

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

April 25, 2014

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, 2014

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

(State or other jurisdiction of incorporation or organization)

74-1488375

(I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas  
(Address of principal executive offices)

77019  
(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 23, 2014 was 213,532,818 (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>4</u>
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statement of Operations — Three Months Ended March 31, 2014 and 2013</u>	<u>34</u>
<u>Unaudited Condensed Consolidated Statement of Comprehensive Income — Three Months Ended March 31, 2014 and 2013</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Balance Sheet — March 31, 2014 and December 31, 2013</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Statement of Cash Flows — Three Months Ended March 31, 2014 and 2013</u>	<u>8</u>
<u>Unaudited Condensed Consolidated Statement of Equity — Three Months Ended March 31, 2014 and 2013</u>	<u>9</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>The Company</u>	<u>43</u>
<u>Financial Condition, Liquidity, and Capital Resources</u>	<u>43</u>
<u>Results of Operations - Three Months Ended March 31, 2014 and 2013</u>	<u>49</u>
<u>Critical Accounting Policies</u>	<u>53</u>
<u>Cautionary Statement on Forward-Looking Statements</u>	<u>53</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
<u>Item 4. Controls and Procedures</u>	<u>55</u>
<u>Part II. Other Information</u>	<u>55</u>
<u>Item 1. Legal Proceedings</u>	<u>55</u>
<u>Item 1A. Risk Factors</u>	<u>55</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
<u>Item 6. Exhibits</u>	<u>56</u>
<u>Signature</u>	<u>57</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 after a 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.

Cemetery Perpetual Care or Endowment Care Fund — A trust fund established for the purpose of maintaining cemetery grounds and property into perpetuity.

Cemetery Property — Developed lots, lawn crypts, and mausoleum spaces and undeveloped land we intend to develop.

Cemetery Property Revenue — Recognized sales of cemetery property when a minimum of 10% of the sales price has been collected and the property has been constructed or 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.

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 memorial products, and flowers.

Funeral Recognized Preneed Revenue — Funeral merchandise and products sold on a preneed contract and delivered before a death has occurred, including funeral merchandise and travel protection insurance, which primarily represents sales by SCI Direct.

Funeral Service 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, or in cremation niches.

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, or niche. Permanent burial markers are usually made of bronze or stone.

Maturity — When the underlying contracted service is performed or merchandise is delivered, 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.

Preneed — Purchase of products 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 earnings are recorded in Deferred preneed cemetery revenues until the service is performed or the merchandise is delivered.

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 service is performed or the merchandise is delivered. We do not reflect the unfulfilled insurance-funded preneed funeral 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 the Company.

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 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	
	March 31,	
	2014	2013
	(In thousands, except per share amounts)	
Revenues	\$747,123	\$652,352
Costs and expenses	(580,741	) (492,695
Gross profits	166,382	159,657
General and administrative expenses	(56,010	) (30,923
Losses on divestitures and impairment charges, net	(2,812	) (969
Operating income	107,560	127,765
Interest expense	(44,996	) (32,769
Other income (expense), net	1,534	(984
Income before income taxes	64,098	94,012
Provision for income taxes	(22,707	) (35,290
Net income	41,391	58,722
Net income attributable to noncontrolling interests	(289	) (1,102
Net income attributable to common stockholders	\$41,102	\$57,620
Basic earnings per share:		
Net income attributable to common stockholders	\$0.19	\$0.27
Basic weighted average number of shares	212,838	211,380
Diluted earnings per share:		
Net income attributable to common stockholders	\$0.19	\$0.27
Diluted weighted average number of shares	217,231	215,208
Dividends declared per share	\$0.08	\$0.06

(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,	
	2014	2013
	(In thousands)	
Net income	\$41,391	\$58,722
Other comprehensive income:		
Foreign currency translation adjustments	(11,200 )	(5,516 )
Total comprehensive income	30,191	53,206
Total comprehensive income attributable to noncontrolling interests	(315 )	(1,098 )
Total comprehensive income attributable to common stockholders	\$29,876	\$52,108

(See notes to unaudited condensed consolidated financial statements)

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

	March 31, 2014	December 31, 2013
	(In thousands, except share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 148,619	\$ 144,873
Receivables, net	105,813	105,899
Deferred tax assets	39,476	39,074
Inventories, net	34,508	34,668
Current assets held for sale	5,740	4,569
Other	41,848	65,524
Total current assets	376,004	394,607
Preneed funeral receivables, net and trust investments	1,871,539	1,870,874
Preneed cemetery receivables, net and trust investments	2,301,633	2,300,911
Cemetery property, at cost	1,721,446	1,747,125
Property and equipment, net	1,887,019	1,920,868
Non-current assets held for sale	795,001	746,474
Goodwill, net	1,978,621	1,968,235
Deferred charges and other assets	631,759	632,088
Cemetery perpetual care trust investments	1,342,589	1,347,622
Total assets	\$ 12,905,611	\$ 12,928,804
<b>LIABILITIES &amp; EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 477,368	\$ 486,648
Current maturities of long-term debt	105,705	176,362
Current liabilities held for sale	4,850	3,183
Income taxes	3,301	6,391
Total current liabilities	591,224	672,584
Long-term debt	3,133,925	3,125,548
Deferred preneed funeral revenues	672,631	686,160
Deferred preneed cemetery revenues	986,538	974,757
Deferred tax liability	586,991	581,440
Non-current liabilities held for sale	504,423	437,084
Other liabilities	404,693	430,393
Deferred preneed funeral and cemetery receipts held in trust	3,245,629	3,250,586
Care trusts' corpus	1,340,361	1,345,874
Commitments and contingencies (Note 15)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 213,605,552 and 212,326,642 shares issued, respectively, and 213,531,666 and 212,316,642 shares outstanding, respectively	213,532	212,317
Capital in excess of par value	1,251,573	1,259,348
Accumulated deficit	(105,893	) (145,876
Accumulated other comprehensive income	77,215	88,441
Total common stockholders' equity	1,436,427	1,414,230





Table of Contents

Noncontrolling interests	2,769	10,148
Total equity	1,439,196	1,424,378
Total liabilities and equity	\$12,905,611	\$12,928,804

