

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

August 01, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from to

Commission file number 1-6402-1

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 July 29, 2014 was 211,301,267 (net of treasury shares).

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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 Vault — 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 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, 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, the merchandise is delivered, or when a minimum of 10% of the sales price has been collected and the property has been constructed or 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 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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Revenues	\$746,746	\$624,231	\$1,492,255	\$1,274,649
Costs and expenses	(590,882)	(498,248)	(1,170,151)	(989,339)
Gross profits	155,864	125,983	322,104	285,310
General and administrative expenses	(46,127)	(31,379)	(102,137)	(62,302)
Gains (losses) on divestitures and impairment charges, net	34,994	(5,545)	32,182	(6,514)
Operating income	144,731	89,059	252,149	216,494
Interest expense	(46,307)	(32,740)	(91,303)	(65,509)
(Losses) gains on early extinguishment of debt	(29,158)	468	(29,158)	468
Other income (expense), net	50	(695)	1,586	(1,680)
Income before income taxes	69,316	56,092	133,274	149,773
Provision for income taxes	(37,357)	(21,598)	(60,064)	(56,888)
Net income from continuing operations	31,959	34,494	73,210	92,885
Net (loss) income from discontinued operations, net of tax	(178)	(59)	(38)	273
Net income	31,781	34,435	73,172	93,158
Net income attributable to noncontrolling interests	(5,859)	(820)	(6,148)	(1,922)
Net income attributable to common stockholders	\$25,922	\$33,615	\$67,024	\$91,236
Basic earnings per share:				
Net income attributable to common stockholders	\$0.12	\$0.16	\$0.32	\$0.43
Basic weighted average number of shares	212,390	211,821	212,613	211,602
Diluted earnings per share:				
Net income attributable to common stockholders	\$0.12	\$0.16	\$0.31	\$0.42
Diluted weighted average number of shares	215,989	215,946	216,593	215,603
Dividends declared per share	\$0.08	\$0.07	\$0.16	\$0.13

(See notes to unaudited condensed consolidated financial statements)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	\$31,781	\$34,435	\$73,172	\$93,158
Other comprehensive income:				
Foreign currency translation adjustments	13,528	(11,754)	2,328	(17,270)
Total comprehensive income	45,309	22,681	75,500	75,888
Total comprehensive income attributable to noncontrolling interests	(5,844)	(814)	(6,158)	(1,912)
Total comprehensive income attributable to common stockholders	\$39,465	\$21,867	\$69,342	\$73,976

(See notes to unaudited condensed consolidated financial statements)

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CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	June 30, 2014	December 31, 2013
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$140,515	\$141,580
Receivables, net	102,257	101,826
Deferred tax assets	28,262	27,138
Inventories	33,453	36,102
Current assets of discontinued operations	2,979	4,750
Current assets held for sale	3,043	4,569
Other	45,192	65,501
Total current assets	355,701	381,466
Preneed funeral receivables, net and trust investments	1,880,467	1,851,633
Preneed cemetery receivables, net and trust investments	2,404,682	2,297,823
Cemetery property, at cost	1,744,048	1,773,021
Property and equipment, net	1,883,249	1,923,188
Non-current assets of discontinued operations	3,954	2,491
Non-current assets held for sale	644,406	823,211
Goodwill	1,897,845	1,902,683
Deferred charges and other assets	637,752	628,665
Cemetery perpetual care trust investments	1,405,074	1,344,322
Total assets	\$12,857,178	\$12,928,503
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$455,320	\$482,508
Current maturities of long-term debt	101,436	176,362
Current liabilities of discontinued operations	4,014	4,728
Current liabilities held for sale	2,252	3,183
Income taxes	1,910	6,401
Total current liabilities	564,932	673,182
Long-term debt	3,050,367	3,125,548
Deferred preneed funeral revenues	596,669	610,604
Deferred preneed cemetery revenues	1,017,848	977,547
Deferred tax liability	597,432	580,543
Non-current liabilities of discontinued operations	1,390	968
Non-current liabilities held for sale	440,008	518,371
Other liabilities	427,710	444,954
Deferred preneed funeral and cemetery receipts held in trust	3,330,960	3,229,834
Care trusts' corpus	1,404,267	1,342,574
Commitments and contingencies (Note 15)		
Equity:		

