases allege that the defendants acted jointly to reduce competition from independent casket discounters and fix and maintain prices on caskets in violation of the federal antitrust laws and California s Business and Professions Code. The plaintiffs seek treble damages, restitution, injunctive relief, interest, costs and attorneys fees.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(7) Commitments and Contingencies (Continued)

At the defendants request, in late September 2005, the court transferred the Consolidated Consumer Cases to the United States District Court for the Southern District of Texas. The transferred Consolidated Consumer Cases have been consolidated before a single judge in the Southern District of Texas.

On November 10, 2006, after the court denied Defendants motions to dismiss, the Company answered the first amended consolidated class action complaint, denying liability and asserting various affirmative defenses. The court conducted a hearing on plaintiffs motion for class certification on December 4-7, 2006 and has taken the motion under advisement. Fact discovery has been completed, and expert discovery is ongoing.

In April 2007, the plaintiffs filed an expert report indicating that the damages sought from all defendants would be in the range of approximately $950 million to approximately $1.5 billion, before trebling. A successful plaintiff in an anti-trust case may elect to enforce any judgment against any or all of the co-defendants, who have no right of contribution against one another. Accordingly, any adverse judgment could have a material adverse effect on the Company s financial condition and results of operations. The Company believes it has meritorious defenses to the substantive allegations asserted, to class certification, and to the plaintiffs damage theories and calculations, and the Company intends to aggressively defend itself in these proceedings. The Company has not recorded a liability related to this litigation given that it does not believe that a loss is probable and estimatable.

Pioneer Valley Casket Co., Inc., et al. v. Service Corporation International, Alderwoods Group, Inc., Stewart Enterprises, Inc., Hillenbrand Industries, Inc., and Batesville Casket Co., number H-05-3399 (Pioneer Valley Case). This purported class action was filed on July 8, 2005, in the Northern District of California on behalf of a nationwide class of independent casket retailers. The casket retailers make allegations similar to those made in the Consolidated Consumer Cases reported above and seek treble damages, injunctive relief, interest, costs and attorneys fees.

Like the Consolidated Consumer Cases, in late September 2005, this matter was transferred to the United States District Court for the Southern District of Texas. The Pioneer Valley Case has been consolidated with the Consolidated Consumer Cases for purposes of discovery only.

On November 14, 2006, after the court denied Defendants motions to dismiss, the Company answered the first amended complaint, denying liability and asserting various defenses. The court conducted a hearing on plaintiffs motion for class certification on December 8, 2006 and has taken the motion under advisement. Fact discovery has been completed, and expert discovery is ongoing.

In April 2007, the plaintiffs filed an expert report indicating that the damages sought from all defendants would be approximately $99.0 million, before trebling. A successful plaintiff in an anti-trust case may elect to enforce any judgment against any or all of the co-defendants, who have no right of contribution against one another. Accordingly, any adverse judgment could have a material adverse effect on the Company s financial condition and results of operations. The Company believes it has meritorious defenses to the substantive allegations asserted, to class certification, and to the plaintiffs damage theories and calculations, and the Company intends to aggressively defend itself in these proceedings. The Company has not recorded a liability related to this litigation given that it does not believe that a loss is probable and estimatable.

In Re: State Attorney General Civil Investigative Demands - On August 4, 2005, the Attorney General for the State of Maryland issued a civil investigative demand to the Company seeking documents and information relating to funeral and cemetery goods and services. Subsequently, the Attorneys General for the States of Florida and Connecticut issued a similar civil investigative demand to the Company. The Company has entered into arrangements allowing the Maryland and Florida Attorneys General to share in information provided by the Company with the attorneys general of certain other states. The Company has provided documents and information to the attorneys general, and they have not sought any additional documents or information since 2006. The

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(7) Commitments and Contingencies (Continued)

Company will continue to cooperate with the attorneys general in their investigation if it is called upon to do so.

Other Litigation

The Company is a defendant in a variety of other litigation matters that have arisen in the ordinary course of business, which are covered by insurance or otherwise not considered to be material. The Company carries insurance with coverages and coverage limits that it believes to be adequate.

Securities and Exchange Commission Investigation

In November 2006, the Company received a subpoena from the SEC, issued pursuant to a formal order of investigation, seeking documents and information related to the Company s previously disclosed and completed deferred revenue project. In response to both the initial and subsequent related subpoenas, the Company has provided to the SEC documents and other information. The Company is cooperating fully with the investigation and is in discussions with the SEC in an effort to resolve the matters raised by the inquiry. At this time, the Company is unable to predict the timing or ultimate outcome of these discussions.

Employee Retention Plan

The Board of Directors adopted a retention plan on June 18, 2008 and amended it on August 1, 2008. The retention plan, as amended, is designed to encourage the continued employment of key management personnel, including the executive officers, in the event of an impending change of control of the Company and to alleviate concerns about the possible loss of employment upon a change of control. The total cost, if all participants were to be terminated is approximately $16,500.

Other

From time to time, unrecorded contracts are presented to the Company relating to contracts sold prior to the Company acquiring certain businesses. In addition, from time to time, the Company has identified in its backlog, related to such businesses, certain contracts in which services or merchandise have already been performed. Using historical trends, and statistical analysis, the Company has recorded an estimated liability for these items of approximately $7 million.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(8) Reconciliation of Basic and Diluted Per Share Data

	Earnings (Numerator)	Shares (Denominator)	Per Share Data
Three Months Ended July 31, 2008			
Earnings from continuing operations	$ 9,129		
Basic earnings per common share:			
Earnings from continuing operations available to common shareholders	$ 9,129	92,203	$ .10
Effect of dilutive securities:			
Time-vest stock options assumed exercised and restricted stock		211	
Diluted earnings per common share:			
Earnings from continuing operations available to common shareholders plus time-vest stock options assumed exercised and restricted stock	$ 9,129	92,414	$ .10

	Earnings (Numerator)	Shares (Denominator)	Per Share Data
Three Months Ended July 31, 2007			
Earnings from continuing operations	$ 8,210		
Basic earnings per common share:			
Earnings from continuing operations available to common shareholders	$ 8,210	102,479	$ .08
Effect of dilutive securities:			
Time-vest stock options assumed exercised and restricted stock		235	
Diluted earnings per common share:			
Earnings from continuing operations available to common shareholders plus time-vest stock options assumed exercised and restricted stock	$ 8,210	102,714	$ .08

	Earnings (Numerator)	Shares (Denominator)	Per Share Data
Nine Months Ended July 31, 2008			
Earnings from continuing operations	$ 31,954		
Basic earnings per common share:			

Earnings from continuing operations available to common shareholders	$	31,954	94,504	$	.34
Effect of dilutive securities:					
Time-vest stock options assumed exercised and restricted stock			172		
Diluted earnings per common share:					
Earnings from continuing operations available to common shareholders plus time-vest stock options assumed exercised and restricted stock	$	31,954	94,676	$	.34

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(8) Reconciliation of Basic and Diluted Per Share Data (Continued)

	Earnings (Numerator)	Shares (Denominator)	Per Share Data
Nine Months Ended July 31, 2007			
Earnings from continuing operations	$ 33,999		
Basic earnings per common share:			
Earnings from continuing operations available to common shareholders	$ 33,999	104,215	$ .32
Effect of dilutive securities:			
Time-vest stock options assumed exercised and restricted stock		169	
Diluted earnings per common share:			
Earnings from continuing operations available to common shareholders plus time-vest stock options assumed exercised and restricted stock	$ 33,999	104,384	$ .32

Options to purchase 829,759 and 773,719 shares of common stock at prices ranging from $5.84 to $8.24 per share were antidilutive during the three and nine months ended July 31, 2008, respectively. These options expire between May 15, 2013 and June 17, 2015.

There were no antidilutive options for the three months ended July 31, 2007. Options to purchase 2,753 shares of common stock at a price of $7.31 per share were outstanding during the nine months ended July 31, 2007, but were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the common shares.

For the three and nine months ended July 31, 2008, 697,500 market based stock options and 415,000 market and performance based shares of restricted stock were not dilutive. For the three and nine months ended July 31, 2007, 540,000 market based stock options and 360,000 market and performance based shares of restricted stock were not dilutive. The market based stock options and the market and performance based restricted stock were not dilutive because the market conditions or performance conditions for the respective grants were not achieved during any of periods presented.

For the three and nine months ended July 31, 2008 and 2007, a maximum of 25,000,000 shares of the Company s Class A common stock related to the senior convertible notes and a maximum of 20,000,000 shares of Class A common stock under the common stock warrants associated with the June 2007 senior convertible debt transaction were also not dilutive, as the average price of the Company s stock for the three and nine months ended July 31, 2008 and 2007 was less than the conversion price of the senior convertible notes and strike price of the warrants.

The Company includes Class A and Class B common stock in its diluted shares calculation. As of July 31, 2008, the Company s Chairman, Frank B. Stewart, Jr., was the record holder of all of the Company s shares of Class B common stock. The Company s Class A and B common stock are substantially identical, except that holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to 10 votes per share. Each share of Class B common stock is automatically converted into one share of Class A common stock upon transfer to persons other than certain affiliates of Frank B. Stewart, Jr.

(9) Segment Data

The Company has five operating and reportable segments consisting of a corporate trust management segment and a funeral and cemetery segment for each of two geographic areas: Eastern and Western. The

**STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)**

(9) Segment Data (Continued)

Company does not aggregate its operating segments. Therefore, its operating and reportable segments are the same. The table below presents information about reported segments for the Company s continuing operations.

	Funeral Revenue		Cemetery Revenue (1)		Total Revenue	
	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007
Eastern Division	$ 28,105	$ 27,671	$ 32,839	$ 34,344	$ 60,944	$ 62,015
Western Division	35,843	34,666	26,738	23,855	62,581	58,521
Corporate Trust Management (2)	4,610	4,577	2,293	2,466	6,903	7,043
Total	$ 68,558	$ 66,914	$ 61,870	$ 60,665	$ 130,428	$ 127,579

	Funeral Revenue		Cemetery Revenue (1)		Total Revenue	
	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
Eastern Division	$ 89,987	$ 89,059	$ 98,001	$ 108,519	$ 187,988	$ 197,578
Western Division	114,760	109,446	73,665	68,382	188,425	177,828
Corporate Trust Management (2)	14,115	13,905	6,992	7,142	21,107	21,047
Total	$ 218,862	$ 212,410	$ 178,658	$ 184,043	$ 397,520	$ 396,453

	Funeral Gross Profit		Cemetery Gross Profit (1)		Total Gross Profit	
	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007
Eastern Division	$ 3,914	$ 3,059	$ 4,434	$ 4,735	$ 8,348	$ 7,794
Western Division	6,718	6,915	6,468	5,115	13,186	12,030
Corporate Trust Management (2)	4,402	4,351	2,062	2,334	6,464	6,685
Total	$ 15,034	$ 14,325	$ 12,964	$ 12,184	$ 27,998	$ 26,509

	Funeral Gross Profit		Cemetery Gross Profit [1]		Total Gross Profit	
	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
Eastern Division	$ 16,211	$ 15,378	$ 12,059	$ 17,581	$ 28,270	$ 32,959
Western Division	25,924	23,263	16,796	13,984	42,720	37,247
Corporate Trust Management [2]	13,467	13,354	6,245	6,721	19,712	20,075
Total	$ 55,602	$ 51,995	$ 35,100	$ 38,286	$ 90,702	$ 90,281

	Net Preneed Funeral Merchandise and Service Sales [3]		Net Preneed Cemetery Merchandise and Service Sales [3]		Net Total Preneed Merchandise and Service Sales [3]	
	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007
Eastern Division	$ 11,288	$ 11,219	$ 9,679	$ 9,852	$ 20,967	$ 21,071
Western Division	14,716	13,417	4,565	4,565	19,281	17,982
Total	$ 26,004	$ 24,636	$ 14,244	$ 14,417	$ 40,248	$ 39,053

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(9) Segment Data (Continued)

	Net Preneed Funeral Merchandise and Service Sales [3]		Net Preneed Cemetery Merchandise and Service Sales [3]		Net Total Preneed Merchandise and Service Sales [3]	
	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
Eastern Division	$ 31,501	$ 33,652	$ 27,867	$ 29,174	$ 59,368	$ 62,826
Western Division	41,462	42,006	12,700	12,546	54,162	54,552
Total	$ 72,963	$ 75,658	$ 40,567	$ 41,720	$ 113,530	$ 117,378

(1) Perpetual care trust earnings are included in the revenues and gross profit of the related geographic segment and amounted to $2,635 and $2,498 for the three months ended July 31, 2008 and 2007, respectively, and $8,040 and $7,323 for the nine months ended July 31, 2008 and 2007, respectively.

