SERVICE CORPORATION INTERNATIONAL
Form 10-Q
July 25, 2013
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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, 2013 |
| 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 þ NO o

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 þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
| | | (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 o NO þ

The number of shares outstanding of the registrant’s common stock as of July 23, 2013 was 211,948,735 (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 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 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 the Neptune Society.

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, granite, 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.

Production — Sales of preneed funeral and preneed or atneed cemetery contracts.

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands, except per share amounts) | | | |
| Revenues | $625,505 | $597,372 | $1,277,857 | $1,199,878 |
| Costs and expenses | (499,684) | (469,183) | (992,436) | (944,122) |
| Gross profits | 125,821 | 128,189 | 285,421 | 255,756 |
| General and administrative expenses | (31,162) | (29,558) | (62,028) | (55,517) |
| (Losses) gains on divestitures and impairment charges, net | (5,545) | 1,058 | (6,514) | 568 |
| Operating income | 89,114 | 99,689 | 216,879 | 200,807 |
| Interest expense | (32,740) | (33,894) | (65,509) | (67,482) |
| Gains on early extinguishment of debt, net | 468 | — | 468 | — |
| Other (expense) income, net | (699) | (2,221) | (1,683) | 1,684 |
| Income before income taxes | 56,143 | 63,574 | 150,155 | 135,009 |
| Provision for income taxes | (21,708) | (25,935) | (56,997) | (49,055) |
| Net income | 34,435 | 37,639 | 93,158 | 85,954 |
| Net income attributable to noncontrolling interests | (820) | (563) | (1,922) | (853) |
| Net income attributable to common stockholders | $33,615 | $37,076 | $91,236 | $85,101 |
| Basic earnings per share: | | | | |
| Net income attributable to common stockholders | $0.16 | $0.17 | $0.43 | $0.39 |
| Basic weighted average number of shares | 211,821 | 215,898 | 211,602 | 218,015 |
| Diluted earnings per share: | | | | |
| Net income attributable to common stockholders | $0.16 | $0.17 | $0.42 | $0.39 |
| Diluted weighted average number of shares | 215,946 | 218,906 | 215,603 | 221,058 |
| Dividends declared per share | $0.07 | $0.06 | $0.13 | $0.11 |

(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, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | (In thousands) | |
| Net income | $34,435 | $37,639 | $93,158 | $85,954 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | (11,754) | (8,267) | (17,270) | (2,522) |
| Total comprehensive income | 22,681 | 29,372 | 75,888 | 83,432 |
| Total comprehensive income attributable to noncontrolling interests | (814) | (580) | (1,912) | (855) |
| Total comprehensive income attributable to common stockholders | $21,867 | $28,792 | $73,976 | $82,577 |

(See notes to unaudited condensed consolidated financial statements)

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SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands, except share amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $221,086 | $92,708 |
| Receivables, net | 90,678 | 101,817 |
| Deferred tax assets | 42,782 | 42,864 |
| Inventories, net | 24,280 | 24,560 |
| Other | 25,221 | 20,546 |
| Total current assets | 404,047 | 282,495 |
| Preneed funeral receivables, net and trust investments | 1,535,244 | 1,535,932 |
| Preneed cemetery receivables, net and trust investments | 1,904,140 | 1,826,835 |
| Cemetery property, at cost | 1,483,138 | 1,489,948 |
| Property and equipment, net | 1,623,701 | 1,641,101 |
| Goodwill, net | 1,374,374 | 1,382,410 |
| Deferred charges and other assets | 421,156 | 425,267 |
| Cemetery perpetual care trust investments | 1,109,249 | 1,099,580 |
| Total assets | $9,855,049 | $9,683,568 |
| LIABILITIES & EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $356,602 | $373,783 |
| Current maturities of long-term debt | 36,412 | 31,429 |
| Income taxes | 1,714 | 6,892 |
| Total current liabilities | 394,728 | 412,104 |
| Long-term debt | 1,920,383 | 1,916,621 |
| Deferred preneed funeral revenues | 526,489 | 536,647 |
| Deferred preneed cemetery revenues | 899,846 | 861,148 |
| Deferred tax liability | 517,583 | 471,198 |
| Other liabilities | 399,406 | 399,950 |
| Deferred preneed funeral and cemetery receipts held in trust | 2,670,395 | 2,624,321 |
| Care trusts' corpus | 1,108,358 | 1,098,752 |
| Commitments and contingencies (Note 15) | | |
| Equity: | | |
| Common stock, $1 per share par value, 500,000,000 shares authorized, 212,063,882 and 211,056,501 shares issued, respectively, and 211,941,935 and 211,046,501 shares outstanding, respectively | 211,942 | 211,047 |
| Capital in excess of par value | 1,293,863 | 1,307,058 |
| Accumulated deficit | (196,576) | (286,795) |
| Accumulated other comprehensive income | 94,457 | 111,717 |
| Total common stockholders' equity | 1,403,686 | 1,343,027 |
| Noncontrolling interests | 14,175 | 19,800 |
| Total equity | 1,417,861 | 1,362,827 |
| Total liabilities and equity | $9,855,049 | $9,683,568 |

(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, 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | $93,158 | $85,954 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gains on early extinguishment of debt, net | (468) | — |
| Depreciation and amortization | 61,247 | 59,111 |
| Amortization of intangible assets | 11,412 | 12,157 |
| Amortization of cemetery property | 19,588 | 21,004 |
| Amortization of loan costs | 2,486 | 2,406 |
| Provision for doubtful accounts | 3,132 | 5,039 |
| Provision for deferred income taxes | 42,103 | 39,933 |
| Losses (gains) on divestitures and impairment charges, net | 6,514 | (568) |
| Share-based compensation | 5,850 | 4,969 |
| Excess tax benefits from share based awards | (5,558) | — |
| Change in assets and liabilities, net of effects from acquisitions and divestitures: | | |
| Decrease in receivables | 4,586 | 3,486 |
| Increase in other assets | (4,840) | (7,540) |
| Decrease in payables and other liabilities | (7,073) | (27,734) |
| Effect of preneed funeral production and maturities: | | |
| Decrease in preneed funeral receivables, net and trust investments | 28,170 | 26,991 |
| Decrease in deferred preneed funeral revenue | (4,231) | (18,805) |
| Decrease in deferred preneed funeral receipts held in trust | (28,576) | (15,693) |
| Effect of cemetery production and deliveries: | | |
| Increase in preneed cemetery receivables, net and trust investments | (32,380) | (60,056) |
| Increase in deferred preneed cemetery revenue | 40,733 | 25,416 |
| (Decrease) increase in deferred preneed cemetery receipts held in trust | (8,969) | 4,032 |
| Other | 62 | (1,719) |
| Net cash provided by operating activities | 226,946 | 158,383 |
| Cash flows from investing activities: | | |
| Capital expenditures | (50,762) | (52,062) |
| Acquisitions | (3,606) | (10,550) |
| Proceeds from divestitures and sales of property and equipment, net | 5,550 | 7,135 |
| Other | 341 | (4,514) |
| Net cash used in investing activities | (48,477) | (59,991) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | — | 12,907 |
| Payments of debt | (4,695) | (829) |
| Principal payments on capital leases | (12,967) | (12,823) |
| Proceeds from exercise of stock options | 4,856 | 3,793 |
| Excess tax benefits from share based awards | 5,558 | — |
| Purchase of Company common stock | (1,708) | (104,700) |
| Payments of dividends | (27,553) | (21,959) |

| | | |
|---|---|---|
| Purchase of Neptune Society noncontrolling interest | (8,333) | — |
| Bank overdrafts and other | (3,681) | 1,074 |
| Net cash used in financing activities | (48,523) | (122,537) |
| Effect of foreign currency on cash and cash equivalents | (1,568) | 919 |
| Net increase (decrease) in cash and cash equivalents | 128,378 | (23,226) |
| Cash and cash equivalents at beginning of period | 92,708 | 128,569 |
| Cash and cash equivalents at end of period | $221,086 | $105,343 |

(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, 2011 | $224,666 | $(1,710) | $1,430,330 | $(367,044) | $105,852 | $20,101 | $1,412,195 |
| Comprehensive income | — | — | — | 85,101 | (2,524) | 855 | 83,432 |
| Dividends declared on common stock ($.11 per share) | — | — | (23,802) | — | — | — | (23,802) |
| Employee share-based compensation earned | — | — | 4,969 | — | — | — | 4,969 |
| Stock option exercises | 635 | — | 3,158 | — | — | — | 3,793 |
| Restricted stock awards, net of forfeitures | 483 | — | (483) | — | — | — | — |
| Purchase of Company common stock | — | (9,385) | (60,802) | (34,513) | — | — | (104,700) |
| Noncontrolling interest payment | — | — | — | — | — | (405) | (405) |
| Other | 82 | — | 866 | — | — | — | 948 |
| Balance at June 30, 2012 | $225,866 | $(11,095) | $1,354,236 | $(316,456) | $103,328 | $20,551 | $1,376,430 |
| | | | | | | | |
| Balance at December 31, 2012 | 211,057 | (10) | 1,307,058 | (286,795) | 111,717 | 19,800 | 1,362,827 |
| Comprehensive income | — | — | — | 91,236 | (17,260) | 1,912 | 75,888 |
| Dividends declared on common stock ($.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 Neptune Society 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 |

(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)

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 products and services to be provided in the future.

On May 29, 2013, we entered into a definitive agreement to acquire all of the outstanding shares of Stewart Enterprises, Inc. (Stewart) for $13.25 per share in cash. Stewart operated 217 funerals and 141 cemeteries as of April 30, 2013. The transaction provides us with an opportunity for growth consistent with our capital deployment strategy and will allow us the ability to serve a number of new, complementary areas, while enabling us to capitalize on what we believe will produce significant synergies and operating efficiencies. The transaction is valued at approximately $1.5 billion, which includes approximately $331.6 million of Stewart's debt. We expect to fund the transaction with cash on hand, the utilization of debt under our new credit facility, and from the proceeds from the issuance of our long-term senior notes as discussed in Note 9. The acquisition is subject to, among other conditions, antitrust clearance and approval of the Stewart stockholders. It is anticipated that the acquisition will be completed at the end of 2013 or in early 2014, however there can be no assurance that the acquisition will be completed by this time or at all.

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, 2012, 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 amounts to conform to the current period financial statements presentation with no effect on our previously reported results of operations, consolidated financial position, or cash flows.

Use of Estimates in the Preparation of Financial Statements

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as described in our Annual Report on Form 10-K for the year ended December 31, 2012. 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

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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.

3. Recently Issued Accounting Standards

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. This amendment is effective for us starting with our first quarter of 2014 and we are still evaluating the impact of adoption on our consolidated financial condition.

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. This amendment is effective for us starting with our first quarter of 2014 and adoption would impact our consolidated financial condition and results of operations if we dispose of a foreign entity.

Comprehensive Income

In February 2013, the FASB amended the Comprehensive Income Topic of the ASC to require reporting of amounts reclassified out of accumulated comprehensive income by component. We are required to present significant amounts reclassified to net income in their entirety by income statement line item and to cross reference any disclosure elsewhere in the notes for amounts reclassified in less than their entirety. We adopted this amendment effective January 1, 2013 and the appropriate disclosures are contained in Note 12.

Intangible Testing

In July 2012, the FASB amended the Intangibles - Goodwill and Other Topic of the ASC that allows us to make a qualitative assessment of whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, after assessing the relevant information, we determine it is more likely than not that the fair value is more than the carrying amount, no additional analysis is necessary. If we determine it is more likely than not that the fair value is less than the carrying amount, then we are required to proceed to the quantitative approach. The amended guidance is effective for us as of our annual test in the fourth quarter of 2013, and adoption is not expected to impact our consolidated financial condition or results of operations.

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

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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, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | (In thousands) | |
| Deposits | $21,416 | $21,921 | $43,615 | $44,099 |
| Withdrawals | 35,544 | 24,179 | 68,249 | 55,091 |
| Purchases of available-for-sale securities | 116,847 | 83,211 | 177,826 | 271,270 |
| Sales of available-for-sale securities | 149,946 | 86,897 | 246,650 | 271,799 |
| Realized gains from sales of available-for-sale securities | 17,330 | 9,754 | 28,701 | 35,765 |
| Realized losses from sales of available-for-sale securities | (4,445) | (4,412) | (6,166) | (14,160) |

The components of Preneed funeral receivables, net and trust investments in our unaudited condensed consolidated balance sheet at June 30, 2013 and December 31, 2012 are as follows:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Trust investments, at fair value | $971,607 | $977,973 |
| Cash and cash equivalents | 91,303 | 85,943 |
| Insurance-backed fixed income securities | 277,673 | 273,098 |
| Trust investments | 1,340,583 | 1,337,014 |
| Receivables from customers | 242,036 | 241,896 |
| Unearned finance charge | (9,277) | (8,645) |
| | 1,573,342 | 1,570,265 |
| Allowance for cancellation | (38,098) | (34,333) |
| Preneed funeral receivables, net and trust investments | $1,535,244 | $1,535,932 |

The cost and fair values associated with our funeral merchandise and service trust investments recorded at fair value at June 30, 2013 and December 31, 2012 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, 2013 Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $106,885 | $1,566 | $(4,619) | $103,832 |
| Canadian government | 2 | 105,332 | 218 | (647) | 104,903 |
| Corporate | 2 | 50,908 | 2,449 | (740) | 52,617 |
| Residential mortgage-backed | 2 | 2,592 | 25 | (23) | 2,594 |
| Asset-backed | 2 | 128 | 1 | — | 129 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 4,297 | 431 | (26) | 4,702 |
| Common stock: | | | | | |
| United States | 1 | 219,137 | 50,352 | (5,374) | 264,115 |
| Canada | 1 | 23,642 | 2,639 | (1,589) | 24,692 |
| Other international | 1 | 22,914 | 2,737 | (1,024) | 24,627 |
| Mutual funds: | | | | | |
| Equity | 1 | 140,392 | 9,582 | (7,126) | 142,848 |
| Fixed income | 1 | 235,078 | 3,714 | (20,034) | 218,758 |
| Private equity | 3 | 32,220 | 2,758 | (8,645) | 26,333 |
| Other | 3 | 1,210 | 286 | (39) | 1,457 |
| Trust investments | | $944,735 | $76,758 | $(49,886) | $971,607 |

| | December 31, 2012 Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $105,594 | $5,072 | $(880) | $109,786 |
| Canadian government | 2 | 110,399 | 861 | (113) | 111,147 |
| Corporate | 2 | 51,611 | 2,531 | (623) | 53,519 |
| Residential mortgage-backed | 2 | 3,123 | 57 | (8) | 3,172 |
| Asset-backed | 2 | 129 | 3 | — | 132 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 3,603 | 211 | (103) | 3,711 |
| Common stock: | | | | | |
| United States | 1 | 230,971 | 38,514 | (6,903) | 262,582 |
| Canada | 1 | 23,284 | 2,598 | (1,271) | 24,611 |
| Other international | 1 | 18,089 | 1,874 | (658) | 19,305 |
| Mutual funds: | | | | | |
| Equity | 1 | 145,589 | 10,097 | (6,728) | 148,958 |
| Fixed income | 1 | 225,365 | 7,314 | (10,252) | 222,427 |
| Private equity | 3 | 36,626 | 221 | (18,968) | 17,879 |
| Other | 3 | 542 | 202 | — | 744 |
| Trust investments | | $954,925 | $69,555 | $(46,507) | $977,973 |

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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. As of June 30, 2013, private equity instruments are valued based on reported net asset values discounted by 0% to 20% for risk and 0% to 10% for liquidity. As of December 31, 2012, private equity instruments are valued based on reported net asset values discounted by 0% to 60% for risk and 0% to 25% 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 June 30, 2013, our unfunded commitment for our private equity and other investments was $8.9 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, 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 | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Private Equity | Other | Private Equity | Other |
| Fair market value, beginning balance | $25,731 | $1,252 | $15,684 | $919 |
| Net unrealized gains (losses) included in Accumulated other comprehensive income(1) | 1,761 | 361 | (277) | (7) |
| Net realized losses included in Other income, net(2) | (6) | (1) | (6) | — |
| Contributions | 1,565 | — | 1,281 | — |
| Distributions and other | (2,718) | (155) | (323) | (3) |
| Fair market value, ending balance | $26,333 | $1,457 | $16,359 | $909 |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Private Equity | Other | Private Equity | Other |
| Fair market value, beginning balance | $17,879 | $744 | $15,986 | $912 |
| Net unrealized gains (losses) included in Accumulated other comprehensive income(1) | 12,611 | 870 | (1,584) | — |
| Net realized losses included in Other income, net(2) | (11) | (2) | (16) | — |
| Sales | — | — | (9) | — |
| Contributions | 2,202 | — | 2,559 | — |

| | | | | |
|---|---|---|---|---|
| Distributions and other | (6,348 ) | (155 ) | (577 ) | (3 ) |
| Fair market value, ending balance | $ 26,333 | $ 1,457 | $ 16,359 | $ 909 |

(1) 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 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.

