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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

or

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

For the transition period from _____ to _____

Commission file number 1-6402-1

SERVICE CORPORATION INTERNATIONAL

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation or organization)

74-1488375

(I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas

(Address of principal executive offices)

77019

(Zip code)

713-522-5141

(Registrant's telephone number, including area code)

None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

(Do not check if smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES NO

The number of shares outstanding of the registrant's common stock as of April 25, 2017 was 187,991,167 (net of treasury shares).

SERVICE CORPORATION INTERNATIONAL

INDEX

	<u>Page</u>
Glossary	3
Part I. Financial Information	5
Item 1. Financial Statements	5
Unaudited Condensed Consolidated Statement of Operations — Three Months Ended March 31, 2017 and 2016	5
Unaudited Condensed Consolidated Statement of Comprehensive Income — Three Months Ended March 31, 2017 and 2016	6
Unaudited Condensed Consolidated Balance Sheet — March 31, 2017 and December 31, 2016	7
Unaudited Condensed Consolidated Statement of Cash Flows — Three Months Ended March 31, 2017 and 2016	8
Unaudited Condensed Consolidated Statement of Equity — Three Months Ended March 31, 2017	9
Notes to Unaudited Condensed Consolidated Financial Statements	10
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	36
The Company	36
Financial Condition, Liquidity, and Capital Resources	36
Results of Operations - Three Months Ended March 31, 2017 and 2016	42
Critical Accounting Policies	45
Cautionary Statement on Forward-Looking Statements	45
Item 3. Quantitative and Qualitative Disclosures About Market Risk	46
Item 4. Controls and Procedures	46
Part II. Other Information	46
Item 1. Legal Proceedings	46
Item 1A. Risk Factors	46
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 3. Defaults Upon Senior Securities	47
Item 4. Mine Safety Disclosures	47
Item 5. Other Information	47
Item 6. Exhibits	47
Signature	48

GLOSSARY

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

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

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

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

Care Trust Corpus — The deposits and net realized capital gains and losses included in a perpetual care trust that cannot be withdrawn. In certain states, some or all of the net realized capital gains can be distributed, so they are not included in the corpus.

Cemetery Perpetual Care or Endowment Care Fund (ECF) — A trust fund established for the purpose of maintaining cemetery grounds and property into perpetuity, also referred to as a cemetery perpetual care trust. For these trusts, the corpus remains in the trust in perpetuity and the net ordinary investment earnings are distributed to us regularly and are intended to defray our expenses incurred to maintain the cemetery. In certain states, some or all of the net realized capital gains can also be distributed.

Cemetery Property — Developed lots, lawn crypts, mausoleum spaces, niches, and cremation memorialization property items (constructed and ready to accept interments) and undeveloped land we intend to develop for the sale of interment rights. Includes the construction-in-progress balance during the pre-construction and construction phases of projects creating new developed property items.

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

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

Cemetery Merchandise and Services — Stone and bronze memorials, markers, burial vaults, floral placement, graveside services, merchandise installations, urns, outer burial containers, and burial openings and closings.

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

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

Funeral Merchandise and Services — Merchandise such as burial caskets and related accessories, burial vaults, urns and other cremation receptacles, casket and cremation memorialization products, and flowers and professional services relating to funerals including arranging and directing services, use of funeral facilities and motor vehicles, removal, preparation, embalming, cremations, memorialization, visitations, and catering.

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

Preneed Backlog — Future revenue from unfulfilled preneed funeral, cremation, and cemetery contractual arrangements.

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

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

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

Travel Protection — A product that provides shipment of remains to the servicing funeral home or cemetery of choice if the purchaser passes away outside of a certain radius of their residence, without any additional expense to the family.

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

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

As used herein, each reference to the SCI Annual Report on Form 10-K for the year ended December 31, 2016 shall mean such Form 10-K as amended by the SCI Annual Report on Form 10-K/A for the year ended December 31, 2016.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)**