(2) Corporate trust management consists of trust management fees and funeral and cemetery

merchandise and service trust earnings recognized with respect to preneed contracts delivered during the period. Trust management fees are established by the Company at rates consistent with industry norms and are paid by the trusts to the Company s subsidiary, Investors Trust, Inc. The trust earnings represent earnings realized over the life of the preneed contracts delivered during the relevant periods. Trust management fees included in funeral revenue for the three months ended July 31, 2008 and 2007 were $1,264 and $1,472, respectively, and funeral trust earnings for the three months ended July 31, 2008 and 2007 were $3,346 and $3,105, respectively. Trust management fees included in cemetery revenue for the three months ended July 31, 2008 and 2007 were $1,255 and $1,345, respectively, and cemetery trust earnings for the three months ended July 31, 2008 and 2007 were $1,038 and $1,121, respectively. Trust management fees included in funeral revenue for the nine months ended July 31, 2008 and 2007 were $3,957 and $4,400, respectively, and funeral trust earnings for the nine months ended July 31, 2008 and 2007 were $10,158 and $9,505, respectively. Trust management fees included in cemetery revenue for the nine months ended July 31, 2008 and 2007 were $3,844 and $3,983, respectively, and cemetery trust earnings for the nine months ended July 31, 2008 and 2007 were $3,148 and $3,159, respectively.

(3) Preneed sales amounts represent total preneed funeral and cemetery service and merchandise sales generated in the applicable period, net of cancellations. These sales are deferred and are recorded as revenue in the period the services are performed or the merchandise is delivered.

A reconciliation of total segment gross profit to total earnings from continuing operations before income taxes for the three and nine months ended July 31, 2008 and 2007 is as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	**2007**	**2008**	**2007**
Gross profit for reportable segments	$ 27,998	$ 26,509	$ 90,702	$ 90,281
Corporate general and administrative expenses	(8,188)	(8,343)	(24,226)	(23,129)
Hurricane related charges, net	(341)	(210)	(351)	(2,343)
Separation charges		(48)		(580)
Gains on dispositions and impairment (losses), net	25	(46)	153	44
Other operating income, net	407	290	753	1,441
Interest expense	(6,000)	(6,222)	(17,981)	(19,274)
Loss on early extinguishment of debt		(677)		(677)
Investment and other income, net	593	810	1,670	2,427
Earnings from continuing operations before income taxes	$ 14,494	$ 12,063	$ 50,720	$ 48,190

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(10) Supplementary Information

The detail of certain income statement accounts is as follows for the three and nine months ended July 31, 2008 and 2007.

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
Service revenue				
Funeral	$ 42,795	$ 40,341	$ 136,202	$ 128,709
Cemetery	15,726	15,058	48,592	47,328
	58,521	55,399	184,794	176,037
Merchandise revenue				
Funeral	23,872	24,452	76,800	77,394
Cemetery	42,227	41,087	118,299	124,018
	66,099	65,539	195,099	201,412
Other revenue				
Funeral	1,891	2,121	5,860	6,307
Cemetery	3,917	4,520	11,767	12,697
	5,808	6,641	17,627	19,004
Total revenue	$ 130,428	$ 127,579	$ 397,520	$ 396,453
Service costs				
Funeral	$ 15,403	$ 15,235	$ 45,979	$ 44,253
Cemetery	11,515	11,218	32,043	32,250
	26,918	26,453	78,022	76,503
Merchandise costs				
Funeral	15,116	15,381	47,094	47,626
Cemetery	23,615	24,123	69,818	73,167
	38,731	39,504	116,912	120,793
General and administrative expenses				
Funeral	23,005	21,973	70,187	68,536
Cemetery	13,776	13,140	41,697	40,340
	36,781	35,113	111,884	108,876

Total costs	$ 102,430	$ 101,070	$ 306,818	$ 306,172

Service revenue includes funeral service revenue, funeral trust earnings, insurance commission revenue, burial site openings and closings and perpetual care trust earnings. Merchandise revenue includes funeral merchandise revenue, flower sales, cemetery property sales revenue, cemetery merchandise revenue and merchandise trust earnings. Other revenue consists of finance charge revenue and trust management fees. Service costs include the direct costs associated with service revenue and preneed selling costs associated with preneed service sales. Merchandise costs include the direct costs associated with merchandise revenue and preneed selling costs associated with preneed merchandise sales.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes

The following tables present the condensed consolidating historical financial statements as of July 31, 2008 and October 31, 2007 and for the three and nine months ended July 31, 2008 and 2007, for the direct and indirect domestic subsidiaries of the Company that serve as guarantors of the Company s 6.25 percent senior notes and its 3.125 percent and 3.375 percent senior convertible notes, and the financial results of the Company s subsidiaries that do not serve as guarantors. Non-guarantor subsidiaries of the 6.25 percent senior notes include the Puerto Rican subsidiaries, Investors Trust, Inc. and certain immaterial domestic subsidiaries, which are prohibited by law from guaranteeing the senior notes. The guarantor subsidiaries of the 6.25 percent senior notes are wholly-owned directly or indirectly by the Company, except for three immaterial guarantor subsidiaries of which the Company is the majority owner. The non-guarantor subsidiaries of the senior convertible notes are identical to those of the 6.25 percent senior notes but also include three immaterial non-wholly owned subsidiaries and any future non-wholly owned subsidiaries. The guarantees are full and unconditional and joint and several. In the statements presented within this footnote, Tier 2 guarantor subsidiaries represent the three immaterial non-wholly owned subsidiaries that do not guaranty the senior convertible notes but do guaranty the 6.25 percent senior notes. Non-guarantor subsidiaries represent the identical non-guarantor subsidiaries of the 6.25 percent senior notes and senior convertible notes. In the condensed consolidating statements of earnings and other comprehensive income, corporate general and administrative expenses and interest expense of the parent are presented net of amounts charged to the guarantor and non-guarantor subsidiaries.

The condensed consolidating statements of earnings and other comprehensive income for the nine months ended July 31, 2007 has been revised to correct $1,295 of hurricane related charges that were previously included in the Tier 1 guarantor subsidiaries column but should have been included in the Tier 2 guarantor subsidiaries column. These revisions had no impact on the consolidated totals or the totals for guarantor subsidiaries in the Company s condensed consolidating statements of earnings and other comprehensive income for the three and nine months ended July 31, 2007 and no impact on the condensed consolidating balance sheet as of October 31, 2007 or condensed consolidating statement of cash flows for the nine months ended July 31, 2007.

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Statements of Earnings and Other Comprehensive Income

	Three Months Ended July 31, 2008					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Funeral	$	$ 63,398	$ 381	$ 4,779	$	$ 68,558
Cemetery		56,046	842	4,982		61,870
		119,444	1,223	9,761		130,428
Costs and expenses:						
Funeral		49,648	265	3,611		53,524
Cemetery		44,114	698	4,094		48,906
		93,762	963	7,705		102,430
Gross profit		25,682	260	2,056		27,998
Corporate general and administrative expenses	(8,188)					(8,188)
Hurricane related charges, net	(402)		61			(341)
Gains on dispositions and impairment (losses), net		25				25
Other operating income, net	22	341		44		407
Operating earnings (loss)	(8,568)	26,048	321	2,100		19,901
Interest expense	(1,585)	(3,869)	(40)	(506)		(6,000)
Investment and other income, net	563	29		1		593
Equity in subsidiaries	16,458	(74)			(16,384)	
Earnings from continuing operations before income taxes	6,868	22,134	281	1,595	(16,384)	14,494
Income tax expense (benefit)	(2,261)	7,236	195	195		5,365

Net earnings	9,129	14,898	86	1,400	(16,384)	9,129
Other comprehensive loss, net	(26)			(4)	4	(26)
Comprehensive income	$ 9,103	$ 14,898	$ 86	$ 1,396	$ (16,380)	$ 9,103

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Statements of Earnings and Other Comprehensive Income

	Three Months Ended July 31, 2007					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Funeral	$	$ 61,689	$ 379	$ 4,846	$	$ 66,914
Cemetery		54,757	794	5,114		60,665
		116,446	1,173	9,960		127,579
Costs and expenses:						
Funeral		49,259	276	3,054		52,589
Cemetery		43,819	636	4,026		48,481
		93,078	912	7,080		101,070
Gross profit		23,368	261	2,880		26,509
Corporate general and administrative expenses	(8,343)					(8,343)
Hurricane related charges, net		(210)				(210)
Separation charges		(48)				(48)
Gains on dispositions and impairment (losses), net		(46)				(46)
Other operating income, net	19	215		56		290
Operating earnings (loss)	(8,324)	23,279	261	2,936		18,152
Interest expense	(2,158)	(3,242)	(37)	(785)		(6,222)
Loss on early extinguishment of debt	(677)					(677)
Investment and other income, net	792	13		5		810
Equity in subsidiaries	19,346	510			(19,856)	
Earnings from continuing operations before income taxes	8,979	20,560	224	2,156	(19,856)	12,063

Income tax expense (benefit)	856	3,406	85	(494)		3,853
Earnings from continuing operations	8,123	17,154	139	2,650	(19,856)	8,210
Discontinued operations:						
Loss from discontinued operations before income taxes		(138)				(138)
Income tax benefit		(51)				(51)
Loss from discontinued operations		(87)				(87)
Net earnings	8,123	17,067	139	2,650	(19,856)	8,123
Other comprehensive income (loss), net						
Comprehensive income	$ 8,123	$ 17,067	$ 139	$ 2,650	$ (19,856)	$ 8,123

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Statements of Earnings and Other Comprehensive Income

	Nine Months Ended July 31, 2008					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Funeral	$	$ 202,495	$ 1,410	$ 14,957	$	$ 218,862
Cemetery		161,205	2,565	14,888		178,658
		363,700	3,975	29,845		397,520
Costs and expenses:						
Funeral		151,970	898	10,392		163,260
Cemetery		129,453	2,155	11,950		143,558
		281,423	3,053	22,342		306,818
Gross profit		82,277	922	7,503		90,702
Corporate general and administrative expenses	(24,226)					(24,226)
Hurricane related charges, net	(779)	37	391			(351)
Gains on dispositions and impairment (losses), net		153				153
Other operating income, net	79	509	1	164		753
Operating earnings (loss)	(24,926)	82,976	1,314	7,667		67,031
Interest expense	(3,318)	(12,916)	(113)	(1,634)		(17,981)
Investment and other income, net	1,614	50		6		1,670
Equity in subsidiaries	54,263	418			(54,681)	
Earnings from continuing operations before income taxes	27,633	70,528	1,201	6,039	(54,681)	50,720
	(4,321)	21,280	399	1,408		18,766

Income tax expense (benefit)						
Net earnings	31,954	49,248	802	4,631	(54,681)	31,954
Other comprehensive income, net	17			17	(17)	17
Comprehensive income	$ 31,971	$ 49,248	$ 802	$ 4,648	$ (54,698)	$ 31,971

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Statements of Earnings and Other Comprehensive Income

	Nine Months Ended July 31, 2007					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Funeral	$	$ 196,247	$ 1,154	$ 15,009	$	212,410
Cemetery		165,634	2,313	16,096		184,043
		361,881	3,467	31,105		396,453
Costs and expenses:						
Funeral		150,321	782	9,312		160,415
Cemetery		131,879	1,869	12,009		145,757
		282,200	2,651	21,321		306,172
Gross profit		79,681	816	9,784		90,281
Corporate general and administrative expenses	(23,129)					(23,129)
Hurricane related charges, net	(3)	(1,045)	(1,295)			(2,343)
Separation charges	(384)	(196)				(580)
Gains on dispositions and impairment (losses), net		44				44
Other operating income, net	296	950	1	194		1,441
Operating earnings (loss)	(23,220)	79,434	(478)	9,978		65,714
Interest expense	(5,739)	(11,511)	(153)	(1,871)		(19,274)
Loss on early extinguishment of debt	(677)					(677)
Investment and other income, net	2,378	39		10		2,427
Equity in subsidiaries	59,762	758			(60,520)	
	32,504	68,720	(631)	8,117	(60,520)	48,190

