

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

April 30, 2015

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-6402-1

SERVICE CORPORATION INTERNATIONAL

(Exact name of registrant as specified in its charter)

Texas

74-1488375

(State or other jurisdiction of incorporation or organization)

(I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas

77019

(Address of principal executive offices)

(Zip code)

713-522-5141

(Registrant's telephone number, including area code)

None

(Former name, former address, or former fiscal year, if changed since last report)

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  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if smaller reporting company)

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

YES  NO

The number of shares outstanding of the registrant's common stock as of April 28, 2015 was 202,086,499 (net of treasury shares).

---

Table of Contents

SERVICE CORPORATION INTERNATIONAL  
INDEX

|  | Page      |
|--|-----------|
| <u>Glossary</u>  | <u>3</u>  |
| <u>Part I. Financial Information</u>   | <u>5</u>  |
| <u>Item 1. Financial Statements</u>  | <u>5</u>  |
| <u>Unaudited Condensed Consolidated Statement of Operations — Three Months Ended March 31, 2015 and 2014</u>           | <u>45</u> |
| <u>Unaudited Condensed Consolidated Statement of Comprehensive Income — Three Months Ended March 31, 2015 and 2014</u> | <u>6</u>  |
| <u>Unaudited Condensed Consolidated Balance Sheet — March 31, 2015 and December 31, 2014</u>                           | <u>7</u>  |
| <u>Unaudited Condensed Consolidated Statement of Cash Flows — Three Months Ended March 31, 2015 and 2014</u>           | <u>8</u>  |
| <u>Unaudited Condensed Consolidated Statement of Equity — Three Months Ended March 31, 2015 and 2014</u>               | <u>10</u> |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>  | <u>11</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                   | <u>34</u> |
| <u>The Company</u>   | <u>34</u> |
| <u>Financial Condition, Liquidity, and Capital Resources</u>   | <u>35</u> |
| <u>Results of Operations — Three Months Ended March 31, 2015 and 2014</u>  | <u>41</u> |
| <u>Critical Accounting Policies</u>  | <u>44</u> |
| <u>Cautionary Statement on Forward-Looking Statements</u>  | <u>44</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>45</u> |
| <u>Item 4. Controls and Procedures</u>   | <u>46</u> |
| <u>Part II. Other Information</u>  | <u>46</u> |
| <u>Item 1. Legal Proceedings</u>   | <u>46</u> |
| <u>Item 1A. Risk Factors</u>   | <u>46</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | <u>46</u> |
| <u>Item 6. Exhibits</u>  | <u>48</u> |
| <u>Signature</u>   | <u>49</u> |
| <u>Index of Exhibits</u>   | <u>50</u> |

Table of Contents

GLOSSARY

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

Atneed — Funeral and cemetery arrangements sold once death has occurred.

Burial Vaults — A reinforced container intended to inhibit the subsidence of the earth and house the casket after it is placed in the ground, also known as outer burial containers.

Cancellation — Termination of a preneed funeral or cemetery contract, which relieves us of the obligation to provide the goods and services included in the contract. Cancellations may be requested by the customer or be initiated by us for failure to comply with the contractual terms for payment. State or provincial laws govern the amount of refund, if any, owed to the customer.

Care Trust Corpus - The deposits and net realized capital gains and losses included in a perpetual care trust that cannot be withdrawn.

Cemetery Perpetual Care or Endowment Care Fund (ECF) — A trust fund established for the purpose of maintaining cemetery grounds and property into perpetuity, also referred to as a perpetual care trust. Where allowable by state law, capital gains can be distributed to us and they are recognized as cemetery revenues in the period earned. However, in certain states, capital gains within the perpetual care trusts are generally not distributable to us, so they are not included in our revenues. Capital gains which cannot be distributed in those states instead increase the investable perpetual care trust assets and trust corpus, increasing the potential for higher ordinary investment income in the future.

Cemetery Property — Developed lots, lawn crypts, mausoleum spaces, cremation niches, and cremation memorialization property available for sale as interment rights and undeveloped land we intend to develop.

Cemetery Property Amortization — The non-cash recognized expenses of cemetery property interment rights, which are recorded by specific identification with the cemetery property revenue for each contract.

Cemetery Property Revenue — Recognized sales of cemetery property interment rights when a minimum of 10% of the sales price has been collected and the property has been constructed and is available for interment.

Cemetery Merchandise and Services — Stone and bronze memorials, markers, merchandise installations, and burial openings and closings.

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

Cremation Memorialization — Products specifically designed to commemorate and honor the life of an individual that has been cremated. These products include funeral merchandise and cemetery property types that provide for the disposition of cremated remains such as benches, boulders, statues, ossuaries, and reefs. They also include memorial walls and books where the name of the individual is inscribed but the remains have been scattered or kept by the family.

Funeral Merchandise and Services — Professional services relating to funerals and cremations and funeral-related merchandise, including caskets, casket memorialization products, burial vaults, cremation receptacles, cremation memorialization products, and flowers.

Funeral Recognized Preneed Revenue — Funeral merchandise and travel protection sold on a preneed contract and delivered before a death has occurred.

Funeral Services Performed — The number of funeral services provided after the date of death, sometimes referred to as funeral volume.

General Agency (GA) Revenues — Commissions we receive from third-party life insurance companies for life insurance policies or annuities sold to preneed customers for the purpose of funding preneed funeral arrangements. The commission rate paid is determined based on the product type sold, the length of payment terms, and the age of the insured/annuitant.

Interment — The burial or final placement of human remains in the ground, in mausoleums, in cremation niches, or cremation memorialization property.

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

Marker — A method of identifying a deceased person in a particular burial space, crypt, niche, or cremation memorialization property. Permanent burial markers are usually made of bronze or stone.

Maturity — When the underlying contracted merchandise is delivered or service is performed, typically at death. This is the point at which preneed contracts are converted to atneed contracts (note — delivery of certain merchandise and services can occur prior to death).

Mausoleum — An above ground structure that is designed to house caskets and cremation urns.

Table of Contents

Merchandise and Service Trust — A trust account established in accordance with state or provincial law into which we deposit the required percentage of customers' payments for preneed funeral or cemetery merchandise and services. The amounts deposited can be withdrawn only after we have completed our obligations under the preneed contract or the cancellation of the contract.

Preneed — Purchase of cemetery property interment rights and funeral and cemetery merchandise and services prior to a death occurring.

Preneed Backlog — Future revenues from unfulfilled preneed funeral and cemetery contractual arrangements.

Preneed Cemetery Production — Sales of preneed or atneed cemetery contracts. These sales are recorded in Deferred preneed cemetery revenues until the merchandise is delivered, the service is performed, or when a minimum of 10% of the sales price has been collected and the property has been constructed and is available for interment.

Preneed Funeral Production — Sales of preneed funeral trust-funded and insurance-funded contracts. Preneed funeral trust-funded contracts are recorded in Deferred preneed funeral revenues until the merchandise is delivered or the service is performed. We do not reflect the unfulfilled preneed funeral insurance-funded contract amounts in our consolidated balance sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenues as these funerals are performed by us in the future.

Sales Average — Average revenue per funeral service performed, excluding the impact of funeral recognized preneed revenue, GA revenue, and certain other revenues.

Trust Fund Income — Recognized investment earnings from our merchandise and service and perpetual care trust investments.

As used herein, “SCI”, “Company”, “we”, “our”, and “us” refer to Service Corporation International and companies owned directly or indirectly by Service Corporation International, unless the context requires otherwise.

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

SERVICE CORPORATION INTERNATIONAL  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

|   | Three Months Ended<br>March 31,          |            |
|---|--|------------|
|   | 2015                                     | 2014       |
|   | (In thousands, except per share amounts) |            |
| Revenues  | \$748,117                                | \$745,495  |
| Costs and expenses                                  | (570,168 )                               | (579,433 ) |
| Gross profits                                       | 177,949                                  | 166,062    |
| General and administrative expenses                 | (35,055 )                                | (55,830 )  |
| Losses on divestitures and impairment charges, net  | (1,779 )                                 | (2,812 )   |
| Operating income                                    | 141,115                                  | 107,420    |
| Interest expense                                    | (42,939 )                                | (44,996 )  |
| Other (expense) income, net                         | (58 )                                    | 1,534      |
| Income before income taxes                          | 98,118                                   | 63,958     |
| Provision for income taxes                          | (36,653 )                                | (22,707 )  |
| Net income from continuing operations               | 61,465                                   | 41,251     |
| Net income from discontinued operations, net of tax | —  | 140        |
| Net income  | 61,465                                   | 41,391     |
| Net income attributable to noncontrolling interests | (90 )                                    | (289 )     |
| Net income attributable to common stockholders      | \$61,375                                 | \$41,102   |
| Basic earnings per share:                           |  |            |
| Net income attributable to common stockholders      | \$0.30                                   | \$0.19     |
| Basic weighted average number of shares             | 203,510                                  | 212,838    |
| Diluted earnings per share:                         |  |            |
| Net income attributable to common stockholders      | \$0.30                                   | \$0.19     |
| Diluted weighted average number of shares           | 207,752                                  | 217,231    |
| Dividends declared per share                        | \$0.10                                   | \$0.08     |

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

SERVICE CORPORATION INTERNATIONAL  
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 (UNAUDITED)

|   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2015               | 2014      |
|   | (In thousands)     |           |
| Net income  | \$61,465           | \$41,391  |
| Other comprehensive income:   |                    |           |
| Foreign currency translation adjustment                             | (22,633 )          | (11,200 ) |
| Total comprehensive income  | 38,832             | 30,191    |
| Total comprehensive income attributable to noncontrolling interests | (74 )              | (315 )    |
| Total comprehensive income attributable to common stockholders      | \$38,758           | \$29,876  |