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands, except per share amounts)	
Revenue	\$ 777,710	\$ 749,219
Costs and expenses	(600,545)	(586,296)
Operating profit	177,165	162,923
General and administrative expenses	(42,504)	(38,904)
Gains (losses) on divestitures and impairment charges, net	4,935	(347)
Operating income	139,596	123,672
Interest expense	(40,636)	(43,082)
Loss on early extinguishment of debt	—	(581)
Other expense, net	(434)	(242)
Income before income taxes	98,526	79,767
Benefit from (provision for) income taxes	76,223	(32,313)
Net income	174,749	47,454
Net income attributable to noncontrolling interests	(47)	(9)
Net income attributable to common stockholders	\$ 174,702	\$ 47,445
Basic earnings per share:		
Net income attributable to common stockholders	\$ 0.93	\$ 0.24
Basic weighted average number of shares	188,260	194,924
Diluted earnings per share:		
Net income attributable to common stockholders	\$ 0.91	\$ 0.24
Diluted weighted average number of shares	192,867	198,030
Dividends declared per share	\$ 0.13	\$ 0.12

(See notes to unaudited condensed consolidated financial statements)

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

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Net income	\$ 174,749	\$ 47,454
Other comprehensive income:		
Foreign currency translation adjustments	3,164	22,716
Total comprehensive income	177,913	70,170
Total comprehensive income attributable to noncontrolling interests	(47)	(18)
Total comprehensive income attributable to common stockholders	<u>\$ 177,866</u>	<u>\$ 70,152</u>

(See notes to unaudited condensed consolidated financial statements)

**SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)**

	March 31, 2017	December 31, 2016
(In thousands, except share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 238,254	\$ 194,986
Receivables, net	86,946	98,455
Inventories	27,375	26,431
Other	38,182	34,524
Total current assets	<u>390,757</u>	<u>354,396</u>
Preneed funeral receivables, net and trust investments	1,862,655	1,817,445
Preneed cemetery receivables, net and trust investments	2,581,745	2,487,720
Cemetery property	1,782,731	1,776,935
Property and equipment, net	1,810,347	1,827,587
Goodwill	1,805,590	1,799,081
Deferred charges and other assets	584,406	567,520
Cemetery perpetual care trust investments	1,440,935	1,407,465
Total assets	<u>\$ 12,259,166</u>	<u>\$ 12,038,149</u>
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 477,002	\$ 439,936
Current maturities of long-term debt	63,606	89,974
Income taxes payable	72,382	7,960
Total current liabilities	<u>612,990</u>	<u>537,870</u>
Long-term debt	3,224,653	3,196,616
Deferred preneed funeral revenue	580,676	581,280
Deferred preneed cemetery revenue	1,180,388	1,150,137
Deferred tax liability	446,086	454,638
Other liabilities	362,338	510,322
Deferred preneed receipts held in trust	3,226,020	3,103,796
Care trusts' corpus	1,442,265	1,408,243
Commitments and contingencies (Note 12)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 196,761,485 and 195,403,644 shares issued, respectively, and 187,949,951 and 189,405,244 shares outstanding, respectively	187,950	189,405
Capital in excess of par value	968,194	990,203
Retained earnings (accumulated deficit)	5,369	(103,387)
Accumulated other comprehensive income	19,656	16,492
Total common stockholders' equity	<u>1,181,169</u>	<u>1,092,713</u>
Noncontrolling interests	2,581	2,534
Total equity	<u>1,183,750</u>	<u>1,095,247</u>
Total liabilities and equity	<u>\$ 12,259,166</u>	<u>\$ 12,038,149</u>

(See notes to unaudited condensed consolidated financial statements)

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

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 174,749	\$ 47,454
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt	—	581
Depreciation and amortization	38,043	35,834
Amortization of intangible assets	6,844	7,667
Amortization of cemetery property	13,881	13,599
Amortization of loan costs	1,433	1,615
Provision for doubtful accounts	2,484	538
Benefit from deferred income taxes	(149,585)	(1,291)
(Gain) loss on divestitures and impairment charges, net	(4,935)	347
Share-based compensation	3,633	3,067
Excess tax benefits from share-based awards	—	(2,258)
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease in receivables	10,959	9,340
(Increase) decrease in other assets	(4,858)	1,598
Increase in payables and other liabilities	86,596	56,062
Effect of preneed funeral production and maturities:		
(Increase) decrease in preneed funeral receivables, net and trust investments	(790)	3,146
Decrease in deferred preneed funeral revenue	(3,198)	(599)
Decrease in deferred preneed funeral receipts held in trust	(5,263)	(10,273)
Effect of cemetery production and deliveries:		
Increase in preneed cemetery receivables, net and trust investments	(9,453)	(7,869)
Increase in deferred preneed cemetery revenue	26,599	22,286
Increase in deferred preneed cemetery receipts held in trust	1,244	3,918
Net cash provided by operating activities	188,383	184,762
Cash flows from investing activities:		
Capital expenditures	(40,150)	(41,708)
Acquisitions	(19,327)	(56)
Proceeds from divestitures and sales of property and equipment	3,148	10,164
Net withdrawals of restricted funds	—	5,120
Net cash used in investing activities	(56,329)	(26,480)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	35,000	590,000
Debt issuance costs	—	(5,035)
Payments of debt	(8,787)	(10,054)
Early extinguishment of debt	—	(580,483)
Principal payments on capital leases	(21,055)	(8,156)
Proceeds from exercise of stock options	15,261	3,133
Excess tax benefits from share-based awards	—	2,258
Purchase of Company common stock	(83,460)	(54,632)
Payments of dividends	(24,433)	(23,324)
Bank overdrafts and other	(2,096)	1,369
Net cash used in financing activities	(89,570)	(84,924)
Effect of foreign currency on cash and cash equivalents	784	5,548
Net increase in cash and cash equivalents	43,268	78,906
Cash and cash equivalents at beginning of period	194,986	134,599
Cash and cash equivalents at end of period	\$ 238,254	\$ 213,505