Earnings (loss) from continuing operations before income taxes						
Income tax expense (benefit)	(1,174)	14,126	(234)	1,473		14,191
Earnings (loss) from continuing operations	33,678	54,594	(397)	6,644	(60,520)	33,999
Discontinued operations:						
Loss from discontinued operations before income taxes		(519)				(519)
Income tax benefit		(198)				(198)
Loss from discontinued operations		(321)				(321)
Net earnings (loss)	33,678	54,273	(397)	6,644	(60,520)	33,678
Other comprehensive income, net	3			3	(3)	3
Comprehensive income (loss)	$ 33,681	$ 54,273	$ (397)	$ 6,647	$ (60,523)	$ 33,681

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Balance Sheets

	July 31, 2008					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 38,871	$ 7,889	$ 33	$ 1,900	$	$ 48,693
Marketable securities				38		38
Receivables, net of allowances	20,552	52,704	484	4,508		78,248
Inventories	334	32,768	316	2,482		35,900
Prepaid expenses	1,602	5,834	64	1,427		8,927
Deferred income taxes, net	1,253	5,969	56	1,201		8,479
Total current assets	62,612	105,164	953	11,556		180,285
Receivables due beyond one year, net of allowances		53,429	376	15,997		69,802
Preneed funeral receivables and trust investments		429,604		10,217		439,821
Preneed cemetery receivables and trust investments		213,545	1,134	8,614		223,293
Goodwill		253,353	48	19,787		273,188
Cemetery property, at cost		340,144	11,540	25,453		377,137
Property and equipment, at cost	47,965	449,078	1,829	37,849		536,721
Less accumulated depreciation	29,414	186,602	780	13,784		230,580
Net property and equipment	18,551	262,476	1,049	24,065		306,141
Deferred income taxes, net	32,913	144,865		6,592	(3,310)	181,060
Cemetery perpetual care trust investments		195,457	8,355	3,613		207,425

Other assets	9,836	6,375	16	1,075		17,302
Intercompany receivables	839,387				(839,387)	
Equity in subsidiaries	26,156	7,244			(33,400)	
Total assets	$ 989,455	$ 2,011,656	$ 23,471	$ 126,969	$ (876,097)	$ 2,275,454
LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ 27	$	$	$	$	$ 27
Accounts payable	2,011	19,674	105	1,496		23,286
Accrued expenses and other current liabilities	15,649	43,018	9	2,820		61,496
Total current liabilities	17,687	62,692	114	4,316		84,809
Long-term debt, less current maturities	450,097					450,097
Deferred income taxes			3,310		(3,310)	
Intercompany payables		822,442	3,994	12,951	(839,387)	
Deferred preneed funeral revenue		204,797		45,685		250,482
Deferred preneed cemetery revenue		251,924	322	27,609		279,855
Non-controlling interest in funeral and cemetery trusts		575,057	1,035	5,594		581,686
Other long-term liabilities	16,491	3,134		124		19,749
Negative equity in subsidiaries	102,040				(102,040)	
Total liabilities	586,315	1,920,046	8,775	96,279	(944,737)	1,666,678
Non-controlling interest in perpetual care trusts		193,650	8,372	3,614		205,636
Common stock	92,237	102	324	52	(478)	92,237
Other	310,875	(102,142)	6,000	26,996	69,146	310,875
Accumulated other comprehensive income	28			28	(28)	28
Total shareholders equity	403,140	(102,040)	6,324	27,076	68,640	403,140
Total liabilities and shareholders equity	$ 989,455	$ 2,011,656	$ 23,471	$ 126,969	$ (876,097)	$ 2,275,454

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Balance Sheets

	October 31, 2007					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 63,202	$ 6,685	$ 36	$ 1,622	$	$ 71,545
Marketable securities				262		262
Receivables, net of allowances	4,054	51,619	103	4,839		60,615
Inventories	368	32,765	328	2,600		36,061
Prepaid expenses	950	4,306	3	1,096		6,355
Deferred income taxes, net	1,334	5,785	78	1,424		8,621
Total current assets	69,908	101,160	548	11,843		183,459
Receivables due beyond one year, net of allowances	10,358	53,926	928	18,396		83,608
Preneed funeral receivables and trust investments		504,534		10,519		515,053
Preneed cemetery receivables and trust investments		245,056	1,199	9,424		255,679
Goodwill		253,451	48	19,787		273,286
Cemetery property, at cost		338,274	11,408	25,118		374,800
Property and equipment, at cost	43,395	436,588	1,699	37,299		518,981
Less accumulated depreciation	26,701	172,924	663	12,775		213,063
Net property and equipment	16,694	263,664	1,036	24,524		305,918
Deferred income taxes, net	29,238	156,254		9,913	(2,546)	192,859
Cemetery perpetual care trust investments		224,182	8,322	3,999		236,503

Other assets	9,664	7,039	16	1,090		17,809
Intercompany receivables	897,546				(897,546)	
Equity in subsidiaries	21,124	6,826			(27,950)	
Total assets	$ 1,054,532	$ 2,154,366	$ 23,505	$ 134,613	$ (928,042)	$ 2,438,974
LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ 198	$	$	$	$	$ 198
Accounts payable	2,196	21,284	1,075	2,051		26,606
Accrued expenses and other current liabilities	16,654	45,934		2,691		65,279
Total current liabilities	19,048	67,218	1,075	4,742		92,083
Long-term debt, less current maturities	450,115					450,115
Deferred income taxes			2,546		(2,546)	
Intercompany payables		869,802	4,419	23,325	(897,546)	
Deferred preneed funeral revenue		212,166		44,437		256,603
Deferred preneed cemetery revenue		255,266	515	28,726		284,507
Non-controlling interest in funeral and cemetery trusts		674,977	1,119	6,956		683,052
Other long-term liabilities	11,717	2,152				13,869
Negative equity in subsidiaries	150,334				(150,334)	
Total liabilities	631,214	2,081,581	9,674	108,186	(1,050,426)	1,780,229
Non-controlling interest in perpetual care trusts		223,119	8,309	3,999		235,427
Common stock	98,420	102	324	52	(478)	98,420
Other	324,887	(150,436)	5,198	22,365	122,873	324,887
Accumulated other comprehensive income	11			11	(11)	11
Total shareholders equity	423,318	(150,334)	5,522	22,428	122,384	423,318
Total liabilities and shareholders equity	$ 1,054,532	$ 2,154,366	$ 23,505	$ 134,613	$ (928,042)	$ 2,438,974

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Statements of Cash Flows

	Nine Months Ended July 31, 2008					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (22,882)	$ 63,484	$ 464	$ 11,187	$	$ 52,253
Cash flows from investing activities:						
Proceeds from sales of marketable securities	19,969			250		20,219
Purchases of marketable securities	(19,952)			(3)		(19,955)
Proceeds from sale of assets, net		358				358
Purchase of subsidiaries and other investments, net of cash acquired	(1,378)					(1,378)
Additions to property and equipment	(5,147)	(14,399)	(42)	(782)		(20,370)
Other		75				75
Net cash used in investing activities	(6,508)	(13,966)	(42)	(535)		(21,051)
Cash flows from financing activities:						
Repayments of long-term debt	(190)					(190)
Intercompany receivables (payables)	59,113	(48,314)	(425)	(10,374)		
Issuance of common stock	1,659					1,659
Purchase and retirement of common stock	(48,627)					(48,627)
Dividends	(7,067)					(7,067)
Excess tax benefits from share-based payment	171					171

arrangements						
Net cash provided by (used in) financing activities	5,059	(48,314)	(425)	(10,374)		(54,054)
Net increase (decrease) in cash	(24,331)	1,204	(3)	278		(22,852)
Cash and cash equivalents, beginning of period	63,202	6,685	36	1,622		71,545
Cash and cash equivalents, end of period	$ 38,871	$ 7,889	$ 33	$ 1,900	$	$ 48,693

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(11) Condensed Consolidating Financial Statements of Guarantors of Senior Notes and Senior Convertible Notes (Continued)

Condensed Consolidating Statements of Cash Flows

	Nine Months Ended July 31, 2007					
	Parent	Guarantor Subsidiaries-Tier 1	Guarantor Subsidiaries-Tier 2	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (13,518)	$ 58,627	$ (250)	$ 9,940	$	$ 54,799
Cash flows from investing activities:						
Purchases of marketable securities				(148)		(148)
Proceeds from sale of assets, net		1,645				1,645
Purchase of subsidiaries and other investments, net of cash acquired		(6,134)				(6,134)
Insurance proceeds related to hurricane damaged properties		1,400				1,400
Additions to property and equipment	(5,436)	(16,651)	(69)	(964)		(23,120)
Other		56				56
Net cash used in investing activities	(5,436)	(19,684)	(69)	(1,112)		(26,301)
Cash flows from financing activities:						
Proceeds from long-term debt	250,000					250,000
Repayments of long-term debt	(146,461)			(30,000)		(176,461)
Intercompany receivables (payables)	11,629	(33,786)	300	21,857		
Debt issue costs	(5,572)					(5,572)
Proceeds from sale of common stock warrants	43,850					43,850
	2,521					2,521

Issuance of common stock						
Purchase of call options	(60,000)					(60,000)
Purchase and retirement of common stock	(64,201)					(64,201)
Dividends	(7,724)					(7,724)
Excess tax benefits from share-based payment arrangements	108					108
Net cash provided by (used in) financing activities	24,150	(33,786)	300	(8,143)		(17,479)
Net increase (decrease) in cash	5,196	5,157	(19)	685		11,019
Cash and cash equivalents, beginning of period	39,120	3,254	37	1,459		43,870
Cash and cash equivalents, end of period	$ 44,316	$ 8,411	$ 18	$ 2,144	$	$ 54,889

(12) Dispositions and Acquisitions

Dispositions

The Company recorded net gains on dispositions and impairment losses for continuing operations of $25 and $153 for the three and nine months ended July 31, 2008, respectively. For the three and nine months ended July 31, 2007, net gains on dispositions and impairment losses amounted to ($46) and $44, respectively, for continuing operations and ($203) and ($558), respectively, for discontinued operations. The Company sold one immaterial funeral home from the Western Division funeral segment during the nine months ended July 31, 2008. The change in goodwill from October 31, 2007 to July 31, 2008 is a result of this sale.

Acquisitions

During the nine months ended July 31, 2008, the Company acquired an investment in an outside business for approximately $1,378. During the nine months ended July 31, 2007, the Company purchased two properties for approximately $3,328 and a new funeral home in its Eastern Division for approximately $2,800. This funeral home

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(12) Discontinued Operations and Acquisitions (Continued)

acquisition was accounted for under the purchase method, and the acquired assets and liabilities were valued at their estimated fair values. Its results of operations have been included since the acquisition date. The excess purchase price over the fair value of net assets acquired for this funeral home was allocated to goodwill.

(13) Separation Charges

The Company recorded $350 for separation pay in the nine months ended July 31, 2007 related to the retirement of a former executive officer, but will make the payments over a two-year period in accordance with the terms of the retirement agreement. As of July 31, 2008, the Company has $278 in remaining payments under all executive officer separation agreements. The Company also recorded approximately $230 in the nine months ended July 31, 2007 primarily related to the reorganization of its divisions during fiscal year 2005. Reorganization costs in 2007 primarily relate to a lease agreement for which the Company is committed through 2009. In the third quarter of 2007, the Company entered into a sublease of this property; however, this sublease does not cover the full cost of the original lease.

(14) Consolidated Comprehensive Income

Consolidated comprehensive income for the three and nine months ended July 31, 2008 and 2007 is as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	**2007**	**2008**	**2007**
Net earnings	$ 9,129	$ 8,123	$ 31,954	$ 33,678
Other comprehensive income (loss):				
Unrealized appreciation (depreciation) of investments, net of deferred tax (expense) benefit of $17, $, ($9), and ($2), respectively	(26)		17	3
(Increase) reduction in net unrealized losses associated with available-for-sale securities of the trusts	(45,065)	(23,628)	(98,678)	(8,384)
Reclassification of the net unrealized losses activity attributable to the non-controlling interest holders	45,065	23,628	98,678	8,384
Total other comprehensive income (loss)	(26)		17	3
Total comprehensive income	$ 9,103	$ 8,123	$ 31,971	$ 33,681

(15) Hurricane Related Charges

The Company has insurance coverage related to property damage, incremental costs and property operating expenses it incurred due to damage caused by Hurricane Katrina. The insurance policies also provide coverage for interruption to the business, including lost profits, and reimbursement for other expenses and costs incurred relating to the damages and losses suffered. Net expenses of $341 and $210 for the three months ended July 31, 2008 and 2007, respectively, and $351 and $2,343 for the nine months ended July 31, 2008 and 2007, respectively, are reflected in the Hurricane related charges, net line in the condensed consolidated statements of earnings. Net expenses recorded in fiscal year 2008 primarily relate to the lawsuit the Company filed against its insurance carriers which is described below. The Company received $10,000 in hurricane related insurance proceeds including $3,169 in business interruption insurance proceeds during the first quarter of 2007, all of which was recorded in receivables as of October 31, 2006. No additional insurance proceeds were recorded in the nine months ended July 31, 2008 or 2007. For additional information on the effects of Hurricane Katrina on the Company, see Note 22 to the

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

(15) Hurricane Related Charges (Continued)

consolidated financial statements in the Company s 2007 Form 10-K.