(See notes to unaudited condensed consolidated financial statements)



Table of ContentsSERVICE CORPORATION INTERNATIONAL  
CONDENSED CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

|   | March 31, 2015                       | December 31,<br>2014 |
|---|--------------------------------------|----------------------|
|   | (In thousands, except share amounts) |                      |
| <b>ASSETS</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$217,129                            | \$ 177,335           |
| Receivables, net  | 108,394                              | 109,050              |
| Inventories   | 30,181                               | 29,697               |
| Other   | 54,234                               | 80,774               |
| Total current assets  | 409,938                              | 396,856              |
| Preneed funeral receivables, net and trust investments  | 1,831,365                            | 1,843,023            |
| Preneed cemetery receivables, net and trust investments   | 2,336,364                            | 2,306,669            |
| Cemetery property, at cost  | 1,740,380                            | 1,739,216            |
| Property and equipment, net   | 1,845,506                            | 1,861,403            |
| Goodwill  | 1,811,067                            | 1,810,853            |
| Deferred charges and other assets   | 626,356                              | 624,248              |
| Cemetery perpetual care trust investments   | 1,357,401                            | 1,341,376            |
| Total assets  | \$11,958,377                         | \$11,923,644         |
| <b>LIABILITIES &amp; EQUITY</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Accounts payable and accrued liabilities  | \$459,788                            | \$453,042            |
| Current maturities of long-term debt  | 90,960                               | 90,931               |
| Income taxes  | 37,274                               | 8,035                |
| Total current liabilities   | 588,022                              | 552,008              |
| Long-term debt  | 2,962,676                            | 2,963,794            |
| Deferred preneed funeral revenues   | 544,290                              | 540,164              |
| Deferred preneed cemetery revenues  | 1,082,968                            | 1,062,381            |
| Deferred tax liability  | 440,257                              | 448,824              |
| Other liabilities   | 496,510                              | 502,553              |
| Deferred preneed funeral and cemetery receipts held in trust  | 3,157,920                            | 3,148,884            |
| Care trusts' corpus   | 1,344,178                            | 1,327,658            |
| Commitments and contingencies (Note 15)   |                                      |                      |
| Equity:   |                                      |                      |
| Common stock, \$1 per share par value, 500,000,000 shares authorized,<br>206,586,471 and 205,458,331 shares issued, respectively, and 202,910,352 and<br>204,866,770 shares outstanding, respectively | 202,910                              | 204,867              |
| Capital in excess of par value  | 1,165,894                            | 1,186,304            |
| Accumulated deficit   | (72,771                              | ) (81,859            |
| Accumulated other comprehensive income  | 36,797                               | 59,414               |
| Total common stockholders' equity   | 1,332,830                            | 1,368,726            |
| Noncontrolling interests  | 8,726                                | 8,652                |
| Total equity  | 1,341,556                            | 1,377,378            |
| Total liabilities and equity  | \$11,958,377                         | \$11,923,644         |

(See notes to unaudited condensed consolidated financial statements)



Table of Contents

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

|  | Three Months Ended |            |
|--|--------------------|------------|
|  | March 31,          |            |
|  | 2015               | 2014       |
|  | (In thousands)     |            |
| Cash flows from operating activities:  |                    |            |
| Net income   | \$61,465           | \$41,391   |
| Adjustments to reconcile net income to net cash provided by operating activities:    |                    |            |
| Income from discontinued operations, net of tax                                      | —                  | (140 )     |
| Depreciation and amortization  | 34,041             | 36,020     |
| Amortization of intangible assets  | 8,150              | 10,080     |
| Amortization of cemetery property  | 11,632             | 11,339     |
| Amortization of loan costs   | 2,422              | 1,844      |
| Provision for doubtful accounts  | 2,690              | 2,155      |
| (Benefit) provision for deferred income taxes  | (6,624 )           | 10,124     |
| Losses on divestitures and impairment charges, net                                   | 1,779              | 2,812      |
| Share-based compensation   | 4,023              | 3,130      |
| Excess tax benefits from share-based awards  | (5,511 )           | (6,744 )   |
| Change in assets and liabilities, net of effects from acquisitions and divestitures: |                    |            |
| Increase in receivables  | (2,894 )           | (4,227 )   |
| Decrease (increase) in other assets  | 5,894              | (986 )     |
| Increase in payables and other liabilities   | 54,847             | 6,644      |
| Effect of preneed funeral production and maturities:                                 |                    |            |
| Decrease in preneed funeral receivables, net and trust investments                   | 13,760             | 14,279     |
| Increase (decrease) in deferred preneed funeral revenue                              | 6,729              | (963 )     |
| Decrease in deferred preneed funeral receipts held in trust                          | (21,748 )          | (14,768 )  |
| Effect of cemetery production and deliveries:  |                    |            |
| (Increase) decrease in preneed cemetery receivables, net and trust investments       | (7,252 )           | 2,160      |
| Increase in deferred preneed cemetery revenue  | 22,375             | 19,421     |
| Increase (decrease) in deferred preneed cemetery receipts held in trust              | 2,994              | (6,262 )   |
| Other  | —                  | 1,539      |
| Net cash provided by operating activities from continuing operations                 | 188,772            | 128,848    |
| Net cash used in operating activities from discontinued operations                   | —                  | (961 )     |
| Net cash provided by operating activities  | 188,772            | 127,887    |
| Cash flows from investing activities:  |                    |            |
| Capital expenditures   | (28,298 )          | (24,917 )  |
| Acquisitions, net of cash acquired   | (30,616 )          | (779 )     |
| Proceeds from divestitures and sales of property and equipment                       | 3,901              | 2,694      |
| Net withdrawals (deposits) of restricted funds                                       | 2,841              | (12,225 )  |
| Net cash used in investing activities from continuing operations                     | (52,172 )          | (35,227 )  |
| Net cash used in investing activities from discontinued operations                   | —                  | (360 )     |
| Net cash used in investing activities  | (52,172 )          | (35,587 )  |
| Cash flows from financing activities:  |                    |            |
| Proceeds from issuance of long-term debt   | 15,000             | 110,000    |
| Payments of debt   | (15,071 )          | (7,579 )   |
| Early extinguishment of debt   | —                  | (167,093 ) |
| Principal payments on capital leases   | (7,380 )           | (7,231 )   |

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

|   |          |   |          |   |
|---|----------|---|----------|---|
| Proceeds from exercise of stock options                 | 9,445    |   | 7,915    |   |
| Excess tax benefits from share-based awards             | 5,511    |   | 6,744    |   |
| Purchase of Company common stock                        | (73,180) | ) | (1,053)  | ) |
| Payments of dividends                                   | (20,461) | ) | (17,080) | ) |
| Purchase of noncontrolling interest                     | —        |   | (15,000) | ) |
| Bank overdrafts and other                               | (6,819)  | ) | 3,762    | ) |
| Net cash used in financing activities                   | (92,955) | ) | (86,615) | ) |
| Net change in cash of discontinued operations           | —        |   | 1,323    |   |
| Effect of foreign currency on cash and cash equivalents | (3,851)  | ) | (1,931)  | ) |
| Net increase in cash and cash equivalents               | 39,794   |   | 5,077    |   |

8

---

Table of Contents

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2015               | 2014      |
| Cash and cash equivalents at beginning of period                     | 177,335            | 141,584   |
| Cash and cash equivalents at end of period                           | \$217,129          | \$146,661 |
| (See notes to unaudited condensed consolidated financial statements) |                    |           |

9

---

Table of Contents

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

|  | Common<br>Stock | Treasury<br>Stock | Capital in<br>Excess of<br>Par Value | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income | Noncontrolling<br>Interests | Total       |
|--|-----------------|-------------------|--------------------------------------|------------------------|---|-----------------------------|-------------|
| Balance at December 31, 2013                         | \$212,327       | \$(10 )           | \$1,259,348                          | \$(145,876 )           | \$ 88,441                                       | \$ 10,148                   | \$1,424,378 |
| Comprehensive income                                 | —               | —                 | —                                    | 41,102                 | (11,226 )                                       | 315                         | 30,191      |
| Dividends declared on common stock (\$.08 per share) | —               | —                 | (17,080 )                            | —                      | —   | —                           | (17,080 )   |
| Employee share-based compensation earned             | —               | —                 | 3,130                                | —                      | —   | —                           | 3,130       |
| Stock option exercises                               | 964             | —                 | 7,712                                | —                      | —   | —                           | 8,676       |
| Restricted stock awards, net of forfeitures          | 344             | —                 | (344 )                               | —                      | —   | —                           | —           |
| Purchase of Company common stock                     | —               | (106 )            | (589 )                               | (1,119 )               | —   | —                           | (1,814 )    |
| Retirement of treasury stock                         | (42 )           | 42                | —                                    | —                      | —   | —                           | —           |
| Tax benefits related to share-based awards           | —               | —                 | 6,744                                | —                      | —   | —                           | 6,744       |
| Purchase of noncontrolling interest                  | —               | —                 | (7,441 )                             | —                      | —   | (7,559 )                    | (15,000 )   |
| Noncontrolling interest payment                      | —               | —                 | —                                    | —                      | —   | (135 )                      | (135 )      |
| Other  | 13              | —                 | 93                                   | —                      | —   | —                           | 106         |
| Balance at March 31, 2014                            | \$213,606       | \$(74 )           | \$1,251,573                          | \$(105,893 )           | \$ 77,215                                       | \$ 2,769                    | \$1,439,196 |
| Balance at December 31, 2014                         | 205,458         | (591 )            | 1,186,304                            | (81,859 )              | 59,414  | 8,652                       | 1,377,378   |
| Comprehensive income                                 | —               | —                 | —                                    | 61,375                 | (22,617 )                                       | 74                          | 38,832      |
| Dividends declared on common stock (\$.10 per share) | —               | —                 | (20,461 )                            | —                      | —   | —                           | (20,461 )   |
| Employee share-based compensation earned             | —               | —                 | 4,023                                | —                      | —   | —                           | 4,023       |
| Stock option exercises                               | 873             | —                 | 8,572                                | —                      | —   | —                           | 9,445       |
| Restricted stock awards, net of forfeitures          | 254             | —                 | (254 )                               | —                      | —   | —                           | —           |
|  | —               | (3,085 )          | (17,808 )                            | (52,287 )              | —   | —                           | (73,180 )   |

|   |           |           |             |            |           |          |             |
|---|-----------|-----------|-------------|------------|-----------|----------|-------------|
| Purchase of Company<br>common stock           |           |           |             |            |           |          |             |
| Tax benefits related to<br>share-based awards | —         | —         | 5,511       | —          | —         | —        | 5,511       |
| Other   | 1         | —         | 7           | —          | —         | —        | 8           |
| Balance at March 31,<br>2015                  | \$206,586 | \$(3,676) | \$1,165,894 | \$(72,771) | \$ 36,797 | \$ 8,726 | \$1,341,556 |

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

1. Nature of Operations

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries operating in the United States and Canada. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses.

We provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles and preparation and embalming services. Funeral-related merchandise, including caskets, casket memorialization products, burial vaults, cremation receptacles, cremation memorialization products, flowers, and other ancillary products and services, is sold at funeral service locations. Our cemeteries provide cemetery property interment rights, including developed lots, lawn crypts, mausoleum spaces, cremation niches, and cremation memorialization property and sell cemetery-related merchandise and services, including stone and bronze memorials, markers, merchandise installations, flowers, and burial openings and closings. We also sell preneed funeral and cemetery merchandise and services whereby a customer contractually agrees to the terms of certain merchandise and services to be provided in the future.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

Our unaudited condensed consolidated financial statements include the accounts of Service Corporation International (SCI) and all subsidiaries in which we hold a controlling financial interest. Our financial statements also include the accounts of the funeral merchandise and service trusts, cemetery merchandise and service trusts, and cemetery perpetual care trusts in which we have a variable interest and are the primary beneficiary. Our interim condensed consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair statement of our results for these periods. Our unaudited condensed consolidated financial statements have been prepared in a manner consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2014, unless otherwise disclosed herein, and should be read in conjunction therewith. The accompanying year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year period.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation with no effect on our previously reported results of operations, consolidated financial position, or cash flows.

Use of Estimates in the Preparation of Financial Statements

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as described in our Annual Report on Form 10-K for the year ended December 31, 2014. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. As a result, actual results could differ from these estimates.

Preneed Funeral and Cemetery Receivables

We sell preneed funeral and cemetery contracts whereby the customer enters into arrangements for future merchandise and services prior to the time of need. As these contracts are entered into prior to the delivery of the related goods and services, the preneed funeral and cemetery receivables are offset by a comparable deferred revenue amount. These receivables generally have an interest component for which interest income is recorded when the interest amount is considered collectible and realizable, which typically coincides with cash payment. We do not accrue interest on



financing receivables that are not paid in accordance with the contractual payment date given the nature of our goods and services, the nature of our contracts with customers, and the timing of the delivery of our services. We do not consider receivables to be past due until the service or goods are required to be delivered at which time the preneed receivable is paid or reclassified as a trade receivable with payment terms of less than 30 days. As the preneed funeral and cemetery receivables are offset by comparable deferred revenue amounts, we have no risk of loss related to these receivables.

## Table of Contents

If a preneed contract is canceled prior to delivery, state or provincial law governs the amount of the refund owed to the customer, if any, including the amount of the attributed investment earnings. Upon cancellation, we receive the amount of principal deposited to the trust and previously undistributed net investment earnings and, where required, issue a refund to the customer. We retain excess funds, if any, and recognize the attributed investment earnings (net of any investment earnings payable to the customer) as revenue in the consolidated statement of operations. In certain jurisdictions, we may be obligated to fund any shortfall if the amount deposited by the customers exceeds the funds in trust. Based on our historical experience, we have provided an allowance for cancellation of these receivables, which is recorded as a reduction in receivables with a corresponding offset to deferred revenue.

### Discontinued Operations

In April 2014, the Financial Accounting Standards Board (FASB) amended the "Presentation of Financial Statements" and "Property, Plant, and Equipment" accounting standards to change the requirement for reporting discontinued operations. Under the new guidance, a disposal of a component of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Fewer disposals are expected to qualify as discontinued operations under the new guidance. It also requires the disclosure of pretax income of disposals that do not qualify as discontinued operations. We adopted this amendment effective January 1, 2015 with no impact on our consolidated results of operations, consolidated financial position, or cash flows.

## 3. Recently Issued Accounting Standards

### Revenue Recognition

In May 2014, the FASB issued the "Revenue from Contracts with Customers" accounting standard, which supersedes the revenue recognition requirements in the "Revenue Recognition" accounting standard and most industry-specific guidance. This amendment is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Additionally, the new standard requires the deferral of direct incremental selling costs to the period in which the underlying revenue is recognized. The amendments will be applied using one of two retrospective methods. The new guidance is effective for us beginning January 1, 2017 and we are still evaluating the impact of adoption on our consolidated results of operations.

### Consolidation

In February 2015, the FASB amended the "Consolidation" accounting standard to revise the consolidation model for limited partnerships, variable interest entities, and certain investment funds. Further, the amendment provides guidance on how fee arrangements and related parties should be considered when determining whether to consolidate variable interest entities. As a result of this amendment, all legal entities are required to be reevaluated to determine if they should be consolidated. The new guidance is effective for us on January 1, 2016 and we are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

### Debt Issuance Costs

In April 2015, the FASB amended the "Interest-Imputation of Interest" accounting standard to simplify the presentation of debt issuance costs on the balance sheet. Currently, debt issuance costs are included in Other current assets and Deferred charges and other assets on our consolidated balance sheet. The amendment requires that these costs instead be presented as a direct deduction from the carrying amount of Current maturities of long-term debt and Long-term debt, consistent with the presentation of debt discounts. This change does not impact the manner in which the debt issuance costs are expensed over the life of the debt. The change in presentation is effective for us on January 1, 2016. As of March 31, 2015, the effect of this amendment would have been to reduce Other current assets and Current maturities of long-term debt by \$9.3 million and to reduce Deferred charges and other assets and Long-term debt by \$37.4 million. As of December 31, 2014 the effect of this amendment would have been to reduce Other current assets and Current maturities of long-term debt by \$9.2 million and to reduce Deferred charges and other

assets and Long-term debt by \$39.7 million.

#### Cloud Computing Arrangements

In April 2015, the FASB amended the "Intangibles—Goodwill and Other—Internal-Use Software" accounting standard to provide guidance on whether a cloud computing arrangement contains a software license. If a cloud computing arrangement includes a software license, then we should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, we should account

Table of Contents

for the arrangement as a service contract. The new guidance is effective for us on January 1, 2016 and we are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

## 4. Preneed Funeral Activities

Preneed funeral receivables, net and trust investments represent trust investments, including investment earnings and customer receivables, net of unearned finance charges, related to unperformed, price-guaranteed preneed funeral contracts. Our funeral merchandise and service trusts are variable interest entities as defined in the "Consolidation" accounting standard. In accordance with this standard, we have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. The trust investments detailed in Notes 5 and 6 are also accounted for as variable interest entities. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from Deferred preneed funeral revenues into Deferred preneed funeral and cemetery receipts held in trust. Amounts are withdrawn from the trusts after the contract obligations are performed. Cash flows from preneed funeral contracts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

Preneed funeral receivables, net and trust investments are reduced by the trust investment earnings (realized and unrealized) that we have been allowed to withdraw in certain states prior to maturity. These earnings are recorded in Deferred preneed funeral revenues until the merchandise is delivered or the service is performed.

The table below sets forth certain investment-related activities associated with our preneed funeral merchandise and service trusts:

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2015                            | 2014       |
|   | (In thousands)                  |            |
| Deposits  | \$29,995                        | \$27,923   |
| Withdrawals   | \$45,444                        | \$43,737   |
| Purchases of available-for-sale securities                  | \$104,231                       | \$61,485   |
| Sales of available-for-sale securities                      | \$82,320                        | \$64,051   |
| Realized gains from sales of available-for-sale securities  | \$4,349                         | \$16,101   |
| Realized losses from sales of available-for-sale securities | \$(4,735 )                      | \$(1,474 ) |

The components of Preneed funeral receivables, net and trust investments in our unaudited condensed consolidated balance sheet at March 31, 2015 and December 31, 2014 are as follows:

|  | March 31, 2015 | December 31,<br>2014 |
|--|----------------|----------------------|
|  | (In thousands) |                      |
| Trust investments, at fair value                       | \$1,218,591    | \$1,205,747          |
| Cash and cash equivalents                              | 126,391        | 162,229              |
| Insurance-backed fixed income securities               | 265,059        | 260,899              |
| Trust investments                                      | 1,610,041      | 1,628,875            |
| Receivables from customers                             | 270,933        | 262,700              |
| Unearned finance charge                                | (11,992 )      | (11,054 )            |
|  | 1,868,982      | 1,880,521            |
| Allowance for cancellation                             | (37,617 )      | (37,498 )            |
| Preneed funeral receivables, net and trust investments | \$1,831,365    | \$1,843,023          |

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair value at March 31, 2015 and December 31, 2014 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Fair value represents the value of the underlying securities held by the trusts.