(See notes to unaudited condensed consolidated financial statements)

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

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance at December 31, 2016	\$ 195,403	\$ (5,998)	\$ 990,203	\$ (103,387)	\$ 16,492	\$ 2,534	\$ 1,095,247
Comprehensive income	—	—	—	174,702	3,164	47	177,913
Dividends declared on common stock (\$0.13 per share)	—	—	(24,433)	—	—	—	(24,433)
Employee share-based compensation earned	—	—	3,633	—	—	—	3,633
Stock option exercises	1,122	—	14,139	—	—	—	15,261
Restricted stock awards, net of forfeitures	209	—	(209)	—	—	—	—
Purchase of Company common stock	—	(2,813)	(14,701)	(65,946)	—	—	(83,460)
Other	27	—	(438)	—	—	—	(411)
Balance at March 31, 2017	<u>\$ 196,761</u>	<u>\$ (8,811)</u>	<u>\$ 968,194</u>	<u>\$ 5,369</u>	<u>\$ 19,656</u>	<u>\$ 2,581</u>	<u>\$ 1,183,750</u>

(See notes to unaudited condensed consolidated financial statements)

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

1. Nature of Operations

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries operating in the United States and Canada. Our funeral and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and other related businesses, which enable us to serve a wide array of customer needs. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis.

Funeral service locations provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles, arranging and directing services, removal, preparation, embalming, cremations, memorialization, and catering. Funeral merchandise, including burial caskets and related accessories, urns and other cremation receptacles, outer burial containers, flowers, online and video tributes, stationery products, casket and cremation memorialization products, and other ancillary merchandise, is sold at funeral service locations.

Our cemeteries provide cemetery property interment rights, including developed lots, lawn crypts, mausoleum spaces, niches, and other cremation memorialization and interment options. Cemetery merchandise and services, including memorial markers and bases, outer burial containers, flowers and floral placement, other ancillary merchandise, graveside services, merchandise installation, travel protection, and burial openings and closings, are sold at our cemeteries.

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 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, 2016, 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 to Prior Period Financial Statements and Adjustments

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

Use of Estimates in the Preparation of Financial Statements

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as described in our Annual Report on Form 10-K for the year ended December 31, 2016. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. As a result, actual results could differ from these estimates.

Accounting Standards Adopted in 2017

Stock Compensation

In March 2016, the FASB amended "*Stock Compensation*", modifying certain aspects of the accounting for share-based payment transactions, which requires the tax effects related to share-based payments to be recorded through the income statement, simplifies the accounting requirements for forfeitures and employers' tax withholding requirements, and modifies the presentation of certain items on the statement of cash flows. The guidance requires the tax effect related to the settlement of share-based awards in income tax benefit or expense in the statements of earnings rather than in additional paid-in-capital. This guidance also eliminates the requirement to reclassify excess tax benefits from operating activities to financing activities within the statement of cash flows. We adopted the new guidance in the first quarter of 2017, as required, and the impact of the restricted stock deliveries and option exercises in the first quarter of 2017 was a reduction to our adjusted provision for income taxes of \$6.4 million. Prior periods have not been retrospectively adjusted for adoption of this guidance. The remaining amendments to this standard, as noted above, are either not applicable or do not change our current accounting practices and thus do not impact our consolidated financial statements, including our consolidated statement of cash flows.