The Company has been unable to finalize its negotiations with its insurance carriers related to property damage and extra expenses, and business interruption damages, related to Hurricane Katrina, and filed suit against the carriers in August 2007. In 2007, the carriers advanced an additional $1,100, which the Company has not recorded as income but as a liability pending the outcome of the litigation. The suit involves numerous policy interpretation disputes, among other issues, and no assurance can be given as to how much additional proceeds the Company may recover from its insurers, if any, or the timing of the receipt of any additional proceeds. A trial date has been set in Federal Court on December 1, 2008. With the exception of any legal costs related to this suit, the Company does not anticipate any additional charges related to Hurricane Katrina.

(16) Income Taxes

The Company has been advised that the congressional Joint Committee on Taxation approved its requested refund of approximately $10,400 and interest of approximately $2,000 related to the Company s amended federal income tax returns for fiscal years ended October 31, 1997 through 2000 and 2002 through 2004. As of October 31, 2007, this amount was classified in receivables due beyond one year on the Company s condensed consolidated balance sheet. As a result of the approval and the expectation that the refund will be received within the next 12 months, the receivable was reclassified to current receivables as of July 31, 2008.

During the third quarter of 2008, the Company filed with the IRS (in connection with the filing of its October 31, 2007 federal income tax return) an application to change its tax accounting method with regards to the taxation of preneed services. This change resulted in an increase in income tax receivables of $8,912 and a corresponding decrease in deferred income taxes in the condensed consolidated balance sheet. The Company received $4,345 of this refund in August 2008, which was recorded in current receivables as of July 31, 2008. The remaining amount of $4,567 was applied against tax payments due by the Company on July 15, 2008, which reduced income taxes payable as of July 31, 2008.

(17) Subsequent Events

On September 1, 2008, Hurricane Gustav made landfall in southern Louisiana. The Company s corporate headquarters building and its New Orleans funeral homes and cemeteries sustained minor damages and were able to restore operations shortly thereafter.

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

We are the second largest provider of funeral and cemetery products and services in the death care industry in the United States. As of August 31, 2008, we owned and operated 221 funeral homes and 139 cemeteries in 24 states within the United States and Puerto Rico. We sell cemetery property and funeral and cemetery products and services both at the time of need and on a preneed basis. Our revenues in each period are derived primarily from at-need sales, preneed sales delivered out of our backlog during the period (including the accumulated trust earnings or build-up in the face value of insurance contracts related to these preneed deliveries), preneed cemetery property sales and other items such as perpetual care trust earnings, insurance commissions and finance charges. For a more detailed discussion of our accounting for preneed sales and trust and escrow account earnings, see Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 in our Annual Report on Form 10-K for the fiscal year ended October 31, 2007 (the 2007 Form 10-K).

Our focus for fiscal year 2008 is our Best in Class initiative, which aims to improve performance at the individual locations by giving all managers the same key metrics by which they can measure their performance and by providing tools to facilitate the sharing of best practices by key metric. We also seek to strengthen our performance-oriented company culture and to refocus management s time and attention on improving field operations. The goal of our Best in Class initiative is to generate a higher return on assets and to grow profits and cash flow at our existing funeral homes and cemeteries. For additional information, see Item 1 in our 2007 Form 10-K. We are currently also implementing continuous improvement initiatives. During the third quarter of 2008, we formalized a Continuous Improvement department which was formed to execute the plans to strengthen and streamline our processes to eliminate waste and inefficiencies.

Our results can be affected by the number of deaths in our markets. The number of deaths in the United States is expected to increase at a steady, moderate pace over the long-term; however, the number can fluctuate from market to market and period to period. Although we have experienced a decline in funeral service volume for several years, our funeral service volumes have increased 1.4 percent thus far in fiscal year 2008. For additional information, see Item 1 in our 2007 Form 10-K. We are addressing funeral service volumes through our Best in Class initiative and enhanced sales and marketing efforts for both at-need and preneed sales.

Families have been showing an increasing preference for cremation. This trend has been a significant concern for traditional funeral home and cemetery operators like us because cremations have typically included few, if any, additional products or services other than the cremation itself, and can result in lower revenue and profits than traditional services. For additional information, see Item 1 in our 2007 Form 10-K. To address this trend, we have increased our efforts to market full service funerals and cremations. Our other efforts to increase our funeral and cemetery revenue include our funeral package pricing and our emphasis on customization. For additional information, see Item 1 in our 2007 Form 10-K. We are also increasing our focus on expanding the types of death care products and services we offer our customers. For the nine months ended July 31, 2008, we achieved a 1.9 percent increase in our average revenue per traditional funeral service and a 3.2 percent increase in our average revenue per cremation service.

Current economic conditions have impacted our ability to timely close preneed sales. Through the first nine months of 2008, preneed cemetery property sales, net of discounts, declined 5.0 percent, which decreases our cemetery revenue. In addition, preneed funeral and cemetery service and merchandise sales decreased 2.4 percent for the nine-month period which does not impact current revenue but reduces our backlog and could reduce our future revenues. Current economic conditions could also decrease prices at-need customers are willing to pay, but we have not seen this trend occur through the first nine months of 2008 as our overall funeral average revenue, including trust earnings, increased 2.3 percent.

In addition, the cost of certain commodities, particularly copper, which represents a large component of our bronze markers sold in our cemetery business, has increased significantly. In the first quarter of 2008, we were impacted by escalating merchandise and energy costs and we have taken steps to counter this impact. Some of the

costs impacting our business are largely beyond our control. To the extent that we are unable to continue to pass these cost increases on to our customers, they will have a negative impact on our earnings and cash flows.

Recent changes in the financial markets have not had a significant adverse effect on our current results of operations or cash flows, although declines in the values of investments in our trust and escrow accounts have reduced their carrying value on our condensed consolidated balance sheet. Prolonged market downturns can affect the returns on our trusts and escrow accounts, which can adversely affect our revenue and profits over the longer term. For additional information, see Items 1 and 1A in our 2007 Form 10-K. The contracts our trusts relate to are long-term in nature, and we can manage the portfolio to mitigate the effects we are currently experiencing. It is more significant to focus on annual returns over a longer period of time which will present a better picture of our portfolio. Our five year total annual returns including the third quarter of 2008 were 4.2 percent for the funeral and cemetery merchandise trusts and 3.5 percent for the cemetery perpetual care trust.

As previously disclosed, during the third quarter of fiscal 2008, Service Corporation International (SCI) made proposals to acquire all of our stock for cash. In a letter dated July 21, 2008, SCI offered $11.00 per share in cash for all of our outstanding shares, subject to the negotiation of mutually satisfactory definitive written agreements and the completion of certain limited, confirmatory due diligence. Our Board of Directors unanimously approved the formation of a committee of independent directors (the Independent Committee) to evaluate alternatives available to us to maximize shareholder value. The Independent Committee has commenced the process of working with its advisors and management to collect information and analyze all strategic alternatives available to the Company. Neither the Independent Committee nor the Board intends to provide any update with respect to the Independent Committee s review of potential strategic alternatives until the Board has approved a definitive course of action.

Financial Summary

For the third quarter of fiscal year 2008, net earnings increased $1.0 million to $9.1 million from $8.1 million for the third quarter of fiscal year 2007. Earnings from continuing operations for the quarter increased $0.9 million to $9.1 million from $8.2 million for the corresponding period in the prior year.

Revenue from continuing operations increased $2.8 million to $130.4 million for the quarter ended July 31, 2008. Funeral revenue from continuing operations increased $1.6 million from $66.9 million in the third quarter of 2007 to $68.5 million in the third quarter of 2008. During the third quarter of 2008, our same-store funeral operations experienced an increase in average revenue per traditional funeral service of 2.3 percent and an increase in average revenue per cremation service of 6.3 percent due primarily to the continued refinement of new funeral packages and pricing. These increases along with a quarter-over-quarter increase in funeral trust earnings resulted in an overall increase in our same-store average revenue per funeral service of 3.5 percent. Despite the increases in same-store average revenue, we experienced a 1.2 percent decrease in same-store funeral services performed. Cemetery revenue from continuing operations increased $1.2 million from $60.7 million for the quarter ended July 31, 2007 to $61.9 million for the quarter ended July 31, 2008. This increase is due primarily to a $1.4 million increase in construction on various cemetery projects and a $0.8 million increase in cemetery merchandise delivered and services performed. Consolidated gross profit increased $1.5 million to $28.0 million.

Interest expense decreased $0.2 million to $6.0 million for the third quarter of 2008 due to a 118 basis point decrease in the average rate primarily related to the issuance of the $250.0 million senior convertible notes in fiscal year 2007. We also recorded a $0.7 million charge for the loss on early extinguishment of debt in the third quarter of 2007 related to the $250.0 million senior convertible note transaction. Our weighted average diluted shares outstanding decreased to 92.4 million shares for the quarter ended July 31, 2008 compared to 102.7 million shares for the same period of 2007, yielding a positive impact on earnings per share.

For the third quarter of fiscal year 2008, we had a 5.6 percent increase in net preneed funeral sales and a 4.4 percent decrease in cemetery property sales, net of discounts, compared to the same period of last year.

For the nine months ended July 31, 2008, net earnings decreased $1.7 million to $32.0 million from $33.7 million for the same period of fiscal year 2007. Earnings from continuing operations for the first nine months of fiscal year 2008 decreased $2.0 million to $32.0 million from $34.0 million for the corresponding period in the prior year. The earnings decrease is due primarily to an increase in income tax expense of $4.5 million due to $4.2 million in income tax benefits utilized in the first nine months of 2007.

Revenue from continuing operations increased $1.1 million to $397.6 million for the nine months ended July 31, 2008. Funeral revenue from continuing operations increased $6.5 million from $212.4 million in the first nine months of 2007 to $218.9 million in the first nine months of 2008. During the nine months ended July 31, 2008, our same-store funeral operations achieved an increase in average revenue per traditional funeral service of 1.9 percent and an increase in average revenue per cremation service of 3.2 percent due primarily to the continued refinement of new funeral packages and pricing. These increases were offset by a shift in mix to lower-priced cremation services resulting in an overall increase in our same-store average revenue per funeral service, including trust earnings, of 2.3 percent. We also experienced an increase in same-store funeral services performed of 1.4 percent. Cemetery revenue from continuing operations decreased $5.4 million from $184.1 million for the nine months ended July 31, 2007 to $178.7 million for the nine months ended July 31, 2008. This decrease is due primarily to a $4.3 million decrease in construction on various cemetery projects and a $4.2 million, or 5.0 percent, decrease in cemetery property sales, net of discounts, due in part to current economic conditions. The decreases were partially offset by a $2.5 million, or 3.7 percent, increase in cemetery merchandise delivered and services performed. Consolidated gross profit increased $0.4 million to $90.7 million primarily due to a $3.6 million increase in funeral gross profit, partially offset by a $3.2 million decrease in cemetery gross profit, due primarily to the changes in funeral and cemetery revenue discussed above.

Corporate general and administrative expenses increased $1.1 million to $24.2 million for the first nine months of 2008. This increase was primarily due to a $1.5 million increase in costs related to the continuous improvement initiative that began in the first quarter of fiscal year 2008 and a $1.4 million increase in information technology costs due in part to the implementation of new business systems and a web development project in the current year. The increases were partially offset by a $1.1 million decrease in professional fees and a $0.9 million decrease in depreciation expense for the nine months ended July 31, 2008 due to the accelerated depreciation in the prior year of our previous computer software systems associated with the implementation of the new business systems in the prior year. We incurred $0.4 million in hurricane related charges in the first nine months of fiscal year 2008 compared to $2.3 million in hurricane related charges for the same period in 2007. Interest expense for the period decreased $1.3 million to $18.0 million for the first nine months of 2008 due to a 174 basis point decrease in the average rate primarily related to the issuance of the $250.0 million senior convertible notes in fiscal year 2007. As a result of the $250.0 million senior convertible note transaction in June 2007, we recorded a $0.7 million charge for the loss on early extinguishment of debt during the nine months ended July 31, 2007. Our weighted average diluted shares outstanding decreased to 94.7 million shares for the nine months ended July 31, 2008 compared to 104.4 million shares for the same period of 2007, yielding a positive impact on earnings per share.

