

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

_____)	
In the Matter of)	
)	
Service Corporation International,)	Docket No. C-4174
a corporation, and)	File No. 061-0156
)	
Alderwoods Group, Inc.,)	
a corporation)	
_____)	

**PETITION FOR APPROVAL OF PROPOSED
DIVESTITURE TO CARRIAGE SERVICES, INC.**

Pursuant to Section 2.41(f) of the Federal Trade Commission (“Commission”) Rules of Practice and Procedure, 16 C.F.R. § 2.41(f) (2006), and Paragraph II.A. of the Decision and Order contained in the Agreement Containing Consent Orders accepted for public comment in this matter (“Decision and Order”), Respondent Service Corporation International (“SCI”) hereby petitions the Commission to approve the divestiture to two wholly owned subsidiaries of Carriage Services, Inc: Carriage Cemetery Services, Inc. (“CCSI”) and Cochrane’s Chapel of the Roses, Inc. (“Cochrane’s”; CCSI, Cochrane’s, Carriage Services, Inc. and all of its other subsidiaries being collectively referred to as “Carriage”), of the “Divestiture Businesses” that include the following facilities:

- Conejo Mountain Funeral Home, 2052 Howard Road, Camarillo, CA
- Conejo Mountain Memorial Park, 2052 Howard Road, Camarillo, CA

The Divestiture Businesses associated with these facilities (as defined in the Decision and Order, and hereinafter collectively referred to as the “Carriage Divestiture Assets”) will be sold to CCSI and Cochrane’s pursuant to a Contingent Asset Sale

Agreement dated November 22, 2006 (the “Sale Agreement”), by and among CCSI and SCI Funeral Services, Inc. (“FSI”), an affiliate that is owned 100% by SCI.¹ The executed Sale Agreement is attached hereto as Confidential Exhibit A. At or prior to the closing, CCSI will designate Cochrane’s to purchase the funeral home assets, while CCSI will purchase the cemetery assets, included in the Carriage Divestiture Assets.

The Carriage Divestiture Assets will consist of substantially all of the operating assets, rights and properties used in or necessary for the operation of the Conejo Mountain Funeral Home and Memorial Park.

Background

On October 13, 2006, SCI and Respondent Alderwoods Group, Inc. (“Alderwoods”) (collectively, the “Respondents”) executed an Agreement Containing Consent Orders that included the Decision and Order and an Order to Hold Separate and Maintain Assets (collectively, the “Consent Agreement”) to settle the Commission’s charges that the proposed acquisition by SCI of Alderwoods would violate Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. On November 22, 2006, the Commission accepted the Consent Agreement for public comment, and on November 28, 2006, SCI consummated its acquisition of Alderwoods. Alderwoods is now a wholly-owned subsidiary of SCI. The Consent Agreement is presently before the Commission for final approval and issuance of the Decision and Order.

¹ The Sale Agreement was initially “contingent” because, on the date that it was signed, SCI’s acquisition of Alderwoods had not yet been consummated, and a subsidiary of Alderwoods owned and operated the Carriage Divestiture Assets. As a result, the Sale Agreement was subject to consummation of the SCI-Alderwoods Acquisition, and FSI was required to cause the Alderwoods subsidiary that owns the Carriage Divestiture Assets to join in the execution of the Sale Agreement within ten days following the consummation date. Now that SCI has completed its acquisition of Alderwoods, the selling entity has joined the transaction, as reflected in Confidential Exhibit A.

Because Confidential Exhibit A to this petition contains confidential and competitively sensitive business information relating to the divestiture of the Carriage Divestiture Assets — the disclosure of which may prejudice the Respondents and Carriage, cause harm to the ongoing competitiveness of the Carriage Divestiture Assets, and impair the Respondents' ability to comply with their obligations under the Consent Agreement — the Respondents have redacted Confidential Exhibit A from the public version of this petition. Pursuant to Sections 2.41(f)(4) and 4.9(c) of the Commission's Rules of Practice and Procedure, 16 C.F.R. §§ 2.41(f)(4) & 4.9(c) (2006), the Respondents request that the confidential version of this petition and the information contained herein be accorded confidential treatment under 5 U.S.C. § 552 and Section 4.10(a)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.10(a)(2) (2006). The confidential version of this petition is also exempt from disclosure under Exemptions 4, 7(A), 7(B), and 7(C) of the Freedom of Information Act, 5 U.S.C. §§ 552(b)(4), 552(b)(7)(A), 552(b)(7)(B), & 552(b)(7)(C), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, 15 U.S.C. § 18a(h).