Table of Contents

|                             | March 31, 2015             |             |                  |                   |             |
|-----------------------------|----------------------------|-------------|------------------|-------------------|-------------|
|                             | Fair Value Hierarchy Level | Cost        | Unrealized Gains | Unrealized Losses | Fair Value  |
| (In thousands)              |                            |             |                  |                   |             |
| Fixed income securities:    |                            |             |                  |                   |             |
| U.S. Treasury               | 2                          | \$82,111    | \$1,132          | \$(99)            | \$83,144    |
| Canadian government         | 2                          | 77,971      | 856              | (356)             | 78,471      |
| Corporate                   | 2                          | 24,044      | 673              | (121)             | 24,596      |
| Residential mortgage-backed | 2                          | 1,476       | 32               | (15)              | 1,493       |
| Asset-backed                | 2                          | 5           | —                | —                 | 5           |
| Equity securities:          |                            |             |                  |                   |             |
| Preferred stock             | 2                          | 2,205       | 131              | (62)              | 2,274       |
| Common stock:               |                            |             |                  |                   |             |
| United States               | 1                          | 369,115     | 31,162           | (10,822)          | 389,455     |
| Canada                      | 1                          | 13,832      | 3,960            | (738)             | 17,054      |
| Other international         | 1                          | 35,885      | 2,637            | (2,436)           | 36,086      |
| Mutual funds:               |                            |             |                  |                   |             |
| Equity                      | 1                          | 318,059     | 5,747            | (7,309)           | 316,497     |
| Fixed income                | 1                          | 233,082     | 2,726            | (4,659)           | 231,149     |
| Private equity              | 3                          | 33,031      | 4,180            | (6,168)           | 31,043      |
| Other                       | 3                          | 6,305       | 1,341            | (322)             | 7,324       |
| Trust investments           |                            | \$1,197,121 | \$54,577         | \$(33,107)        | \$1,218,591 |

|                             | December 31, 2014          |             |                  |                   |             |
|-----------------------------|----------------------------|-------------|------------------|-------------------|-------------|
|                             | Fair Value Hierarchy Level | Cost        | Unrealized Gains | Unrealized Losses | Fair Value  |
| (In thousands)              |                            |             |                  |                   |             |
| Fixed income securities:    |                            |             |                  |                   |             |
| U.S. Treasury               | 2                          | \$85,775    | \$468            | \$(455)           | \$85,788    |
| Canadian government         | 2                          | 90,430      | 449              | (874)             | 90,005      |
| Corporate                   | 2                          | 24,765      | 423              | (126)             | 25,062      |
| Residential mortgage-backed | 2                          | 1,325       | 29               | (12)              | 1,342       |
| Asset-backed                | 2                          | 6           | —                | —                 | 6           |
| Equity securities:          |                            |             |                  |                   |             |
| Preferred stock             | 2                          | 2,503       | 113              | (113)             | 2,503       |
| Common stock:               |                            |             |                  |                   |             |
| United States               | 1                          | 377,441     | 18,533           | (7,405)           | 388,569     |
| Canada                      | 1                          | 14,708      | 4,292            | (895)             | 18,105      |
| Other international         | 1                          | 38,035      | 1,175            | (1,560)           | 37,650      |
| Mutual funds:               |                            |             |                  |                   |             |
| Equity                      | 1                          | 308,548     | 3,332            | (15,901)          | 295,979     |
| Fixed income                | 1                          | 229,414     | 869              | (3,576)           | 226,707     |
| Private equity              | 3                          | 35,094      | 2,649            | (9,418)           | 28,325      |
| Other                       | 3                          | 5,084       | 726              | (104)             | 5,706       |
| Trust investments           |                            | \$1,213,128 | \$33,058         | \$(40,439)        | \$1,205,747 |

Where quoted prices are available in an active market, securities are classified as Level 1 investments pursuant to the fair value measurements hierarchy.



Table of Contents

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These funds are classified as Level 2 investments pursuant to the fair value measurements hierarchy.

The valuation of private equity and other alternative investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity instruments are valued based on reported net asset values. A significant increase (decrease) in the discount rates results in a directionally opposite change in the fair value of the instruments. Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed by the Investment Committee of the Board of Directors quarterly. These funds are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

As of March 31, 2015, the funeral merchandise and service trusts' unfunded commitment for private equity and other investments was \$40.3 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

The change in our market-based funeral merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows:

|   | Three Months Ended |         | March 31, 2014 |         |
|---|--------------------|---------|----------------|---------|
|   | Private Equity     | Other   | Private Equity | Other   |
|   | (In thousands)     |         |                |         |
| Fair value, beginning balance   | \$28,325           | \$5,706 | \$26,885       | \$1,803 |
| Net unrealized gains (losses) included in Accumulated other comprehensive income <sup>(1)</sup> | 3,476              | 1,952   | (470 )         | 2,036   |
| Net realized losses included in Other (expense) income, net <sup>(2)</sup>                      | (17 )              | (8 )    | (8 )           | —       |
| Purchases   | —                  | —       | 1,887          | —       |
| Contributions   | 540                | 251     | 467            | —       |
| Distributions   | (1,281 )           | (577 )  | (1,247 )       | —       |
| Fair value, ending balance  | \$31,043           | \$7,324 | \$27,514       | \$3,839 |

All unrealized gains (losses) recognized in Accumulated other comprehensive income for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding (1) reclassification in Accumulated other comprehensive income to Deferred preneed funeral and cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral and cemetery receipts held in trust.

All losses recognized in Other (expense) income, net for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Other (expense) income, net to Deferred preneed funeral and cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral and cemetery receipts held in trust.

Maturity dates of our fixed income securities range from 2015 to 2045. Maturities of fixed income securities, excluding mutual funds, at March 31, 2015 are estimated as follows:

Fair Value  
(In thousands)



Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

|                          |           |
|--------------------------|-----------|
| Due in one year or less  | \$112,864 |
| Due in one to five years | 32,324    |
| Due in five to ten years | 30,115    |
| Thereafter               | 12,406    |
|                          | \$187,709 |

15

---

Table of Contents

Earnings from all our funeral merchandise and service trust investments are recognized in funeral revenues when the merchandise is delivered or the service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenues. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues in the period in which they are earned. Recognized trust fund income (realized and unrealized) related to these trust investments was \$14.4 million and \$16.1 million for the three months ended March 31, 2015 and 2014, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other (expense) income, net and a decrease to Preneed funeral receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Deferred preneed funeral receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral receipts held in trust. For the three months ended March 31, 2015 and 2014, we recorded a \$0.5 million and a \$0.3 million impairment charge, respectively, for other-than-temporary declines in fair value related to unrealized losses on certain investments. We have determined that the remaining unrealized losses in our funeral merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the remaining securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our funeral merchandise and service trust investment unrealized losses, their associated fair values, and the duration of unrealized losses as of March 31, 2015 and December 31, 2014, respectively, are shown in the following tables:

|                                       | March 31, 2015      |                   | In Loss Position       |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|------------------------|-------------------|------------|-------------------|
|                                       | In Loss Position    |                   | In Loss Position       |                   |            |                   |
|                                       | Less Than 12 Months |                   | Greater Than 12 Months |                   |            |                   |
|                                       | Fair Value          | Unrealized Losses | Fair Value             | Unrealized Losses | Fair Value | Unrealized Losses |
|                                       | (In thousands)      |                   |                        |                   |            |                   |
| Fixed income securities:              |                     |                   |                        |                   |            |                   |
| U.S. Treasury                         | \$10,060            | \$(57 )           | \$4,790                | \$(42 )           | \$14,850   | \$(99 )           |
| Canadian government                   | 229                 | (1 )              | 12,890                 | (355 )            | 13,119     | (356 )            |
| Corporate                             | 4,491               | (37 )             | 2,629                  | (84 )             | 7,120      | (121 )            |
| Residential mortgage-backed           | 267                 | (2 )              | 241                    | (13 )             | 508        | (15 )             |
| Equity securities:                    |                     |                   |                        |                   |            |                   |
| Preferred stock                       | 78                  | (62 )             | —                      | —                 | 78         | (62 )             |
| Common stock:                         |                     |                   |                        |                   |            |                   |
| United States                         | 137,804             | (10,822 )         | 367                    | —                 | 138,171    | (10,822 )         |
| Canada                                | 2,558               | (501 )            | 860                    | (237 )            | 3,418      | (738 )            |
| Other international                   | 14,324              | (2,436 )          | 2                      | —                 | 14,326     | (2,436 )          |
| Mutual funds:                         |                     |                   |                        |                   |            |                   |
| Equity                                | 104,675             | (6,175 )          | 11,172                 | (1,134 )          | 115,847    | (7,309 )          |
| Fixed income                          | 36,130              | (4,334 )          | 10,995                 | (325 )            | 47,125     | (4,659 )          |
| Private equity                        | —                   | —                 | 15,380                 | (6,168 )          | 15,380     | (6,168 )          |
| Other                                 | —                   | —                 | 1,303                  | (322 )            | 1,303      | (322 )            |
| Total temporarily impaired securities | \$310,616           | \$(24,427 )       | \$60,629               | \$(8,680 )        | \$371,245  | \$(33,107 )       |