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

Maturity dates of our fixed income securities range from 2013 to 2053. Maturities of fixed income securities, excluding mutual funds, at June 30, 2013 are estimated as follows:

| | Fair Value (In thousands) |
|---|---|
| Due in one year or less | $132,721 |
| Due in one to five years | 53,438 |
| Due in five to ten years | 46,501 |
| Thereafter | 31,415 |
| | $264,075 |

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 $12.0 million and $9.3 million for the three months ended June 30, 2013 and 2012, respectively. Recognized trust fund income (realized and unrealized) related to these trust investments were $24.3 million and $19.2 million for the six months ended June 30, 2013 and 2012, 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, 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, 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, 2013 and 2012, we recorded a $0.4 million and a $0.2 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, 2013 and 2012, we recorded a $0.6 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, 2013 and December 31, 2012, respectively, are shown in the following tables:

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| | June 30, 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 | $34,708 | $(3,301) | $17,971 | $(1,318) | $52,679 | $(4,619) |
| Canadian government | 14,505 | (446) | 6,653 | (201) | 21,158 | (647) |
| Corporate | 9,872 | (415) | 4,156 | (325) | 14,028 | (740) |
| Residential mortgage-backed | 1,604 | (22) | 20 | (1) | 1,624 | (23) |
| Equity securities: | | | | | | |
| Preferred stock | 677 | (26) | — | — | 677 | (26) |
| Common stock: | | | | | | |
| United States | 41,535 | (3,633) | 6,276 | (1,741) | 47,811 | (5,374) |
| Canada | 5,917 | (779) | 2,827 | (810) | 8,744 | (1,589) |
| Other international | 8,831 | (844) | 824 | (180) | 9,655 | (1,024) |
| Mutual funds: | | | | | | |
| Equity | 41,947 | (2,589) | 16,935 | (4,537) | 58,882 | (7,126) |
| Fixed income | 116,969 | (6,869) | 42,180 | (13,165) | 159,149 | (20,034) |
| Private equity | — | — | 13,769 | (8,645) | 13,769 | (8,645) |
| Other | — | — | 585 | (39) | 585 | (39) |
| Total temporarily impaired securities | $276,565 | $(18,924) | $112,196 | $(30,962) | $388,761 | $(49,886) |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $22,357 | $(803) | $6,741 | $(77) | $29,098 | $(880) |
| Canadian government | 7,912 | (113) | — | — | 7,912 | (113) |
| Corporate | 7,809 | (347) | 4,283 | (276) | 12,092 | (623) |
| Residential mortgage-backed | 956 | (8) | — | — | 956 | (8) |
| Equity securities: | | | | | | |
| Preferred stock | 1,220 | (93) | 52 | (10) | 1,272 | (103) |
| Common stock: | | | | | | |
| United States | 70,752 | (4,694) | 9,089 | (2,209) | 79,841 | (6,903) |
| Canada | 6,592 | (652) | 2,516 | (619) | 9,108 | (1,271) |
| Other international | 7,606 | (521) | 608 | (137) | 8,214 | (658) |
| Mutual funds: | | | | | | |
| Equity | 6,779 | (126) | 26,340 | (6,602) | 33,119 | (6,728) |
| Fixed income | 38,686 | (1,021) | 24,131 | (9,231) | 62,817 | (10,252) |
| Private equity | — | — | 17,389 | (18,968) | 17,389 | (18,968) |
| Total temporarily impaired securities | $170,669 | $(8,378) | $91,149 | $(38,129) | $261,818 | $(46,507) |

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

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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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | (In thousands) | |
| Deposits | $28,344 | $25,512 | $53,612 | $50,707 |
| Withdrawals | 33,458 | 22,630 | 63,339 | 47,363 |
| Purchases of available-for-sale securities | 190,675 | 58,981 | 296,397 | 329,064 |
| Sales of available-for-sale securities | 208,589 | 61,270 | 334,332 | 316,687 |
| Realized gains from sales of available-for-sale securities | 29,743 | 8,610 | 46,319 | 47,882 |
| Realized losses from sales of available-for-sale securities | (6,885) | (4,296) | (9,055) | (18,066) |

The components of Preneed cemetery receivables, net and trust investments in our unaudited condensed consolidated balance sheet at June 30, 2013 and December 31, 2012 are as follows:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Trust investments, at fair value | $1,229,781 | $1,204,084 |
| Cash and cash equivalents | 101,801 | 86,923 |
| Insurance-backed fixed income securities | 15 | 9 |
| Trust investments | 1,331,597 | 1,291,016 |
| Receivables from customers | 655,167 | 614,599 |
| Unearned finance charges | (29,930) | (29,471) |
| | 1,956,834 | 1,876,144 |
| Allowance for cancellation | (52,694) | (49,309) |
| Preneed cemetery receivables, net and trust investments | $1,904,140 | $1,826,835 |

The cost and fair values associated with our cemetery merchandise and service trust investments recorded at fair value at June 30, 2013 and December 31, 2012 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.

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| June 30, 2013 | Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $106,573 | $2,183 | $(7,027) | $101,729 |
| Canadian government | 2 | 16,588 | 245 | (169) | 16,664 |
| Corporate | 2 | 45,657 | 3,079 | (807) | 47,929 |
| Residential mortgage-backed | 2 | 141 | 2 | (1) | 142 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 7,114 | 694 | (34) | 7,774 |
| Common stock: | | | | | |
| United States | 1 | 351,487 | 94,150 | (6,416) | 439,221 |
| Canada | 1 | 14,429 | 3,192 | (1,297) | 16,324 |
| Other international | 1 | 38,736 | 5,316 | (1,445) | 42,607 |
| Mutual funds: | | | | | |
| Equity | 1 | 280,278 | 22,846 | (9,366) | 293,758 |
| Fixed income | 1 | 262,374 | 5,948 | (32,574) | 235,748 |
| Private equity | 3 | 28,275 | 3,093 | (4,741) | 26,627 |
| Other | 3 | 1,093 | 196 | (31) | 1,258 |
| Trust investments | | $1,152,745 | $140,944 | $(63,908) | $1,229,781 |

| December 31, 2012 | Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $99,630 | $7,925 | $(841) | $106,714 |
| Canadian government | 2 | 17,562 | 402 | (83) | 17,881 |
| Corporate | 2 | 43,515 | 2,456 | (775) | 45,196 |
| Residential mortgage-backed | 2 | 150 | 4 | — | 154 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 5,840 | 334 | (196) | 5,978 |
| Common stock: | | | | | |
| United States | 1 | 363,190 | 71,613 | (7,716) | 427,087 |
| Canada | 1 | 16,026 | 2,862 | (846) | 18,042 |
| Other international | 1 | 29,889 | 3,687 | (857) | 32,719 |
| Mutual funds: | | | | | |
| Equity | 1 | 279,265 | 19,520 | (9,921) | 288,864 |
| Fixed income | 1 | 251,687 | 10,975 | (19,350) | 243,312 |
| Private equity | 3 | 32,785 | 77 | (15,175) | 17,687 |
| Other | 3 | 407 | 44 | (1) | 450 |
| Trust investments | | $1,139,946 | $119,899 | $(55,761) | $1,204,084 |

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

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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. As of June 30, 2013, private equity instruments are valued based on reported net asset values discounted by 0% to 20% for risk and 0% to 10% for liquidity. As of December 31, 2012, private equity instruments are valued based on reported net asset values discounted by 0% to 60% for risk and 0% to 25% 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 June 30, 2013, our unfunded commitment for our private equity and other investments was $9.3 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, 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):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Private Equity | Other | Private Equity | Other |
| Fair market value, beginning balance | $25,957 | $1,035 | $14,935 | $443 |
| Net unrealized gains (losses) included in Accumulated other comprehensive income(1) | 1,830 | 389 | (126) | (6) |
| Net realized losses included in Other income, net(2) | (6) | (1) | (7) | — |
| Contributions | 1,673 | — | 1,360 | — |
| Distributions and other | (2,827) | (165) | (366) | (4) |
| Fair market value, ending balance | $26,627 | $1,258 | $15,796 | $433 |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Private Equity | Other | Private Equity | Other |
| Fair market value, beginning balance | $17,687 | $450 | $15,219 | $436 |
| Net unrealized gains (losses) included in Accumulated other comprehensive income(1) | 13,230 | 976 | (1,479) | 2 |
| Net realized losses included in Other income, net(2) | (13) | (3) | (18) | (1) |
| Contributions | 2,335 | — | 2,716 | — |
| Distributions and other | (6,612) | (165) | (642) | (4) |
| Fair market value, ending balance | $26,627 | $1,258 | $15,796 | $433 |

(1) 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 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.

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

Maturity dates of our fixed income securities range from 2013 to 2043. Maturities of fixed income securities, excluding mutual funds, at June 30, 2013 are estimated as follows:

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| | Fair Value |
|---|---|
| | (In thousands) |
| Due in one year or less | $25,379 |
| Due in one to five years | 49,652 |
| Due in five to ten years | 44,845 |
| Thereafter | 46,588 |
| | $166,464 |

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 $9.7 million and $5.8 million for the three months ended June 30, 2013 and 2012, respectively. Recognized trust fund income (realized and unrealized) related to these trust investments were $18.9 million and $13.3 million for the six months ended June 30, 2013 and 2012, 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, 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, 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 June 30, 2013 and 2012, we recorded a $0.9 million and a $0.3 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, 2013 and 2012, we recorded a $1.3 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 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 June 30, 2013 are shown in the following tables:

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| | June 30, 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 | $52,474 | $(5,504) | $16,491 | $(1,523) | $68,965 | $(7,027) |
| Canadian government | 3,341 | (84) | 2,878 | (85) | 6,219 | (169) |
| Corporate | 15,974 | (624) | 2,268 | (183) | 18,242 | (807) |
| Residential mortgage-backed | 67 | (1) | — | — | 67 | (1) |
| Equity securities: | | | | | | |
| Preferred stock | 1,143 | (34) | — | — | 1,143 | (34) |
| Common stock: | | | | | | |
| United States | 61,271 | (4,934) | 7,359 | (1,482) | 68,630 | (6,416) |
| Canada | 2,693 | (473) | 1,830 | (824) | 4,523 | (1,297) |
| Other international | 13,549 | (1,194) | 1,203 | (251) | 14,752 | (1,445) |
| Mutual funds: | | | | | | |
| Equity | 75,468 | (3,484) | 32,146 | (5,882) | 107,614 | (9,366) |
| Fixed income | 121,882 | (10,602) | 24,748 | (21,972) | 146,630 | (32,574) |
| Private equity | — | — | 7,690 | (4,741) | 7,690 | (4,741) |
| Other | — | — | 348 | (31) | 348 | (31) |
| Total temporarily impaired securities | $347,862 | $(26,934) | $96,961 | $(36,974) | $444,823 | $(63,908) |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $28,626 | $(841) | $— | $— | $28,626 | $(841) |
| Canadian government | 5,319 | (83) | — | — | 5,319 | (83) |
| Corporate | 14,060 | (571) | 2,137 | (204) | 16,197 | (775) |
| Equity securities: | | | | | | |
| Preferred stock | 1,497 | (143) | 126 | (53) | 1,623 | (196) |
| Common stock: | | | | | | |
| United States | 82,989 | (5,624) | 11,131 | (2,092) | 94,120 | (7,716) |
| Canada | 3,114 | (461) | 1,115 | (385) | 4,229 | (846) |
| Other international | 9,056 | (655) | 741 | (202) | 9,797 | (857) |
| Mutual funds: | | | | | | |
| Equity | 28,132 | (1,427) | 43,172 | (8,494) | 71,304 | (9,921) |
| Fixed income | 54,533 | (2,205) | 29,104 | (17,145) | 83,637 | (19,350) |
| Private equity | 46 | (17) | 17,136 | (15,158) | 17,182 | (15,175) |
| Other | 8 | — | 378 | (1) | 386 | (1) |
| Total temporarily impaired securities | $227,380 | $(12,027) | $105,040 | $(43,734) | $332,420 | $(55,761) |

6. Cemetery Perpetual Care Trusts

We are required by state and provincial law to pay into cemetery perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. Our cemetery perpetual care trusts are variable interest entities as defined in the Consolidation Topic of the ASC. In accordance with this guidance, we have determined that we are the primary beneficiary of these trusts, as

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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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | (In thousands) | |
| Deposits | $5,422 | $5,821 | $13,650 | $12,365 |
| Withdrawals | 7,052 | 5,931 | 16,621 | 14,183 |
| Purchases of available-for-sale securities | 55,395 | 31,884 | 90,447 | 102,011 |
| Sales of available-for-sale securities | 29,261 | 20,491 | 56,751 | 73,377 |
| Realized gains from sales of available-for-sale securities | 5,119 | 2,032 | 8,901 | 4,194 |
| Realized losses from sales of available-for-sale securities | (440) | (1,702) | (762) | (3,917) |

The components of Cemetery perpetual care trust investments in our unaudited condensed consolidated balance sheet at June 30, 2013 and December 31, 2012 are as follows:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Trust investments, at fair value | $1,065,371 | $1,045,568 |
| Cash and cash equivalents | 43,878 | 54,012 |
| Cemetery perpetual care trust investments | $1,109,249 | $1,099,580 |

The cost and fair values associated with our cemetery perpetual care trust investments recorded at fair value at June 30, 2013 and December 31, 2012 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.