SCI desires to complete the proposed divestiture of the Carriage Divestiture Assets as soon as possible, following Commission approval thereof. SCI and Carriage believe that they will be in a position to close the divestiture within a few days following receipt of Commission approval.² Prompt consummation will further the purposes of the Decision and Order and is in the interests of the public, Carriage, and the Respondents;

² In order to transfer ownership of a funeral home, a notification to the California Cemetery and Funeral Bureau ("Bureau") regarding change in control of the funeral home must be submitted at least 30 days prior to closing, and Carriage expects to submit this notice this month. Separately, Carriage must also receive new funeral home and cemetery licenses for the location, but consistent with Bureau policy, SCI and Carriage may complete the transaction prior to the receipt of these licenses. Based on discussions with the Bureau, and consistent with industry practice, Carriage will submit its applications for funeral and cemetery licenses on or about the closing date. Once the Bureau considers the applications complete, the new licenses are usually processed within 90 days. Neither party is aware of any other state or local regulatory approvals that would constitute a condition to closing. Under California law, Carriage will be permitted to operate the funeral home and cemetery in question while the applications are pending.

quick approval will allow Carriage to move forward with its business plans for the competitive operation of the Carriage Divestiture Assets. SCI accordingly requests that the Commission promptly commence the period of public comment pursuant to Section 2.41(f)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(2) (2006), limit the public comment period to the customary 30-day period, and grant this petition by approving the divestiture of the Carriage Divestiture Assets to Carriage pursuant to the Sale Agreement as soon as practicable after the close of the public comment period.

I. The Sale Agreement Is Final and Consistent with the Decision and Order's Terms

Paragraph II.A of the Decision and Order requires the Respondents to divest the Divestiture Businesses (as defined in the Decision and Order) within 180 days of the date on which SCI's acquisition of Alderwoods is consummated (i.e., November 28, 2006). Pursuant to this requirement, SCI has diligently sought a buyer that would be acceptable to the Commission over several months preceding Commission action on the Consent Agreement, through an extensive auction process that produced great interest in the properties. On November 22, 2006, SCI caused FSI to enter into the Sale Agreement that requires SCI to sell the Carriage Divestiture Assets to Carriage, the highest bidder for those assets.

The Sale Agreement complies with the requirements of Paragraph II of the Decision and Order. Paragraph II.A. requires that Respondents divest the Carriage Divestiture Assets, absolutely and in good faith. Carriage will acquire the Carriage Divestiture Assets pursuant to Section 1.1 of the Sale Agreement.

As described in the Sale Agreement, the Carriage Divestiture Assets will include a new funeral home facility that Alderwoods has been constructing. As required under the Consent Agreement, the Carriage Divestiture Assets are presently among the assets being

operated separately from SCI's other operations under the management of Ron Collins, the independent Manager, and the supervision of Bill Rowe, the Independent Monitor. Pursuant to Paragraph II.D.7(c) of the Order to Hold Separate and Maintain Assets and Section 5.17 of the Sale Agreement, SCI is providing sufficient resources to continue the construction of this new facility. SCI expects that Mr. Collins, under the supervision of Mr. Rowe, will oversee the completion of the new facility in the near future. Construction is expected to be completed prior to the closing under the Sale Agreement.³

* * *

As demonstrated above and in the accompanying Sale Agreement, SCI has caused FSI to enter into an agreement relating to the sale of the Carriage Divestiture Assets that fully complies with the Decision and Order. Accordingly, the Respondents hereby seek Commission approval of the proposed divestitures pursuant to Paragraph II.A. of the Decision and Order.

II. The Proposed Acquirer Will Be a Strong and Effective Competitor

Carriage has extensive experience in acquiring and operating funeral homes and cemeteries, and possesses the financial wherewithal to make this acquisition. The acquisition by Carriage will assure that the Carriage Divestiture Assets remain strong and effective competitors in the Southern Ventura County and Ventura County markets in California.

CCSI and Cochrane's are both indirect wholly-owned subsidiaries of Carriage Services, Inc. Carriage, based in Houston, Texas, has been a public company since 1996 and its common stock is listed on the New York Stock Exchange under the symbol "CSV." It is a leading provider of death care services and products in the United States. As of November 27, 2006, Carriage operated 131 funeral homes in 27 states and 28 cemeteries in 11 states.

³ The Sale Agreement obligates SCI to complete construction of the facility and to furnish it, regardless of when the closing occurs.

Carriage was founded in 1991. Carriage provides a complete range of preneed and at need services and products related to funerals, burials and cremations. Carriage is divided into two segments: funeral homes, accounting for approximately 75% of total revenue, and cemeteries, accounting for approximately 25% of total revenue. Carriage's business strategy is based on strong, local leadership and entrepreneurial principles that drive market share, revenue growth, and profitability. Carriage implemented its new funeral operating model, called "Being the Best," at the beginning of 2004. The standards-based model emphasizes growing market share and improving long-term profitability by employing leadership and entrepreneurial principles that fit the nature of its local, personal service, high value business.