Table of Contents

|                                       | December 31, 2014   |                   | In Loss Position       |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|------------------------|-------------------|------------|-------------------|
|                                       | Less Than 12 Months |                   | Greater Than 12 Months |                   |            |                   |
|                                       | Fair Value          | Unrealized Losses | Fair Value             | Unrealized Losses | Fair Value | Unrealized Losses |
|                                       | (In thousands)      |                   |                        |                   |            |                   |
| Fixed income securities:              |                     |                   |                        |                   |            |                   |
| U.S. Treasury                         | \$32,243            | \$(412 )          | \$4,978                | \$(43 )           | \$37,221   | \$(455 )          |
| Canadian government                   | 2,894               | (52 )             | 14,904                 | (822 )            | 17,798     | (874 )            |
| Corporate                             | 4,988               | (56 )             | 2,420                  | (70 )             | 7,408      | (126 )            |
| Residential mortgage-backed           | 217                 | (10 )             | 106                    | (2 )              | 323        | (12 )             |
| Equity securities:                    |                     |                   |                        |                   |            |                   |
| Preferred stock                       | 26                  | (113 )            | —                      | —                 | 26         | (113 )            |
| Common stock:                         |                     |                   |                        |                   |            |                   |
| United States                         | 126,527             | (7,403 )          | 438                    | (2 )              | 126,965    | (7,405 )          |
| Canada                                | 1,752               | (379 )            | 1,085                  | (516 )            | 2,837      | (895 )            |
| Other international                   | 19,593              | (1,557 )          | 2                      | (3 )              | 19,595     | (1,560 )          |
| Mutual funds:                         |                     |                   |                        |                   |            |                   |
| Equity                                | 233,827             | (13,219 )         | 23,717                 | (2,682 )          | 257,544    | (15,901 )         |
| Fixed income                          | 112,160             | (3,128 )          | 11,452                 | (448 )            | 123,612    | (3,576 )          |
| Private equity                        | 203                 | (461 )            | 13,870                 | (8,957 )          | 14,073     | (9,418 )          |
| Other                                 | 5                   | (11 )             | 464                    | (93 )             | 469        | (104 )            |
| Total temporarily impaired securities | \$534,435           | \$(26,801 )       | \$73,436               | \$(13,638 )       | \$607,871  | \$(40,439 )       |

## 5. Preneed Cemetery Activities

Preneed cemetery receivables, net and trust investments represent trust investments, including investment earnings and customer receivables, net of unearned finance charges, for contracts sold in advance of when the property interment rights, merchandise or services are needed. Our cemetery merchandise and service trusts are variable interest entities as defined in the "Consolidation" accounting standard. In accordance with this standard, we have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. The trust investments detailed in Notes 4 and 6 are also accounted for as variable interest entities. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from Deferred preneed cemetery revenues into Deferred preneed funeral and cemetery receipts held in trust. Amounts are withdrawn from the trusts when the contract obligations are performed. Cash flows from preneed cemetery contracts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

Preneed cemetery receivables, net and trust investments are reduced by the trust investment earnings (realized and unrealized) that we have been allowed to withdraw in certain states prior to maturity. These earnings are recorded in Deferred preneed cemetery revenues until the merchandise is delivered or the service is performed.

The table below sets forth certain investment-related activities associated with our preneed cemetery merchandise and service trusts:

|  | Three Months Ended |          |
|--|--------------------|----------|
|  | March 31, 2015     | 2014     |
|  | (In thousands)     |          |
| Deposits                                   | \$35,161           | \$28,271 |
| Withdrawals                                | \$31,226           | \$34,348 |
| Purchases of available-for-sale securities | \$106,937          | \$98,758 |

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

|   |            |            |
|---|------------|------------|
| Sales of available-for-sale securities                      | \$99,262   | \$92,317   |
| Realized gains from sales of available-for-sale securities  | \$7,135    | \$25,532   |
| Realized losses from sales of available-for-sale securities | \$(7,028 ) | \$(2,299 ) |

The components of Preneed cemetery receivables, net and trust investments in our unaudited condensed consolidated balance sheet at March 31, 2015 and December 31, 2014 are as follows:

17

---

Table of Contents

|   | March 31, 2015 | December 31,<br>2014 |
|---|----------------|----------------------|
|   | (In thousands) |                      |
| Trust investments, at fair value                        | \$1,433,749    | \$1,404,298          |
| Cash and cash equivalents                               | 122,280        | 122,355              |
| Trust investments                                       | 1,556,029      | 1,526,653            |
| Receivables from customers                              | 883,518        | 881,082              |
| Unearned finance charges                                | (32,044 )      | (31,524 )            |
|   | 2,407,503      | 2,376,211            |
| Allowance for cancellation                              | (71,139 )      | (69,542 )            |
| Preneed cemetery receivables, net and trust investments | \$2,336,364    | \$2,306,669          |

The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair value at March 31, 2015 and December 31, 2014 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Fair value represents the value of the underlying securities held by the trusts.

|                             | March 31, 2015                   |             |                     |                      |               |
|-----------------------------|----------------------------------|-------------|---------------------|----------------------|---------------|
|                             | Fair Value<br>Hierarchy<br>Level | Cost        | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|                             |                                  |             | (In thousands)      |                      |               |
| Fixed income securities:    |                                  |             |                     |                      |               |
| U.S. Treasury               | 2                                | \$62,247    | \$1,347             | \$(54 )              | \$63,540      |
| Canadian government         | 2                                | 19,950      | 585                 | (114 )               | 20,421        |
| Corporate                   | 2                                | 7,204       | 124                 | (76 )                | 7,252         |
| Residential mortgage-backed | 2                                | 131         | 3                   | (1 )                 | 133           |
| Asset-backed                | 2                                | 169         | 18                  | —                    | 187           |
| Equity securities:          |                                  |             |                     |                      |               |
| Preferred stock             | 2                                | 7           | 1                   | —                    | 8             |
| Common stock:               |                                  |             |                     |                      |               |
| United States               | 1                                | 550,508     | 42,709              | (17,833 )            | 575,384       |
| Canada                      | 1                                | 11,136      | 5,101               | (701 )               | 15,536        |
| Other international         | 1                                | 52,609      | 3,858               | (3,746 )             | 52,721        |
| Mutual funds:               |                                  |             |                     |                      |               |
| Equity                      | 1                                | 348,259     | 6,516               | (7,133 )             | 347,642       |
| Fixed income                | 1                                | 319,702     | 3,442               | (6,449 )             | 316,695       |
| Private equity              | 3                                | 28,910      | 5,568               | (3,185 )             | 31,293        |
| Other                       | 3                                | 2,662       | 571                 | (296 )               | 2,937         |
| Trust investments           |                                  | \$1,403,494 | \$69,843            | \$(39,588 )          | \$1,433,749   |

Table of Contents

|                             | December 31, 2014                |             |                     |                      |               |
|-----------------------------|----------------------------------|-------------|---------------------|----------------------|---------------|
|                             | Fair Value<br>Hierarchy<br>Level | Cost        | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
| (In thousands)              |                                  |             |                     |                      |               |
| Fixed income securities:    |                                  |             |                     |                      |               |
| U.S. Treasury               | 2                                | \$63,447    | \$257               | \$(605 )             | \$63,099      |
| Canadian government         | 2                                | 21,687      | 261                 | (134 )               | 21,814        |
| Corporate                   | 2                                | 8,725       | 122                 | (116 )               | 8,731         |
| Residential mortgage-backed | 2                                | 111         | 3                   | (1 )                 | 113           |
| Asset-backed                | 2                                | 170         | 16                  | —                    | 186           |
| Equity securities:          |                                  |             |                     |                      |               |
| Preferred stock             | 2                                | 10          | 1                   | —                    | 11            |
| Common stock:               |                                  |             |                     |                      |               |
| United States               | 1                                | 557,955     | 22,746              | (11,706 )            | 568,995       |
| Canada                      | 1                                | 10,962      | 5,011               | (841 )               | 15,132        |
| Other international         | 1                                | 55,632      | 1,605               | (2,395 )             | 54,842        |
| Mutual funds:               |                                  |             |                     |                      |               |
| Equity                      | 1                                | 344,443     | 4,244               | (18,430 )            | 330,257       |
| Fixed income                | 1                                | 314,600     | 679                 | (4,702 )             | 310,577       |
| Private equity              | 3                                | 32,342      | 3,185               | (6,183 )             | 29,344        |
| Other                       | 3                                | 1,082       | 186                 | (71 )                | 1,197         |
| Trust investments           |                                  | \$1,411,166 | \$38,316            | \$(45,184 )          | \$1,404,298   |

Where quoted prices are available in an active market, securities are classified as Level 1 investments pursuant to the fair value measurements hierarchy.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status.

These funds are classified as Level 2 investments pursuant to the fair value measurements hierarchy.

The valuation of private equity and other alternative investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity instruments are valued based on reported net asset values. A significant increase (decrease) in the discounts results in a directionally opposite change in the fair value of the instruments. Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed by the Investment Committee of the Board of Directors quarterly. These funds are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

As of March 31, 2015, the cemetery merchandise and service trusts' unfunded commitment for private equity and other investments was \$41.6 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

The change in our market-based cemetery merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows:

Table of Contents

|  | Three Months Ended                  |          | March 31, 2014    |          |
|--|-------------------------------------|----------|-------------------|----------|
|  | Private<br>Equity<br>(In thousands) | Other    | Private<br>Equity | Other    |
| Fair value, beginning balance  | \$ 29,344                           | \$ 1,197 | \$ 26,844         | \$ 1,245 |
| Net unrealized gains included in Accumulated other comprehensive income <sup>(1)</sup> | 2,724                               | 2,077    | 1,487             | 9        |
| Net realized losses included in Other (expense) income, net <sup>(2)</sup>             | (17 )                               | (8 )     | (8 )              | (1 )     |
| Contributions  | 562                                 | 266      | 499               | —        |
| Distributions  | (1,320 )                            | (595 )   | (1,303 )          | —        |
| Fair value, ending balance   | \$ 31,293                           | \$ 2,937 | \$ 27,519         | \$ 1,253 |

All unrealized gains recognized in Accumulated other comprehensive income for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding (1) reclassification in Accumulated other comprehensive income to Deferred preneed funeral and cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral and cemetery receipts held in trust.