(See notes to unaudited condensed consolidated financial statements)

7

---

Table of Contents

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

	Three Months Ended	
	March 31,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	\$41,391	\$58,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,120	30,447
Amortization of intangible assets	10,080	5,808
Amortization of cemetery property	11,339	8,975
Amortization of loan costs	1,844	1,235
Provision for doubtful accounts	2,155	1,720
Provision for deferred income taxes	10,124	26,134
Losses on divestitures and impairment charges, net	2,812	969
Share-based compensation	3,130	2,830
Excess tax benefits from share based awards	(6,744)	(772)
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
(Increase) decrease in receivables	(3,761)	5,962
Increase in other assets	(931)	(5,882)
Increase in payables and other liabilities	5,966	12,215
Effect of preneed funeral production and maturities:		
Decrease in preneed funeral receivables, net and trust investments	12,852	13,738
Decrease in deferred preneed funeral revenue	(531)	(4,000)
Decrease in deferred preneed funeral receipts held in trust	(14,768)	(14,176)
Effect of cemetery production and deliveries:		
Decrease (increase) in preneed cemetery receivables, net and trust investments	2,160	(6,359)
Increase in deferred preneed cemetery revenue	19,421	15,912
Decrease in deferred preneed cemetery receipts held in trust	(6,262)	(3,419)
Other	1,490	1,065
Net cash provided by operating activities	127,887	151,124
Cash flows from investing activities:		
Capital expenditures	(25,222)	(22,569)
Acquisitions	(779)	—
Proceeds from divestitures and sales of property and equipment	2,639	1,816
Net (deposits) withdrawals of restricted funds and other	(12,225)	339
Net cash used in investing activities	(35,587)	(20,414)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	110,000	—
Payments of debt	(7,579)	(4,948)
Principal payments on capital leases	(7,231)	(6,468)
Proceeds from exercise of stock options	7,915	3,094
Early extinguishment of debt	(167,093)	—
Excess tax benefits from share based awards	6,744	772
Purchase of Company common stock	(1,053)	(1,708)
Payments of dividends	(17,080)	(12,698)

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

Purchase of noncontrolling interest	(15,000	)	(8,333	)
Bank overdrafts and other	3,762		(4,004	)
Net cash used in financing activities	(86,615	)	(34,293	)
Effect of foreign currency on cash and cash equivalents	(1,939	)	(579	)
Net increase in cash and cash equivalents	3,746		95,838	
Cash and cash equivalents at beginning of period	144,873		92,708	
Cash and cash equivalents at end of period	\$148,619		\$188,546	

(See notes to unaudited condensed consolidated financial statements)

8

---

Table of Contents

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

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance at December 31, 2012	\$211,057	\$(10 )	\$1,307,058	\$ (286,795 )	\$ 111,717	\$ 19,800	\$1,362,827
Comprehensive income	—	—	—	57,620	(5,512 )	1,098	53,206
Dividends declared on common stock (\$.06 per share)	—	—	(12,698 )	—	—	—	(12,698 )
Employee share-based compensation earned	—	—	2,830	—	—	—	2,830
Stock option exercises	350	—	2,744	—	—	—	3,094
Tax Benefits Related to Share-Based Awards	—	—	772	—	—	—	772
Restricted stock awards, net of forfeitures	378	(3 )	(375 )	—	—	—	—
Purchase of Company common stock	—	(109 )	(676 )	(923 )	—	—	(1,708 )
Purchase of noncontrolling interest	—	—	(1,696 )	—	—	(6,637 )	(8,333 )
Noncontrolling interest payment	—	—	—	—	—	(900 )	(900 )
Other	1	—	(10 )	—	—	—	(9 )
Balance at March 31, 2013	\$211,786	\$(122 )	\$1,297,949	\$ (230,098 )	\$ 106,205	\$ 13,361	\$1,399,081
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
Tax Benefits Related to Share-Based Awards	—	—	6,743	—	—	—	6,743
Restricted stock awards, net of forfeitures	344	—	(344 )	—	—	—	—
	—	(106 )	(589 )	(1,119 )	—	—	(1,814 )

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

Purchase of Company common stock							
Purchase of noncontrolling interest	—	—	(7,441 )	—	—	(7,559 )	(15,000 )
Noncontrolling interest payment	—	—	—	—	—	(135 )	(135 )
Retirement of treasury shares	(42 )	42	—	—	—	—	—
Other	13	—	94	—	—	—	107
Balance at March 31, 2014	\$213,606	\$(74 )	\$1,251,573	\$(105,893 )	\$ 77,215	\$ 2,769	\$1,439,196

(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 primarily operating in the United States and Canada. Our operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. Funeral service locations 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 memorial products, flowers, and other ancillary products and services, is sold at funeral service locations. Cemeteries provide cemetery property interment rights, including developed lots, lawn crypts, and mausoleum spaces and sell cemetery-related merchandise and services, including stone and bronze memorials, markers, merchandise installations, 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, 2013, unless otherwise disclosed herein, and should be read in conjunction therewith. The accompanying year-end condensed 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. In this filing we revised our consolidated balance sheet as of December 31, 2013 to reclassify \$30.0 million from Long-term debt to Current maturities of long-term debt. The original misclassification relates to amounts payable in 2014 for our Term Loan due July 2018. Our previously issued December 31, 2013 financial statements are not materially misstated by this misclassification.

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, 2013. 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



## Table of Contents

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.

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 exceed 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.

### Income Taxes

In July 2013, the Financial Accounting Standards Board (FASB) amended the Income Taxes Topic of the Accounting Standards Codification (ASC) to eliminate a diversity in practice for the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendment requires that the unrecognized tax benefit be presented as a reduction of the deferred tax assets associated with the carryforwards except in certain circumstances when it would be reflected as a liability. We adopted this amendment effective January 1, 2014 with no impact on our consolidated results of operations, consolidated financial position, or cash flows.