For the nine months ended July 31, 2008, we had a 3.6 percent decrease in net preneed funeral sales and a 5.0 percent decrease in cemetery property sales, net of discounts, compared to the same period of last year due in part to current economic conditions.

Cash flow provided by operating activities for the nine months ended July 31, 2008 was $52.3 million compared to $54.8 million for the same period of last year. The decrease is primarily due to $3.2 million of business interruption insurance proceeds and $1.5 million of insurance proceeds, net of expenses, related to Hurricane Katrina, received in fiscal year 2007. In addition, the Company paid $9.0 million in net tax payments in the first nine months of 2007 compared to net tax payments of $11.8 million in the first nine months of 2008.

For the nine months ended July 31, 2008, we made $48.4 million in stock repurchases under our current stock repurchase program.

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions (see Note 1(d) to the condensed consolidated financial statements). Our critical accounting policies are those that are both important to the portrayal of our financial condition and results of operations and require management s most difficult, subjective and complex judgment. These critical accounting policies are discussed in Management s Discussion and Analysis

of Financial Condition and Results of Operations in our 2007 Form 10-K.

There have been no changes to our critical accounting policies since the filing of our 2007 Form 10-K, except for the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of Statement of Financial Accounting Standards Statement No. 109 (FIN 48) during the first quarter of fiscal year 2008.

FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We have reviewed our income tax positions and identified certain tax deductions or revenue deferrals that are not certain. As a result of the adoption, we recognized a charge of $1.0 million to the November 1, 2007 accumulated deficit balance. As of the adoption date, we had unrecognized tax benefits of $3.6 million of which $0.6 million, if recognized, would affect the effective tax rate. Also, as of the adoption date, we had accrued interest and penalties related to the unrecognized tax benefits of $0.7 million. Our policy with respect to potential penalties and interest is to record them as other expense and interest expense, respectively.

With few exceptions, we are no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for fiscal years before 2002. To the extent tax, interest and penalties are not assessed with respect to uncertain tax positions in the future, amounts accrued will be reduced and reflected as a reduction of tax expense, interest expense or other expense.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to change our allowance, which could materially impact our financial condition and results of operations.

Results of Operations

The following discussion segregates the financial results of our continuing operations into our various segments, grouped by our funeral and cemetery operations. For a discussion of our segments, see Note 9 to the condensed consolidated financial statements included herein. As there have been no material acquisitions or construction of new locations in fiscal years 2008 and 2007, results from continuing operations essentially reflect those of same-store locations.

Three Months Ended July 31, 2008 Compared to Three Months Ended July 31, 2007 Continuing Operations
Funeral Operations

	Three Months Ended July 31,		
	2008	2007	Increase (Decrease)
	(In millions)		
Funeral Revenue:			
Eastern Division	$ 28.1	$ 27.7	$ .4
Western Division	35.8	34.7	1.1
Corporate Trust Management (1)	4.6	4.5	.1
Total Funeral Revenue	$ 68.5	$ 66.9	$ 1.6
Funeral Costs:			
Eastern Division	$ 24.2	$ 24.6	$ (.4)
Western Division	29.1	27.8	1.3
Corporate Trust Management (1)	.2	.2	
Total Funeral Costs	$ 53.5	$ 52.6	$ .9
Funeral Gross Profit:			
Eastern Division	$ 3.9	$ 3.1	$ .8
Western Division	6.7	6.9	(.2)
Corporate Trust Management (1)	4.4	4.3	.1
Total Funeral Gross Profit	$ 15.0	$ 14.3	$ .7

<u>Same-Store Analysis</u>

	Change in Average Revenue Per Funeral Service	Change in Same-Store Funeral Services	Same-Store Cremation Rate 2008	Same-Store Cremation Rate 2007
Eastern Division	2.0%	(.3)%	36.5%	36.2%
Western Division	4.1%	(1.9)%	42.2%	42.6%
Total	3.5% (1)	(1.2)%	39.7%	39.8%

(1) Corporate trust management consists of trust management fees and funeral merchandise and service trust earnings

recognized with respect to preneed contracts delivered during the period. Trust management fees are established by the Company at rates consistent with industry norms and are paid by the trusts to our subsidiary, Investors Trust, Inc. The trust earnings represent the earnings realized over the life of the preneed contracts delivered during the relevant periods. See Notes 3 and 6 to the condensed consolidated financial statements included herein for information regarding the cost basis and market value of the trust assets and current performance of the trusts (i.e., current realized gains and losses, interest income and dividends). Trust management fees included in funeral revenue for the three months ended July 31, 2008 and 2007 were $1.3 million and $1.4 million, respectively. As corporate trust management is considered a separate operating segment, trust earnings are included in the total average revenue per funeral service presented, not in the Eastern or Western divisions average revenue per funeral service. Funeral trust earnings for the three months ended July 31, 2008 and 2007 were $3.3 million and $3.1 million, respectively.

Consolidated Operations Funeral

Funeral revenue from continuing operations increased $1.6 million, or 2.4 percent, from $66.9 million in the third quarter of 2007 to $68.5 million in the third quarter of 2008. During the third quarter of 2008, our same-store funeral operations experienced an increase in average revenue per traditional funeral service of 2.3 percent and an increase in average revenue per cremation service of 6.3 percent due primarily to the continued refinement of new funeral packages and pricing. These increases along with a quarter-over-quarter increase in funeral trust earnings resulted in an overall increase in our same-store average revenue per funeral service of 3.5 percent. The cremation rate for our same-store operations was 39.7 percent for the three months ended July 31, 2008 compared to 39.8 percent for the corresponding period in 2007. During the third quarter of 2008, our same-store funeral services performed decreased 1.2 percent, or 174 events, to 13,911 events.

Funeral gross profit increased $0.7 million to $15.0 million for the third quarter of 2008 compared to $14.3 million for the same period of 2007. This increase is primarily due to the $1.6 million increase in funeral revenue, as discussed above. Funeral gross profit margin increased 50 basis points to 21.9 percent for the third quarter of 2008 from 21.4 percent for the same period of 2007.

Segment Discussion Funeral

Funeral revenue in the Eastern division funeral segment increased $0.4 million primarily due to an increase in the average revenue per funeral service in our same-store operations of 2.0 percent due primarily to the continued refinement of new funeral packages and pricing, partially offset by a decrease in the number of funeral services performed by our same-store operations of 0.3 percent. Funeral revenue in the Western division funeral segment increased $1.1 million primarily due to a 4.1 percent increase in the average revenue per funeral service in our same-store operations due primarily to the continued refinement of new funeral packages and pricing, partially offset by a 1.9 percent decrease in the number of funeral services performed by same-store operations. Funeral revenue in the corporate trust management segment increased $0.1 million due to a $0.2 million increase in funeral trust earnings, partially offset by a $0.1 million decline in trust management fees.

Funeral gross profit for the Eastern division funeral segment increased $0.8 million primarily due to an increase in revenue, as discussed above, and a decrease in expenses. The decrease in expenses is primarily due to a decrease in salaries and wages. Funeral gross profit for the Western division funeral segment decreased $0.2 million. As demonstrated in the table above, the same-store cremation rate increased for the Eastern division and decreased for the Western division.

Cemetery Operations

	Three Months Ended July 31,		
	2008	2007	Increase (Decrease)
		(In millions)	
Cemetery Revenue:			
Eastern Division	$ 32.8	$ 34.3	$ (1.5)
Western Division	26.8	23.9	2.9
Corporate Trust Management [(1)]	2.3	2.5	(.2)
Total Cemetery Revenue	$ 61.9	$ 60.7	$ 1.2
Cemetery Costs:			
Eastern Division	$ 28.4	$ 29.6	$ (1.2)
Western Division	20.3	18.7	1.6
Corporate Trust Management [(1)]	.2	.2	
Total Cemetery Costs	$ 48.9	$ 48.5	$ .4
Cemetery Gross Profit:			
Eastern Division	$ 4.4	$ 4.7	$ (.3)
Western Division	6.5	5.2	1.3
Corporate Trust Management [(1)]	2.1	2.3	(.2)

Total Cemetery Gross Profit	$ 13.0	$ 12.2	$ .8

(1) Corporate trust management consists of trust management fees and cemetery merchandise and service trust earnings recognized with respect to preneed contracts delivered during the period. Trust management fees are established by the Company at rates consistent with industry norms and are paid by the trusts to our subsidiary, Investors Trust, Inc. The trust earnings represent the earnings realized over the life of the preneed contracts delivered during the relevant periods. See Notes 4 and 6 to the condensed consolidated financial statements

included herein for information regarding the cost basis and market value of the trust assets and current performance of the trusts (i.e., current realized gains and losses, interest income and dividends). Trust management fees included in cemetery revenue for the three months ended July 31, 2008 and 2007 were $1.3 million and $1.4 million, respectively, and cemetery trust earnings for the three months ended July 31, 2008 and 2007 were $1.0 million and $1.1 million, respectively. Perpetual care trust earnings are included in the revenues and gross profit of the related geographic segment.

Consolidated Operations Cemetery

Cemetery revenue from continuing operations increased $1.2 million, or 2.0 percent, from $60.7 million for the quarter ended July 31, 2007 to $61.9 million for the quarter ended July 31, 2008. This increase is primarily due to a $1.4 million increase in construction on various cemetery projects and a $0.8 million increase in cemetery merchandise delivered and services performed. These increases were partially offset by a $1.2 million, or 4.4 percent, decrease in cemetery property sales, net of discounts, due in part to current economic conditions.

Perpetual care trust earnings for the quarter ended July 31, 2008 amounted to $2.6 million compared to $2.5 million for the same period in 2007.

Cemetery gross profit increased $0.8 million to $13.0 million for the third quarter of 2008 compared to $12.2 million for the same period of 2007. The increase in gross profit is primarily due to the increase in revenue, as discussed above. Cemetery gross profit margin increased by 90 basis points to 21.0 percent for the third quarter of 2008 from 20.1 percent for the same period of 2007.

Segment Discussion Cemetery

Cemetery revenue in the Eastern division cemetery segment decreased $1.5 million primarily due to a $1.9 million decrease in revenue recognition resulting from contracts for which we have not collected 10 percent of the sale. Cemetery revenue in the Western division cemetery segment increased $2.9 million primarily due to a $1.4 million increase in construction on various cemetery projects. Cemetery revenue in the corporate trust management segment decreased $0.2 million due to a $0.1 million decline in cemetery trust earnings and a $0.1 million decline in trust management fees.

Cemetery gross profit for the Eastern division cemetery segment decreased $0.3 million due to the decrease in cemetery revenue, as discussed above, partially offset by a decrease in expenses. The decrease in cemetery expenses is primarily due to the decline in cemetery costs related to contracts for which we have not collected 10 percent of the sale. Cemetery gross profit for the Western division cemetery segment increased $1.3 million primarily due to an increase in revenue as discussed above.

Goodwill of a reporting unit must be tested for impairment on at least an annual basis. We conduct our annual goodwill impairment analysis during the fourth quarter of each fiscal year. In addition to an annual review, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of goodwill may be greater than its fair value. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of the use of our assets or the strategy for our overall business and significant negative industry or economic trends.

While the current economic downturn has continued to impact cemetery property sales in our Eastern division in the quarter ended July 31, 2008, a triggering event has not occurred. As of July 31, 2008, we have $26.0 million of cemetery goodwill recorded related to the Eastern division which would be the maximum potential future charge, although the amount of any future charge would depend on the results of the fair value assessment required under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), and cannot be predicted with any certainty at this time.

Other

The effective tax rate for continuing operations for the three months ended July 31, 2008 was 37.0 percent compared to 31.9 percent for the same period in 2007. The reduced rate in 2007 was primarily due to a tax benefit of $0.8 million attributable to the completion of an audit by the Commonwealth of Puerto Rico for tax periods 1999, 2000 and 2001.

We incurred $0.3 million in hurricane related charges in the third quarter of fiscal 2008 primarily due to legal costs associated with ongoing litigation. We incurred $0.2 million in hurricane related charges for the third quarter of fiscal 2007 primarily due to repairs at locations damaged by Hurricane Katrina. We are continuing to pursue claims with our insurance carriers as described in Note 15 to the condensed consolidated financial statements.