All losses recognized in Other (expense) income, net for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Other (expense) (2) income, net to Deferred preneed funeral and cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral and cemetery receipts held in trust.

Maturity dates of our fixed income securities range from 2015 to 2045. Maturities of fixed income securities, excluding mutual funds, at March 31, 2015 are estimated as follows:

|                          | Fair Value<br>(In thousands) |
|--------------------------|------------------------------|
| Due in one year or less  | \$ 13,190                    |
| Due in one to five years | 40,020                       |
| Due in five to ten years | 21,780                       |
| Thereafter               | 16,543                       |
|                          | \$ 91,533                    |

Earnings from all our cemetery merchandise and service trust investments are recognized in current cemetery revenues when the merchandise is delivered or the service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenues. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues in the period in which they are earned. Recognized trust fund income (realized and unrealized) related to these trust investments was \$12.1 million and \$11.5 million for the three months ended March 31, 2015 and 2014, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other (expense) income, net and a decrease to Preneed cemetery receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Deferred preneed cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed cemetery receipts held in trust. For the three months ended March 31, 2015 and 2014, we recorded a \$0.5 million and a \$0.3 million impairment charge, respectively, for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our cemetery merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy



to minimize long-term risk. We believe that none of the remaining securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery merchandise and service trust investment unrealized losses, their associated fair values and the duration of unrealized losses as of March 31, 2015 are shown in the following tables:

20

---

Table of Contents

|                                       | March 31, 2015      |                   | In Loss Position       |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|------------------------|-------------------|------------|-------------------|
|                                       | Less Than 12 Months |                   | Greater Than 12 Months |                   |            |                   |
|                                       | Fair Value          | Unrealized Losses | Fair Value             | Unrealized Losses | Fair Value | Unrealized Losses |
|                                       | (In thousands)      |                   |                        |                   |            |                   |
| Fixed income securities:              |                     |                   |                        |                   |            |                   |
| U.S. Treasury                         | \$12,955            | \$(53 )           | \$14                   | \$(1 )            | \$12,969   | \$(54 )           |
| Canadian government                   | 1,263               | (3 )              | 3,146                  | (111 )            | 4,409      | (114 )            |
| Corporate                             | 175                 | (3 )              | 3,381                  | (73 )             | 3,556      | (76 )             |
| Residential mortgage-backed           | 29                  | —                 | 21                     | (1 )              | 50         | (1 )              |
| Equity securities:                    |                     |                   |                        |                   |            |                   |
| Common stock:                         |                     |                   |                        |                   |            |                   |
| United States                         | 215,891             | (17,833 )         | —                      | —                 | 215,891    | (17,833 )         |
| Canada                                | 2,573               | (326 )            | 552                    | (375 )            | 3,125      | (701 )            |
| Other international                   | 21,396              | (3,746 )          | —                      | —                 | 21,396     | (3,746 )          |
| Mutual funds:                         |                     |                   |                        |                   |            |                   |
| Equity                                | 213,762             | (7,126 )          | 69                     | (7 )              | 213,831    | (7,133 )          |
| Fixed income                          | 39,290              | (5,955 )          | 15,036                 | (494 )            | 54,326     | (6,449 )          |
| Private equity                        | —                   | —                 | 7,397                  | (3,185 )          | 7,397      | (3,185 )          |
| Other                                 | —                   | —                 | 654                    | (296 )            | 654        | (296 )            |
| Total temporarily impaired securities | \$507,334           | \$(35,045 )       | \$30,270               | \$(4,543 )        | \$537,604  | \$(39,588 )       |

|                                       | December 31, 2014   |                   | In Loss Position       |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|------------------------|-------------------|------------|-------------------|
|                                       | Less Than 12 Months |                   | Greater Than 12 Months |                   |            |                   |
|                                       | Fair Value          | Unrealized Losses | Fair Value             | Unrealized Losses | Fair Value | Unrealized Losses |
|                                       | (In thousands)      |                   |                        |                   |            |                   |
| Fixed income securities:              |                     |                   |                        |                   |            |                   |
| U.S. Treasury                         | \$45,072            | \$(605 )          | \$—                    | \$—               | \$45,072   | \$(605 )          |
| Canadian government                   | —                   | —                 | 4,858                  | (134 )            | 4,858      | (134 )            |
| Corporate                             | 2,017               | (61 )             | 1,936                  | (55 )             | 3,953      | (116 )            |
| Residential mortgage-backed           | 33                  | (1 )              | —                      | —                 | 33         | (1 )              |
| Equity securities:                    |                     |                   |                        |                   |            |                   |
| Common stock:                         |                     |                   |                        |                   |            |                   |
| United States                         | 192,015             | (11,706 )         | 585                    | —                 | 192,600    | (11,706 )         |
| Canada                                | 2,069               | (319 )            | 778                    | (522 )            | 2,847      | (841 )            |
| Other international                   | 28,308              | (2,395 )          | —                      | —                 | 28,308     | (2,395 )          |
| Mutual funds:                         |                     |                   |                        |                   |            |                   |
| Equity                                | 303,211             | (18,329 )         | 1,577                  | (101 )            | 304,788    | (18,430 )         |
| Fixed income                          | 159,572             | (4,106 )          | 15,113                 | (596 )            | 174,685    | (4,702 )          |
| Private equity                        | 88                  | (100 )            | 7,518                  | (6,083 )          | 7,606      | (6,183 )          |
| Other                                 | 2                   | (3 )              | 259                    | (68 )             | 261        | (71 )             |
| Total temporarily impaired securities | \$732,387           | \$(37,625 )       | \$32,624               | \$(7,559 )        | \$765,011  | \$(45,184 )       |

6. Cemetery Perpetual Care Trusts

We are required by state and provincial law to pay into cemetery perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. Our cemetery perpetual care trusts are variable interest entities as defined in the "Consolidation" accounting standard. In accordance with this standard, we have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. The trust investments detailed in

21

---

Table of Contents

Notes 4 and 5 are also accounted for as variable interest entities. We consolidate our cemetery perpetual care trust investments with a corresponding amount recorded as Care trusts' corpus. Cash flows from cemetery perpetual care trusts are presented as operating cash flows in our unaudited condensed consolidated statement of cash flows.

The table below sets forth certain investment-related activities associated with our cemetery perpetual care trusts:

|   | Three Months Ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2015                            | 2014     |
|   | (In thousands)                  |          |
| Deposits  | \$9,253                         | \$11,837 |
| Withdrawals   | \$13,158                        | \$5,885  |
| Purchases of available-for-sale securities                  | \$101,660                       | \$38,895 |
| Sales of available-for-sale securities                      | \$53,765                        | \$30,072 |
| Realized gains from sales of available-for-sale securities  | \$398                           | \$5,045  |
| Realized losses from sales of available-for-sale securities | \$(129)                         | \$(337)  |

The components of Cemetery perpetual care trust investments in our unaudited condensed consolidated balance sheet at March 31, 2015 and December 31, 2014 are as follows:

|   | March 31, 2015 | December 31,<br>2014 |
|---|----------------|----------------------|
|   | (In thousands) |                      |
| Trust investments, at fair value          | \$1,253,601    | \$1,192,966          |
| Cash and cash equivalents                 | 103,800        | 148,410              |
| Cemetery perpetual care trust investments | \$1,357,401    | \$1,341,376          |

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair value at March 31, 2015 and December 31, 2014 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Fair value represents the value of the underlying securities held by the trusts.

|   | March 31, 2015                   |             |                     |                      |               |
|---|----------------------------------|-------------|---------------------|----------------------|---------------|
|   | Fair Value<br>Hierarchy<br>Level | Cost        | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|   | (In thousands)                   |             |                     |                      |               |
| Fixed income securities:                  |                                  |             |                     |                      |               |
| U.S. Treasury                             | 2                                | \$788       | \$38                | \$(4)                | \$822         |
| Canadian government                       | 2                                | 28,631      | 965                 | (199)                | 29,397        |
| Corporate                                 | 2                                | 14,003      | 372                 | (139)                | 14,236        |
| Residential mortgage-backed               | 2                                | 970         | 18                  | (6)                  | 982           |
| Asset-backed                              | 2                                | 666         | 10                  | (8)                  | 668           |
| Equity securities:                        |                                  |             |                     |                      |               |
| Preferred stock                           | 2                                | 5,329       | 65                  | (164)                | 5,230         |
| Common stock:                             |                                  |             |                     |                      |               |
| United States                             | 1                                | 233,757     | 12,144              | (8,864)              | 237,037       |
| Canada                                    | 1                                | 7,148       | 2,773               | (457)                | 9,464         |
| Other international                       | 1                                | 12,581      | 219                 | (1,063)              | 11,737        |
| Mutual funds:                             |                                  |             |                     |                      |               |
| Equity                                    | 1                                | 17,658      | 3,211               | (267)                | 20,602        |
| Fixed income                              | 1                                | 884,376     | 7,121               | (10,102)             | 881,395       |
| Private equity                            | 3                                | 34,024      | 1,439               | (7,240)              | 28,223        |
| Other                                     | 3                                | 13,188      | 1,539               | (919)                | 13,808        |
| Cemetery perpetual care trust investments |                                  | \$1,253,119 | \$29,914            | \$(29,432)           | \$1,253,601   |