### Foreign Currency

In March 2013, the FASB amended the Foreign Currency Matters Topic of the ASC to clarify the appropriate accounting when a parent ceases to have a controlling interest in a subsidiary or group of assets that is a business within a foreign entity. This clarification provides that the cumulative translation adjustment should only be released into net income if the loss of controlling interest represents complete or substantially complete liquidation of the foreign entity in which the subsidiary or asset group had resided. We adopted this amendment effective January 1, 2014 with no impact on our consolidated results of operations, consolidated financial position, or cash flows.

## 3. Recently Issued Accounting Standards

### Discontinued Operations

In April 2014, the FASB amended the Presentation of Financial Statements and Property, Plant and Equipment Topics of the ASC 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. The new guidance is effective for us with disposals that occur after January 1, 2015.

## 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 Topic of the ASC. In accordance with this guidance, 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. Our cemetery 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 service is performed or the merchandise is delivered.

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

11

---

Table of Contents

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Deposits	\$27,923	\$22,199
Withdrawals	43,737	32,705
Purchases of available-for-sale securities	61,485	60,979
Sales of available-for-sale securities	64,051	96,704
Realized gains from sales of available-for-sale securities	16,101	11,371
Realized losses from sales of available-for-sale securities	(1,474 )	(1,721 )
The components of Preneed funeral receivables, net and trust investments in our unaudited condensed consolidated balance sheet at March 31, 2014 and December 31, 2013 are as follows:		

	March 31, 2014	December 31, 2013
	(In thousands)	
Trust investments, at fair value	\$1,415,235	\$1,422,942
Cash and cash equivalents	132,471	128,216
Assets associated with businesses held for sale	(159,808 )	(163,436 )
Insurance-backed fixed income securities	279,236	280,969
Trust investments	1,667,134	1,668,691
Receivables from customers	255,606	254,294
Unearned finance charge	(6,826 )	(6,772 )
	1,915,914	1,916,213
Allowance for cancellation	(44,375 )	(45,339 )
Preneed funeral receivables, net and trust investments	\$1,871,539	\$1,870,874

The cost and fair values associated with our funeral merchandise and service trust investments recorded at fair value at March 31, 2014 and December 31, 2013 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair value represents the market value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated fair value of private equity investments (including debt as well as the estimated fair value related to the contract holder's equity in majority-owned real estate investments).

Table of Contents

	March 31, 2014				
	Fair Value	Cost	Unrealized	Unrealized	Fair
	Hierarchy		Gains	Losses	Value
	Level				
			(In thousands)		
Fixed income securities:					
U.S. Treasury	2	\$99,924	\$1,435	\$(4,221 )	\$97,138
Canadian government	2	94,793	151	(1,066 )	93,878
Corporate	2	56,892	3,965	(361 )	60,496
Residential mortgage-backed	2	2,424	26	(33 )	2,417
Asset-backed	2	3,358	65	—	3,423
Equity securities:					
Preferred stock	2	29,322	1,921	(45 )	31,198
Common stock:					
United States	1	369,338	75,887	(6,397 )	438,828
Canada	1	25,182	4,721	(970 )	28,933
Other international	1	34,811	4,904	(480 )	39,235
Mutual funds:					
Equity	1	262,636	23,887	(2,132 )	284,391
Fixed income	1	313,960	5,785	(15,800 )	303,945
Private equity	3	32,568	3,069	(8,123 )	27,514
Other	3	3,455	384	—	3,839
Trust investments		\$1,328,663	\$126,200	\$(39,628 )	\$1,415,235

	December 31, 2013				
	Fair Value	Cost	Unrealized	Unrealized	Fair
	Hierarchy		Gains	Losses	Value
	Level				
			(In thousands)		
Fixed income securities:					
U.S. Treasury	2	\$110,511	\$1,299	\$(5,599 )	\$106,211
Canadian government	2	100,263	81	(1,113 )	99,231
Corporate	2	64,042	3,515	(691 )	66,866
Residential mortgage-backed	2	2,408	23	(33 )	2,398
Asset-backed	2	3,366	—	(10 )	3,356
Equity securities:					
Preferred stock	2	30,107	754	(235 )	30,626
Common stock:					
United States	1	364,721	77,963	(2,928 )	439,756
Canada	1	27,634	4,346	(1,216 )	30,764
Other international	1	35,519	4,986	(199 )	40,306
Mutual funds:					
Equity	1	257,256	22,530	(2,303 )	277,483
Fixed income	1	313,606	3,228	(19,577 )	297,257
Private equity	3	32,909	2,702	(8,726 )	26,885
Other	3	1,545	291	(33 )	1,803
Trust investments		\$1,343,887	\$121,718	\$(42,663 )	\$1,422,942



Table of Contents

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the Fair Value Measurements and Disclosure (FVM&D) Topic of the ASC.

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 three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

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 discounted by 0% to 20% for risk and 0% to 10% for liquidity. 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 our investment committee quarterly. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of March 31, 2014, our unfunded commitment for our private equity and other investments was \$7.5 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, the nature of the investments in this category is that the 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 (in thousands):

	Three Months Ended		March 31, 2013	
	March 31, 2014		Private	Other
	Private	Other	Private	Other
	Equity		Equity	
Fair value, beginning balance	\$26,885	\$1,803	\$17,879	\$744
Net unrealized gains (losses) included in Accumulated other comprehensive income(1)	(470 )	2,036	10,850	509
Net realized losses included in Other income (expense), net(2)	(8 )	—	(5 )	(1 )
Purchases	1,887	—	—	—
Contributions	467	—	637	—
Distributions	(1,247 )	—	(3,630 )	—
Fair value, ending balance	\$27,514	\$3,839	\$25,731	\$1,252

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 income (expense), net for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding (2) reclassification in Other income (expense), 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 2014 to 2043. Maturities of fixed income securities, excluding mutual funds, at March 31, 2014 are estimated as follows:

14

---

Table of Contents

	Fair Value (In thousands)
Due in one year or less	\$132,873
Due in one to five years	54,732
Due in five to ten years	40,276
Thereafter	29,471
	\$257,352

Earnings from all our funeral merchandise and service trust investments are recognized in funeral revenues when a service is performed or merchandise is delivered. Fees charged by our wholly-owned registered investment advisor are also included in current revenues in the period in which they are earned. 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. Recognized trust fund income (realized and unrealized) related to these trust investments were \$16.1 million and \$12.3 million for the three months ended March 31, 2014 and 2013, 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 income (expense), 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 income (expense), 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, 2014 and 2013, we recorded a \$0.3 million and a \$0.2 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, 2014 and December 31, 2013, respectively, are shown in the following tables:

	March 31, 2014		March 31, 2013		Total	
	In Loss Position Less Than 12 Months	In Loss Position Greater Than 12 Months	In Loss Position Less Than 12 Months	In Loss Position Greater Than 12 Months	Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$22,414	\$(2,141)	\$19,008	\$(2,080)	\$41,422	\$(4,221)
Canadian government	4,831	(44)	16,869	(1,022)	21,700	(1,066)
Corporate	17,003	(288)	1,182	(73)	18,185	(361)
Residential mortgage-backed	1,250	(24)	138	(9)	1,388	(33)
Equity securities:						
Preferred stock	1,395	(45)	—	—	1,395	(45)
Common stock:						
United States	87,310	(5,886)	2,539	(511)	89,849	(6,397)
Canada	7,257	(349)	1,720	(621)	8,977	(970)
Other international	4,373	(450)	307	(30)	4,680	(480)
Mutual funds:						
Equity	19,712	(400)	12,319	(1,732)	32,031	(2,132)



Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

Fixed income	52,303	(1,978 )	54,279	(13,822 )	106,582	(15,800 )
Private equity	—	—	13,265	(8,123 )	13,265	(8,123 )
Total temporarily impaired securities	\$217,848	\$(11,605 )	\$121,626	\$(28,023 )	\$339,474	\$(39,628 )

15

---

Table of Contents

	December 31, 2013					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$28,693	\$(3,595 )	\$19,351	\$(2,004 )	\$48,044	\$(5,599 )
Canadian government	9,546	(120 )	18,981	(993 )	28,527	(1,113 )
Corporate	21,357	(346 )	5,654	(345 )	27,011	(691 )
Residential mortgage-backed	1,381	(25 )	172	(8 )	1,553	(33 )
Asset-backed	3,275	(10 )	—	—	3,275	(10 )
Equity securities:						
Preferred stock	14,028	(235 )	—	—	14,028	(235 )
Common stock:						
United States	46,544	(2,153 )	3,327	(775 )	49,871	(2,928 )
Canada	2,433	(576 )	1,992	(641 )	4,425	(1,217 )
Other international	3,396	(138 )	369	(60 )	3,765	(198 )
Mutual funds:						
Equity	16,206	(337 )	12,456	(1,966 )	28,662	(2,303 )
Fixed income	143,846	(4,984 )	38,217	(14,593 )	182,063	(19,577 )
Private equity	—	—	13,002	(8,726 )	13,002	(8,726 )
Other	—	—	527	(33 )	527	(33 )
Total temporarily impaired securities	\$290,705	\$(12,519 )	\$114,048	\$(30,144 )	\$404,753	\$(42,663 )

## 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 Topic of the ASC. In accordance with this guidance, 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 service is performed or the merchandise is delivered.

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

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Deposits	\$28,271	\$25,268
Withdrawals	34,348	29,881

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

Purchases of available-for-sale securities	98,758	105,722
Sales of available-for-sale securities	92,317	125,743
Realized gains from sales of available-for-sale securities	25,532	16,576
Realized losses from sales of available-for-sale securities	(2,299 )	(2,170 )

The components of Preneed cemetery receivables, net and trust investments in our unaudited condensed consolidated balance sheet at March 31, 2014 and December 31, 2013 are as follows:

16

---

Table of Contents

	March 31, 2014	December 31, 2013
	(In thousands)	
Trust investments, at fair value	\$1,551,178	\$1,553,719
Cash and cash equivalents	144,265	138,459
Assets associated with businesses held for sale	(112,275 )	(107,481 )
Insurance-backed fixed income securities	4	4
Trust investments	1,583,172	1,584,701
Receivables from customers	799,992	800,005
Unearned finance charges	(28,163 )	(27,873 )
	2,355,001	2,356,833
Allowance for cancellation	(53,368 )	(55,922 )
Preneed cemetery receivables, net and trust investments	\$2,301,633	\$2,300,911

The cost and fair values associated with our cemetery merchandise and service trust investments recorded at fair value at March 31, 2014 and December 31, 2013 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair value represents the market value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated fair value of private equity investments.

	March 31, 2014				
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)				
Fixed income securities:					
U.S. Treasury	2	\$95,784	\$1,889	\$(6,555 )	\$91,118
Canadian government	2	17,872	197	(115 )	17,954
Corporate	2	45,148	6,188	(401 )	50,935
Residential mortgage-backed	2	395	3	(3 )	395
Asset-backed	2	3,317	81	—	3,398
Equity securities:					
Preferred stock	2	14,871	1,216	(45 )	16,042
Common stock:					
United States	1	434,792	138,660	(5,770 )	567,682
Canada	1	14,972	4,235	(891 )	18,316
Other international	1	42,993	9,336	(779 )	51,550
Mutual funds:					
Equity	1	333,407	51,731	(1,485 )	383,653
Fixed income	1	341,016	7,690	(27,343 )	321,363
Private equity	3	28,281	3,924	(4,686 )	27,519
Other	3	1,043	216	(6 )	1,253
Trust investments		\$1,373,891	\$225,366	\$(48,079 )	\$1,551,178

Table of Contents

	December 31, 2013				
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 113,621	\$ 1,714	\$(8,876 )	\$ 106,459
Canadian government	2	17,073	170	(261 )	16,982
Corporate	2	48,970	5,262	(646 )	53,586
Residential mortgage-backed	2	408	2	(2 )	408
Asset-backed	2	3,346	—	(13 )	3,333
Equity securities:					
Preferred stock	2	16,708	1,106	(123 )	17,691
Common stock:					
United States	1	425,246	147,258	(3,231 )	569,273
Canada	1	15,368	4,063	(935 )	18,496
Other international	1	44,184	10,079	(200 )	54,063
Mutual funds:					
Equity	1	327,084	49,428	(1,704 )	374,808
Fixed income	1	338,944	5,236	(33,649 )	310,531
Private equity	3	28,625	3,372	(5,153 )	26,844
Other	3	1,078	200	(33 )	1,245
Trust investments		\$ 1,380,655	\$ 227,890	\$(54,826 )	\$ 1,553,719