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Common stock, \$1 per share par value, 500,000,000 shares authorized, 214,328,348 and 212,326,642 shares issued, respectively, and 211,175,401 and 211,175 212,316,642 shares outstanding, respectively		212,317
Capital in excess of par value	1,233,232	1,259,348

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Accumulated deficit	(118,184)	(145,876)
Accumulated other comprehensive income	90,759		88,441	
Total common stockholders' equity	1,416,982		1,414,230	
Noncontrolling interests	8,613		10,148	
Total equity	1,425,595		1,424,378	
Total liabilities and equity	\$12,857,178		\$12,928,503	
(See notes to unaudited condensed consolidated financial statements)				

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

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	\$73,172	\$93,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (income) from discontinued operations, net of tax	38	(273)
Losses (gains) on early extinguishment of debt	29,158	(468)
Premiums paid on early extinguishment of debt	(24,804)	—
Depreciation and amortization	70,595	61,061
Amortization of intangible assets	19,346	11,412
Amortization of cemetery property	25,790	19,588
Amortization of loan costs	4,048	2,486
Provision for doubtful accounts	4,541	3,132
Provision for deferred income taxes	26,484	42,103
(Gains) losses on divestitures and impairment charges, net	(32,182)	6,514
Share-based compensation	6,423	5,850
Excess tax benefits from share-based awards	(12,521)	(5,558)
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
(Increase) decrease in receivables	(7,241)	4,122
Increase in other assets	(22,351)	(4,842)
Increase (decrease) in payables and other liabilities	9,437	(7,435)
Effect of preneed funeral production and maturities:		
Decrease in preneed funeral receivables, net and trust investments	23,963	28,514
Increase (decrease) deferred preneed funeral revenue	(11,965)	(3,799)
Decrease in deferred preneed funeral receipts held in trust	(22,550)	(28,576)
Effect of cemetery production and deliveries:		
Increase in preneed cemetery receivables, net and trust investments	(31,736)	(32,380)
Increase in deferred preneed cemetery revenue	43,478	40,733
Decrease in deferred preneed cemetery receipts held in trust	(1,323)	(8,969)
Other	2,017	195
Net cash provided by operating activities from continuing operations	171,817	226,568
Net cash (used in) provided by operating activities from discontinued operations	(1,000)	380
Net cash provided by operating activities	170,817	226,948
Cash flows from investing activities:		
Capital expenditures	(57,379)	(50,762)
Acquisitions	(7,575)	(3,565)
Proceeds from divestitures and sales of property and equipment	154,893	5,550
Net (deposits) withdrawals of restricted funds	(12,225)	341
Net cash provided (used in) investing activities from continuing operations	77,714	(48,436)
Net cash used in investing activities from discontinued operations	(361)	(41)
Net cash provided by (used in) investing activities	77,353	(48,477)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	755,000	—

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Debt issuance costs	(10,500)	—	
Payments of debt	(135,371)	(3,951)
Early extinguishment of debt	(762,782)	—	
Principal payments on capital leases	(14,491)	(12,967)
Proceeds from exercise of stock options	14,791		4,856	
Excess tax benefits from share-based awards	12,521		5,558	
Purchase of Company common stock	(60,425)	(1,708)
Payments of dividends	(34,024)	(27,553)
Purchase of noncontrolling interest	(15,000)	(8,333)
Bank overdrafts and other	115		(3,681)

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	Six Months Ended	
	June 30,	
	2014	2013
Net cash used in financing activities from continuing operations	(250,166)	(47,779)
Net cash used in financing activities from discontinued operations	—	(744)
Net cash used in financing activities	(250,166)	(48,523)
Net change in cash of discontinued operations	1,323	405
Effect of foreign currency on cash and cash equivalents	(392)	(1,512)
Net (decrease) increase in cash and cash equivalents	(1,065)	128,841
Cash and cash equivalents at beginning of period	141,580	88,769
Cash and cash equivalents at end of period	\$140,515	\$217,610
(See notes to unaudited condensed consolidated financial statements)		