Inventory

In July 2015, the FASB amended "*Inventory*" to state that an entity using an inventory method other than last-in, first out ("LIFO") or the retail inventory method should measure inventory at the lower of cost or net realizable value. The new guidance clarifies that net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance was effective for us on January 1, 2017 and adoption did not materially impact our consolidated results of operations, consolidated financial position, and cash flows.

Recently Issued Accounting Standards

Revenue Recognition

In May 2014, the FASB issued "*Revenue from Contracts with Customers*," which replaces most existing revenue recognition guidance. During 2016, the FASB made several amendments to the new standard that clarified guidance on several matters, including principal vs. agent considerations, identifying performance obligations, sales taxes, and licensing.

The new standard, as amended, requires that we recognize revenue in the amount to which we expect to be entitled for delivery of promised goods and services to our customers. The new standard will also result in enhanced revenue-related disclosures, including any significant judgments and changes in judgments. Additionally, the new standard requires the deferral of incremental selling costs to the period in which the related revenue is recognized.

The new standard will be effective for us beginning January 1, 2018 and we intend to implement the standard with the modified retrospective approach, which recognizes the cumulative effect of application recognized on that date. We have not fully determined the impact on the new standard on our consolidated results of operations, consolidated financial position, and cash flows. However, we believe the standard primarily impacts the manner in which we recognize certain nonrefundable up-front fees and incremental costs to acquire new preneed funeral trust contracts and preneed and atneed cemetery contracts (i.e., selling costs). The nonrefundable fees will be deferred and recognized as revenue when the related goods and services are delivered to the customer. The incremental selling costs will be deferred and amortized by specific identification to the delivery of the related goods and services.

We will continue to expense costs to acquire new preneed funeral insurance contracts in the period incurred. The insurance contracts are not, and will not be, reflected in our Consolidated Balance Sheet because they do not represent assets or liabilities as we have no claim to the insurance proceeds until the contract is fulfilled and no obligation under the contract until the benefits are assigned to us after the time of need.

Financial Instruments

In January 2016, the FASB amended "*Financial Instruments*" to provide additional guidance on the recognition and measurement of financial assets and liabilities. The amendment requires investments in equity instruments to be measured at fair value with changes in fair value reflected in net income. The new guidance is effective for us on January 1, 2018, and we are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

In June 2016, the FASB amended "*Financial Instruments*" to provide financial statement users with more decision-useful information about the expected credit losses on debt instruments and other commitments to extend credit held by a reporting entity at each reporting date. This amendment replaces the incurred loss impairment methodology in the current standard with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance is effective for us on January 1, 2020, and we are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

Leases

In February 2016, the FASB amended "*Leases*" to increase transparency and comparability among organizations. Under the new standard, an entity will be required to recognize lease assets and liabilities on its balance sheet and disclose key information about leasing arrangements. In addition, the new standard offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This new standard will be effective for us on January 1, 2019. We are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

Cash Flow

In August and November 2016, the FASB amended "*Statement of Cash Flows*" to clarify guidance on the classification of certain cash receipts and cash payments. Additionally, the guidance requires that the statement of cash flows reflects changes in restricted cash in addition to cash and cash equivalents. Amended guidance includes clarification on debt prepayment and extinguishment costs, contingent consideration in business combinations, proceeds from insurance claims, and premium payments on company-owned life insurance. The new guidance is effective for us on January 1, 2018, and we are still evaluating the impact of adoption on our consolidated statement of cash flows.

[Table of Contents](#)

Goodwill

In January 2017, the FASB amended "Goodwill" to simplify the subsequent measurement of goodwill. Amended guidance eliminates Step 2 from the goodwill impairment test. Instead, impairment is defined as the amount by which the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill. The new guidance is effective for us on January 1, 2020, and is not expected to impact on our consolidated results of operations, consolidated financial position, and cash flows.

Retirement Plans

In March 2017, the FASB amended "Retirement Plans" to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by requiring the classification of interest costs and actuarial gains and losses separately from operating income. The new guidance is effective for us on January 1, 2018, and we are evaluating the impact on our consolidated results of operations, consolidated financial position, and cash flows.

3. 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 merchandise and service trusts are variable interest entities. 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 trust investments detailed in Notes 4 and 5 are also accounted for as variable interest entities. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from *Deferred preneed funeral revenue* into *Deferred preneed receipts held in trust*. Amounts are withdrawn from the trusts after the contract obligations are performed. Cash flows from preneed 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 revenue* until the merchandise is delivered or the service is performed.