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

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 three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

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 discounted by 0% to 20% for risk and 0% to 10% for liquidity. 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 our investment committee quarterly. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of March 31, 2014, our unfunded commitment for our private equity and other investments was \$7.8 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, the nature of the investments in this category is that the 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 (in thousands):



Table of Contents

	Three Months Ended		March 31, 2013	
	March 31, 2014		Private	Other
	Private	Other	Private	Other
	Equity		Equity	
Fair value, beginning balance	\$26,844	\$1,245	\$17,687	\$450
Net unrealized gains included in Accumulated other comprehensive income(1)	1,487	9	11,400	587
Net realized losses included in Other income (expense), net(2)	(8 )	(1 )	(7 )	(2 )
Contributions	499	—	662	—
Distributions	(1,303 )	—	(3,785 )	—
Fair value, ending balance	\$27,519	\$1,253	\$25,957	\$1,035

All unrealized gains (losses) 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 (1) corresponding 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 income (expense), net for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Other income (2) (expense), 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 2014 to 2043. Maturities of fixed income securities, excluding mutual funds, at March 31, 2014 are estimated as follows:

	Fair Value (In thousands)
Due in one year or less	\$8,842
Due in one to five years	71,928
Due in five to ten years	36,756
Thereafter	46,274
	\$163,800

Earnings from all our cemetery merchandise and service trust investments are recognized in current cemetery revenues when a service is performed or merchandise is delivered. Fees charged by our wholly-owned registered investment advisor are also included in current revenues in the period in which they are earned. 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. Recognized trust fund income (realized and unrealized) related to these trust investments were \$11.5 million and \$9.2 million for the three months ended March 31, 2014 and 2013, 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 income (expense), 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 income (expense), 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, 2014 and 2013, we recorded a \$0.3 million and a \$0.4 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, 2014 are shown in the following tables:

19

---



Table of Contents

	March 31, 2014				Total	
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$38,848	\$(4,286 )	\$19,559	\$(2,269 )	58,407	(6,555 )
Canadian government	11,259	(82 )	1,113	(33 )	12,372	(115 )
Corporate	10,154	(271 )	2,718	(130 )	12,872	(401 )
Residential mortgage-backed	169	(3 )	4	—	173	(3 )
Equity securities:						
Preferred stock	2,260	(45 )	—	—	2,260	(45 )
Common stock:						
United States	82,419	(5,575 )	2,909	(195 )	85,328	(5,770 )
Canada	1,843	(123 )	2,395	(768 )	4,238	(891 )
Other international	8,190	(699 )	625	(80 )	8,815	(779 )
Mutual funds:						
Equity	2,199	(27 )	14,643	(1,458 )	16,842	(1,485 )
Fixed income	84,375	(2,637 )	69,182	(24,706 )	153,557	(27,343 )
Private equity	—	—	6,707	(4,686 )	6,707	(4,686 )
Other	—	—	279	(6 )	279	(6 )
Total temporarily impaired securities	\$241,716	\$(13,748 )	\$120,134	\$(34,331 )	\$361,850	\$(48,079 )

	December 31, 2013				Total	
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$45,120	\$(6,040 )	\$25,043	\$(2,836 )	\$70,163	\$(8,876 )
Canadian government	9,424	(120 )	3,066	(141 )	12,490	(261 )
Corporate	15,050	(424 )	3,073	(222 )	18,123	(646 )
Residential mortgage-backed	145	(2 )	2	—	147	(2 )
Asset-backed	3,257	(13 )	—	—	3,257	(13 )
Equity securities:						
Preferred stock	5,604	(123 )	—	—	5,604	(123 )
Common stock:						
United States	46,317	(2,648 )	3,489	(583 )	49,806	(3,231 )
Canada	1,569	(502 )	1,935	(433 )	3,504	(935 )
Other international	4,344	(124 )	702	(76 )	5,046	(200 )
Mutual funds:						
Equity	3,858	(54 )	14,477	(1,650 )	18,335	(1,704 )
Fixed income	134,669	(5,527 )	64,009	(28,122 )	198,678	(33,649 )
Private equity	—	—	6,589	(5,153 )	6,589	(5,153 )
Other	—	—	282	(33 )	282	(33 )

Total temporarily impaired securities	\$269,357	\$(15,577 )	\$122,667	\$(39,249 )	\$392,024	\$(54,826 )
---------------------------------------	-----------	-------------	-----------	-------------	-----------	-------------

6. Cemetery Perpetual Care Trusts

20

---

Table of Contents

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 Topic of the ASC. In accordance with this guidance, 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 merchandise and service trust investments detailed in 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 March 31,	
	2014	2013
	(In thousands)	
Deposits	\$11,837	\$8,228
Withdrawals	5,885	9,569
Purchases of available-for-sale securities	38,895	35,052
Sales of available-for-sale securities	30,072	27,490
Realized gains from sales of available-for-sale securities	5,045	3,782
Realized losses from sales of available-for-sale securities	(337 )	(322 )

The components of Cemetery perpetual care trust investments in our unaudited condensed consolidated balance sheet at March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014	December 31, 2013
	(In thousands)	
Trust investments, at fair value	\$1,373,613	\$1,352,539
Cash and cash equivalents	81,773	78,509
Assets associated with businesses held for sale	(112,797 )	(83,426 )
Cemetery perpetual care trust investments	\$1,342,589	\$1,347,622

The cost and fair values associated with our cemetery perpetual care trust investments recorded at fair value at March 31, 2014 and December 31, 2013 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair value represents the value of the underlying securities or cash held by the common trust funds, mutual funds at published values, and the estimated fair value of private equity investments.