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| | June 30, 2013 Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $720 | $18 | $(6) | $732 |
| Canadian government | 2 | 28,403 | 433 | (292) | 28,544 |
| Corporate | 2 | 21,730 | 352 | (151) | 21,931 |
| Residential mortgage-backed | 2 | 1,361 | 19 | (9) | 1,371 |
| Asset-backed | 2 | 160 | 8 | — | 168 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 5,461 | 122 | (717) | 4,866 |
| Common stock: | | | | | |
| United States | 1 | 172,461 | 36,001 | (2,484) | 205,978 |
| Canada | 1 | 8,236 | 1,736 | (840) | 9,132 |
| Other international | 1 | 10,292 | 583 | (651) | 10,224 |
| Mutual funds: | | | | | |
| Equity | 1 | 15,247 | 4,293 | (66) | 19,474 |
| Fixed income | 1 | 701,454 | 35,470 | (3,437) | 733,487 |
| Private equity | 3 | 27,481 | 461 | (9,293) | 18,649 |
| Other | 3 | 9,662 | 1,153 | — | 10,815 |
| Cemetery perpetual care trust investments | | $1,002,668 | $80,649 | $(17,946) | $1,065,371 |

| | December 31, 2012 Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $820 | $45 | $(1) | $864 |
| Canadian government | 2 | 30,159 | 709 | (140) | 30,728 |
| Corporate | 2 | 22,877 | 537 | (51) | 23,363 |
| Residential mortgage-backed | 2 | 1,498 | 41 | (2) | 1,537 |
| Asset-backed | 2 | 161 | 10 | — | 171 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 5,637 | 61 | (938) | 4,760 |
| Common stock: | | | | | |
| United States | 1 | 163,173 | 19,609 | (3,389) | 179,393 |
| Canada | 1 | 8,954 | 1,568 | (731) | 9,791 |
| Other international | 1 | 14,693 | 1,392 | (447) | 15,638 |
| Mutual funds: | | | | | |
| Equity | 1 | 16,999 | 2,102 | (211) | 18,890 |
| Fixed income | 1 | 680,921 | 61,172 | (441) | 741,652 |
| Private equity | 3 | 24,727 | 338 | (13,943) | 11,122 |
| Other | 3 | 9,653 | 1,110 | (3,104) | 7,659 |
| Cemetery perpetual care trust investments | | $980,272 | $88,694 | $(23,398) | $1,045,568 |

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.

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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. As of June 30, 2013, private equity instruments are valued based on reported net asset values discounted by 0% to 20% for risk and 0% to 10% for liquidity. As of December 31, 2012, private equity instruments are valued based on reported net asset values discounted by 0% to 60% for risk and 0% to 25% 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 June 30, 2013, our unfunded commitment for our private equity and other investments was $2.8 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 perpetual care trust investments with significant unobservable inputs (Level 3) is as follows (in thousands):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Private Equity | Other | Private Equity | Other |
| Fair market value, beginning balance | $ 16,454 | $ 10,342 | $ 11,977 | $ 7,274 |
| Net unrealized gains (losses) included in Accumulated other comprehensive income[1] | 20 | 705 | (326) | 142 |
| Net realized losses included in Other income, net[2] | (13) | (7) | (24) | (7) |
| Contributions | 2,316 | — | 1,389 | — |
| Distributions and other | (128) | (225) | (1,407) | (95) |
| Fair market value, ending balance | $ 18,649 | $ 10,815 | $ 11,609 | $ 7,314 |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Private Equity | Other | Private Equity | Other |
| Fair market value, beginning balance | $ 11,122 | $ 7,659 | $ 10,849 | $ 6,890 |
| Net unrealized gains included in Accumulated other comprehensive income[1] | 6,089 | 3,434 | 118 | 537 |
| Net realized losses included in Other income, net[2] | (95) | (53) | (70) | (18) |
| Sales | — | — | (26) | — |
| Contributions | 2,317 | — | 2,779 | — |
| Distributions and other | (784) | (225) | (2,041) | (95) |
| Fair market value, ending balance | $ 18,649 | $ 10,815 | $ 11,609 | $ 7,314 |

(1) All unrealized gains (losses) recognized in Accumulated other comprehensive income for our cemetery perpetual care trust 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.

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

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Maturity dates of our fixed income securities range from 2013 to 2041. Maturities of fixed income securities at June 30, 2013 are estimated as follows:

| | Fair Value (In thousands) |
|---|---|
| Due in one year or less | $12,373 |
| Due in one to five years | 21,462 |
| Due in five to ten years | 17,852 |
| Thereafter | 1,059 |
| | $52,746 |

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenues to the extent we incur qualifying cemetery maintenance costs. Fees charged by our wholly-owned registered investment advisor are also included in current revenues in the period in which they are earned. Recognized trust fund income related to these trust investments were $11.7 million and $10.1 million for the three months ended June 30, 2013 and 2012, respectively. Recognized trust fund income related to these trust investments were $21.7 million and $19.1 million for the six months ended June 30, 2013 and 2012, 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, net and a decrease to Cemetery perpetual care trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other income, net, which reduces Care trusts' corpus. See Note 7 for further information related to our Care trusts' corpus. For the three months ended June 30, 2013 and 2012, we recorded a $0.1 million and a $0.3 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, 2013 and 2012, we recorded a $0.2 million and a $0.3 million impairment charge, respectively, for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our cemetery 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.

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| | June 30, 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 | $388 | $(6) | $18 | $— | $406 | $(6) |
| Canadian government | 5,363 | (127) | 5,299 | (165) | 10,662 | (292) |
| Corporate | 7,323 | (119) | 1,676 | (32) | 8,999 | (151) |
| Residential mortgage-backed | 484 | (9) | 3 | — | 487 | (9) |
| Equity securities: | | | | | | |
| Preferred stock | 832 | (30) | 3,261 | (687) | 4,093 | (717) |
| Common stock: | | | | | | |
| United States | 24,108 | (2,192) | 2,494 | (292) | 26,602 | (2,484) |
| Canada | 1,169 | (80) | 1,776 | (760) | 2,945 | (840) |
| Other international | 3,844 | (431) | 473 | (220) | 4,317 | (651) |
| Mutual funds: | | | | | | |
| Equity | 219 | (9) | 196 | (57) | 415 | (66) |
| Fixed income | 201,159 | (2,559) | 25,431 | (878) | 226,590 | (3,437) |
| Private equity | — | — | 18,159 | (9,293) | 18,159 | (9,293) |
| Total temporarily impaired securities | $244,889 | $(5,562) | $58,786 | $(12,384) | $303,675 | $(17,946) |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $373 | $(1) | $— | $— | $373 | $(1) |
| Canadian government | 9,145 | (140) | — | — | 9,145 | (140) |
| Corporate | 5,439 | (33) | 1,886 | (18) | 7,325 | (51) |
| Residential mortgage-backed | 183 | (2) | — | — | 183 | (2) |
| Equity securities: | | | | | | |
| Preferred stock | 3,115 | (639) | 973 | (299) | 4,088 | (938) |
| Common stock: | | | | | | |
| United States | 38,323 | (2,403) | 7,495 | (986) | 45,818 | (3,389) |
| Canada | 1,246 | (281) | 1,055 | (450) | 2,301 | (731) |
| Other international | 4,712 | (389) | 696 | (58) | 5,408 | (447) |
| Mutual funds: | | | | | | |
| Equity | 2,654 | (127) | 404 | (84) | 3,058 | (211) |
| Fixed income | 10,552 | (37) | 31,837 | (404) | 42,389 | (441) |
| Private equity | — | — | 10,752 | (13,943) | 10,752 | (13,943) |
| Other | — | — | 6,308 | (3,104) | 6,308 | (3,104) |
| Total temporarily impaired securities | $75,742 | $(4,052) | $61,406 | $(19,346) | $137,148 | $(23,398) |

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

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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 June 30, 2013 and December 31, 2012 are detailed below.

| | June 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Preneed Funeral | Preneed Cemetery | Total | Preneed Funeral | Preneed Cemetery | Total |
| | (In thousands) | | | (In thousands) | | |
| Trust investments | $1,340,583 | $1,331,597 | $2,672,180 | $1,337,014 | $1,291,016 | $2,628,030 |
| Accrued trust operating payables and other | (742) | (1,043) | (1,785) | (1,827) | (1,882) | (3,709) |
| Deferred preneed funeral and cemetery receipts held in trust | $1,339,841 | $1,330,554 | $2,670,395 | $1,335,187 | $1,289,134 | $2,624,321 |

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 June 30, 2013 and December 31, 2012 are detailed below.

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Cemetery perpetual care trust investments | $1,109,249 | $1,099,580 |
| Accrued trust operating payables and other | (891) | (828) |
| Care trusts' corpus | $1,108,358 | $1,098,752 |

Other Income, Net

The components of Other income, net in our unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2013 and 2012 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 June 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts | Other, Net | Total |
| | | (In thousands) | | | |
| Realized gains | $17,330 | $29,743 | $5,119 | $— | $52,192 |
| Realized losses | (4,445) | (6,885) | (440) | — | (11,770) |
| Impairment charges | (446) | (940) | (126) | — | (1,512) |
| Interest, dividend, and other ordinary income | 14,206 | 8,915 | 7,784 | — | 30,905 |
| Trust expenses and income taxes | (2,657) | (3,087) | (1,009) | — | (6,753) |
| Net trust investment income | 23,988 | 27,746 | 11,328 | — | 63,062 |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus | (23,988) | (27,746) | (11,328) | — | (63,062) |
| Other income (expense), net | — | — | — | (699) | (699) |
| Total other income (expense), net | $— | $— | $— | $(699) | $(699) |

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| | Six Months Ended June 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts | Other, Net | Total |
| | | (In thousands) | | | |
| Realized gains | $28,701 | $46,319 | $8,901 | $— | $83,921 |
| Realized losses | (6,166) | (9,055) | (762) | — | (15,983) |
| Impairment charges | (646) | (1,297) | (189) | — | (2,132) |
| Interest, dividend, and other ordinary income | 16,023 | 10,444 | 13,873 | — | 40,340 |
| Trust expenses and income taxes | (5,038) | (6,756) | (1,584) | — | (13,378) |
| Net trust investment income | 32,874 | 39,655 | 20,239 | — | 92,768 |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus | (32,874) | (39,655) | (20,239) | — | (92,768) |
| Other income (expense), net | — | — | — | (1,683) | (1,683) |
| Total other income (expense), net | $— | $— | $— | $(1,683) | $(1,683) |

| | Three Months Ended June 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts | Other, Net | Total |
| | | (In thousands) | | | |
| Realized gains | $9,754 | $8,610 | $2,032 | $— | $20,396 |
| Realized losses | (4,412) | (4,296) | (1,702) | — | (10,410) |
| Impairment charges | (230) | (287) | (253) | — | (770) |
| Interest, dividend, and other ordinary income | 6,551 | 3,785 | 8,334 | — | 18,670 |
| Trust expenses and income taxes | (2,379) | (3,066) | 477 | — | (4,968) |
| Net trust investment income | 9,284 | 4,746 | 8,888 | — | 22,918 |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus | (9,284) | (4,746) | (8,888) | — | (22,918) |
| Other income (expense), net | — | — | — | (2,221) | (2,221) |
| Total other income (expense), net | $— | $— | $— | $(2,221) | $(2,221) |

| | Six Months Ended June 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts | Other, Net | Total |
| | | (In thousands) | | | |
| Realized gains | $35,765 | $47,882 | $4,194 | $— | $87,841 |
| Realized losses | (14,160) | (18,066) | (3,917) | — | (36,143) |
| Impairment charges | (574) | (592) | (254) | — | (1,420) |
| Interest, dividend, and other ordinary income | 8,751 | 6,061 | 14,057 | — | 28,869 |
| Trust expenses and income taxes | (4,948) | (6,251) | 92 | — | (11,107) |
| Net trust investment income | 24,834 | 29,034 | 14,172 | — | 68,040 |
| Reclassification to deferred preneed funeral and cemetery receipts held in trust and care trusts' corpus | (24,834) | (29,034) | (14,172) | — | (68,040) |
| Other income, net | — | — | — | 1,684 | 1,684 |

| | | | | | |
|---|---|---|---|---|---|
| Total other income, net | $— | $— | $— | $1,684 | $1,684 |

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 38.7% and 40.8% for the three months ended June 30, 2013 and

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2012, respectively. Our effective tax rate was 38.0% and 36.3% for the six months ended June 30, 2013 and 2012, respectively. The lower effective tax rate for the six months ended June 30, 2012 was primarily due to the benefits associated with the settlement of a tax audit discussed below. The effective tax rate for the second quarter of 2013 is above the 35% federal statutory tax rate due to state tax expense which is partially offset by foreign earnings taxed at lower rates.

Internal Revenue Service Settlement

Our affiliate, SCI Funeral and Cemetery Purchasing Cooperative ("COOP"), is a corporation taxed under subchapter T of the United States Internal Revenue Code, the operation of which has resulted in the deferral of tax payments. The Internal Revenue Service (IRS), in connection with its audits of the COOP's 2003 - 2005 federal income tax returns, proposed adjustments that would accelerate amounts that the Company had previously deferred and would result in the payment of interest on those deferred tax payments. We reached a partial settlement with the IRS in the first quarter of 2012 and as a result the Company made a payment of $6.6 million which reduced our tax expense by $3.1 million for the three months ended March 31, 2012 for adjustments to our "unrecognized tax benefits" – that is, the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements, and other tax matters.

Unrecognized Tax Benefits

As of June 30, 2013, the gross amount of our unrecognized tax benefits was $133.6 million and the gross amount of our accrued interest was $42.7 million. During the six months ended June 30, 2013, our unrecognized tax benefit decreased by $10.4 million which did not impact the unaudited condensed statement of operations since the unrecognized tax benefits relate to temporary items. This is primarily due to the expiration of statute of limitations and a decrease in liability related to U.S. tax positions taken in prior years. Additional interest expense of $1.1 million was accrued.

A number of years may elapse before particular tax matters, for which we have unrecognized tax benefits, are audited and finally settled. While we have effectively concluded our 2003 - 2005 tax years with respect to our affiliate the COOP, SCI and Subsidiaries' tax years 1999 - 2005 remain under review at the IRS Appeals level. Furthermore, SCI and its affiliates are under audit by various state and foreign jurisdictions for years through 2010. 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 June 30, 2013 and December 31, 2012 was as follows:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| 7.875% Debentures due February 2013 | $— | $4,757 |
| 6.75% Senior Notes due April 2015 | 136,465 | 136,465 |
| 6.75% Senior Notes due April 2016 | 197,377 | 197,377 |
| 7.0% Senior Notes due June 2017 | 295,000 | 295,000 |
| 7.625% Senior Notes due October 2018 | 250,000 | 250,000 |
| 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 |
| 7.5% Senior Notes due April 2027 | 200,000 | 200,000 |
| Bank credit facility due March 2016 | 86,600 | 86,600 |
| Obligations under capital leases | 190,506 | 176,445 |
| Mortgage notes and other debt, maturities through 2047 | 4,824 | 5,698 |

| | | |
|---|---|---|
| Unamortized pricing discounts and other | (3,977) | (4,292) |
| Total debt | 1,956,795 | 1,948,050 |
| Less current maturities | (36,412) | (31,429) |
| Total long-term debt | $1,920,383 | $1,916,621 |

Current maturities of debt at June 30, 2013 were primarily comprised of our capital leases. Our consolidated debt had a weighted average interest rate of 6.24% and 6.28% at June 30, 2013 and December 31, 2012, respectively. Approximately 87% of our total debt had a fixed interest rate at both June 30, 2013 and December 31, 2012.

Stewart Acquisition Financing

In conjunction with our entry into a definitive agreement to acquire Stewart (See Note 1) on May 28, the company also entered into an agreement with a leading bank to provide $1.825 billion of committed financing. This committed financing consisted of a $500 million replacement revolving facility (to be provided in the event amendments to SCI's existing bank credit facility could not be obtained), a $600 million term loan, and a $725 million senior unsecured bridge facility.