Interest expense decreased $0.2 million to $6.0 million for the third quarter of 2008 due to a 118 basis point decrease in the average rate during the quarter primarily related to the issuance of the $250.0 million senior convertible notes in fiscal year 2007. The senior convertible notes carry an average interest rate of 3.25 percent.

Investment and other income, net decreased $0.2 million to $0.6 million due primarily to a decrease in the average rate earned on our cash balances from 4.83 percent in the third quarter of 2007 to 1.42 percent in the third quarter of 2008.

As a result of the $250.0 million senior convertible note transaction in June 2007, we recorded a charge for the loss on the early extinguishment of debt of $0.7 million during the third quarter of 2007.

Our weighted average diluted shares outstanding decreased to 92.4 million shares for the quarter ended July 31, 2008 compared to 102.7 million shares for the same period in 2007. The decrease is primarily due to our stock repurchase program in which we have repurchased $48.4 million, or 6.6 million shares, of our Class A common stock, yielding a positive impact on earnings per share. In June 2008, we announced an increase in the stock repurchase program from $50.0 million to $75.0 million leaving us with $26.6 million available under the current program.

Preneed Sales into and Deliveries out of the Backlog

Net preneed funeral sales increased 5.6 percent during the third quarter of 2008 compared to the corresponding period in 2007 despite current economic conditions.

The revenues from our preneed funeral and cemetery merchandise and service sales are deferred into our backlog and are not included in our operating results presented above. We added $45.7 million in gross preneed sales to our funeral and cemetery merchandise and services backlog (including $19.6 million related to insurance-funded preneed funeral contracts) during the three months ended July 31, 2008 to be recognized in the future (net of cancellations) as these prepaid products and services are delivered, compared to gross sales of $44.5 million (including $18.8 million related to insurance-funded preneed funeral contracts) for the corresponding period in 2007. Insurance-funded preneed funeral contracts which will be funded by life insurance or annuity contracts issued by third-party insurers are not reflected in the condensed consolidated balance sheet. Revenues recognized on deliveries out of our preneed funeral and cemetery merchandise and services backlog, including accumulated trust earnings related to these preneed deliveries, amounted to $37.5 million for the three months ended July 31, 2008, compared to $35.5 million for the corresponding period in 2007, resulting in net additions to the backlog of $8.2 million and $9.0 million for the three months ended July 31, 2008 and 2007, respectively.

Nine Months Ended July 31, 2008 Compared to Nine Months Ended July 31, 2007 Continuing Operations
Funeral Operations

	Nine Months Ended July 31, 2008	2007 (In millions)	Increase
Funeral Revenue:			
Eastern Division	$ 90.0	$ 89.1	$ .9
Western Division	114.8	109.4	5.4
Corporate Trust Management (1)	14.1	13.9	.2
Total Funeral Revenue	$ 218.9	$ 212.4	$ 6.5
Funeral Costs:			
Eastern Division	$ 73.8	$ 73.7	$ .1
Western Division	88.9	86.2	2.7
Corporate Trust Management (1)	.6	.5	.1
Total Funeral Costs	$ 163.3	$ 160.4	$ 2.9
Funeral Gross Profit:			
Eastern Division	$ 16.2	$ 15.4	$ .8
Western Division	25.9	23.2	2.7
Corporate Trust Management (1)	13.5	13.4	.1
Total Funeral Gross Profit	$ 55.6	$ 52.0	$ 3.6

Same-Store Analysis

	Change in Average Revenue Per Funeral Service	Change in Same-Store Funeral Services	Same-Store Cremation Rate 2008	2007
Eastern Division	.5%	.4%	35.9%	35.0%
Western Division	3.6%	2.1%	42.9%	42.3%
Total	2.3% (1)	1.4%	39.9%	39.2%

(1) Corporate trust management consists of trust management fees and funeral merchandise and service trust earnings recognized with

respect to preneed contracts delivered during the period. Trust management fees are established by the Company at rates consistent with industry norms and are paid by the trusts to our subsidiary, Investors Trust, Inc. The trust earnings represent the earnings realized over the life of the preneed contracts delivered during the relevant periods. See Notes 3 and 6 to the condensed consolidated financial statements included herein for information regarding the cost basis and market value of the trust assets and current performance of the trusts (i.e., current realized gains and losses, interest income and dividends). Trust management fees included in funeral revenue for the nine months ended

July 31, 2008 and 2007 were $4.0 million and $4.4 million, respectively. As corporate trust management is considered a separate operating segment, trust earnings are included in the total average revenue per funeral service presented, not in the Eastern or Western divisions average revenue per funeral service. Funeral trust earnings for the nine months ended July 31, 2008 and 2007 were $10.1 million and $9.5 million, respectively.

Consolidated Operations Funeral

Funeral revenue from continuing operations increased $6.5 million, or 3.1 percent, from $212.4 million for the nine months ended July 31, 2007 to $218.9 million for the nine months ended July 31, 2008. We achieved a 1.4 percent increase in same-store funeral services performed, or 614 events, to 45,126 events. Our same-store funeral operations achieved a 1.9 percent increase in the average revenue per traditional funeral service and a 3.2 percent increase in the average revenue per cremation service due primarily to the continued refinement of new funeral packages and pricing. These increases were offset by a shift in mix to lower-priced cremation services resulting in an overall increase in our same-store average revenue per funeral service, including trust earnings, of 2.3 percent.

The cremation rate for our same-store operations was 39.9 percent for the nine months ended July 31, 2008 compared to 39.2 percent for the corresponding period in 2007.

Funeral gross profit increased $3.6 million to $55.6 million for the first nine months of fiscal year 2008 compared to $52.0 million for the same period of fiscal year 2007 primarily due to the increase in revenue, as noted above. Funeral gross profit margin increased 90 basis points to 25.4 percent for the first nine months of fiscal year 2008 from 24.5 percent for the same period in 2007.

Segment Discussion Funeral

Funeral revenue in the Eastern division funeral segment increased $0.9 million primarily due to a 0.5 percent increase in average revenue per funeral service in same-store operations and a 0.4 percent increase in the number of funeral services performed by same-store operations. Funeral revenue in the Western division funeral segment increased $5.4 million primarily due to a 3.6 percent increase in the average revenue per funeral service in same-store operations and a 2.1 percent increase in the number of funeral services performed by same-store operations. Funeral revenue in the corporate trust management segment increased $0.2 million primarily due to a $0.6 million increase in funeral trust earnings, partially offset by a $0.4 million decrease in trust management fees.

Funeral gross profit for the Eastern division funeral segment increased $0.8 million primarily due to an increase in revenue, as discussed above. Funeral gross profit for the Western division funeral segment increased $2.7 million primarily due to an increase in revenue, as discussed above. As demonstrated in the table above, the same-store cremation rate increased for both the Eastern and Western division.

Cemetery Operations

	Nine Months Ended July 31,		
	2008	2007 (In millions)	Increase (Decrease)
Cemetery Revenue:			
Eastern Division	$ 98.0	$ 108.5	$ (10.5)
Western Division	73.7	68.4	5.3
Corporate Trust Management [(1)]	7.0	7.2	(.2)
Total Cemetery Revenue	$ 178.7	$ 184.1	$ (5.4)
Cemetery Costs:			
Eastern Division	$ 86.0	$ 91.0	$ (5.0)
Western Division	56.9	54.4	2.5
Corporate Trust Management [(1)]	.7	.4	.3
Total Cemetery Costs	$ 143.6	$ 145.8	$ (2.2)
Cemetery Gross Profit:			
Eastern Division	$ 12.0	$ 17.5	$ (5.5)
Western Division	16.8	14.0	2.8
Corporate Trust Management [(1)]	6.3	6.8	(.5)
Total Cemetery Gross Profit	$ 35.1	$ 38.3	$ (3.2)

(1) Corporate trust management consists of trust management fees and cemetery merchandise and service trust earnings recognized with respect to preneed contracts delivered during the period. Trust management fees are established by the Company at rates consistent with industry norms and are paid by the trusts to our subsidiary, Investors Trust, Inc. The trust earnings represent the earnings realized over the life of the preneed contracts delivered during the relevant periods. See Notes 4 and 6 to the condensed consolidated financial statements included herein for information regarding the cost basis and market value of the trust assets and current performance of the trusts (i.e.,

current realized gains and losses, interest income and dividends). Trust management fees included in cemetery revenue for the nine months ended July 31, 2008 and 2007 were $3.8 million and $4.0 million, respectively, and cemetery trust earnings for both the nine months ended July 31, 2008 and 2007 were $3.2 million. Perpetual care trust earnings are included in the revenues and gross profit of the

related
geographic
segment.

Consolidated Operations Cemetery

Cemetery revenue from continuing operations decreased $5.4 million, or 2.9 percent, from $184.1 million for the nine month period ending July 31, 2007 to $178.7 million for the nine month period ending July 31, 2008. The decrease is due primarily to a $4.3 million decrease in construction on various cemetery projects. Last year, we experienced growth due to focused efforts to reduce the production backlog in existing cemetery projects. We also experienced a $4.2 million, or 5.0 percent, decrease in cemetery property sales, net of discounts, due in part to current economic conditions. The decreases were partially offset by a $2.5 million, or 3.7 percent, increase in cemetery merchandise delivered and services performed.

Perpetual care trust earnings for the nine months ended July 31, 2008 amounted to $8.0 million compared to $7.3 million for the nine months ended July 31, 2007.

Cemetery gross profit decreased $3.2 million from $38.3 million in the first nine months of fiscal year 2007 to $35.1 million in the first nine months of fiscal year 2008. Cemetery gross profit margin decreased 120 basis points to 19.6 percent in the first nine months of fiscal year 2008 from 20.8 percent in the first nine months of fiscal year 2007. The decrease in gross profit is primarily related to the decrease in cemetery revenue, as noted above.

Segment Discussion Cemetery

Cemetery revenue in the Eastern division cemetery segment decreased $10.5 million primarily due to a $5.8 million decrease in construction during the first nine months of fiscal year 2008 on various cemetery development projects and a $3.7 million, or 6.8 percent, decrease in cemetery property sales, net of discounts, due in part to current economic conditions. Cemetery revenue in the Western division cemetery segment increased $5.3 million primarily due to a $1.8 million increase in cemetery commission income related to a new program to manage the cemetery sales of the Archdiocese of Los Angeles, a $1.6 million increase related to the leasing of our mineral rights at one of our cemeteries to an outside third-party and a $1.6 million increase in cemetery merchandise delivered and services performed. Cemetery revenue in the corporate trust management segment decreased $0.2 million due to a $0.2 million decline in trust management fees.

Cemetery gross profit for the Eastern division cemetery segment decreased $5.5 million due to the decrease in cemetery revenue, as discussed above, partially offset by a decrease in expenses. The decrease in cemetery expenses is primarily due to a decrease in costs on construction on various cemetery projects. Cemetery gross profit for the Western division cemetery segment increased $2.8 million primarily due to an increase in revenue, as discussed above.

Goodwill of a reporting unit must be tested for impairment on at least an annual basis. We conduct our annual goodwill impairment analysis during the fourth quarter of each fiscal year. In addition to an annual review, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of goodwill may be greater than its fair value. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of the use of our assets or the strategy for our overall business and significant negative industry or economic trends.

While the current economic downturn has continued to impact cemetery property sales in our Eastern division in the quarter ended July 31, 2008, a triggering event has not occurred. As of July 31, 2008, we have $26.0 million of cemetery goodwill recorded related to the Eastern division which would be the maximum potential future charge, although the amount of any future charge would depend on the results of the fair value assessment required under SFAS No. 142, Goodwill and Other Intangible Assets, and cannot be predicted with any certainty at this time.

Other

The effective tax rate for continuing operations for the nine months ended July 31, 2008 was 37.0 percent compared to 29.4 percent for the same period in 2007. The reduced rate in 2007 was primarily due to a tax benefit of $3.4 million resulting from the utilization of a capital loss carryforward, which was not previously recorded because we were uncertain we could generate sufficient capital gain income prior to its expiration at the end of fiscal 2007. We also recorded a tax benefit of $0.8 million in the nine months ended July 31, 2007 attributable to the completion of an audit by the Commonwealth of Puerto Rico for tax periods 1999, 2000 and 2001. The difference between the effective tax rate and the statutory tax rate of 35.0 percent is primarily due to a percentage increase caused by state income taxes offset by a percentage decrease caused by a dividend exclusion.