Table of Contents

	March 31, 2014				
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
			(In thousands)		
Fixed income securities:					
U.S. Treasury	2	\$ 1,675	\$ 18	\$(11 )	\$ 1,682
Canadian government	2	29,208	346	(204 )	29,350
Corporate	2	41,561	733	(309 )	41,985
Residential mortgage-backed	2	4,280	34	(15 )	4,299
Asset-backed	2	3,001	67	(4 )	3,064
Equity securities:					
Preferred stock	2	26,495	1,431	(62 )	27,864
Common stock:					
United States	1	232,619	54,271	(2,301 )	284,589
Canada	1	8,446	2,389	(579 )	10,256
Other international	1	21,341	1,863	(166 )	23,038
Mutual funds:					
Equity	1	40,452	7,385	(27 )	47,810
Fixed income	1	822,406	45,882	(1,130 )	867,158
Private equity	3	29,074	485	(8,753 )	20,806
Other	3	10,571	1,151	(10 )	11,712
Cemetery perpetual care trust investments		\$ 1,271,129	\$ 116,055	\$(13,571 )	\$ 1,373,613

	December 31, 2013				
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
			(In thousands)		
Fixed income securities:					
U.S. Treasury	2	\$ 1,588	\$ 9	\$(14 )	\$ 1,583
Canadian government	2	28,487	301	(459 )	28,329
Corporate	2	43,196	312	(263 )	43,245
Residential mortgage-backed	2	4,258	14	(19 )	4,253
Asset-backed	2	3,006	5	(11 )	3,000
Equity securities:					
Preferred stock	2	25,952	192	(252 )	25,892
Common stock:					
United States	1	231,156	53,782	(2,087 )	282,851
Canada	1	8,846	2,222	(623 )	10,445
Other international	1	20,676	1,319	(167 )	21,828
Mutual funds:					
Equity	1	41,282	5,693	(35 )	46,940
Fixed income	1	819,439	35,963	(2,598 )	852,804
Private equity	3	28,309	472	(9,002 )	19,779
Other	3	10,521	1,153	(84 )	11,590
Cemetery perpetual care trust investments		\$ 1,266,716	\$ 101,437	\$(15,614 )	\$ 1,352,539

Where quoted prices are available in an active market, securities held by the common trust funds and mutual funds are classified as Level 1 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of

the ASC.

22

---

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 three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

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 discounted by 0% to 20% for risk and 0% to 10% for liquidity. 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 our investment committee quarterly. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of March 31, 2014, our unfunded commitment for our private equity and other investments was \$0.7 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, the nature of the investments in this category is that the 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 (in thousands):

	Three Months Ended		March 31, 2013	
	Private Equity	Other	Private Equity	Other
Fair value, beginning balance	\$19,779	\$11,590	\$11,122	\$7,659
Net unrealized gains included in Accumulated other comprehensive income(1)	727	128	6,069	2,729
Net realized losses included in Other income (expense), net(2)	(12 )	(6 )	(82 )	(46 )
Sales	(17 )	—	—	—
Contributions	694	—	1	—
Distributions	(365 )	—	(656 )	—
Fair value, ending balance	\$20,806	\$11,712	\$16,454	\$10,342

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 income (expense), net for our cemetery perpetual care trust investments are offset by (2) a corresponding reclassification in Other income (expense), 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 2014 to 2043. Maturities of fixed income securities at March 31, 2014 are estimated as follows:

	Fair Value (In thousands)
Due in one year or less	\$15,236
Due in one to five years	35,515

Due in five to ten years	24,753
Thereafter	4,876
	\$80,380

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

23

---

Table of Contents

also included in current revenues in the period in which they are earned. Recognized trust fund income related to these trust investments were \$13.3 million and \$10.0 million for the three months ended March 31, 2014 and 2013, 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 income (expense), net and a decrease to Cemetery perpetual care trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other income (expense), 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, 2014 there was no impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments. For the three months ended March 31, 2013, we recorded a \$0.1 million 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.

	March 31, 2014					
	In Loss Position		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	\$1,247	\$(11 )	\$2	\$—	\$1,249	\$(11 )
Canadian government	18,422	(146 )	1,818	(58 )	20,240	(204 )
Corporate	15,687	(148 )	3,204	(161 )	18,891	(309 )
Residential mortgage-backed	685	(14 )	11	(1 )	696	(15 )
Asset-backed	391	(4 )	15	—	406	(4 )
Equity securities:						
Preferred stock	3,362	(57 )	46	(5 )	3,408	(62 )
Common stock:						
United States	25,383	(1,519 )	2,755	(782 )	28,138	(2,301 )
Canada	1,233	(35 )	1,664	(544 )	2,897	(579 )
Other international	1,847	(21 )	1,020	(145 )	2,867	(166 )
Mutual funds:						
Equity	397	(15 )	118	(12 )	515	(27 )
Fixed income	49,171	(893 )	9,632	(237 )	58,803	(1,130 )
Private equity	—	—	20,256	(8,753 )	20,256	(8,753 )
Other	14	(10 )	9,891	—	9,905	(10 )
Total temporarily impaired securities	\$117,839	\$(2,873 )	\$50,432	\$(10,698 )	\$168,271	\$(13,571 )



Table of Contents

	December 31, 2013		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	\$1,339	\$(14 )	\$20	\$—	\$1,359	\$(14 )
Canadian government	15,777	(214 )	5,131	(245 )	20,908	(459 )
Corporate	22,534	(129 )	3,299	(134 )	25,833	(263 )
Residential mortgage-backed	2,960	(18 )	10	(1 )	2,970	(19 )
Asset-backed	2,835	(10 )	15	(1 )	2,850	(11 )
Equity securities:						
Preferred stock	14,650	(245 )	44	(7 )	14,694	(252 )
Common stock:						
United States	23,825	(1,561 )	3,254	(526 )	27,079	(2,087 )
Canada	667	(129 )	1,794	(494 )	2,461	(623 )
Other international	1,540	(54 )	525	(113 )	2,065	(167 )
Mutual funds:						
Equity	391	(14 )	163	(21 )	554	(35 )
Fixed income	181,701	(2,090 )	28,507	(508 )	210,208	(2,598 )
Private equity	—	—	19,242	(9,002 )	19,242	(9,002 )
Other	—	—	9,738	(84 )	9,738	(84 )
Total temporarily impaired securities	\$268,219	\$(4,478 )	\$71,742	\$(11,136 )	\$339,961	\$(15,614 )

## 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 Topic of the ASC. Although the guidance 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, 2014 and December 31, 2013 are detailed below.