Carriage has grown through acquisitions, beginning in early 1992, gaining a reputation as a premier operator in the death care business. Most funeral homes and cemeteries acquired by Carriage in the intervening 15 years primarily serve suburban markets. While Carriage has acquired a number of independent funeral home and cemetery operations, Carriage has also experienced growth in acquiring select properties from SCI in required divestitures that were approved by the Commission. In 1993, Carriage acquired from SCI eight funeral homes in Georgia and Tennessee arising from SCI's acquisition of Sentinel Group, Inc., under a Consent Order (FTC Docket No. C-3646). In 1996, Carriage acquired seven properties located in Amarillo, Texas and Brevard and Lee Counties, Florida arising from SCI's acquisition of Gibraltar Mausoleum Corporation, under a Consent Order dated March 21, 1996 (FTC Docket No. C-3646). In 1999, Carriage acquired 19 funeral home and cemetery properties in 14 markets arising from SCI's acquisition of Equity Corporation International, under a Consent Order dated May 4, 1999 (FTC Docket No. C-3869). In each of those transactions, Carriage furnished the Commission with detailed information and background concerning the Carriage organization, and in each instance the Commission approved the divestiture from SCI to Carriage. Carriage

has also acquired other funeral home and cemetery properties from SCI under circumstances unrelated to Commission consent agreements, but not since 1999.⁴

Carriage currently owns and operates 18 funeral homes and three cemeteries in the State of California. Carriage does not currently have any funeral homes or cemeteries in Ventura County or elsewhere in Southern California. All of Carriage's California locations are in the North-Central portion of the State, with no location south of the San Jose area (*i.e.*, they are all more than 200 miles north of Ventura County).

Financial Capability

For the twelve months ended December 31, 2005, Carriage reported consolidated revenues of approximately \$155 million. For the nine months ended September 30, 2006, consolidated revenues were approximately \$115 million. As of December 31, 2005, Carriage employed 1,781 personnel.⁵

As noted in Carriage's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 2006, Carriage had approximately \$29 million in cash, cash equivalents and short-term investments which it has the ability to use for purposes of paying the purchase price under the Sale Agreement. Carriage also has a \$35 million revolving credit facility which currently has a zero (-0-) balance and from which Carriage could draw to pay for acquisitions. Carriage expects to use cash on hand (including liquidations of short-term investments) to pay the purchase price under the Sale Agreement. As the funeral home included in the Carriage Divestiture Assets will be a newly constructed facility, Carriage does not have any near-term plans to make any additional significant capital investments in the business following closing, beyond the normal day-to-day working capital funding requirements.

⁴ SCI has sold properties to Carriage because Carriage is a sophisticated buyer interested in expanding.

⁵ More information on Carriage and its subsidiaries is available at www.carriageservices.com. Click on "Investor Relations" to access Carriage's SEC filings (including its annual report for the year ended December 31, 2005 and quarterly report for the quarter ended September 30, 2006), press releases and biographies of its board of directors and senior management team.

Operations Experience

Carriage is a seasoned owner and operator of funeral homes and cemeteries, and has been approved by the Commission as a divestiture buyer on three prior occasions. At the local, regional and national level, Carriage has assembled a seasoned management team to professionally serve the markets in which its funeral homes and cemeteries operate.

Melvin C. Payne, one of Carriage's founders, has been Chairman of the Board and Chief Executive Officer since December 1996. Prior to that date, he was the President, Chief Executive Officer and a director of Carriage since its inception in 1991. Mr. Payne resumed the additional position of President in December 2000. At this time, Mr. Payne is also the functional leader of all of Carriage's funeral and cemetery operations. Carriage's operations are divided into three geographic regions, each led by a Regional Managing Partner, and those Regional Managing Partners all currently report directly to Mr. Payne. There are about 100 Managing Partners each of whom reports to one of the three Regional Managing Partners. Each Managing Partner is responsible for an individual location or in some cases a cluster of proximate locations. The Regional Managing Partners and the Managing Partners have substantial experience in the death care industry and in managing funeral homes and cemeteries.

Brian Dixon-Lennett is currently the Regional Managing Partner for Carriage's Western Region, which includes California. Mr. Dixon-Lennett will assume supervisory authority over the Carriage Divestiture Assets once the acquisition is completed, and the manager of those businesses will report to Mr. Dixon-Lennett. Mr. Dixon-Lennett has held his current position since January 2006. Prior to that time, he served as General Manager (and before that as Sales Manager) at Carriage's Los Gatos Memorial Park in San Jose. In his 25-year career in the death care industry, he has served in numerous other positions, including Sales Manager for The Catholic Cemeteries Diocese of Oakland; President and CEO of Skylawn Corporation Inc. in San Francisco; President & CEO of Cemetery Management Inc. in Seattle;

Vice-President Sales for the Cemetery Division of The Loewen Group Inc.; Regional Vice-President – Northwest Region/Cemetery Division for SCI; and Assistant Vice-President of Sales – Western Region/Cemetery Division for SCI.