In June 2013, we amended the terms of our existing bank credit facility to permit the acquisition and associated financing of Stewart and increase the maximum leverage ratio to 5.0X (as defined in the credit agreement) once the transaction closes. Subsequent to June 30, 2013, SCI entered into a new credit agreement with a syndicate of banks. The new $1.1 billion credit agreement replaces the existing $500 million bank credit facility providing for a new $500 million bank credit facility and a $600 million term loan, both maturing in July 2018. The term loan will be drawn upon the closing of and used to fund the Stewart Acquisition and includes quarterly amortization requirements. After the acquisition, the credit agreement requires us to use the first $200 million of divestiture proceeds to prepay our term loan while our leverage ratio exceeds 3.75X (as defined in the credit agreement). The new $500 million bank credit facility will be used partially to fund the Stewart acquisition, but will primarily exist to provide the company with flexibility for general corporate purposes.

In June 2013, Stewart launched a consent solicitation from the holders of Stewart's $200 million 6.5% senior notes due April 2019, which notes are expected to remain outstanding after our acquisition of Stewart. The consent solicitation requested, among other things, the waiver of the holders' change of control rights as they relate to the Stewart acquisition. Consenting holders received a 0.25% fee based on the aggregate principal amount of notes for which consents were delivered (half of which was immediately payable and half of which will be paid upon the closing of the Stewart acquisition), and upon the closing of the Stewart Acquisition, SCI will provide a guarantee of the notes. This consent solicitation was successful and the applicable waivers will only be effective upon closing of the Stewart acquisition.

Finally, on July 1, 2013, the company issued $425 million in 5.375% Senior Notes due January 2022, in a private placement offering made in accordance with rule 144A under the Securities Act of 1933. Pending the closing of the Stewart acquisition, the net proceeds will be held in an escrow account. In the event the Stewart acquisition does not close, SCI is required to redeem the notes at par value to the bond holders. The notes are subject to the provisions of the Company's Senior Indenture dated as of February 1, 1993, as amended, which includes certain covenants limiting, among other things, the creation of liens securing indebtedness and sale-leaseback transactions.

With the aforementioned $1.1 billion credit agreement and the newly issued $425 million Senior Notes, we believe we have completed the necessary financing to fund the Stewart acquisition when the transaction closes.

Bank Credit Agreement

As of June 30, 2013, the Company had a $500 million bank credit facility due March 2016 with a syndicate of banks. We have $86.6 million of outstanding cash advances under our bank credit facility and used it to support $31.7 million of letters of credit. We pay a quarterly fee on the unused commitment, which was 0.30% for the second quarter. As of June 30, 2013, we have $381.7 million in borrowing capacity under the bank credit facility. Subsequent to June 30, 2013, this borrowing capacity increased to $468.3 million with the repayment of all amounts outstanding of $86.6 million.

As noted, in July 2013, the company entered into a new $500 million bank credit facility maturing July 2018. In conjunction with entering into the new bank credit facility, all outstanding cash advances of $86.6 million were repaid subsequent to June 30, 2013. Our new bank credit facility includes a $175 million sublimit for letters of credit and 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.

Debt Extinguishments and Reductions

During the first half of 2013, we paid an aggregate of $13.1 million to retire $13.0 million in capital lease obligations and $0.1 million to retire other debt. Certain of the above transactions resulted in the recognition of a gain of $0.5 million recorded in Gains on early extinguishment of debt, net in our unaudited condensed consolidated statement of operations.

During the first half of 2012, we paid an aggregate of $12.8 million to retire capital lease obligations with no associated gain or loss recognized on early extinguishment of this debt.

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Capital Leases
During the six months ended June 30, 2013 and 2012, we acquired $28.5 million and $51.0 million, respectively, of capital leases, primarily related to transportation equipment.

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 June 30, 2013 and December 31, 2012 was as follows:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| 7.875% Debentures due February 2013 | $— | $4,786 |
| 6.75% Senior Notes due April 2015 | 146,494 | 150,112 |
| 6.75% Senior Notes due April 2016 | 213,167 | 222,049 |
| 7.0% Senior Notes due June 2017 | 325,238 | 341,094 |
| 7.625% Senior Notes due October 2018 | 282,500 | 298,750 |
| 7.0% Senior Notes due May 2019 | 266,250 | 276,250 |
| 4.5% Senior Notes due November 2020 | 192,500 | 204,500 |
| 8.0% Senior Notes due November 2021 | 173,250 | 186,000 |
| 7.5% Senior Notes due April 2027 | 214,500 | 215,500 |
| Bank credit facility due March 2016 | 86,600 | 86,600 |
| Mortgage notes and other debt, maturities through 2047 | 4,824 | 5,698 |
| Total fair value of debt instruments | $1,905,323 | $1,991,339 |

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 six months ended June 30, 2013:

| Assumptions | Six Months Ended June 30, 2013 | |
|---|---|---|
| Dividend yield | 1.9 | % |
| Expected volatility | 35.2 | % |
| Risk-free interest rate | 0.7 | % |
| Expected holding period (in years) | 4.0 | |

Stock Options
The following table sets forth stock option activity for the six months ended June 30, 2013:

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| | Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2012 | 12,401,970 | $ 8.84 |
| Granted | 2,041,330 | $ 15.26 |
| Exercised | (554,869) | $ 8.89 |
| Canceled | (36,397) | $ 10.31 |
| Outstanding at June 30, 2013 | 13,852,034 | $ 9.78 |
| Exercisable at June 30, 2013 | 9,730,751 | $ 8.50 |

As of June 30, 2013, the unrecognized compensation expense related to stock options of $11.4 million is expected to be recognized over a weighted average period of 1.5 years.

Restricted Shares

Restricted share activity for the six months ended June 30, 2013 was as follows:

| | Restricted shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested restricted shares at December 31, 2012 | 1,104,579 | $ 9.78 |
| Granted | 378,280 | $ 15.26 |
| Vested | (296,886) | $ 8.63 |
| Canceled | (2,744) | $ 10.32 |
| Nonvested restricted shares at June 30, 2013 | 1,183,229 | $ 11.81 |

As of June 30, 2013, the unrecognized compensation expense related to restricted shares of $8.8 million is expected to be recognized over a weighted average period of 1.5 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 | Accumulated Other Comprehensive Income |
|---|---|---|---|
| | | (In thousands) | |
| Balance at December 31, 2012 | $111,717 | $— | $ 111,717 |
| Activity in 2013 | (17,260) | — | (17,260) |
| Increase in net unrealized gains associated with available-for-sale securities of the trusts, net of taxes | — | 8,744 | 8,744 |
| Reclassification of net unrealized gain activity attributable to the Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus', net of taxes | — | (8,744) | (8,744) |
| Balance at June 30, 2013 | $94,457 | $— | $ 94,457 |

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 May 8, 2013, our Board of Directors approved a cash dividend of $.07 per common share. This dividend, totaling $14.8 million, was paid on June 28, 2013.

Share Repurchase Program

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 six months ended June 30,

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2013, 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 June 30, 2013.

Noncontrolling Interests

During the six months ended June 30, 2013, we acquired an additional 10% of the outstanding shares of The Neptune Society, Inc. for $8.3 million, increasing our ownership from 70% to 80%.

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:

| | Funeral | Cemetery | Reportable Segments |
|---|---|---|---|
| | (In thousands) | | |
| Three Months Ended June 30, | | | |
| Revenues from external customers: | | | |
| 2013 | $415,819 | $209,686 | $625,505 |
| 2012 | $396,421 | $200,951 | $597,372 |
| Gross profits: | | | |
| 2013 | $80,222 | $45,599 | $125,821 |
| 2012 | $81,687 | $46,502 | $128,189 |
| Six Months Ended June 30, | | | |
| Revenues from external customers: | | | |
| 2013 | $877,838 | $400,019 | $1,277,857 |
| 2012 | $820,702 | $379,176 | $1,199,878 |
| Gross profits: | | | |
| 2013 | $200,369 | $85,052 | $285,421 |
| 2012 | $181,711 | $74,045 | $255,756 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | (In thousands) | |
| Gross profits from reportable segments | $125,821 | $128,189 | $285,421 | $255,756 |
| General and administrative expenses | (31,162) | (29,558) | (62,028) | (55,517) |
| (Losses) gains on divestitures and impairment charges, net | (5,545) | 1,058 | (6,514) | 568 |
| Operating income | 89,114 | 99,689 | 216,879 | 200,807 |
| Interest expense | (32,740) | (33,894) | (65,509) | (67,482) |
| Gains on early extinguishment of debt, net | 468 | — | 468 | — |
| Other (expense) income, net | (699) | (2,221) | (1,683) | 1,684 |
| Income before income taxes | $56,143 | $63,574 | $150,155 | $135,009 |

Our geographic area information is as follows:

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| | United States | Canada | Germany | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| Three Months Ended June 30, | | | | |
| Revenues from external customers: | | | | |
| 2013 | $570,344 | $53,887 | $1,274 | $625,505 |
| 2012 | $544,352 | $51,590 | $1,430 | $597,372 |
| Six Months Ended June 30, | | | | |
| Revenues from external customers: | | | | |
| 2013 | $1,165,781 | $108,868 | $3,208 | $1,277,857 |
| 2012 | $1,091,528 | $105,131 | $3,219 | $1,199,878 |

14. Supplementary Information

Revenues and Costs and Expenses

The detail of certain income statement accounts as presented in the unaudited condensed consolidated statement of operations is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | (In thousands) | |
| Merchandise revenues: | | | | |
| Funeral | $149,920 | $138,130 | $303,752 | $278,283 |
| Cemetery | 149,987 | 143,999 | 279,479 | 265,833 |
| Total merchandise revenues | 299,907 | 282,129 | 583,231 | 544,116 |
| Services revenues: | | | | |
| Funeral | 236,381 | 232,114 | 516,706 | 491,893 |
| Cemetery | 53,235 | 48,830 | 107,785 | 98,502 |
| Total services revenues | 289,616 | 280,944 | 624,491 | 590,395 |
| Other revenues | 35,982 | 34,299 | 70,135 | 65,367 |
| Total revenues | $625,505 | $597,372 | $1,277,857 | $1,199,878 |
| Merchandise costs and expenses: | | | | |
| Funeral | $64,239 | $61,249 | $141,749 | $133,374 |
| Cemetery | 64,542 | 60,895 | 121,071 | 116,581 |
| Total cost of merchandise | 128,781 | 122,144 | 262,820 | 249,955 |
| Services costs and expenses: | | | | |
| Funeral | 141,735 | 132,153 | 276,061 | 259,413 |
| Cemetery | 26,195 | 24,737 | 52,551 | 50,558 |
| Total cost of services | 167,930 | 156,890 | 328,612 | 309,971 |
| Overhead and other expenses | 202,973 | 190,149 | 401,004 | 384,196 |
| Total costs and expenses | $499,684 | $469,183 | $992,436 | $944,122 |

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Non-Cash Investing Transactions

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | (In thousands) | |
| Options exercised by attestation | $143 | $— | $143 | $— |
| Shares repurchased | $(143) | $— | $(143) | $— |

15. Commitments and Contingencies

Insurance Loss Reserves

We purchase comprehensive general liability, morticians' and cemetery professional liability, automobile liability, and workers' compensation insurance coverage structured with high deductibles. The high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. As of June 30, 2013 and December 31, 2012, we have self-insurance reserves of $61.0 million and $57.5 million, respectively.

Litigation

We are a party to various litigation matters, investigations, and proceedings. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. We intend to vigorously defend ourselves in the lawsuits described herein; however, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these litigation matters. We accrue such insurance recoveries when they become probable of being paid and can be reasonably estimated.

Burial Practices Claims. We are named as a defendant in various lawsuits alleging improper burial practices at certain of our cemetery locations. These lawsuits include but are not limited to the Garcia, Sands, and Schwartz lawsuits described in the following paragraphs.

Reyvis Garcia and Alicia Garcia v. Alderwoods Group, Inc., Osiris Holding of Florida, Inc., a Florida corporation, d/b/a Graceland Memorial Park South, f/k/a Paradise Memorial Gardens, Inc., was filed in December 2004, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, Case No. 04-25646 CA 32. Plaintiffs are the son and sister of the decedent, Eloisa Garcia, who was buried at Graceland Memorial Park South in March 1986, when the cemetery was owned by Paradise Memorial Gardens, Inc. Initially, the suit sought damages on the individual claims of the plaintiffs relating to the burial of Eloisa Garcia. Plaintiffs claimed that due to poor recordkeeping, spacing issues and maps, and the fact that the family could not afford to purchase a marker for the grave, the burial location of the decedent could not be readily located. Subsequently, the decedent's grave was located and verified. In July 2006, plaintiffs amended their complaint, seeking to certify a class of all persons buried at this cemetery whose burial sites cannot be located, claiming that this was due to poor recordkeeping, maps, and surveys at the cemetery. Plaintiffs subsequently filed a third amended class action complaint and added two additional named plaintiffs. The plaintiffs are seeking unspecified monetary damages, as well as equitable and injunctive relief. On May 4, 2011, the trial court certified a class and we are appealing that ruling. We cannot quantify our ultimate liability, if any, for the payment of any damages.

F. Charles Sands, individually and on behalf of all others similarly situated, v. Eden Memorial Park, et al.; Case No. BC421528; in the Superior Court of the State of California for the County of Los Angeles — Central District. This case was filed in September 2009 against SCI and certain subsidiaries regarding our Eden Memorial Park cemetery in Mission Hills, California. The plaintiff seeks compensatory, consequential and punitive damages as well as the appointment of a receiver to oversee cemetery operations. The plaintiff alleges the cemetery engaged in wrongful burial practices and did not disclose them to customers. After a hearing in February 2012, the court in May 2012 issued an order certifying classes of cemetery plot owners and their families based on alleged Company misrepresentation, concealment or nondisclosure of material facts regarding alleged improper burial practices pertaining to the period from February 1985 to September 2009. Pursuant to a court order, the Company may be precluded from making certain arguments that challenge the sufficiency of plaintiff's physical evidence, although the extent to which that order will apply at trial remains unclear. The case is scheduled for trial in August 2013. We cannot quantify our ultimate liability, if any, for the payment of any damages.

Barbara Schwartz & Carol Neitlich, Individually and on behalf of all others similarly situated v. SCI Funeral Services of Florida, Inc., et al.; Case No. 2012CA015954, In the Circuit Court of the 15th Judicial District in and for Palm Beach County, Florida. This lawsuit has been removed to the U.S. District Court for the Southern District of Florida and is now Case No. 9:12-CV-80180-DMM. This case was filed by counsel for plaintiffs in the Sands case regarding our Star of David Memorial Gardens

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Cemetery and Funeral Chapel and Bailey Memorial Gardens located in North Lauderdale, Florida. Plaintiffs seek to certify a class of cemetery plot owners and their families. Plaintiffs allege the cemetery engaged in wrongful burial practices and did not disclose them to customers. Plaintiffs seek compensatory, consequential and punitive damages as well as the appointment of a receiver to oversee the cemetery operations. On our motion, the court dismissed the plaintiffs' claims in March 2013. The plaintiffs are appealing the dismissal. We cannot quantify our ultimate liability, if any, for the payment of any damages.

Wage and Hour Claims. We are named a defendant in various lawsuits alleging violations of federal and state laws regulating wage and hour overtime pay, including but not limited to the Bryant and Helm lawsuits described below.