As of November 1, 2007, we adopted FIN 48, which clarifies the accounting and disclosure for uncertain tax positions in accordance with SFAS No. 109, Accounting for Income Taxes. We have reviewed our income tax positions and identified certain tax deductions or revenue deferrals that are not certain. The cumulative effect of adopting FIN 48 has been recorded as a $1.0 million increase to the November 1, 2007 opening balance of accumulated deficit, a $3.4 million increase in deferred tax assets and a $4.4 million increase in other long-term liabilities. For additional information on FIN 48, see Note 2 to the condensed consolidated financial statements included herein.

Corporate general and administrative expenses increased $1.1 million to $24.2 million for the first nine months of fiscal 2008. The increase was primarily due to a $1.5 million increase in costs related to the continuous improvement initiative that began in the first quarter of 2008 and a $1.4 million increase in information technology costs due in part to the implementation of new business systems and a web development project in the current year. The increases were partially offset by a $1.1 million decrease in professional fees and a $0.9 million decrease in depreciation expense for the nine months ended July 31, 2008 due to the accelerated depreciation in the prior year of our previous computer software systems associated with the implementation of the new business systems in the prior year.

We recorded $0.6 million in separation charges during the nine months ended July 31, 2007 primarily related to separation pay of a former executive officer who retired in the first quarter of 2007.

We incurred $0.4 million in hurricane related charges in the first nine months of fiscal 2008 primarily due to legal costs associated with ongoing litigation, compared to $2.3 million in hurricane related charges for the same period in 2007 primarily due to repairs at locations damaged by Hurricane Katrina. We are continuing to pursue claims with our insurance carriers as described in Note 15 to the condensed consolidated financial statements.

Interest expense decreased $1.3 million to $18.0 million for the nine months ended July 31, 2008 due to a 174 basis point decrease in the average rate primarily related to the issuance of the $250.0 million senior convertible notes in fiscal year 2007. The senior convertible notes carry an average interest rate of 3.25 percent.

Other operating income, net decreased $0.7 million to $0.8 million for the nine months ended July 31, 2008. The decrease is primarily due to the sale of excess cemetery property and proceeds related to the sale of an investment during the nine months ended July 31, 2007.

Investment and other income, net decreased $0.7 million to $1.7 million due primarily to a decrease in the average rate earned on our cash balances from 4.82 percent in the first nine months of fiscal year 2007 to 2.08 percent for the first nine months of fiscal year 2008.

As a result of the $250.0 million senior convertible note transaction in June 2007, we recorded a $0.7 million charge for the loss on early extinguishment of debt during the nine months ended July 31, 2007.

Our weighted average diluted shares outstanding decreased to 94.7 million shares for the nine months ended July 31, 2008 compared to 104.4 million shares for the same period in 2007. The decrease is primarily due to our $75.0 million stock repurchase program in which we have repurchased $48.4 million, or 6.6 million shares, of our Class A common stock, yielding a positive impact on earnings per share.

Cash and cash equivalents decreased $22.9 million from October 31, 2007 to July 31, 2008 primarily due to $48.4 million in stock repurchases that occurred under our current stock repurchase program. Current receivables increased $17.6 million from October 31, 2007 to July 31, 2008 primarily due to a $10.4 million income tax refund receivable being reclassified from receivables due beyond one year to current receivables as of July 31, 2008 and a $4.3 million income tax receivable recorded in the third quarter of 2008 related to a change in income tax accounting methods. Deferred income taxes decreased $11.8 million from October 31, 2007 to July 31, 2008 primarily due to a change in income tax accounting methods which resulted in an $8.9 million reduction. See Note 16 to the condensed consolidated financial statements for additional information on these income tax related items that occurred in the third quarter of 2008. The increase in other long-term liabilities of $5.9 million from October 31, 2007 to July 31, 2008 was primarily due to a $4.5 million increase due to the adoption of FIN 48 in the first quarter of 2008.

Preneed funeral receivables and trust investments, preneed cemetery receivables and trust investments, cemetery perpetual care trust investments, non-controlling interest in funeral and cemetery trusts and non-controlling interest in perpetual care trusts were all impacted by the recent decline in market value of our trust assets due to a broad based decline in the overall financial markets. For additional information, see Notes 3, 4 and 5 to our condensed consolidated financial statements included herein.

Preneed Sales into and Deliveries out of the Backlog

Net preneed funeral sales decreased 3.6 percent during the nine months ended July 31, 2008 compared to the corresponding period in 2007 due in part to current economic conditions.

The revenues from our preneed funeral and cemetery merchandise and service sales are deferred into our backlog and are not included in our operating results presented above. We added $129.6 million in preneed sales to our funeral and cemetery merchandise and services backlog (including $56.4 million related to insurance-funded preneed funeral contracts) during the nine months ended July 31, 2008 to be recognized in the future (net of cancellations) as these prepaid products and services are delivered, compared to sales of $132.8 million (including $56.3 million related to insurance-funded preneed funeral contracts) for the corresponding period in 2007. Insurance-funded preneed funeral contracts which will be funded by life insurance or annuity contracts issued by third-party insurers are not reflected in the condensed consolidated balance sheet. Revenues recognized on deliveries out of our preneed funeral and cemetery merchandise and services backlog, including accumulated trust earnings related to these preneed deliveries, amounted to $114.7 million for the nine months ended July 31, 2008, compared to $109.6 million for the corresponding period in 2007, resulting in net additions to the backlog of $14.9 million and $23.2 million for the nine months ended July 31, 2008 and 2007, respectively.

Liquidity and Capital Resources

General

We generate cash in our operations primarily from at-need sales, preneed sales that turn at-need, funds we are able to withdraw from our trusts and escrow accounts when preneed sales turn at-need and monies collected on preneed sales that are not required to be trusted. Over the last five years, we have generated more than $50.0 million each year in cash flow from operations. We have historically satisfied our working capital requirements with cash flows from operations. We believe that our current level of cash on hand, projected cash flows from operations and available capacity under our $125.0 million revolving credit facility will be sufficient to meet our cash requirements for the foreseeable future, although we will need to refinance long-term debt becoming due in 2013 through 2016, as described below.

We plan to continue to evaluate our options for deployment of cash flow as opportunities arise. We believe that the use of our cash to pay dividends, repurchase stock, construct funeral homes on cemeteries of unaffiliated third parties and make acquisitions of or investments in death care or related businesses are attractive options. We believe that growing our organization through acquisitions and investments is a good business strategy, as it will enable us to enjoy the important synergies and economies of scale from our infrastructure. We regularly review acquisition and other strategic opportunities, which may require us to draw on our revolving credit facility or pursue additional debt or equity financing.

We have initiated discussions with members of our bank group regarding the renewal of the $125.0 million revolving credit facility which is set to expire in November 2009. As of July 31, 2008, there were no amounts drawn on the facility. Our availability under the revolving credit facility, after giving consideration to $14.6 million in outstanding letters of credit and a $30.8 million bond we are required to maintain to guarantee our obligations related to funds we withdrew in fiscal year 2001 from trust funds in Florida, was $79.6 million as of July 31, 2008. Our $200.0 million senior notes are not redeemable until February 15, 2009 and mature on February 15, 2013. We also have $250.0 million in senior convertible notes, half of which mature in 2014 and the other half of which mature in 2016. See the table below under Contractual Obligations and Commercial Commitments for further information on our long-term debt obligations.

We currently pay quarterly cash dividends of two and one-half cents per share on our Class A and B common stock, which amounted to $7.1 million for the nine months ended July 31, 2008. Although we intend to pay regular quarterly cash dividends for the foreseeable future, the declaration and payment of future dividends are discretionary and will be subject to determination by the Board of Directors each quarter after its review of our financial performance. We also have a $75.0 million stock repurchase program, of which $26.6 million remains available as of July 31, 2008. Repurchases under the program are limited to our Class A common stock, and are made in the open market or in privately negotiated transactions at such times and in such amounts as management deemed appropriate, depending upon market conditions and other factors.

Cash Flow

Our operations provided cash of $52.3 million for the nine months ended July 31, 2008, compared to $54.8 million for the corresponding period in 2007. The decrease is primarily due to $3.2 million of business interruption insurance proceeds and $1.5 million of insurance proceeds, net of expenses, related to Hurricane Katrina, received in fiscal year 2007. In addition, we paid $9.0 million in net tax payments in the first nine months of 2007 compared to net tax payments of $11.8 million in the first nine months of 2008.

Our investing activities resulted in a net cash outflow of $21.1 million for the nine months ended July 31, 2008, compared to a net cash outflow of $26.3 million for the comparable period in 2007. The change is primarily due to the fact that we purchased several properties in the nine months ended July 31, 2007 resulting in a net cash outflow of $6.1 million compared to $1.4 million in the nine months ended July 31, 2008. For the nine months ended July 31, 2008, capital expenditures amounted to $20.4 million, which included $12.4 million for maintenance capital expenditures, $0.5 million for growth initiatives, $2.9 million related to Hurricane Katrina and $4.6 million related to the implementation of new business systems. For the nine months ended July 31, 2007, capital expenditures were $23.1 million, which included $11.5 million for maintenance capital expenditures, $2.2 million for growth initiatives, $5.5 million related to Hurricane Katrina and $3.9 million related to the implementation of new business systems. In the nine months ended July 31, 2008, there were no insurance proceeds related to hurricane damaged properties compared to $1.4 million in the same period in 2007.

Our financing activities resulted in a net cash outflow of $54.1 million for the nine months ended July 31, 2008, compared to a net cash outflow of $17.5 million for the comparable period in 2007. This change is primarily due to net debt proceeds of $73.5 million ($250.0 million in proceeds of long-term debt and $176.5 million in repayments of long-term debt) in the nine months ended July 31, 2007. There were $0.2 million in debt repayments in the nine months ended July 31, 2008. In June 2007, we issued $250.0 million in senior convertible notes. As part of this debt transaction, we prepaid the remaining balance of our Term Loan B for $164.0 million, sold common stock warrants and purchased call options resulting in a net cash outflow of $16.2 million and recorded debt issuance costs of $5.6 million. Also, as part of this debt transaction, we repurchased approximately 7.7 million shares of our Class A common stock for $64.2 million, compared to $48.6 million in cash outflows related to our current stock repurchase program for the same period in 2008.

Contractual Obligations and Commercial Commitments

We have contractual obligations requiring future cash payments under existing contractual arrangements. The following table details our known future cash payments (in millions) related to various contractual obligations as of July 31, 2008.

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Long-term debt obligations [1]	$ 450.1	$	$	$ 200.0	$ 250.1
Interest on long-term debt [2]	119.4	20.6	41.3	41.3	16.2
Operating and capital lease obligations [3]	28.9	1.1	7.2	3.7	16.9
Non-competition and other agreements [4]	1.4	.4	.7	.3	
	$ 599.8	$ 22.1	$ 49.2	$ 245.3	$ 283.2

(1) See below for a breakdown of our future scheduled principal payments and maturities of our long-term debt by type as of July 31, 2008.

(2) Includes contractual interest payments for our senior convertible notes, senior notes and third-party debt.

(3) Our noncancellable operating leases are primarily for land and buildings and expire over the next one to 15 years, except for six leases that expire between 2032 and 2039. In the first quarter of

2008, we entered into a capital lease for equipment with a two-year term for approximately $0.4 million. Our future minimum lease payments as of July 31, 2008 are $1.1 million, $4.1 million, $3.1 million, $2.1 million, $1.6 million, and $16.9 million for the years ending October 31, 2008, 2009, 2010, 2011, 2012 and later years, respectively.

(4) We have entered into non-competition agreements with prior owners and key employees of acquired subsidiaries that expire at various times through 2012. This category also includes separation pay related to former executive officers.

We have contingent obligations that include uncertain tax positions for which we are unable to make an estimate of the timing of future cash settlements at this time.

As of July 31, 2008, our outstanding debt balance was $450.1 million, consisting of $250.0 million of senior convertible notes, $200.0 million of 6.25 percent senior notes and $0.1 million of other debt. There were no amounts drawn on the revolving credit facility. The following table reflects future scheduled principal payments and maturities of our long-term debt (in millions) as of July 31, 2008.