	March 31, 2014			December 31, 2013		
	Preneed Funeral	Preneed Cemetery	Total	Preneed Funeral	Preneed Cemetery	Total
	(In thousands)			(In thousands)		
Trust investments	\$1,667,134	\$1,583,172	\$3,250,306	\$1,668,691	\$1,584,701	\$3,253,392
Accrued trust operating payables and other	(1,934 )	(2,743 )	(4,677 )	(1,108 )	(1,698 )	(2,806 )
Deferred preneed funeral and cemetery receipts held in trust	\$1,665,200	\$1,580,429	\$3,245,629	\$1,667,583	\$1,583,003	\$3,250,586

## 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, 2014 and December 31, 2013 are detailed below.



Table of Contents

	March 31, 2014	December 31, 2013
	(In thousands)	
Cemetery perpetual care trust investments	\$1,342,589	\$1,347,622
Accrued trust operating payables and other	(2,228 )	(1,748 )
Care trusts' corpus	\$1,340,361	\$1,345,874

## Other Income (Expense), Net

The components of Other income (expense), net in our unaudited condensed consolidated statement of operations for the three months ended March 31, 2014 and 2013 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, 2014				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual 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	9,586	—	17,655
Trust expenses and income taxes	(4,467 )	(4,815 )	(1,547 )	—	(10,829 )
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 income (expense), net	—	—	—	1,534	1,534
Total other income, net	\$—	\$—	\$—	\$1,534	\$1,534

	Three Months Ended March 31, 2013				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
	(In thousands)				
Realized gains	\$11,371	\$16,576	\$3,782	\$—	\$31,729
Realized losses	(1,721 )	(2,170 )	(322 )	—	(4,213 )
Impairment charges	(200 )	(357 )	(63 )	—	(620 )
Interest, dividend, and other ordinary income	1,817	1,529	6,089	—	9,435
Trust expenses and income taxes	(2,381 )	(3,669 )	(575 )	—	(6,625 )
Net trust investment income	8,886	11,909	8,911	—	29,706
Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus	(8,886 )	(11,909 )	(8,911 )	—	(29,706 )
Other income (expense), net	—	—	—	(984 )	(984 )
Total other income, net	\$—	\$—	\$—	\$(984 )	\$(984 )

## 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 35.4% and 37.5% for the three months ended March 31, 2014 and 2013, 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

Table of Contents

unrecognized tax benefits. The effective tax rate for the first quarter of 2014 is above the 35% federal statutory tax rate due to state tax expense which is partially offset by state legislative changes and foreign earnings taxed at lower rates.

**Unrecognized Tax Benefits**

As of March 31, 2014, the gross amount of our unrecognized tax benefits was \$136.9 million and the gross amount of our accrued interest was \$45.3 million. Additional interest expense of \$0.7 million was accrued.

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 the COOP, SCI and Subsidiaries' tax years 1999 through 2005 remain under review at the IRS Appeals level. SCI and Subsidiaries received a letter of no change to its tax liability for the years 2008 through 2010. Furthermore, SCI and its affiliates are under audit by various state and foreign jurisdictions for years 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, 2014 and December 31, 2013 was as follows:

	March 31, 2014	December 31, 2013
	(In thousands)	
3.125% Senior Convertible Notes due July 2014	\$95	\$85,256
6.75% Senior Notes due April 2015	136,465	136,465
6.75% Senior Notes due April 2016	197,377	197,377
3.375% Senior Convertible Notes due July 2016	154	46,279
7.0% Senior Notes due June 2017	295,000	295,000
7.625% Senior Notes due October 2018	250,000	250,000
6.5% Senior Notes due April 2019	200,000	200,000
7.0% Senior Notes due May 2019	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
7.5% Senior Notes due April 2027	200,000	200,000
Term Loan due July 2018	592,500	600,000
Bank credit facility due July 2018	140,000	30,000
Obligations under capital leases	192,528	189,697
Mortgage notes and other debt, maturities through 2050	4,672	4,752
Unamortized premiums and other, net	5,839	42,084
<b>Total debt</b>	<b>3,239,630</b>	<b>3,301,910</b>
Less:		
Current maturities of debt, capital lease obligations, and mortgage notes	(104,284 )	(153,738 )
Current maturities of unamortized premiums and other, net	(1,421 )	(22,624 )
<b>Total current maturities</b>	<b>(105,705 )</b>	<b>(176,362 )</b>
<b>Total long-term debt</b>	<b>\$3,133,925</b>	<b>\$3,125,548</b>

Current maturities of debt at March 31, 2014 primarily comprise our capital leases and amounts due under our term loan. Our consolidated debt had a weighted average interest rate of 5.38% and 5.25% at March 31, 2014 and December 31, 2013, respectively. Approximately 72% and 76% of our total debt had a fixed interest rate at March 31, 2014 and December 31, 2013, respectively.

**Bank Credit Facility**

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.

27

---

## Table of Contents

As of March 31, 2014, we have \$140.0 million outstanding under our Bank credit facility and \$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 0.40% at March 31, 2014. As of March 31, 2014, we have \$328.4 million in borrowing capacity under the bank credit facility.

### Debt Extinguishments and Reductions

During the three months ended March 31, 2014, we made debt payments of \$181.9 million, including the following scheduled payments and convertible debt payments:

\$86.3 million aggregate principal amount of our 3.125% Senior Convertible Notes due July 2014;  
\$45.0 million aggregate principal amount of our 3.375% Senior Convertible Notes due July 2016;  
\$21.7 million aggregate unamortized premiums associated with our 3.125% Senior Convertible Notes due July 2014;  
\$14.2 million aggregate unamortized premiums associated with our 3.375% Senior Convertible Notes due July 2016;  
\$7.5 million aggregate principal amount of our Term Loan due July 2018; and  
\$7.2 million in scheduled payments for our capital lease obligations.

We did not incur any gains or losses as a result of these transactions.

During the three months ended March 31, 2013, we paid an aggregate of \$11.4 million, to repay our remaining 7.875% Debentures due February 2013 and our capital lease obligations.