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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	—	—	—	91,236	(17,260)	1,912	75,888
Dividends declared on common stock (\$.13 per share)	—	—	(27,553)	—	—	—	(27,553)
Employee share-based compensation earned	—	—	5,850	—	—	—	5,850
Stock option exercises	555	—	4,444	—	—	—	4,999
Restricted stock awards, net of forfeitures	378	(3)	(375)	—	—	—	—
Purchase of Company common stock	—	(117)	(717)	(1,017)	—	—	(1,851)
Cancellation of Company stock	(8)	8	—	—	—	—	—
Tax Benefits Related to Share-Based Awards	—	—	5,558	—	—	—	5,558
Purchase of noncontrolling interest	—	—	(1,696)	—	—	(6,637)	(8,333)
Noncontrolling interest payment	—	—	—	—	—	(900)	(900)
Other	82	—	1,294	—	—	—	1,376
Balance at June 30, 2013	\$212,064	\$(122)	\$1,293,863	\$(196,576)	\$ 94,457	\$ 14,175	\$1,417,861
Balance at December 31, 2013	212,327	(10)	1,259,348	(145,876)	88,441	10,148	1,424,378
Comprehensive income	—	—	—	67,024	2,318	6,158	75,500
Dividends declared on common stock (\$.16 per share)	—	—	(34,024)	—	—	—	(34,024)
Employee share-based compensation earned	—	—	6,423	—	—	—	6,423
Stock option exercises	1,605	—	13,947	—	—	—	15,552
Restricted stock awards, net of forfeitures	345	—	(345)	—	—	—	—

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Purchase of Company common stock	—	(3,185)	(18,669)	(39,332)	—	—	(61,186)
Cancellation of Company Stock	(42)	42	—	—	—	—	—
Tax Benefits Related to Share-Based Awards		—	12,521	—	—	—	12,521
Purchase of noncontrolling interest	—	—	(7,441)	—	—	(7,559)	(15,000)
Noncontrolling interest payment	—	—	—	—	—	(134)	(134)
Other	93	—	1,472	—	—	—	1,565
Balance at June 30, 2014	\$214,328	\$(3,153)	\$1,233,232	\$(118,184)	\$ 90,759	\$ 8,613	\$1,425,595

(See notes to unaudited condensed consolidated financial statements)

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SERVICE CORPORATION INTERNATIONAL
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

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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.

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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. On July 8, 2014, we sold our operations in Germany. As such, we have reclassified the assets and results of operations of these businesses to discontinued operations in all periods presented.

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 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

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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.

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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.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and most industry-specific guidance. This ASU 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. The ASU 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. The amendments in the ASU 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.

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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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Deposits	\$24,949	\$21,416	\$52,872	\$43,615
Withdrawals	31,955	35,544	75,692	68,249
Purchases of available-for-sale securities	79,305	116,847	140,790	177,826
Sales of available-for-sale securities	107,199	149,946	171,250	246,650
Realized gains from sales of available-for-sale securities	15,911	17,330	32,012	28,701
Realized losses from sales of available-for-sale securities	(2,665)	(4,445)	(4,139)	(6,166)

The components of Preneed funeral receivables, net and trust investments in our unaudited condensed consolidated balance sheet at June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014	December 31, 2013
	(In thousands)	
Trust investments, at fair value	\$1,390,801	\$1,422,942
Cash and cash equivalents	163,170	128,216
Assets associated with businesses held for sale	(155,114)	(184,854)
Insurance-backed fixed income securities	279,349	280,969
Trust investments	1,678,206	1,647,273
Receivables from customers	256,575	259,793
Unearned finance charge	(10,384)	(10,094)
	1,924,397	1,896,972
Allowance for cancellation	(43,930)	(45,339)
Preneed funeral receivables, net and trust investments	\$1,880,467	\$1,851,633

Our funeral merchandise and service trust investments are recorded at fair value. The costs and fair values at June 30, 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).