Fiscal Year Ending October 31,	**Revolving Credit Facility**	**Senior Convertible Notes**	**Senior Notes**	**Other, Principally Seller Financing of Acquired Operations**	**Total**
2008	$	$	$	$	$
2009					
2010					
2011					
2012					
Thereafter		250.0	200.0	.1	450.1
Total long-term debt	$	$ 250.0	$ 200.0	$ .1	$ 450.1

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as of July 31, 2008 consist of the following items:

(1) the $30.8 million bond we are required to maintain to guarantee our obligations relating to funds we withdrew in fiscal year 2001 from our preneed funeral trusts in Florida, which is discussed above and in Note 19 to the consolidated financial statements in our 2007 Form 10-K; and

(2) the insurance-funded preneed funeral contracts, which will be funded by life insurance or annuity contracts issued by third-party insurers, are not reflected in our condensed consolidated balance sheets, and are discussed in Note 2(i) to the consolidated financial statements in our 2007 Form 10-K.

Recent Accounting Standards

See Note 2 to the condensed consolidated financial statements included herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosure about market risk is presented in Item 7A in our Annual Report on Form 10-K for the fiscal year ended October 31, 2007, filed with the Securities and Exchange Commission (SEC) on December 21, 2007. Except as described below, there have been no material changes in the Company s market risk from that disclosed in our Form 10-K for the fiscal year ended October 31, 2007. For a discussion of market value as of July 31, 2008 of investments in our trusts, see Notes 3, 4 and 5 to the condensed consolidated financial statements included herein.

As of July 31, 2008 and October 31, 2007, the carrying values of our long-term fixed-rate debt, including accrued interest, were approximately $456.2 million and $455.7 million, respectively, compared to fair values of $457.7 million and $457.1 million, respectively. Fair values were determined using quoted market prices. Each approximate 10 percent change in the average interest rates applicable to determine the fair value of such debt, 50 basis points for July 31, 2008 and October 31, 2007 would result in changes of approximately $11.9 million and $13.3 million, respectively, in the fair values of these instruments. If these instruments are held to maturity, no change in fair value will be realized.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company s Disclosure Committee and management, including the CEO and CFO, of the effectiveness of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon this evaluation, the CEO and CFO concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal control over financial reporting during the quarter ended July 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of our current litigation, see Note 7 to the condensed consolidated financial statements included herein.

In addition to the matters in Note 7, we and certain of our subsidiaries are parties to a number of other legal proceedings that have arisen in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

We carry insurance with coverages and coverage limits that we believe to be adequate. Although there can be no assurance that such insurance is sufficient to protect us against all contingencies, management believes that our insurance protection is reasonable in view of the nature and scope of our operations.

Item 1A. Risk Factors

Except as described below, there have been no material changes from the risk factors previously disclosed in our 2007 Form 10-K.

Our 2007 Form 10-K described the risks associated with a proposed change in accounting for our senior convertible notes. In May 2008, the final version of Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP No. APB 14-1), was issued, and the new accounting rules will be effective for us beginning November 1, 2009 and must be applied retrospectively to all periods presented. We are currently evaluating the impact FSP No. APB 14-1 will have on our consolidated financial statements, but expect to record higher interest expense related to our senior convertible notes beginning in fiscal year 2010.

Potential continuing uncertainty resulting from the recent Service Corporation International (SCI) acquisition proposal and related matters may adversely affect our business and cause volatility in the trading price of our common stock.

On July 7, 2008, our Board of Directors rejected an unsolicited proposal from SCI to acquire all of our outstanding shares for $9.50 per share in cash. In a letter dated June 25, 2008, SCI invited us to enter into negotiations regarding the possible combination of the two companies. In the letter, SCI stated that were it to be given access to certain non-public, non-competitively-sensitive information about our overhead and trust management structure, it might be able to improve its offer, suggesting a potential range of $10.25 per share to $11.25 per share. Our Board of Directors carefully evaluated the terms of the proposal and unanimously concluded that it is in the best interests of Stewart Enterprises and its shareholders to reject the proposal as inadequate.

On July 23, 2008, we issued a press release announcing that our Board of Directors met to consider another letter from SCI dated July 21, 2008 offering $11.00 per share in cash for all of our outstanding shares, subject to the negotiation of mutually satisfactory definitive written agreements and the completion of certain limited, confirmatory due diligence. At the meeting, our Board of Directors unanimously approved the formation of a committee of independent directors (the Independent Committee) to evaluate alternatives available to us to maximize shareholder value, and authorized the Independent Committee to hire an investment banker or other advisors as it deems appropriate.

On August 28, 2008, we announced that the Independent Committee has retained Goldman, Sachs & Co. as financial advisor and Skadden, Arps, Slate, Meagher & Flom LLP as special legal counsel, in connection with the Board s evaluation of strategic alternatives available to us to maximize shareholder value. We also announced that the Independent Committee has commenced the process of working with its advisors and management to collect information and analyze all strategic alternatives available to us. The Independent Committee intends to conduct a thorough evaluation of all strategic alternatives to determine the course of action that is in the best interests of the Company and its shareholders. Neither the Independent Committee nor the Board intends to provide any update with respect to the review of potential strategic alternatives until the Board has approved a definitive course of action.

On August 28, 2008, we also announced that Chairman of the Board, Frank B. Stewart, Jr., who currently controls approximately 34 percent of our voting power, has advised the Board that he is fully supportive of the process being undertaken by the Independent Committee, has not made any decisions regarding the outcome of the process, and plans to wait until the Board has had the opportunity to review the appropriate information and analysis presented by the Independent Committee to the full Board before making any decisions regarding his plans or views. Under Louisiana law and our articles of incorporation, the affirmative vote of at least two-thirds of the voting power present is required to approve certain major transactions, including a merger, and any amendments to our articles of incorporation.

The review and consideration of the SCI proposal and other strategic alternatives has been, and may continue to be, a distraction for our management and employees and will require a significant amount of our time and resources. SCI s proposal may also create uncertainty for our current and potential customers and other business partners, which may cause them to terminate, or not to renew or enter into, arrangements with us. This has also created uncertainty for our employees, and this uncertainty could cause low morale and may adversely affect our ability to retain key employees and to hire new talent. These consequences, alone or in combination, may harm our business.

We also believe that as a result of SCI s proposal and the speculation concerning the potential sale, the trading price of our common stock may be subject to wide price fluctuations. There can be no assurance whether a transaction will occur or at what price. If a transaction does not occur, or the market perceives a transaction as unlikely to happen, our stock price may decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly-announced plans or programs(1)	Maximum approximate dollar value of shares that may yet be purchased under the plans or programs
May 1, 2008 through May 31, 2008	1,000,000	$6.91	1,000,000	$ 5,918,049
June 1, 2008 through June 30, 2008	268,708	$6.75	268,708	$ 29,104,970
July 1, 2008 through July 31, 2008	349,492	$7.25	349,492	$ 26,571,185
Total	1,618,200	$6.96	1,618,200	$ 26,571,185

(1) On September 19, 2007, we announced that our Board of Directors had authorized a new $25.0 million stock repurchase program.

Repurchases under the program are limited to our Class A common stock, and are made in the open market or in privately negotiated transactions at such times and in such amounts as management deems appropriate, depending upon market conditions and other factors. On December 20, 2007, we announced a $25.0 million increase in this program. On June 19, 2008, we announced an additional $25.0 million increase to the program, which increased the program to $75.0 million. As of July 31, 2008, we had repurchased 6.6 million shares for $48.4 million at an average price of $7.32 per share under this program.

Item 5. Other Information

On September 8, 2008, the Board of Directors approved an amendment to our bylaws and to our indemnity agreements with directors primarily designed to make clear that a director s rights to indemnification and advancement of expenses vest at the time he begins to serve as a director, cannot be diminished after that time, and continue after he ceases to serve as a director. The amended and restated bylaws and the amendment to the indemnity agreements are filed as exhibits to this report.

Item 6. Exhibits

3.1 Amended and Restated Articles of Incorporation of the Company, as amended and restated as of April 3, 2008 (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended April 30, 2008)

3.2 By-laws of the Company, as amended and restated as of September 8, 2008

4.1 See Exhibits 3.1 and 3.2 for provisions of the Company s Amended and Restated Articles of Incorporation, as amended, and By-laws, as amended, defining the rights of holders of Class A and Class B common stock

4.2 Specimen of Class A common stock certificate (incorporated by reference to Exhibit 4.2 to Amendment No. 3 to the Company s Registration Statement on Form S-1 (Registration No. 33-42336) filed with the Commission on October 7, 1991)

4.3 Rights Agreement, dated as of October 28, 1999, between Stewart Enterprises, Inc. and ChaseMellon Shareholder Services, L.L.C. as Rights Agent (incorporated by reference to Exhibit 1 to the Company s Form 8-A filed November 4, 1999)

4.4 Amendment No. 1 to the Rights Agreement dated June 26, 2007 between Stewart Enterprises, Inc. and Mellon Investor Services LLC (incorporated by reference to Exhibit 4.4 to the Company s Current Report on Form 8-K filed June 27, 2007)

4.5 Amended and Restated Credit Agreement dated November 19, 2004 by and among the Company, Empresas Stewart-Cementerios and Empresas Stewart-Funerarias, as Borrowers, Bank of America, N.A., as Administrative Agent, Collateral Agent, Swing Line Lender and L/C Issuer and The Other Lenders party hereto (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed November 23, 2004)

4.6 Indenture dated as of February 11, 2005 by and among Stewart Enterprises, Inc., the Guarantors thereunder and U.S. Bank National Association, as Trustee, with respect to the 6.25 percent Senior Notes due 2013 (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed February 14, 2005)

4.7 Form of 6.25 percent Senior Note due 2013 (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed February 14, 2005)

4.8 Indenture dated June 27, 2007 by and among Stewart Enterprises, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee, with respect to 3.125 percent Senior Convertible Notes due 2014 (including Form of 3.125 percent Senior Convertible Notes due 2014) (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed June 27, 2007)

4.9 Indenture dated June 27, 2007 by and among Stewart Enterprises, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee, with respect to 3.375 percent Senior Convertible Notes due 2016 (including Form of 3.375 percent Senior Convertible Notes due 2016) (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed June 27, 2007)

4.10 Registration Rights Agreement dated June 27, 2007 by and among Stewart Enterprises, Inc., the guarantors named therein and the Initial Purchasers (incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed June 27, 2007)

10.1 Amendment No. 2 to Employment Agreement dated May 1, 2008 between the Company and Thomas J. Crawford (incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended April 30, 2008)

10.2 Amendment No. 1 to Employment Agreement dated May 1, 2008 between the Company and Thomas M. Kitchen (incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended April 30, 2008)

10.3 Stewart Enterprises, Inc. Retention Plan and Summary Plan Description effective June 18, 2008

10.4 Amended and Restated Stewart Enterprises, Inc. Retention Plan and Summary Plan Description effective August 1, 2008

10.5 Form of First Amendment to Indemnity Agreements between Stewart Enterprises, Inc. and its Directors

10.6 Amendment to Stewart Enterprises, Inc. Supplemental Executive Retirement Plan effective June 17, 2008

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of Thomas J. Crawford, President and Chief Executive Officer

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of Thomas M. Kitchen, Senior Executive Vice President and Chief Financial Officer

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of Thomas J. Crawford, President and Chief Executive Officer, and Thomas M. Kitchen, Senior Executive Vice President and Chief Financial Officer

STEWART ENTERPRISES, INC.
AND SUBSIDIARIES
SIGNATURES

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.

	STEWART ENTERPRISES, INC.
September 9, 2008	/s/ THOMAS M. KITCHEN Thomas M. Kitchen Senior Executive Vice President and Chief Financial Officer
September 9, 2008	/s/ ANGELA M. LACOUR Angela M. Lacour Vice President Corporate Controller Chief Accounting Officer

Exhibit Index

3.2 By-laws of the Company, as amended and restated as of September 8, 2008

10.3 Stewart Enterprises, Inc. Retention Plan and Summary Plan Description effective June 18, 2008

10.4 Amended and Restated Stewart Enterprises, Inc. Retention Plan and Summary Plan Description effective August 1, 2008

10.5 Form of First Amendment to Indemnity Agreements between Stewart Enterprises, Inc. and its Directors

10.6 Amendment to Stewart Enterprises, Inc. Supplemental Executive Retirement Plan effective June 17, 2008

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of Thomas J. Crawford, President and Chief Executive Officer

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of Thomas M. Kitchen, Senior Executive Vice President and Chief Financial Officer

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of Thomas J. Crawford, President and Chief Executive Officer, and Thomas M. Kitchen, Senior Executive Vice President and Chief Financial Officer