### Capital Leases

During the three months ended March 31, 2014 and 2013, we acquired \$10.7 million and \$14.9 million, respectively, of primarily transportation equipment capital leases.

## 10. Credit Risk and Fair Value of Financial Instruments

### Fair Value Estimates

The fair value estimates of the following financial instruments have been determined using available market information and appropriate valuation methodologies. The carrying values of cash and cash equivalents, trade receivables, and trade payables approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of receivables on preneed funeral and cemetery contracts are impracticable to estimate because of the lack of a trading market and the diverse number of individual contracts with varying terms.

The fair value of our debt instruments at March 31, 2014 and December 31, 2013 was as follows:

Table of Contents

	March 31, 2014	December 31, 2013
	(In thousands)	
3.125% Senior Convertible Notes due July 2014	\$ 121	\$ 106,939
6.75% Senior Notes due April 2015	143,179	144,653
6.75% Senior Notes due April 2016	214,647	214,904
3.375% Senior Convertible Notes due July 2016	185	60,487
7.0% Senior Notes due June 2017	331,285	333,259
7.625% Senior Notes due October 2018	288,438	288,875
6.5% Senior Notes due April 2019	210,000	210,000
7.0% Senior Notes due May 2019	266,250	270,000
4.5% Senior Notes due November 2020	196,000	192,610
8.0% Senior Notes due November 2021	173,625	173,625
5.375% Senior Notes due January 2022	434,563	431,588
7.5% Senior Notes due April 2027	216,500	215,750
Term Loan due July 2018	592,500	600,000
Bank credit facility due July 2018	140,000	30,000
Mortgage notes and other debt, maturities through 2050	4,672	4,752
Total fair value of debt instruments	\$3,211,965	\$3,277,442

The fair values of our long-term, fixed rate loans were estimated using market prices for those loans, and therefore they are classified within Level 1 of the Fair Value Measurements hierarchy as required by the FVM&D Topic of the ASC. The bank credit agreement and the mortgage and other debt are classified within Level 3 of the Fair Value Measurements hierarchy. The fair values of these instruments have been estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements. A significant increase (decrease) in the inputs results in a directionally opposite change in the fair value of the instruments.

## 11. Share-Based Compensation

## Stock Benefit Plans

We utilize the Black-Scholes option valuation model for estimating the fair value of our stock options. This model uses a range of assumptions related to volatility, the risk-free interest rate, the expected life, and the dividend yield. The fair values of our stock options are calculated using the following weighted average assumptions for the three months ended March 31, 2014:

Assumptions	Three Months Ended March 31, 2014	
Dividend yield	1.8	%
Expected volatility	27.1	%
Risk-free interest rate	1.1	%
Expected holding period (in years)	4.0	

## Stock Options

The following table sets forth stock option activity for the three months ended March 31, 2014:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2013	13,319,750	\$ 9.84
Granted	2,495,850	\$ 17.41
Exercised	(964,403 )	\$ 8.82
Outstanding at March 31, 2014	14,851,197	\$ 11.18
Exercisable at March 31, 2014	10,339,379	\$ 9.14

As of March 31, 2014, the unrecognized compensation expense related to stock options of \$14.6 million is expected to be recognized over a weighted average period of 1.6 years.





Table of Contents

## Restricted Shares

Restricted share activity for the three months ended March 31, 2014 was as follows:

	Restricted shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted shares at December 31, 2013	1,183,229	\$ 11.81
Granted	344,570	\$ 17.41
Vested	(187,549 )	\$ 11.44
Nonvested restricted shares at March 31, 2014	1,340,250	\$ 13.30

As of March 31, 2014, the unrecognized compensation expense related to restricted shares of \$10.8 million is expected to be recognized over a weighted average period of 1.6 years.

## 12. Equity

(All shares reported in whole numbers)

Our components of Accumulated other comprehensive income are as follows:

	Foreign Currency Translation Adjustment	Unrealized Gains and Losses  (In thousands)	Accumulated Other Comprehensive Income
Balance at December 31, 2013	\$88,441	\$—	\$ 88,441
Activity in 2014	(11,226 )	—	(11,226 )
Reduction in net unrealized gains associated with available-for-sale securities of the trusts, net of taxes	—	17,039	17,039
Reclassification of net unrealized losses activity attributable to the Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus, net of taxes	—	(17,039 )	(17,039 )
Balance at March 31, 2014	\$77,215	\$—	\$ 77,215

The assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. The U.S. dollar amount that arises from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the foreign currency translation adjustment in Accumulated other comprehensive income.

## Cash Dividends

On February 12, 2014, our Board of Directors approved a cash dividend of \$.08 per common share. This dividend, totaling \$17.1 million, was paid on March 28, 2014.

## Share Repurchases

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our stock repurchase program. During the three months ended March 31, 2014, there were no share repurchases under our share repurchase program. The remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$190.1 million at March 31, 2014.

During the three months ended March 31, 2014, we made \$1.1 million of share repurchases that were not part of the publicly announced programs. These shares represent restricted stock that was redeemed by certain employees in lieu of tax liability withholdings and stock option exercises by attestation, which do not affect our share repurchase program.

13. Segment Reporting

Our operations are both product based and geographically based, and the reportable operating segments presented below include our funeral and cemetery operations. Our geographic areas include United States, Canada, and Germany. We conduct both funeral and cemetery operations in the United States and Canada and funeral operations in Germany.

Our reportable segment information is as follows:

30

---

Table of Contents

	Funeral	Cemetery	Reportable Segments
	(In thousands)		
Three Months Ended March 31,			
Revenues from external customers:			
2014	\$ 510,668	\$ 236,455	\$ 747,123
2013	\$ 462,019	\$ 190,333	\$ 652,352
Gross profits:			
2014	\$ 119,389	\$ 46,993	\$ 166,382
2013	\$ 120,131	\$ 39,526	\$ 159,657

The following table reconciles gross profits from reportable segments to our consolidated income before income taxes:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Gross profits from reportable segments	\$ 166,382	\$ 159,657
General and administrative expenses	(56,010 )	(30,923 )
Losses on divestitures and impairment charges, net	(2,812 )	