Bryant, et al. v. Service Corporation International, et al.; Case No. RG-07359593; and Helm, et al. v. AWGI & SCI; Case No. RG-07359602; in the Superior Court of the State of California, County of Alameda. These cases were filed on December 5, 2007. These cases were removed to federal court in the U.S. District Court for the Northern District of California, San Francisco/Oakland Division. The Bryant case is now Case No. 3:08-CV-01190-SI and the Helm case is now Case No. C 08-01184-SI. On December 29, 2009, the court in the Helm case denied the plaintiffs’ motion to certify the case as a class action. The plaintiffs modified and refiled their motion for certification. On March 9, 2011, the court denied plaintiffs’ renewed motions to certify a class in both of the Bryant and Helm cases and dismissed the Helm case. The Helm plaintiff is appealing the court's order decertifying her claims. The individual claims in the Bryant case are still pending. The plaintiffs have also (i) filed additional lawsuits with similar allegations seeking class certification of state law claims in different states, and (ii) made a large number of demands for arbitration. We cannot quantify our ultimate liability, if any, in these lawsuits.

Claims Regarding Acquisition of Stewart Enterprises. We are named as a defendant in the following lawsuit.

Karen Moulton, Individually and on behalf of all others similarly situated v. Stewart Enterprises, Inc., Service Corporation International and others; Case No. 2013-5636; in the Civil District Court Parish of New Orleans. This case was filed as a class action in June 2013 against SCI and our subsidiary in connection with SCI's proposed acquisition of Stewart Enterprises, Inc. The plaintiffs allege that SCI aided and abetted breaches of fiduciary duties by Stewart Enterprises and its board of directors in negotiating the combination of Stewart Enterprises with a subsidiary of SCI. The plaintiffs seek damages and an injunction against the proposed combination. We cannot quantify our ultimate liability, if any, for the payment of damages.

The ultimate outcome of the matters described above cannot be determined at this time. We intend to vigorously defend all of the above lawsuits; however, an adverse decision in one or more of such matters could have a material effect on us, our financial condition, results of operations, and cash flows.

16. Earnings Per Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing Net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common shares that then shared in our earnings.

A reconciliation of the numerators and denominators of the basic and diluted EPS computations is presented below:

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands, except per share amounts) | | (In thousands, except per share amounts) | |
| Amounts attributable to common stockholders: | | | | |
| Net income: | | | | |
| Net income — basic | $33,615 | $37,076 | $91,236 | $85,101 |
| After tax interest on convertible debt | 13 | 13 | 25 | 26 |
| Net income — diluted | $33,628 | $37,089 | $91,261 | $85,127 |
| Weighted average shares (denominator): | | | | |
| Weighted average shares — basic | 211,821 | 215,898 | 211,602 | 218,015 |
| Stock options | 4,004 | 2,887 | 3,880 | 2,922 |
| Convertible debt | 121 | 121 | 121 | 121 |
| Weighted average shares — diluted | 215,946 | 218,906 | 215,603 | 221,058 |
| Net income per share: | | | | |
| Basic | $0.16 | $0.17 | $0.43 | $0.39 |
| Diluted | $0.16 | $0.17 | $0.42 | $0.39 |

The computation of diluted EPS excludes outstanding stock options and convertible debt in certain periods in which the inclusion of such options and debt would be anti-dilutive in the periods presented. For the three months ended June 30, 2013 and June 30, 2012, total options and convertible debentures not currently included in the computation of dilutive EPS were 2.1 million and 4.3 million, respectively. For the six months ended June 30, 2013 and June 30, 2012, total options and convertible debentures not currently included in the computation of dilutive EPS were 1.6 million and 3.8 million, respectively.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### The Company

We are North America’s largest provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At June 30, 2013, we operated 1,435 funeral service locations and 374 cemeteries (including 213 combination locations) in North America, which are geographically diversified across 43 states, 8 Canadian provinces, and the District of Columbia. Our funeral segment also includes the operations of 12 funeral homes in Germany that we intend to exit when economic values and conditions are conducive to a sale. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We sell cemetery property and funeral and cemetery products and services at the time of need and on a preneed basis.

On May 29, 2013, we announced our execution of a definitive agreement to acquire all of the outstanding shares of Stewart Enterprises, Inc. (Stewart), the second largest operator of funeral homes and cemeteries in North America. This transaction provides us with an opportunity for growth consistent with our capital deployment strategy and will allow us the ability to serve a number of new, complementary areas, while enabling us to capitalize on what we believe will produce significant synergies and operating efficiencies. The acquisition is subject to, among other conditions, antitrust clearance and approval of the Stewart stockholders. It is anticipated that the acquisition will be completed at the end of 2013 or in early 2014, however there can be no assurance that the acquisition will be completed by this time or at all.

Our financial position is enhanced by our $7.5 billion backlog of future revenues from both trust and insurance-funded sales at June 30, 2013, which is the result of preneed funeral and cemetery sales. Preneed selling provides us with a current opportunity to lock-in future market share while deterring the customer from going to a competitor in the future. We believe it adds to the stability and predictability of our revenue and cash flows. While revenue on the majority of preneed funeral sales is deferred until the time of need, sales of preneed cemetery property provides opportunities for full current revenue recognition (to the extent we collect 10% from the customer and the property is developed).

We believe we have the financial strength and flexibility to reward shareholders through dividends while maintaining a prudent capital structure and pursuing new opportunities for profitable growth. We currently have approximately $190.1 million authorized to repurchase our common stock.

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Factors affecting our operating results include: demographic trends in terms of population growth and average age, which impact death rates and number of deaths; establishing and maintaining leading market share positions supported by strong local heritage and relationships; effectively responding to increasing cremation trends by selling complementary services and merchandise; controlling salary and merchandise costs; and exercising pricing leverage related to our at-need revenues. The average revenue per funeral contract is influenced by the mix of traditional and cremation services because our average cremation service revenue is approximately half of the average revenue earned from a traditional burial service. To further enhance revenue opportunities we are developing memorialization products and services that specifically appeal to cremation customers. We believe that these additional products and services will help drive increases in cremation revenue in future periods.

For further discussion of our key operating metrics, see our Results of Operations and Cash Flow sections below.

Financial Condition, Liquidity and Capital Resources

Capital Allocation Considerations

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided $226.9 million in the six months ended June 30, 2013. In addition, we have $381.7 million in excess borrowing capacity under our bank credit facility. Subsequent to June 30, 2013, we repaid the entire $86.6 million outstanding under our bank credit facility in conjunction with entering into a new bank credit facility associated with the Stewart acquisition financing. This provides us with $468.3 million in excess borrowing capacity. We currently have no significant maturities of long-term debt until April 2015.

Subsequent to June 30, 2013, as part of establishing financing for the Stewart acquisition, we entered into a new $1.1 billion credit agreement due July 2018 with a syndicate of banks. The credit agreement consists of a $500 million bank credit facility and a term loan of up to $600 million. In connection with our entry into the new credit agreement, all amounts outstanding under the bank credit facility of $86.6 million were repaid.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. As of June 30, 2013, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of June 30, 2013 are as follows:

| | Per Credit Agreement | Actual |
|---|---|---|
| Leverage ratio | 4.00 (Max) | 2.75 |
| Interest coverage ratio | 3.00 (Min) | 4.94 |

The amended bank credit facility and the new one entered into subsequent to June 30, 2013, maintains the same leverage and interest coverage ratios until the Stewart transaction closes. Upon closing, the leverage ratio will increase to a 5.00X maximum (as defined in the credit agreement), while the interest coverage ratio will remain unchanged.

We believe the sources of liquidity can be supplemented by our ability to access the capital markets for additional debt or equity securities. We believe that our $221.1 million of cash on hand, future operating cash flows, and the available capacity under our credit facility will give us adequate liquidity to meet our short-term needs as well as our long-term financial obligations.

It is our intention to evaluate the best uses of our cash flow that will yield the highest value and return on capital. Our capital deployment strategy is prioritized as follows:

Reinvest in the core business. We expect to continue to focus on funding growth initiatives that generate increased profitability, revenue, and cash flows. Our primary internal growth initiative is to increase our funeral and cemetery preneed backlog to grow the Company over the long-term. We will also invest in the construction of funeral home facilities and in the construction of cemetery property to promote future cemetery sales growth. Lastly, from time to time we may have other smaller capital projects, primarily related to the improvement of processes and systems.

Invest in acquisitions. We intend to make acquisitions of funeral homes and cemeteries when pricing and terms are favorable. We expect an acquisition investment to earn an after-tax cash return that is in excess of our weighted average cost of capital with room for execution risk. We target businesses with favorable consumer segments and/or where we can achieve additional economies of scale.

Repurchase shares. Absent a strategic acquisition opportunity, we believe share repurchases are attractive at the appropriate price. Currently, we have approximately $190.1 million authorized under our share repurchase program. We intend to make purchases from time to time in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. Our credit agreement contains covenants that limit our ability to repurchase our common stock. There can be no assurance that we will buy our common stock under our share repurchase program in the future.

Pay a dividend. Beginning in November 2007, we began to pay quarterly dividends of $0.04 per common share. The quarterly dividend has steadily increased over the past few years with the latest increase to $0.07 per common share approved by the Board

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of Directors on May 8, 2013. We intend to continue to grow our cash dividend commensurate with the growth of our free cash flow. While we intend to pay regular quarterly cash dividends for the foreseeable future, all future dividends are subject to limitations in our debt covenants and final determination by our Board of Directors each quarter upon review of our financial performance.

Repurchase debt. While the Company has no significant debt maturities until April 2015, we will seek to make open market debt repurchases when it is opportunistic to do so relative to other capital deployment opportunities in order to manage our near-term debt maturity profile.

We entered into a new bank credit facility subsequent to June 30, 2013 with a maturity date in July 2018 to provide SCI with the need financing capacity to acquire Stewart Enterprises and give us access to capital markets to refinance our long term debt if, and when, we choose to do so. The Company has a relatively consistent annual cash flow stream which is generally resistant to down economic cycles. This cash flow stream is available to substantially reduce our long-term debt maturities should we choose to do so. Furthermore, the Company's capital expenditures are generally discretionary in nature and can be managed based on the availability of operating cash flow.

Cash Flow

We believe our ability to generate strong operating cash flow is one of our fundamental financial strengths and provides us with substantial flexibility in meeting operating and investing needs.

Operating Activities

Net cash provided by operating activities increased $68.5 million to $226.9 million in the first half of 2013 from $158.4 million in the first half of 2012. This increase was driven by:

- $98.2 million increase in cash receipts from customers;
- $34.3 million increase in net trust fund withdrawals;
- $2.2 million increase in General Agency (GA) receipts; partially offset by
- $40.3 million increase in vendor payments;
- $13.8 million increase in payroll;
- $5.6 million excess tax benefit from share based awards in 2013; and
- $4.7 million increase in cash tax payments.

Investing Activities

Cash flows from investing activities used $48.5 million in the first half of 2013 compared to using $60.0 million in the same period of 2012. This decrease was primarily attributable to a decrease of $6.9 million in cash spent on acquisitions, a $4.9 million increase in net withdrawals of restricted funds, and a $1.3 million decrease in capital expenditures, partially offset by a $1.6 million decrease in cash receipts from divestitures and asset sales.

Financing Activities

Financing activities used $48.5 million in the first half of 2013 compared to using $122.5 million in the same period of 2012. This decrease was primarily driven by a $103.0 million decrease in repurchases of Company common stock, a $5.6 million excess tax benefit from share based awards in 2013, and a $1.1 million increase of proceeds from exercise of stock options, partially offset by a $12.9 million decrease in proceeds from the issuance of long-term debt (net of debt issuance costs), an $8.3 million increase in purchases of Neptune Society noncontrolling interest, a $5.6 million increase in payments of dividends, a $4.8 million increase in bank overdrafts and other, and a $3.9 million increase in debt payments.

We repurchased 0.1 million shares in the first half of 2013 for $1.7 million and 9.4 million shares in the same period of 2012 for $104.7 million.

We paid cash dividends of $27.6 million in the first half of 2013 and $22.0 million in the same period of 2012.

Financial Assurances

In support of our operations, we have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance and/or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been used to support our preneed funeral and cemetery sales activities. The obligations underlying these surety bonds are recorded on the unaudited condensed consolidated balance sheet as Deferred preneed funeral revenues and Deferred preneed cemetery revenues.

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The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| | (Dollars in millions) | |
| Preneed funeral | $104.5 | $110.1 |
| Preneed cemetery: | | |
| Merchandise and services | 110.5 | 114.6 |
| Pre-construction | 2.6 | 7.2 |
| Bonds supporting preneed funeral and cemetery obligations | 217.6 | 231.9 |
| Bonds supporting preneed business permits | 2.9 | 2.9 |
| Other bonds | 18.2 | 17.2 |
| Total surety bonds outstanding | $238.7 | $252.0 |

When selling preneed funeral and cemetery contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law. For the three months ended June 30, 2013 and 2012, we had $4.8 million and $5.3 million, respectively, of cash receipts attributable to bonded sales. For the six months ended June 30, 2013 and 2012, we had $9.2 million and $10.1 million, respectively, of cash receipts attributable to bonded sales. These amounts do not consider reductions associated with taxes, obtaining costs, or other costs.

Surety bond premiums are paid annually and are automatically renewable until maturity of the underlying preneed contracts, unless we are given prior notice of cancellation. Except for cemetery pre-construction bonds (which are irrevocable), the surety companies generally have the right to cancel the surety bonds at any time with appropriate notice. In the event a surety company were to cancel the surety bond, we are required to obtain replacement surety assurance from another surety company or fund a trust for an amount generally less than the posted bond amount. Management does not expect that we will be required to fund material future amounts related to these surety bonds because of lack of surety capacity or surety company non-performance.

Preneed Funeral and Cemetery Activities and Backlog of Contracts

In addition to selling our products and services to client families at the time of need, we sell price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery services and merchandise. Since preneed funeral and cemetery services or merchandise will not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into merchandise and service trusts until the merchandise is delivered or the service is performed. These trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. In certain situations, as described above, where permitted by state or provincial laws, we post a surety bond as financial assurance for a certain amount of the preneed funeral or cemetery contract in lieu of placing funds into trust accounts.

Trust-Funded Preneed Funeral and Cemetery Contracts: The funds are deposited into trust and invested by independent trustees in accordance with state and provincial laws. We retain any funds above the amounts required to be deposited into trust accounts and use them for working capital purposes, generally to offset the selling and administrative costs of our preneed programs.

The tables below detail our results of preneed funeral and cemetery production and maturities, excluding insurance contracts, for the three and six months ended June 30, 2013 and 2012.