Table of Contents

|   | December 31, 2014 |             | Unrealized | Unrealized | Fair        |
|---|-------------------|-------------|------------|------------|-------------|
|   | Fair Value        | Cost        | Gains      | Losses     | Value       |
|   | Hierarchy         |             |            |            |             |
|   | Level             |             |            |            |             |
| (In thousands)                            |                   |             |            |            |             |
| Fixed income securities:                  |                   |             |            |            |             |
| U.S. Treasury                             | 2                 | \$794       | \$40       | \$(4)      | \$830       |
| Canadian government                       | 2                 | 31,993      | 442        | (233)      | 32,202      |
| Corporate                                 | 2                 | 16,762      | 344        | (210)      | 16,896      |
| Residential mortgage-backed               | 2                 | 910         | 15         | (6)        | 919         |
| Asset-backed                              | 2                 | 661         | 10         | (4)        | 667         |
| Equity securities:                        |                   |             |            |            |             |
| Preferred stock                           | 2                 | 4,439       | 60         | (12)       | 4,487       |
| Common stock:                             |                   |             |            |            |             |
| United States                             | 1                 | 225,129     | 9,340      | (4,881)    | 229,588     |
| Canada                                    | 1                 | 7,419       | 2,737      | (596)      | 9,560       |
| Other international                       | 1                 | 8,102       | 90         | (399)      | 7,793       |
| Mutual funds:                             |                   |             |            |            |             |
| Equity                                    | 1                 | 17,310      | 3,264      | (93)       | 20,481      |
| Fixed income                              | 1                 | 846,230     | 1,580      | (14,263)   | 833,547     |
| Private equity                            | 3                 | 34,288      | 408        | (10,788)   | 23,908      |
| Other                                     | 3                 | 13,526      | 1,094      | (2,532)    | 12,088      |
| Cemetery perpetual care trust investments |                   | \$1,207,563 | \$19,424   | \$(34,021) | \$1,192,966 |

Where quoted prices are available in an active market, securities are classified as Level 1 investments pursuant to the fair value measurements hierarchy.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status.

These funds are classified as Level 2 investments pursuant to the fair value measurements hierarchy.

The valuation of private equity and other alternative investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. Private equity instruments are valued based on reported net asset values. A significant increase (decrease) in the discounts results in a directionally opposite change in the fair value of the instruments. Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed by the Investment Committee of the Board of Directors quarterly. These funds are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

As of March 31, 2015, the cemetery perpetual care trusts' unfunded commitment for private equity and other investments was \$8.9 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

The change in our market-based cemetery perpetual care trust investments with significant unobservable inputs (Level 3) is as follows:



Table of Contents

|  | Three Months Ended |           | March 31, 2014 |           |
|--|--------------------|-----------|----------------|-----------|
|  | March 31, 2015     |           | Private        | Other     |
|  | Private            | Other     | Private        | Other     |
|  | Equity             |           | Equity         |           |
|  | (In thousands)     |           |                |           |
| Fair value, beginning balance  | \$ 23,908          | \$ 12,088 | \$ 19,779      | \$ 11,590 |
| Net unrealized gains included in Accumulated other comprehensive income <sup>(1)</sup> | 3,917              | 1,195     | 727            | 128       |
| Net realized losses included in Other (expense) income, net <sup>(2)</sup>             | (12 )              | (15 )     | (12 )          | (6 )      |
| Sales  | —                  | —         | (17 )          | —         |
| Contributions  | 495                | 648       | 694            | —         |
| Distributions  | (85 )              | (108 )    | (365 )         | —         |
| Fair value, ending balance   | \$ 28,223          | \$ 13,808 | \$ 20,806      | \$ 11,712 |

All unrealized gains recognized in Accumulated other comprehensive income for our cemetery perpetual care trust (1) investments are offset by a corresponding reclassification in Accumulated other comprehensive income to Care trusts' corpus. See Note 7 for further information related to our Care trusts' corpus.

All losses recognized in Other (expense) income, net for our cemetery perpetual care trust investments are offset by (2) a corresponding reclassification in Other (expense) income, net to Care trusts' corpus. See Note 7 for further information related to our Care trusts' corpus.

Maturity dates of our fixed income securities range from 2015 to 2045. Maturities of fixed income securities, excluding mutual funds, at March 31, 2015 are estimated as follows:

|                          | Fair Value     |
|--------------------------|----------------|
|                          | (In thousands) |
| Due in one year or less  | \$ 18,620      |
| Due in one to five years | 19,101         |
| Due in five to ten years | 7,488          |
| Thereafter               | 896            |
|                          | \$ 46,105      |

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenues to the extent we incur qualifying cemetery maintenance costs. Fees charged by our wholly-owned registered investment advisor are also included in current revenues. Recognized trust fund income related to these trust investments was \$13.4 million and \$13.3 million for the three months ended March 31, 2015 and 2014, respectively. We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other (expense) income, net and a decrease to Cemetery perpetual care trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Care trusts' corpus. See Note 7 for further information related to our Care trusts' corpus. For the three months ended March 31, 2015, we recorded a \$0.5 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments. For the three months ended March 31, 2014 was no impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our cemetery perpetual care trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the remaining securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery perpetual care trust investment unrealized losses, their associated fair values, and the duration of



unrealized losses are shown in the following tables.

24

---

Table of Contents

|                                       | March 31, 2015   |             | In Loss Position       |            | Total     | Unrealized  |
|---------------------------------------|------------------|-------------|------------------------|------------|-----------|-------------|
|                                       | In Loss Position |             | Greater Than 12 Months |            |           |             |
|                                       | Fair             | Unrealized  | Fair                   | Unrealized | Fair      | Unrealized  |
|                                       | Value            | Losses      | Value                  | Losses     | Value     | Losses      |
|                                       | (In thousands)   |             |                        |            |           |             |
| Fixed income securities:              |                  |             |                        |            |           |             |
| U.S. Treasury                         | \$436            | \$(3 )      | \$68                   | \$(1 )     | \$504     | \$(4 )      |
| Canadian government                   | 2,103            | (6 )        | 4,952                  | (193 )     | 7,055     | (199 )      |
| Corporate                             | 1,013            | (22 )       | 5,360                  | (117 )     | 6,373     | (139 )      |
| Residential mortgage-backed           | 160              | (1 )        | 213                    | (5 )       | 373       | (6 )        |
| Asset-backed                          | 371              | (8 )        | —                      | —          | 371       | (8 )        |
| Equity securities:                    |                  |             |                        |            |           |             |
| Preferred stock                       | 3,234            | (164 )      | 54                     | —          | 3,288     | (164 )      |
| Common stock:                         |                  |             |                        |            |           |             |
| United States                         | 134,139          | (8,864 )    | 152                    | —          | 134,291   | (8,864 )    |
| Canada                                | 1,175            | (160 )      | 701                    | (297 )     | 1,876     | (457 )      |
| Other international                   | 8,550            | (1,063 )    | —                      | —          | 8,550     | (1,063 )    |
| Mutual funds:                         |                  |             |                        |            |           |             |
| Equity                                | 2,649            | (253 )      | 185                    | (14 )      | 2,834     | (267 )      |
| Fixed income                          | 345,809          | (10,054 )   | 2,045                  | (48 )      | 347,854   | (10,102 )   |
| Private equity                        | —                | —           | 10,092                 | (7,240 )   | 10,092    | (7,240 )    |
| Other                                 | —                | —           | 4,380                  | (919 )     | 4,380     | (919 )      |
| Total temporarily impaired securities | \$499,639        | \$(20,598 ) | \$28,202               | \$(8,834 ) | \$527,841 | \$(29,432 ) |

Table of Contents

|                                       | December 31, 2014   |                   | In Loss Position       |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|------------------------|-------------------|------------|-------------------|
|                                       | Less Than 12 Months |                   | Greater Than 12 Months |                   |            |                   |
|                                       | Fair Value          | Unrealized Losses | Fair Value             | Unrealized Losses | Fair Value | Unrealized Losses |
|                                       | (In thousands)      |                   |                        |                   |            |                   |
| Fixed income securities:              |                     |                   |                        |                   |            |                   |
| U.S. Treasury                         | \$497               | \$(4 )            | \$—                    | \$—               | \$497      | \$(4 )            |
| Canadian government                   | —                   | —                 | 7,825                  | (233 )            | 7,825      | (233 )            |
| Corporate                             | 4,656               | (108 )            | 3,198                  | (102 )            | 7,854      | (210 )            |
| Residential mortgage-backed           | 256                 | (5 )              | 69                     | (1 )              | 325        | (6 )              |
| Asset-backed                          | 373                 | (4 )              | —                      | —                 | 373        | (4 )              |
| Equity securities:                    |                     |                   |                        |                   |            |                   |
| Preferred stock                       | 2,224               | (11 )             | 49                     | (1 )              | 2,273      | (12 )             |
| Common stock:                         |                     |                   |                        |                   |            |                   |
| United States                         | 100,370             | (4,803 )          | 419                    | (78 )             | 100,789    | (4,881 )          |
| Canada                                | 2,418               | (244 )            | 757                    | (352 )            | 3,175      | (596 )            |
| Other international                   | 4,444               | (399 )            | —                      | —                 | 4,444      | (399 )            |
| Mutual funds:                         |                     |                   |                        |                   |            |                   |
| Equity                                | 2,601               | (85 )             | 153                    | (8 )              | 2,754      | (93 )             |
| Fixed income                          | 576,890             | (14,177 )         | 2,581                  | (86 )             | 579,471    | (14,263 )         |
| Private equity                        | 9,213               | (798 )            | 14,254                 | (9,990 )          | 23,467     | (10,788 )         |
| Other                                 | 4,069               | (352 )            | 6,276                  | (2,180 )          | 10,345     | (2,532 )          |
| Total temporarily impaired securities | \$708,011           | \$(20,990 )       | \$35,581               | \$(13,031 )       | \$743,592  | \$(34,021 )       |

## 7. Deferred Preneed Funeral and Cemetery Receipts Held in Trust and Care Trusts' Corpus

## Deferred Preneed Funeral and Cemetery Receipts Held in Trust

We consolidate the merchandise and service trusts associated with our preneed funeral and cemetery activities in accordance with the "Consolidation" accounting standard. Although the standard requires the consolidation of the merchandise and service trusts, it does not change the legal relationships among the trusts, us, or our customers. The customers are the legal beneficiaries of these merchandise and service trusts, and therefore their interests in these trusts represent a liability to us.