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June 30, 2014					
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 107,491	\$ 1,996	\$(3,517)	\$ 105,970
Canadian government	2	99,308	217	(963)	98,562
Corporate	2	47,997	3,617	(374)	51,240
Residential mortgage-backed	2	1,610	28	(21)	1,617
Asset-backed	2	2,733	50	(1)	2,782
Equity securities:					
Preferred stock	2	20,045	1,959	(30)	21,974
Common stock:					
United States	1	324,908	74,621	(6,053)	393,476
Canada	1	23,088	5,686	(810)	27,964
Other international	1	29,487	5,825	(391)	34,921
Mutual funds:					
Equity	1	292,246	31,697	(1,230)	322,713
Fixed income	1	302,917	8,555	(13,698)	297,774
Private equity	3	30,640	3,619	(6,920)	27,339
Other	3	4,070	399	—	4,469
Trust investments		\$ 1,286,540	\$ 138,269	\$(34,008)	\$ 1,390,801

December 31, 2013					
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(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

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

As of June 30, 2014, our unfunded commitment for our private equity and other investments was \$6.4 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		June 30, 2013	
	June 30, 2014		June 30, 2013	
	Private	Other	Private	Other
	Equity		Equity	
	(in thousands)			
Fair value, beginning balance	\$27,514	\$3,839	\$25,731	\$1,252
Net unrealized gains (losses) included in Accumulated other comprehensive income ⁽¹⁾	(1,165)	820	1,761	361
Net realized losses included in Other income (expense), net ⁽²⁾	(6)	(1)	(6)	(1)
Purchases	1,068	—	—	—
Contributions	490	—	1,565	—
Distributions	(562)	(189)	(2,718)	(155)
Fair value, ending balance	\$27,339	\$4,469	\$26,333	\$1,457
	Six Months Ended		June 30, 2013	
	June 30, 2014		June 30, 2013	
	Private	Other	Private	Other
	Equity		Equity	
	(in thousands)			
Fair value, beginning balance	\$26,885	\$1,803	\$17,879	\$744
Net unrealized gains included in Accumulated other comprehensive income ⁽¹⁾	(1,635)	2,856	12,611	870

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Net realized losses included in Other income (expense), net ⁽²⁾	(14)	(1)	(11)	(2)
Purchases	2,955		—		—		—	
Contributions	957		—		2,202		—	
Distributions	(1,809)	(189)	(6,348)	(155)
Fair value, ending balance	\$27,339		\$4,469		\$26,333		\$1,457	

All unrealized gains (losses) recognized in Accumulated other comprehensive income for our funeral merchandise (1) and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in

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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 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 June 30, 2014 are estimated as follows:

	Fair Value (In thousands)
Due in one year or less	\$132,052
Due in one to five years	55,053
Due in five to ten years	42,680
Thereafter	30,386
	\$260,171

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 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 were \$17.1 million and \$12.0 million for the three months ended June 30, 2014 and 2013, respectively. Recognized trust fund income (realized and unrealized) related to these trust investments were \$32.5 million and \$24.3 million for the six months ended June 30, 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 June 30, 2014 and 2013, we recorded a \$0.1 million and a \$0.4 million impairment charge, respectively, for other-than-temporary declines in fair value related to unrealized losses on certain investments. For the six months ended June 30, 2014 and 2013, we recorded a \$0.4 million and a \$0.6 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 June 30, 2014 and December 31, 2013, respectively, are shown in the following tables:

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	June 30, 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	\$7,752	\$(283)	\$38,290	\$(3,234)	\$46,042	\$(3,517)
Canadian government	5,045	(19)	19,903	(944)	24,948	(963)
Corporate	9,106	(253)	2,853	(121)	11,959	(374)
Residential mortgage-backed	168	(5)	401	(16)	569	(21)
Asset-backed	464	(1)	—	—	464	(1)
Equity securities:						
Preferred stock	903	(30)	—	—	903	(30)
Common stock:						
United States	74,480	(5,480)	2,935	(573)	77,415	(6,053)
Canada	1,763	(126)	1,958	(684)	3,721	(810)
Other international	3,311	(339)	538	(52)	3,849	(391)
Mutual funds:						
Equity	15,493	(179)	9,525	(1,051)	25,018	(1,230)
Fixed income	19,286	(268)	77,428	(13,430)	96,714	(13,698)
Private equity	—	—	12,440	(6,920)	12,440	(6,920)
Total temporarily impaired securities	\$137,771	\$(6,983)	\$166,271	\$(27,025)	\$304,042	\$(34,008)
	December 31, 2013					
	In Loss Position		In Loss Position		Total	
	Less Than 12 Months		Greater Than 12 Months			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		