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| | North America | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in millions) | | (Dollars in millions) | |
| Funeral: | | | | |
| Preneed trust-funded (including bonded): | | | | |
| Sales production | $44.4 | $31.7 | $90.7 | $69.4 |
| Sales production (number of contracts) | 16,043 | 14,361 | 33,296 | 28,438 |
| Maturities | $47.0 | $43.1 | $97.9 | $90.5 |
| Maturities (number of contracts) | 13,253 | 13,204 | 27,889 | 27,440 |
| Cemetery: | | | | |
| Sales production: | | | | |
| Preneed | $147.8 | $139.9 | $281.0 | $264.4 |
| Atneed | 61.0 | 59.6 | 124.3 | 119.0 |
| Total sales production | $208.8 | $199.5 | $405.3 | $383.4 |
| Sales production deferred to backlog: | | | | |
| Preneed | $61.4 | $55.6 | $110.6 | $110.8 |
| Atneed | 45.5 | 44.5 | 93.2 | 89.9 |
| Total sales production deferred to backlog | $106.9 | $100.1 | $203.8 | $200.7 |
| Revenue recognized from backlog: | | | | |
| Preneed | $39.4 | $43.0 | $75.3 | $75.3 |
| Atneed | 45.8 | 44.0 | 91.3 | 88.0 |
| Total revenue recognized from backlog | $85.2 | $87.0 | $166.6 | $163.3 |

Insurance-Funded Preneed Funeral Contracts: Where permitted by state or provincial law, customers may arrange their preneed funeral contract by purchasing a life insurance or annuity policy from third-party insurance companies, for which we earn a commission as general sales agent for the insurance company. The policy amount of the insurance contract between the customer and the third-party insurance company generally equals the amount of the preneed funeral contract. As the insurance contract is between the insurance company and the customer, we do not reflect the unfulfilled insurance-funded preneed funeral contract amounts in our unaudited condensed consolidated balance sheet. The table below details the results of insurance-funded preneed funeral production and maturities for the three and six months ended June 30, 2013 and 2012, and the number of contracts associated with those transactions.

| | North America | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in millions) | | (Dollars in millions) | |
| Preneed funeral insurance-funded: | | | | |
| Sales production (1) | $147.6 | $134.4 | $285.5 | $268.8 |
| Sales production (number of contracts) (1) | 25,349 | 22,940 | 49,483 | 45,716 |
| General Agency revenue | $26.8 | $24.3 | $52.0 | $47.6 |
| Maturities | 80.7 | $75.8 | $173.4 | $158.8 |
| Maturities (number of contracts) | 13,969 | 13,105 | 30,274 | 27,776 |

(1) Amounts are not included in our unaudited condensed consolidated balance sheet.

North America Backlog of Preneed Funeral and Cemetery Contracts: The following table reflects our North America backlog of trust-funded deferred preneed funeral and cemetery contract revenues, including amounts related to Deferred preneed funeral

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and cemetery receipts held in trust at June 30, 2013 and December 31, 2012. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our unaudited condensed consolidated balance sheet) at June 30, 2013 and December 31, 2012. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on historical experience.

The table also reflects our preneed funeral and cemetery receivables and trust investments (fair value and cost bases) associated with the backlog of deferred preneed funeral and cemetery contract revenues, net of the estimated cancellation allowance. We believe that the table below is meaningful because it sets forth the aggregate amount of future revenues we expect to recognize as a result of preneed sales, as well as the amount of assets associated with those revenues. Because the future revenues exceed the asset amounts, future revenues will exceed the cash distributions actually received from the associated trusts.

| | June 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| | | (Dollars in billions) | | |
| Deferred preneed funeral revenues | $0.53 | $0.53 | $0.53 | $0.53 |
| Deferred preneed funeral receipts held in trust | 1.34 | 1.31 | 1.34 | 1.32 |
| | $1.87 | $1.84 | $1.87 | $1.85 |
| Allowance for cancellation on trust investments | (0.16) | (0.16) | (0.15) | (0.15) |
| Backlog of trust-funded preneed funeral revenues | $1.71 | $1.68 | $1.72 | $1.70 |
| Backlog of insurance-funded preneed funeral revenues (1) | 3.73 | 3.73 | 3.68 | 3.68 |
| Total backlog of preneed funeral revenues | $5.44 | $5.41 | $5.40 | $5.38 |
| Preneed funeral receivables, net and trust investments | $1.54 | $1.51 | $1.54 | $1.52 |
| Allowance for cancellation on trust investments | (0.15) | (0.15) | (0.14) | (0.14) |
| Assets associated with backlog of trust-funded deferred preneed funeral revenues, net of estimated allowance for cancellation | $1.39 | $1.36 | $1.40 | $1.38 |
| Insurance policies associated with insurance-funded deferred preneed funeral revenues, net of estimated allowance for cancellation (1) | 3.73 | 3.73 | 3.68 | 3.68 |
| Total assets associated with backlog of preneed funeral revenues, net of estimated allowance for cancellation | $5.12 | $5.09 | $5.08 | $5.06 |
| Deferred preneed cemetery revenues | $0.90 | $0.90 | $0.86 | $0.86 |
| Deferred preneed cemetery receipts held in trust | 1.33 | 1.25 | 1.29 | 1.23 |
| | $2.23 | $2.15 | $2.15 | $2.09 |
| Allowance for cancellation on trust investments | (0.15) | (0.15) | (0.15) | (0.15) |
| Total backlog of deferred cemetery revenues | $2.08 | $2.00 | $2.00 | $1.94 |
| Preneed cemetery receivables, net and trust investments | 1.91 | $1.83 | $1.82 | $1.76 |
| Allowance for cancellation on trust investments | (0.16) | (0.16) | (0.16) | (0.16) |
| Total assets associated with backlog of deferred cemetery revenues, net of estimated allowance for cancellation | $1.75 | $1.67 | $1.66 | $1.60 |

(1) Amounts are not included in our unaudited condensed consolidated balance sheet.

The fair value of our funeral and cemetery trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves, and appraisals. The difference between the backlog and asset amounts represents the contracts for which we have posted surety bonds as financial assurance in lieu of trusting, the amounts collected from customers that were not required to be deposited into trust, and allowable cash distributions from trust assets. The table also reflects the amounts expected to be received from insurance companies through the assignment of policy proceeds related to insurance-funded funeral contracts.

Trust Investments

In addition to selling our products and services to client families at the time of need, we sell price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery services and merchandise. Since preneed funeral and cemetery services or merchandise will not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into trusts and/or preneed escrow accounts until the merchandise is delivered or the service is performed. Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery services and merchandise in the future for the prices that were guaranteed at the time of sale.

Also, we are required by state and provincial law to pay a portion of the proceeds from the sale of cemetery property interment rights into perpetual care trusts. For these investments, the original corpus remains in the trust in perpetuity and the net ordinary earnings are intended to offset the expense to maintain the cemetery property. The majority of states require that net gains or losses are retained and added to the corpus, but certain states allow the net realized gains and losses to be included in the income that is distributed.

Independent trustees manage and invest all of the funds deposited into the funeral and cemetery merchandise and service trusts as well as the cemetery perpetual care trusts. The trustees are selected based on their respective geographic footprint and qualifications per state and provincial regulations. All of the trustees engage the same independent investment advisor either directly or indirectly through SCI's wholly-owned registered investment advisor. The trustees, with input from the investment advisor, establish an investment policy that serves as an operating document to guide the investment activities of the trusts including asset allocation and manager selection. The investments are also governed by state and provincial guidelines. Asset allocation for the funeral and cemetery merchandise and service trusts is generally based on matching the time period that we expect the funeral or cemetery preneed contract to be outstanding. Since net ordinary earnings are distributed monthly from the cemetery perpetual care trusts to offset cemetery maintenance costs, the cemetery perpetual care trusts contain a higher fixed income allocation than the funeral and cemetery merchandise and service trusts. The investment advisor recommends investment managers to the trustees that are selected on the basis of various criteria set forth in the investment policy.

The primary investment objectives for the funeral and cemetery merchandise and service trusts include (1) achieving growth of principal over time sufficient to preserve and increase the purchasing power of the assets, and (2) preserving capital within acceptable levels of volatility. Preneed funeral and cemetery contracts generally take years to mature. Therefore, the funds associated with these contracts are often invested for several market cycles. While cemetery perpetual care trusts share the same investment objectives as listed above, these trusts emphasize providing a steady stream of investment income with some capital appreciation. The trusts seek to control risk and volatility through a combination of asset styles, asset classes, and institutional investment managers.

As of June 30, 2013, 85% of our trusts were under the control and custody of two large financial institutions engaged as preferred trustees. The U.S. trustees primarily use common trust fund structures as the investment vehicle for their trusts. Through the common trust fund structure, each respective trustee manages the allocation of assets through individual managed accounts or institutional mutual funds. In the event a particular state prohibits the use of a common trust fund as a qualified investment, the trustee utilizes institutional mutual funds. The U.S. trusts include a modest allocation to alternative investments, which are comprised primarily of private equity and real estate investments. These investments are structured as limited liability companies (LLCs) and are managed by certain trustees. The trusts that are eligible to allocate a portion of their investments to alternative investments purchase units of the respective LLCs.

Fixed Income Securities

Fixed income investments are intended to preserve principal, provide a source of current income, and reduce overall portfolio volatility. The SCI trusts have direct investments primarily in government fixed income securities. Insurance backed fixed income investments preserve the principal, guarantee annual appreciation, and reduce overall portfolio volatility.

Canadian government fixed income securities are investments in Canadian federal and provincial government instruments. In many cases, regulatory restrictions mandate that the funds from the sales of preneed funeral and cemetery products sold in certain Canadian jurisdictions must be invested in these instruments.

Equity Securities

Equity investments have historically provided long-term capital appreciation in excess of inflation. The SCI trusts have direct investments primarily in domestic equity portfolios that include large, mid, and small capitalization companies of different investment objectives (i.e., growth and value). The majority of the equity portfolio is managed by multiple institutional investment managers that specialize in an objective-specific area of expertise. Our equity securities are exposed to market risk; however, these securities are well-diversified. As of June 30, 2013, the largest single equity position represented less than 1% of the total equity securities portfolio.

Mutual Funds

The SCI trust funds employ institutional mutual funds where operationally or economically efficient. Institutional mutual funds are utilized to invest in various asset classes including US equities, non-US equities, convertible bonds, corporate bonds, government bonds, Treasury inflation protected securities (TIPS), high yield bonds, real estate investment trusts (REITs), and commodities. The mutual funds are governed by guidelines outlined in their individual prospectuses.

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Private Equity

The objective of these investments is to provide high rates of return with controlled volatility. These investments are typically long-term in duration. These investments are diversified by strategy, sector, manager, and vintage year. Private equity exposure is accessed through limited liability companies (LLCs) established by certain preferred trustees. These LLCs invest in numerous limited partnerships, including private equity, fund of funds, distressed debt, and mezzanine financing. The trustees that have oversight of their respective LLCs work closely with the investment advisor in making all current investments.

Trust Performance

The trust fund income recognized from these investment assets continues to be volatile. During the twelve months ended June 30, 2013, the Standard and Poor's 500 Index increased approximately 20.6% and the Barclay's Aggregate Index increased approximately 0.7%, while the combined SCI trusts increased approximately 11.6%.

SCI, its trustees, and its investment advisor continue to monitor the capital markets and the trusts on an ongoing basis. The trustees, with input from the investment advisor, will take prudent action as needed to achieve the investment goals and objectives of the trusts.

Results of Operations — Three Months Ended June 30, 2013 and 2012

Management Summary

Key highlights in the second quarter of 2013 were as follows:

- Funeral gross profits decreased $1.5 million, or 1.8%, due to higher selling-related expenses related to preneed sales production, partially offset by higher average revenue per funeral service and an increase in preneed revenues for items that are delivered at the time of sale; and
- Cemetery gross profits decreased $0.9 million, or 1.9%, due to higher selling compensation expenses driven by higher production, partially offset by higher cemetery trust fund income.

Results of Operations

In the second quarter of 2013, we reported net income attributable to common stockholders of $33.6 million ($0.16 per diluted share) compared to net income attributable to common stockholders in the second quarter of 2012 of $37.1 million ($0.17 per diluted share). These results were impacted by the following items:

| | 2013 | 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| Net after-tax (losses) gains from the sale of assets | $(3,336) | $49 |
| After-tax gains from the early extinguishment of debt, net | $296 | $— |
| After-tax expenses related to system and process transition costs | $(1,123) | $(1,362) |
| After-tax expenses related to acquisition and transition costs | $(2,478) | $(41) |
| After-tax expenses related to legal defense fees | $(578) | $— |
| Change in certain tax reserves and other | $(106) | $(1,435) |

Consolidated Versus Comparable Results

The table below reconciles our consolidated GAAP results to our comparable, or "same store," results for the three months ended June 30, 2013 and 2012. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2012 and ending June 30, 2013. The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

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| Three Months Ended June 30, 2013 | Consolidated | Less: Results Associated with Acquisition/New Construction (Dollars in millions) | Less: Results Associated with Divestitures | Comparable |
|---|---|---|---|---|
| North America Revenue | | | | |
| Funeral revenue | $414.5 | $8.2 | $0.3 | $406.0 |
| Cemetery revenue | 209.7 | — | — | 209.7 |
| | 624.2 | 8.2 | 0.3 | 615.7 |
| Germany revenue | 1.3 | — | — | 1.3 |
| Total revenue | $625.5 | $8.2 | $0.3 | $617.0 |
| North America Gross Profits | | | | |
| Funeral gross profits | $80.1 | $1.1 | $— | $79.0 |
| Cemetery gross profits (losses) | 45.6 | — | (0.1) | 45.7 |
| | 125.7 | 1.1 | (0.1) | 124.7 |
| Germany gross profits | 0.1 | — | — | 0.1 |
| Total gross profits (losses) | $125.8 | $1.1 | $(0.1) | $124.8 |

| Three Months Ended June 30, 2012 | Consolidated | Less: Results Associated with Acquisition/New Construction (Dollars in millions) | Less: Results Associated with Divestitures | Comparable |
|---|---|---|---|---|
| North America Revenue | | | | |
| Funeral revenue | $395.0 | $0.2 | $1.7 | $393.1 |
| Cemetery revenue | 201.0 | — | 0.1 | 200.9 |
| | 596.0 | 0.2 | 1.8 | 594.0 |
| Germany revenue | 1.4 | — | — | 1.4 |
| Total revenue | $597.4 | $0.2 | $1.8 | $595.4 |
| North America Gross Profits | | | | |
| Funeral gross profits (losses) | $81.1 | $(0.2) | $0.4 | $80.9 |
| Cemetery gross profits (losses) | 46.5 | — | (0.2) | 46.7 |
| | 127.6 | (0.2) | 0.2 | 127.6 |
| Germany gross profits | 0.6 | — | — | 0.6 |
| Total gross profits (losses) | $128.2 | $(0.2) | $0.2 | $128.2 |

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the three months ended June 30, 2013 and 2012. We calculate average revenue per funeral service by dividing consolidated funeral revenue, excluding General Agency (GA) revenues, recognized preneed revenues and certain other revenues, to avoid distorting our averages of normal funeral services revenue, by the number of consolidated funeral services performed during the period. Recognized preneed revenues are preneed sales of items that are delivered at the time of sale, including memorial merchandise and travel protection insurance and are excluded from our calculation of consolidated average revenue per services because the associated service has not yet been performed.

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| | Three Months Ended June 30, 2013 | 2012 |
| --- | --- | --- |
| | (Dollars in millions, except average revenue per funeral service) | |
| Consolidated funeral revenue | $415.8 | $396.4 |
| Less: Funeral consolidated recognized preneed revenue | 18.1 | 14.1 |
| Less: Consolidated GA revenue | 26.8 | 24.3 |
| Less: Other revenue | 4.0 | 3.3 |
| Adjusted consolidated funeral revenue | $366.9 | $354.7 |
| Consolidated funeral services performed | 70,043 | 68,851 |
| Consolidated average revenue per funeral service | $5,238 | $5,152 |

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the three months ended June 30, 2013 and 2012. We calculate average revenue per funeral service by dividing comparable funeral revenue, excluding comparable GA revenues, recognized preneed revenues and certain other revenues, to avoid distorting our averages of normal funeral services revenue, by the number of comparable funeral services performed during the period. Recognized preneed revenues are preneed sales of items that are delivered at the time of sale, including memorial merchandise and travel protection insurance and are excluded from our calculation of comparable average revenue per services because the associated service has not yet been performed.

| | Three Months Ended June 30, 2013 | 2012 |
| --- | --- | --- |
| | (Dollars in millions, except average revenue per funeral service) | |
| Comparable funeral revenue | $407.3 | $394.5 |
| Less: Funeral comparable recognized preneed revenue | 16.9 | 13.9 |
| Less: Comparable GA revenue | 26.6 | 24.2 |
| Less: Other revenue | 3.9 | 3.3 |
| Adjusted comparable funeral revenue | $359.9 | $353.1 |
| Comparable funeral services performed | 68,037 | 68,477 |
| Comparable average revenue per funeral service | $5,290 | $5,156 |

Funeral Results

Funeral Revenue

Consolidated revenues from funeral operations were $415.8 million in the second quarter of 2013 compared to $396.4 million for the same period in 2012. This increase is attributable to $8.0 million of additional revenues as the result of acquisitions through 2013 and 2012 and the $12.8 million increase in comparable revenues described below. These increases were partially offset by a decline of $1.4 million in revenues contributed by non-strategic assets that were divested throughout 2013 and 2012.