The components of Deferred preneed funeral and cemetery receipts held in trust in our unaudited condensed consolidated balance sheet at March 31, 2015 and December 31, 2014 are detailed below.

|  | March 31, 2015  |                  |             | December 31, 2014 |                  |             |
|--|-----------------|------------------|-------------|-------------------|------------------|-------------|
|  | Preneed Funeral | Preneed Cemetery | Total       | Preneed Funeral   | Preneed Cemetery | Total       |
|  | (In thousands)  |                  |             |                   |                  |             |
| Trust investments  | \$1,610,041     | \$1,556,029      | \$3,166,070 | \$1,628,875       | \$1,526,653      | \$3,155,528 |
| Accrued trust operating payables and other                   | (2,860 )        | (5,290 )         | (8,150 )    | (2,487 )          | (4,157 )         | (6,644 )    |
| Deferred preneed funeral and cemetery receipts held in trust | \$1,607,181     | \$1,550,739      | \$3,157,920 | \$1,626,388       | \$1,522,496      | \$3,148,884 |
| Care Trusts' Corpus  |                 |                  |             |                   |                  |             |

The Care trusts' corpus reflected in our unaudited condensed consolidated balance sheet represents the cemetery perpetual care trusts, including the related accrued expenses.

The components of Care trusts' corpus in our unaudited condensed consolidated balance sheet at March 31, 2015 and December 31, 2014 are detailed below.



Table of Contents

|  | March 31, 2015 | December 31,<br>2014 |
|--|----------------|----------------------|
|  | (In thousands) |                      |
| Cemetery perpetual care trust investments  | \$1,357,401    | \$1,341,376          |
| Accrued trust operating payables and other | (13,223 )      | (13,718 )            |
| Care trusts' corpus                        | \$1,344,178    | \$1,327,658          |

## Other (Expense) Income, Net

The components of Other (expense) income, net in our unaudited condensed consolidated statement of operations for the three months ended March 31, 2015 and 2014 are detailed below. See Notes 4, 5, and 6 for further discussion of the amounts related to the funeral, cemetery, and cemetery perpetual care trusts.

## Three Months Ended March 31, 2015

|  | Funeral<br>Trusts | Cemetery<br>Trusts | Cemetery<br>Perpetual<br>Care Trusts | Other, Net | Total     |
|--|-------------------|--------------------|--------------------------------------|------------|-----------|
|  | (In thousands)    |                    |                                      |            |           |
| Realized gains   | \$4,349           | \$7,135            | \$398                                | \$—        | \$11,882  |
| Realized losses  | (4,735 )          | (7,028 )           | (129 )                               | —          | (11,892 ) |
| Impairment charges   | (471 )            | (520 )             | (512 )                               | —          | (1,503 )  |
| Interest, dividend, and other ordinary income  | 4,062             | 3,516              | 10,545                               | —          | 18,123    |
| Trust expenses and income taxes  | (5,827 )          | (8,515 )           | (6,273 )                             | —          | (20,615 ) |
| Net trust investment (loss) income   | (2,622 )          | (5,412 )           | 4,029                                | —          | (4,005 )  |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus | 2,622             | 5,412              | (4,029 )                             | —          | 4,005     |
| Other (expense) income, net  | —                 | —                  | —                                    | (58 )      | (58 )     |
| Total other (expense) income, net  | \$—               | \$—                | \$—                                  | \$(58 )    | \$(58 )   |

## Three Months Ended March 31, 2014

|  | Funeral<br>Trusts | Cemetery<br>Trusts | Cemetery<br>Perpetual<br>Care Trusts | Other, Net | Total     |
|--|-------------------|--------------------|--------------------------------------|------------|-----------|
|  | (In thousands)    |                    |                                      |            |           |
| Realized gains   | \$16,101          | \$25,532           | \$5,045                              | \$—        | \$46,678  |
| Realized losses  | (1,474 )          | (2,299 )           | (337 )                               | —          | (4,110 )  |
| Impairment charges   | (251 )            | (339 )             | (40 )                                | —          | (630 )    |
| Interest, dividend, and other ordinary income  | 5,574             | 2,495              | 14,062                               | —          | 22,131    |
| Trust expenses and income taxes  | (4,467 )          | (4,815 )           | (6,023 )                             | —          | (15,305 ) |
| Net trust investment income  | 15,483            | 20,574             | 12,707                               | —          | 48,764    |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus | (15,483 )         | (20,574 )          | (12,707 )                            | —          | (48,764 ) |
| Other (expense) income, net  | —                 | —                  | —                                    | 1,534      | 1,534     |
| Total other (expense) income, net  | \$—               | \$—                | \$—                                  | \$1,534    | \$1,534   |

## 8. Income Taxes

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items which are recorded in the period in which they occur. Discrete items include, among others, such events as changes in estimates due to the finalization of tax returns, tax audit settlements, expiration of statute of limitations,

and increases or decreases in valuation allowances on deferred tax assets. Our effective tax rate was 37.4% and 35.5% for the three months ended March 31, 2015 and 2014, respectively. The lower effective tax rate for the three months ended March 31, 2014 is primarily due to the benefits associated with the Stewart acquisition coupled with state legislative changes partially offset by an increase in our liability related to unrecognized tax benefits. The effective tax rate for the three months ended March 31, 2015 is above the 35% federal statutory tax rate primarily due to state tax expense partially offset by foreign earnings taxed at lower rates.

Table of Contents

## Unrecognized Tax Benefits

As of March 31, 2015, the gross amount of our unrecognized tax benefits was \$191.7 million and the gross amount of our accrued interest was \$48.5 million. Additional interest expense of \$0.9 million was accrued during the three months ended March 31, 2015.

A number of years may elapse before particular tax matters, for which we have unrecognized tax benefits, are settled. While we have effectively concluded our 2003 through 2005 tax years with respect to our affiliate SCI Funeral & Cemetery Purchasing Cooperative, Inc., SCI and subsidiaries' tax years 1999 through 2005 remain under review at the IRS Appeals level. SCI and subsidiaries are under audit for 2006-2007 as a result of carry-back claims. Furthermore, SCI and its affiliates are under audit by various state and foreign jurisdictions for years 2010 through 2012. The outcome of each of these audits cannot be predicted at this time. It is reasonably possible that the amount of our unrecognized tax benefits could significantly increase or decrease over the next twelve months either because we prevail on positions or because the tax authorities prevail. Due to the uncertainty regarding the timing of completion of audits and possible outcomes, a current estimate of the range of increases or decreases that may occur within the next twelve months cannot be made.

## 9. Debt

Debt as of March 31, 2015 and December 31, 2014 was as follows:

|  | March 31, 2015 | December 31,<br>2014 |
|--|----------------|----------------------|
|  | (In thousands) |                      |
| 6.75% Senior Notes due April 2016                      | \$ 197,377     | \$ 197,377           |
| 7.0% Senior Notes due June 2017                        | 295,000        | 295,000              |
| 7.625% Senior Notes due October 2018                   | 250,000        | 250,000              |
| 4.5% Senior Notes due November 2020                    | 200,000        | 200,000              |
| 8.0% Senior Notes due November 2021                    | 150,000        | 150,000              |
| 5.375% Senior Notes due January 2022                   | 425,000        | 425,000              |
| 5.375% Senior Notes due May 2024                       | 550,000        | 550,000              |
| 7.5% Senior Notes due April 2027                       | 200,000        | 200,000              |
| Term Loan due July 2018                                | 355,000        | 370,000              |
| Bank credit facility due July 2018                     | 250,000        | 235,000              |
| Obligations under capital leases                       | 179,824        | 181,002              |
| Mortgage notes and other debt, maturities through 2050 | 4,187          | 4,251                |
| Unamortized discounts and other, net                   | (2,752)        | (2,905)              |
| Total debt   | 3,053,636      | 3,054,725            |
| Less: current maturities of debt                       | (90,960)       | (90,931)             |
| Total long-term debt                                   | \$ 2,962,676   | \$ 2,963,794         |

Current maturities of debt at March 31, 2015 primarily comprise our capital leases and amounts due under our term loan. Our consolidated debt had a weighted average interest rate of 5.21% at both March 31, 2015 and December 31, 2014. Approximately 75% of our total debt had a fixed interest rate at both March 31, 2015 and December 31, 2014. During the three months ended March 31, 2015 we made a scheduled payment on our Term Loan due July 2018 of \$15.0 million and borrowed \$15.0 million on our bank credit facility. During the three months ended March 31, 2014, we made payments totaling \$167.1 million to extinguish our Senior Convertible Notes and a \$7.5 million scheduled payment on our Term Loan due July 2018.

## Bank Credit Agreement

The Company has a \$500 million bank credit facility due July 2018 with a syndicate of banks, including a sublimit of \$175 million for letters of credit.

As of March 31, 2015, we have \$250.0 million in outstanding borrowings under our bank credit facility and have issued \$31.6 million of letters of credit. The bank credit facility provides us with flexibility for working capital, if needed, and is guaranteed by a majority of our domestic subsidiaries. The subsidiary guaranty is a guaranty of

payment of the outstanding amount of the total lending commitment, including letters of credit. The bank credit facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, and certain dividend and share repurchase restrictions. We pay a quarterly fee on the unused commitment, which was 0.35% at March 31, 2015. As of March 31, 2015, we have \$218.4 million in borrowing capacity under the bank credit facility.

28

---



Table of Contents

Capital Leases

During the three months ended March 31, 2015 and 2014, we acquired