Under the Sale Agreement, Carriage has discretion to offer employment to any employee of the Divestiture Businesses when closing occurs. Carriage intends to engage in an interview process to determine the appropriate staffing for the businesses when acquired. FSI has agreed in the Sale Agreement not to solicit the employment of any employee of the Divestiture Businesses hired by Carriage for a period of two years following closing, as required by Paragraph II.H.4. of the Decision and Order.

Carriage believes that it possesses sufficient operating expertise to not only ensure the continued competitiveness of the Carriage Divestiture Assets, but to enhance them. Carriage has a proven track record in vigorously competing in the markets it serves, including those markets in which SCI has a presence, and Carriage intends to apply its Being the Best model in enhancing the competitive position of the Carriage Divestiture Assets once the acquisition is complete.

III. The Proposed Divestiture Will Achieve the Purposes of the Decision and Order and Result in No Harm to Competition

The proposed divestiture of the Carriage Divestiture Assets, as embodied in the Sale Agreement, will achieve the purposes of the Decision and Order. Carriage is an experienced operator of funeral homes and cemeteries, with a proven track record of successfully operating and enhancing the funeral homes and cemeteries that it has acquired in the past. Carriage enjoys a strong financial position that will enable it to complete this acquisition, continue the operation of the Carriage Divestiture Assets and enhance their competitiveness in the market for funeral and cemetery services. Carriage has been approved by the Commission as a divestiture buyer on three previous occasions. Combining the Carriage Divestiture Assets with

Carriage's experience and financial wherewithal will ensure that the objectives of the Commission's Decision and Order will be realized.

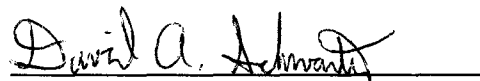
The proposed divestiture will result in no harm to competition. Carriage does not currently compete in any market, as defined in the Commission's Complaint, in which the Carriage Divestiture Assets operate. Consequently, there is no overlap between the operations of Carriage and the Carriage Divestiture Assets, and the proposed divestiture does not raise any competitive issue.

In sum, the proposed divestiture will remedy any anticompetitive effects that could result from the Acquisition. The Sale Agreement will achieve the Commission's stated purposes of ensuring the continued use of the Carriage Divestiture Assets in the same business in which they were engaged at the time of the announcement of the proposed Acquisition and remedying the lessening of competition as alleged in the Commission's Complaint.

Conclusion

For the foregoing reasons, the Respondents respectfully request that the Commission approve the proposed divestiture of the Carriage Divestiture Assets to Carriage, as embodied in the Sale Agreement, as soon as practicable after expiration of the public comment period.

Respectfully submitted,

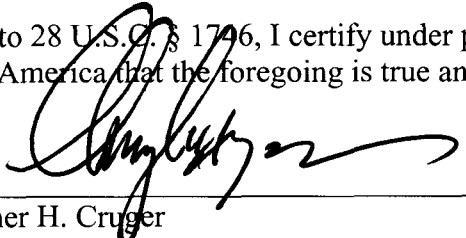


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Counsel for Respondents
Dated: December 15, 2006

CERTIFICATION OF SERVICE CORPORATION INTERNATIONAL

The facts and information related in the foregoing Petition, insofar as they pertain to Service Corporation International, its subsidiaries, and its assets, are, to the best of my knowledge, true, correct, and complete.

Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

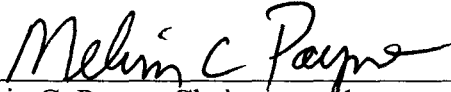
A handwritten signature in black ink, appearing to read "Christopher H. Cruger", written over a horizontal line.

Christopher H. Cruger
Vice President, Business Development
Service Corporation International

CERTIFICATION OF CARRIAGE

The facts and information related in the foregoing Petition, insofar as they pertain to Carriage Cemetery Services, Inc., its affiliated entities, and their assets, are, to the best of my knowledge, true, correct, and complete.

Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

A handwritten signature in cursive script that reads "Melvin C. Payne". The signature is written in black ink and is positioned above a horizontal line.

Melvin C. Payne, Chairman and
Chief Executive Officer,
Carriage Cemetery Services, Inc.

EXHIBIT A

[REDACTED FROM THE PUBLIC RECORD VERSION]