Comparable revenues from funeral operations were $407.3 million in the second quarter of 2013 compared to $394.5 million for the same period in 2012. This increase was primarily due to the 2.6% increase in comparable average revenue per funeral service described below, an increase in recognized preneed revenues for items that are delivered at the time of sale, and higher General Agency revenues. These increases were partially offset by the 0.6% decrease in the number of comparable funeral services performed described below.

Funeral Services Performed

Our consolidated funeral services performed increased 1.7% during the second quarter of 2013 compared to the same period in 2012. This is primarily the result of acquisitions in 2013 and 2012, partially offset by a 0.6% decrease in comparable funeral services performed. We believe the comparable decrease is consistent with trends experienced by other funeral service providers and industry vendors. Our comparable cremation rate of 50.0% in the second quarter of 2013 increased from 48.4% in 2012. This growth in comparable cremations was generated equally by cremations with service and direct cremations. While the average

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revenue for cremations of either type is lower than that for traditional burials, we continue to expand our cremation memorialization product and service offerings, which have resulted in higher revenue for cremation services.

Average Revenue Per Funeral Service

Our consolidated average revenue per funeral service increased $86, or 1.7%, in the second quarter of 2013 compared to 2012, primarily due to an increase in comparable average revenue per funeral service described below, partially offset by an increase in the number of cremations. Our comparable average revenue per funeral service increased $134, or 2.6%, in the second quarter of 2013 compared to the same period in 2012. This increase in comparable average revenue per funeral service is primarily from initiatives centered around better consumer choice and flexibility, such as enhanced Dignity packaging, increased receptions and event offerings, and expansion of floral offerings through e-commerce solutions. Excluding an unfavorable Canadian currency impact and higher funeral trust fund income, the average revenue per funeral service grew approximately 2.0% despite an increase in cremation rates. The addition of Neptune Society fulfilled contracts to our comparable results (which include only the cremation service component in our comparable analysis) has accelerated our cremation mix change and put slight downward pressure on our total average revenue per service.

Funeral Gross Profits

Consolidated funeral gross profits decreased $1.5 million, or 1.8%, in the second quarter of 2013 compared to the same period in 2012. This decrease is primarily attributable to a $2.4 million decrease in comparable gross profits described below and a decline of $0.4 million in gross profits contributed by non-strategic assets that were divested throughout 2013 and 2012, partially offset by $1.3 million of additional gross profits related to acquisitions that occurred in 2013 and 2012.

Comparable funeral gross profits decreased $2.4 million, or 2.9%, in the second quarter of 2013 compared to the same period in 2012. Comparable gross margin percentage decreased from 20.7% to 19.4% in the second quarter of 2013 when compared to the same period in 2012 primarily as a result of the increase in comparable revenue described above being more than offset by the following:

- a $4.8 million increase in selling cost driven by higher unrecognized revenues;
- a $4.2 million increase in allocated overhead expenses including investments in our sales support infrastructure;
- a $2.7 million increase in direct costs of services performed as a result of the increase in funeral revenue described above; and
- a $2.3 million unfavorable impact related to an adjustment in self-insurance casualty reserves.

Cemetery Results

Cemetery Revenue

Consolidated cemetery revenues increased $8.7 million, or 4.3%, in the second quarter of 2013 compared to the same period in 2012 primarily as a result of the increase in comparable revenues described below. This increase was partially offset by a decline of $0.1 million in revenues contributed by non-strategic assets that were divested throughout 2013 and 2012. Comparable cemetery revenues increased $8.8 million, or 4.4%, primarily as a result of higher merchandise and service revenue of $5.1 million along with higher trust fund income and other income of $4.0 million.

Cemetery Gross Profits

Consolidated cemetery gross profits decreased $0.9 million, or 1.9%, in the second quarter of 2013 compared to the same period in 2012. This decrease is primarily the result of the increase in expenses described below.

Comparable cemetery gross profits decreased $1.0 million, or 2.1%, and gross margin percentage decreased from 23.2% to 21.8% in the second quarter of 2013 compared to the same period in 2012 primarily as a result of the increase in comparable revenue described above being more than offset by the following:

- a $5.4 million increase in selling cost driven by higher unrecognized revenues;
- a $2.3 million increase in allocated overhead expenses including investments in our sales support infrastructure; and
- a $1.4 million unfavorable impact related to an adjustment in self-insurance casualty reserves.

Other Financial Statement Items

General and Administrative Expenses

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General and administrative expenses increased $1.6 million to $31.2 million during the second quarter of 2013 compared to $29.6 million in the same period of 2012. This increase is primarily due to $3.2 million of costs related to the pending acquisition of Stewart Enterprises and $1.7 million of other system integration costs in the second quarter of 2013, partially offset by $2.2 million of costs related to the implementation of a new purchase order system and the transition to new outsource providers for certain accounting and administrative functions in the same period of 2012.

(Losses) Gains on Divestitures and Impairment Charges, Net

We recognized a $5.5 million net pre-tax loss on divestitures and impairment charges in the second quarter of 2013 compared to a $1.1 million net pre-tax gain in the same period of 2012, which is associated with the divestiture of non-strategic funeral and cemetery locations in the United States and Canada.

Other (Expense) Income, Net

Other (expense) income, net increased $1.5 million to $0.7 million of expense during the second quarter of 2013 compared to $2.2 million of expense in the second quarter of 2012, primarily due to an unfavorable foreign currency impact from liability settlements between the U.S. and Canadian subsidiaries in the second quarter of 2012.

Provision for 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. Our effective tax rate was 38.7% and 40.8% for the three months ended June 30, 2013 and 2012, respectively. The effective tax rate for the second quarter of 2013 is above the 35% federal statutory tax rate due to state tax expense which is partially offset by foreign earnings taxed at lower rates.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 215.9 million during the second quarter of 2013, compared to 218.9 million in the same period of 2012. The decrease in the number of shares reflects the impact of shares repurchased under our share repurchase program.

Results of Operations — Six Months Ended June 30, 2013 and 2012

Management Summary

Key highlights in the first half of 2013 were as follows:

- Funeral gross profit increased $18.5 million, or 10.2%, due to higher funeral services performed and average revenue per funeral service, along with an increase in preneed revenues for items that are delivered at the time of sale. These increases were partially offset by higher selling expenses related to preneed sales initiatives and higher direct cost of services performed; and
- Cemetery gross profit increased $11.1 million, or 15.0%, due to an increase in cemetery preneed property sales production, partially offset by higher selling compensation expenses.

Results of Operations

In the first half of 2013, we reported net income attributable to common stockholders of $91.2 million ($0.42 per diluted share) compared to net income attributable to common stockholders in the first half of 2012 of $85.1 million ($0.39 per diluted share). These results were impacted by the following items:

| | 2013 | 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| Net after-tax (losses) gains from the sale of assets | $(3,909) | $(304) |
| After-tax gains from the early extinguishment of debt, net | $296 | $— |
| After-tax expenses related to system and process transition costs | $(1,692) | $(1,362) |
| After-tax expenses related to acquisition and transition costs | $(2,603) | $(77) |
| After-tax expenses related to legal defense fees | $(1,381) | $— |
| Change in certain tax reserves and other | $(996) | $1,891 |

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Consolidated Versus Comparable Results

The table below reconciles our consolidated GAAP results to our comparable, or "same store," results for the six months ended June 30, 2013 and 2012. We define comparable operations (or same store operations) as those funeral and cemetery locations that were owned for the entire period beginning January 1, 2012 and ending June 30, 2013. The following tables present operating results for funeral and cemetery locations that were owned by us during this period.

| Six Months Ended June 30, 2013 | Consolidated | Less: Results Associated with Acquisition/New Construction | Less: Results Associated with Divestitures | Comparable |
|---|---|---|---|---|
| | | (Dollars in millions) | | |
| North America Revenue | | | | |
| Funeral revenue | $874.7 | $16.8 | $0.8 | $857.1 |
| Cemetery revenue | 400.0 | — | (0.1) | 400.1 |
| | 1,274.7 | 16.8 | 0.7 | 1,257.2 |
| Germany revenue | 3.2 | — | — | 3.2 |
| Total revenue | $1,277.9 | $16.8 | $0.7 | $1,260.4 |
| North America Gross Profits | | | | |
| Funeral gross profits (losses) | $199.9 | $3.2 | $(0.2) | $196.9 |
| Cemetery gross profits (losses) | 85.1 | — | (0.2) | 85.3 |
| | 285.0 | 3.2 | (0.4) | 282.2 |
| Germany gross profits | 0.4 | — | — | 0.4 |
| Total gross profits (losses) | $285.4 | $3.2 | $(0.4) | $282.6 |

| Six Months Ended June 30, 2012 | Consolidated | Less: Results Associated with Acquisition/New Construction | Less: Results Associated with Divestitures | Comparable |
|---|---|---|---|---|
| | | (Dollars in millions) | | |
| North America Revenue | | | | |
| Funeral revenue | $817.5 | $0.2 | $3.6 | $813.7 |
| Cemetery revenue | 379.2 | — | 0.3 | 378.9 |
| | 1,196.7 | 0.2 | 3.9 | 1,192.6 |
| Germany revenue | 3.2 | — | — | 3.2 |
| Total revenue | $1,199.9 | $0.2 | $3.9 | $1,195.8 |
| North America Gross Profits | | | | |
| Funeral gross profits (losses) | $181.4 | $(0.2) | $(0.3) | $181.9 |
| Cemetery gross profits | 74.0 | — | — | 74.0 |
| | 255.4 | (0.2) | (0.3) | 255.9 |
| Germany gross profits | 0.4 | — | — | 0.4 |
| Total gross profits (losses) | $255.8 | $(0.2) | $(0.3) | $256.3 |

The following table provides the data necessary to calculate our consolidated average revenue per funeral service for the six months ended June 30, 2013 and 2012. We calculate average revenue per funeral service by dividing consolidated funeral revenue, excluding General Agency (GA) revenues, recognized preneed revenues and certain other revenues, to avoid distorting our averages of normal funeral services revenue, by the number of consolidated funeral services performed during the period. Recognized preneed revenues are preneed sales of items that are delivered at the time of sale, including memorial merchandise and travel protection insurance and are excluded from our calculation of consolidated average revenue per services because the associated service has not yet been performed.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in millions, except average revenue per funeral service) | |
| Consolidated funeral revenue | $877.9 | $820.7 |
| Less: Funeral consolidated recognized preneed revenue | 37.0 | 27.8 |
| Less: Consolidated GA revenue | 52.0 | 47.6 |
| Less: Other revenue | 8.6 | 6.1 |
| Adjusted consolidated funeral revenue | $780.3 | $739.2 |
| Consolidated funeral services performed | 149,831 | 143,557 |
| Consolidated average revenue per funeral service | $5,208 | $5,149 |

The following table provides the data necessary to calculate our comparable average revenue per funeral service for the six months ended June 30, 2013 and 2012. We calculate average revenue per funeral service by dividing comparable funeral revenue, excluding comparable GA revenues, recognized preneed revenues and certain other revenues to avoid distorting our averages of normal funeral services revenue, by the number of comparable funeral services performed during the period. Recognized preneed revenues are preneed sales of items that are delivered at the time of sale, including memorial merchandise and travel protection insurance and are excluded from our calculation of comparable average revenue per services because the associated service has not yet been performed.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in millions, except average revenue per funeral service) | |
| Comparable funeral revenue | $860.3 | $816.9 |
| Less: Funeral comparable recognized preneed revenue | 34.8 | 27.4 |
| Less: Comparable GA revenue | 51.6 | 47.5 |
| Less: Other revenue | 8.4 | 6.3 |
| Adjusted comparable funeral revenue | $765.5 | $735.7 |
| Comparable funeral services performed | 145,660 | 142,894 |
| Comparable average revenue per funeral service | $5,255 | $5,149 |

Funeral Results

Funeral Revenue

Consolidated revenues from funeral operations were $877.9 million in the first half of 2013 compared to $820.7 million for the same period in 2012. This increase is primarily attributable to the $16.6 million of additional revenues as the result of acquisitions in 2013 and 2012 and a $43.4 million increase in comparable revenues described below. These increases were partially offset by a decline of $2.8 million in revenues contributed by non-strategic assets that were divested throughout 2013 and 2012. Comparable revenues from funeral operations were $860.3 million in the first half of 2013 compared to $816.9 million for the same period in 2012. This increase was primarily due to the 2.1% increase in average revenue per funeral service described below and the 1.9% increase in the number of comparable funeral services performed described below, as well as increased recognized preneed revenues for items that are delivered at the time of sale, and higher General Agency revenues.

Funeral Services Performed

Our consolidated funeral services performed increased 4.4% during the first half of 2013 compared to the same period in 2012, primarily as the result of acquisitions in 2013 and 2012 and a 1.9% increase in comparable funeral services performed. We believe this increase was somewhat impacted by extreme weather throughout North America, and we believe is consistent with trends experienced by other funeral service providers and industry vendors. Our comparable cremation rate of 49.5% in the first half of 2013 increased from 48.3% in 2012. This growth in comparable cremations was generated equally by cremations with service and direct cremations. While the average revenue for cremations of either type is lower than that for traditional burials,

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we continue to expand our cremation memorialization product and service offerings, which have resulted in higher revenue for cremation services.

Average Revenue Per Funeral Service

Our consolidated average revenue per funeral service increased $59, or 1.1%, in the first half of 2013 compared to the same period in 2012, primarily as a result the increase in comparable average revenue per funeral service described below partially offset by an increase in the number of cremations. Our comparable average revenue per funeral service increased $106, or 2.1%, in the first half of 2013 compared to the same period in 2012. This increase in comparable average revenue per funeral service is primarily from initiatives centered around better consumer choice and flexibility, such as enhanced Dignity packaging, increased receptions and event offerings, and expansion of floral offerings through e-commerce solutions. Excluding an unfavorable Canadian currency impact and higher funeral trust fund income, the average revenue per funeral service grew approximately 1.5% despite an increase in cremation rates. The addition of Neptune Society fulfilled contracts to our comparable results (which include only the cremation service component in our comparable analysis) has accelerated our cremation mix change and put slight downward pressure on our total average revenue per service.

Funeral Gross Profits

Consolidated funeral gross profits increased $18.5 million, or 10.2%, in the first half of 2013 compared to the same period in 2012. This increase is primarily attributable to a $15.0 million increase in comparable gross profits described below, $3.4 million of additional gross profits related to acquisitions that occurred in 2013 and 2012, and a $0.1 million increase in losses by non-strategic assets that were divested throughout 2013 and 2012.

Comparable funeral gross profits increased $15.0 million, or 8.2%, and the comparable gross margin percentage increased from 22.3% to 22.9% in the first half of 2013 when compared to the same period in 2012 primarily as a result of the increase in comparable revenue described above, partially offset by the following:

- an $8.4 million increase in selling cost driven by higher unrecognized revenues;
- a $7.5 million increase in direct costs of services performed as a result of the increase in funeral revenue described above;
- a $4.9 million increase in allocated overhead expenses including investments in our sales support infrastructure;
- a $1.7 million unfavorable impact related to an adjustment in self-insurance casualty reserves;
- a $2.8 million increase in salary expense driven by the increase in funeral services performed described above.

Cemetery Results

Cemetery Revenue

Consolidated revenues from our cemetery operations increased $20.8 million, or 5.5%, in the first half of 2013 compared to the same period in 2012 primarily as a result of the increase in comparable revenues described below. The increase was partially offset by a decline of $0.4 million in revenues contributed by non-strategic assets that were divested throughout 2013 and 2012. Comparable cemetery revenues increased $21.2 million, or 5.6%, primarily as a result of strong cemetery preneed property production during the first half of 2013 along with higher atneed revenues.

Cemetery Gross Profits

Consolidated cemetery gross profits increased $11.1 million, or 15.0%, in the first half of 2013 compared to the same period in 2012. This increase is primarily the result of the increase in comparable gross profits described below. Comparable cemetery gross profits increased $11.3 million, or 15.3%, and gross margin percentage increased from 19.5% to 21.3% in the first half of 2013 compared to the same period in 2012. This increase is primarily the result of higher revenues mentioned above, partially offset by a $7.4 million increase in comparable selling costs impacted by higher unrecognized revenues and a $2.6 million increase in allocated overhead expenses including investments in our sales support infrastructure.

Other Financial Statement Items

General and Administrative Expenses

General and administrative expenses increased $6.5 million to $62.0 million during the first half of 2013 compared to $55.5 million for the same period in 2012. The increase is primarily due to $3.2 million of costs related to the pending acquisition of Stewart Enterprises and $2.6 million of other system integration costs in 2013.

(Losses) Gains on Divestitures and Impairment Charges, net

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We recognized a $6.5 million net pre-tax loss on divestitures and impairment charges in the first half of 2013, which is associated with the divestiture of non-strategic funeral and cemetery locations in North America, along with losses on the final settlement of an indemnification liability related to our former operations in Spain. In the first half of 2012, we recognized a $0.6 million net pre-tax gain on divestitures and impairment charges due to gains on indemnification reserves.

Other (Expense) Income, Net

Other (expense) income, net decreased $3.4 million to expense of $1.7 million during the first six months of 2013, primarily due to an unfavorable foreign currency impact from liability settlements between the U.S. and Canadian subsidiaries in the first half of 2012.

Provision for 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. Our effective tax rate was 38.0% and 36.3% for the six months ended June 30, 2013 and 2012, respectively. The effective tax rate for the six months ended June 30, 2013 is above the 35% federal statutory tax rate due to state tax expense which is partially offset by foreign earnings taxed at lower rates.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 215.6 million during the first half of 2013, compared to 221.1 million in the same period of 2012. The decrease in the number of shares reflects the impact of shares repurchased under our share repurchase program.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

No other significant changes to our accounting policies have occurred subsequent to December 31, 2012, except as described below within Recent Accounting Pronouncements and Accounting Changes.

Recent Accounting Pronouncements and Accounting Changes

For discussion of recent accounting pronouncements and accounting changes, see Part I, Item 1. Financial Statements, Note 3.

Cautionary Statement on Forward-Looking Statements

The statements in this Form 10-Q that are not historical facts are forward-looking statements made in reliance on the “safe harbor” protections provided under the Private Securities Litigation Reform Act of 1995. These statements may be accompanied by words such as “believe,” “estimate,” “project,” “expect,” “anticipate,” or “predict,” that convey the uncertainty future events or outcomes. These statements are based on assumptions that we believe are reasonable; however, many important factors could cause our actual results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by us, or on our behalf. Important factors, which could cause actual results to differ materially from those in forward-looking statements include, among others, the following:

- Our affiliated funeral and cemetery trust funds own investments in equity securities, fixed income securities, and mutual funds, which are affected by market conditions that are beyond our control.
-

We may be required to replenish our affiliated funeral and cemetery trust funds in order to meet minimum funding requirements, which would have a negative effect on our earnings and cash flow.

- Our ability to execute our strategic plan depends on many factors, some of which are beyond our control.
- Our credit agreements contain covenants that may prevent us from engaging in certain transactions.

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- If we lost the ability to use surety bonding to support our preneed funeral and preneed cemetery activities, we may be required to make material cash payments to fund certain trust funds.
- The funeral home and cemetery industry continues to be increasingly competitive.
- Increasing death benefits related to preneed funeral contracts funded through life insurance or annuity contracts may not cover future increases in the cost of providing a price-guaranteed funeral service.
- The financial condition of third-party insurance companies that fund our preneed funeral contracts may impact our future revenues.
- Unfavorable results of litigation, including currently pending class action cases concerning cemetery or burial practices, could have a material adverse impact on our financial statements.
- Unfavorable publicity could affect our reputation and business.
- If the number of deaths in our markets declines, our cash flows and revenues may decrease.
- If we are not able to respond effectively to changing consumer preferences, our market share, revenues and profitability could decrease.
- The continuing upward trend in the number of cremations performed in North America could result in lower revenues and gross profit.
- Our funeral home and cemetery businesses are high fixed-cost businesses.
- Regulation and compliance could have a material adverse impact on our financial results.
- Increased costs, including potential increased health care costs, may have a negative impact on earnings and cash flows.
- Cemetery burial practice claims could have a material adverse impact on our financial results.
- A number of years may elapse before particular tax matters, for which we have established accruals, are audited and finally resolved.
- Declines in overall economic conditions beyond our control could reduce future potential earnings and cash flows and could result in future goodwill impairments and /or other intangible assets.
- Any failure to maintain the security of the information relating to our customers, their loved ones, our associates and vendors could damage our reputation, could cause us to incur substantial additional costs and to become subject to litigation, and could adversely affect our operating results.
- The acquisition of Stewart is subject to certain closing conditions that, if not satisfied or waived, will result in the acquisition not being completed, which may cause the market price of SCI common stock to decline.
- We may fail to realize the anticipated benefits of the acquisition of Stewart.
- The acquisition of Stewart may result in unexpected consequences to our business and results of operations.
- Our level of indebtedness following the completion of the acquisition of Stewart could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from fulfilling our obligations under our indebtedness.

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2012 Annual Report on Form 10-K, which was filed February 13, 2013. Copies of this document as well as other SEC filings can be obtained from our website at www.sci-corp.com. We assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Marketable Equity and Debt Securities — Price Risk

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices.

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Cost and market values as of June 30, 2013 are presented in Part I, Item 1. Financial Statements and Notes 4, 5, and 6 of this Form 10-Q. Also, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, Financial Conditions, Liquidity and Capital Resources, for discussion of trust investments.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

As of June 30, 2013, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission (SEC) reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The officers have concluded that our disclosure controls and procedures were effective as of June 30, 2013 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with US GAAP.

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

Information regarding legal proceedings is set forth in Note 15 in Item 1 of Part I of this Form 10-Q, which information is hereby incorporated by reference herein.

## Item 1A. Risk Factors

There have been no material changes in our Risk Factors as set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, except as set forth below.

Any failure to maintain the security of the information relating to our customers, their loved ones, our associates, and our vendors could damage our reputation, could cause us to incur substantial additional costs and to become subject to litigation, and could adversely affect our operating results.

In the ordinary course of our business, we receive certain personal information, in both physical and electronic formats, about our customers, their loved ones, our associates, and our vendors. In addition, our on-line operations at our websites depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments. We maintain substantial security measures to protect, and to prevent unauthorized access to, such information. Nevertheless, it is possible that computer hackers and others (through cyberattacks, which are rapidly evolving and becoming increasingly sophisticated, or by other means) might defeat our security measures in the future and obtain the personal information of customers, their loved ones, our associates, and our vendors that we hold. Further, our associates, contractors, or third parties with whom we do business may attempt to circumvent our security measures in order to misappropriate such information, and may purposefully or inadvertently cause a breach involving such information. A breach of our security measures could adversely affect our reputation with our customers and their loved ones, associates, and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of penalties. Moreover, a security breach could require that we expend significant additional resources to upgrade further the security measures that we employ to guard such important personal information against cyberattacks and other attempts to access such information and could result in a disruption of our operations.

The acquisition of Stewart Enterprises, Inc. is subject to certain closing conditions that, if not satisfied or waived, will result in the acquisition not being completed, which may cause the market price of SCI common stock to decline.

The acquisition is subject to customary conditions to closing, including the approval of Stewart Enterprises, Inc.'s (Stewart) stockholders and the receipt of antitrust regulatory approvals. If any condition to the acquisition agreement is not satisfied or, if permissible, waived, the acquisition will not be completed. In addition, SCI and Stewart may terminate the acquisition agreement in certain circumstances. If the acquisition is not completed, the market price of SCI common stock may decline if the current market price reflects a market assumption that the acquisition will be completed. SCI will also still be obligated to pay certain investment banking, financing, legal and accounting fees, and related expenses.

We may fail to realize the anticipated benefits of the acquisition of Stewart.

The success of the acquisition will depend, in part, on our ability to realize the anticipated cost savings from reduced back-office and infrastructure expenses, elimination of duplicative public company and management structure costs, and improved purchasing power through greater scale. However, to realize the anticipated benefits from the acquisition, we must successfully combine the businesses of SCI and Stewart in a manner that permits those costs savings to be realized. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer or cost more to realize than expected. SCI and Stewart have operated and, until the completion of the acquisition, will continue to operate, independently. It is possible that the integration process could result in the loss of valuable employees, the disruption of each company's ongoing businesses, or inconsistencies in standards, controls, procedures, practices, and policies that could adversely impact our operations.

The acquisition of Stewart may result in unexpected consequences to our business and results of operations.

Although Stewart's business will generally be subject to risks similar to those to which we are subject to in our existing operations, we may not have discovered all risks applicable to Stewart's business during the due diligence process and such risks may not be discovered prior to closing. Some of these risks could produce unexpected and unwanted consequences for us. Undiscovered risks may result in us incurring financial liabilities, which could be material and have a negative impact on our business operations.

Our level of indebtedness following the completion of the acquisition of Stewart could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from fulfilling our obligations under our indebtedness.

We have a significant amount of indebtedness which will be increased substantially if and when we complete the acquisition of Stewart Enterprises. Our substantial indebtedness could have important consequences, including the following:

- it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, acquisitions, debt service requirements and general corporate or other purposes;
- a substantial portion of our cash flows from operations will be dedicated to the payment of principal and interest on our indebtedness, including indebtedness we may incur in the future, and will not be available for other purposes, including to finance our working capital, capital expenditures, acquisitions and general corporate or other purposes;
- it could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate and place us at a competitive disadvantage compared to our competitors that have less debt;
- it could make us more vulnerable to downturns in general economic or industry conditions or in our business, or prevent us from carrying out activities that are important to our growth;
- it could increase our interest expense if interest rates in general increase because a portion of our indebtedness, including all of our indebtedness under our senior credit facilities, bears interest at floating rates; and
- it could make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including any financial and other restrictive covenants, could result in an event of default under the agreements governing our other indebtedness which, if not cured or waived, could result in the acceleration of our indebtedness.

Any of the above listed factors could materially affect our business, cash flows, financial condition and results of operations.

In addition to our high level of indebtedness, we also have significant rental and other obligations under our operating and capital leases for funeral service locations, cemetery operating and maintenance equipment and transportation equipment. These obligations could further increase the risks described above.

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

On June 28, 2013, we issued 1,103 deferred common stock equivalents, or units, pursuant to provisions regarding dividends under the Amended and Restated Director Fee Plan to four non-employee directors. We did not receive any monetary consideration for the issuances. These issuances were unregistered because they did not constitute a “sale” within the meaning of Section 2(3) of the Securities Act of 1933, as amended.

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| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Dollar value of shares that may yet be purchased under the programs |
|---|---|---|---|---|
| April 1, 2013 — April 30, 2013 | — | $— | — | $190,132,279 |
| May 1, 2013 — May 31, 2013 | — | $— | — | $190,132,279 |
| June 1, 2013 — June 30, 2013 (1) | 8,047 | $17.76 | — | $190,132,279 |
| | 8,047 | | — | |

(1) The 8,047 shares purchased in June 2013 that were not part of the publicly announced programs represent shares acquired through the exercise of stock options by attestation, which do not affect our share repurchase program.

As of June 30, 2013, the remaining dollar value of shares that may yet be purchased under our currently approved share repurchase program was approximately $190.1 million.

Item 6. Exhibits

| | |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated May 28, 2013, by and among Service Corporation International, Rio Acquisition Corp. and Stewart Enterprises, Inc. (Incorporated by reference to Exhibit 2.1 to Form 8-K dated May 28, 2013). |
| 10.1 | Voting and Support Agreement, dated as of May 28, 2013, among Service Corporation International, Frank B. Stewart, Jr., and Paulette D. Stewart (Incorporated by reference to Exhibit 10.1 to Form 8-K dated May 28, 2013). |
| 10.2 | Second Amendment to Second Amended and Restated Revolving Credit Agreement, dated as of June 10, 2013, among Service Corporation International, each of the Guarantors party thereto, each of the Lenders party thereto and JPMorgan Chase Bank N.A. as Administrative Agent (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 13, 2013). |
| 10.3 | Credit Agreement, dated as of July 2, 2013 among Service Corporation International, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent for the lenders (Incorporated by reference to Exhibit 10.1 to Form 8-K dated July 8, 2013). |
| 12.1 | Ratio of earnings to fixed charges for the three and six months ended June 30, 2013 and 2012. |
| 31.1 | Certification of Thomas L. Ryan as Chief Executive Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Periodic Financial Reports by Thomas L. Ryan as Chief Executive Officer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Periodic Financial Reports by Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Interactive data file. |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| July 25, 2013 | | SERVICE CORPORATION INTERNATIONAL |
| | By: | /s/ Tammy Moore |
| | | Tammy Moore |
| | | Vice President and Corporate Controller |
| | | (Principal Accounting Officer) |

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Index to Exhibits

| | |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated May 28, 2013, by and among Service Corporation International, Rio Acquisition Corp. and Stewart Enterprises, Inc. (Incorporated by reference to Exhibit 2.1 to Form 8-K dated May 28, 2013). |
| 10.1 | Voting and Support Agreement, dated as of May 28, 2013, among Service Corporation International, Frank B. Stewart, Jr., and Paulette D. Stewart (Incorporated by reference to Exhibit 10.1 to Form 8-K dated May 28, 2013). |
| 10.2 | Second Amendment to Second Amended and Restated Revolving Credit Agreement, dated as of June 10, 2013, among Service Corporation International, each of the Guarantors party thereto, each of the Lenders party thereto and JPMorgan Chase Bank N.A. as Administrative Agent (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 13, 2013). |
| 10.3 | Credit Agreement, dated as of July 2, 2013 among Service Corporation International, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent for the lenders (Incorporated by reference to Exhibit 10.1 to Form 8-K dated July 8, 2013). |
| 12.1 | Ratio of earnings to fixed charges for the three and six months ended June 30, 2013 and 2012. |
| 31.1 | Certification of Thomas L. Ryan as Chief Executive Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002. |
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