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

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Deposits	\$ 34,976	\$ 27,708
Withdrawals	\$ 42,123	\$ 35,170
Purchases of available-for-sale securities	\$ 90,952	\$ 109,522
Sales of available-for-sale securities	\$ 89,412	\$ 99,493

The components of *Preneed funeral receivables, net and trust investments* in our unaudited condensed Consolidated Balance Sheet at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017	December 31, 2016
	(In thousands)	
Trust investments, at market	\$ 1,199,453	\$ 1,152,752
Cash and cash equivalents	115,914	122,517
Insurance-backed fixed income securities	270,348	271,248
Trust investments	1,585,715	1,546,517
Receivables from customers	319,456	312,556
Unearned finance charge	(13,233)	(12,562)
	1,891,938	1,846,511
Allowance for cancellation	(29,283)	(29,066)
Preneed funeral receivables, net and trust investments	\$ 1,862,655	\$ 1,817,445

The costs and values associated with trust investments measured at market at March 31, 2017 and December 31, 2016 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Value represents the value of the underlying securities held by the trusts.

March 31, 2017

	Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 72,835	\$ 405	\$ (372)	\$ 72,868
Canadian government	2	53,740	254	(59)	53,935
Corporate	2	11,874	193	(71)	11,996
Residential mortgage-backed	2	172	17	—	189
Asset-backed	2	52	—	(1)	51
Equity securities:					
Preferred stock	2	1,425	112	(54)	1,483
Common stock:					
United States	1	332,089	62,224	(5,017)	389,296
Canada	1	11,593	2,966	(441)	14,118
Other international	1	23,513	2,212	(2,439)	23,286
Mutual funds:					
Equity	1	320,086	15,302	(12,428)	322,960
Fixed income	1	94,756	1,332	(6,782)	89,306
Other	3	4,017	1,448	(30)	5,435
Trust investments, at fair value					
Fixed income commingled funds		174,432	4,608	(1,131)	177,909
Private equity		36,430	3,150	(2,959)	36,621
Trust investments, at net asset value					
		210,862	7,758	(4,090)	214,530
Trust investments, at market					
		<u>\$ 1,137,014</u>	<u>\$ 94,223</u>	<u>\$ (31,784)</u>	<u>\$ 1,199,453</u>

December 31, 2016					
Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value	
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 75,245	\$ 317	\$ (557)	\$ 75,005
Canadian government	2	55,752	272	(42)	55,982
Corporate	2	12,702	177	(92)	12,787
Residential mortgage-backed	2	29	1	—	30
Asset-backed	2	58	—	(3)	55
Equity securities:					
Preferred stock	2	1,428	81	(39)	1,470
Common stock:					
United States	1	334,854	49,785	(11,525)	373,114
Canada	1	11,853	2,592	(263)	14,182
Other international	1	25,761	1,824	(3,167)	24,418
Mutual funds:					
Equity	1	313,132	7,780	(26,842)	294,070
Fixed income	1	92,760	1,344	(7,368)	86,736
Other	3	4,079	1,214	(17)	5,276
Trust investments, at fair value		927,653	65,387	(49,915)	943,125
Fixed income commingled funds		168,959	3,177	(1,167)	170,969
Private equity		40,892	2,956	(5,190)	38,658
Trust investments, at net asset value		209,851	6,133	(6,357)	209,627
Trust investments, at market		\$ 1,137,504	\$ 71,520	\$ (56,272)	\$ 1,152,752

Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed quarterly by the Investment Committee of the Board of Directors.

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

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

The valuation of other investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. These funds are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks' notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of March 31, 2017, our unfunded commitment for our private equity investments was \$44.0 million which, if called, would be funded by the assets of the trusts.

[Table of Contents](#)

The change in our trust investments measured at fair value with significant unobservable inputs (Level 3) is as follows:

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Fair value, beginning balance	\$ 5,276	\$ 4,756
Net unrealized gains included in <i>Accumulated other comprehensive income</i> ⁽¹⁾	221	55
Distributions and other	(62)	—
Fair value, ending balance	<u>\$ 5,435</u>	<u>\$ 4,811</u>

- (1) All net unrealized gains recognized in *Accumulated other comprehensive income* for our 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 receipts held in trust*. See Note 6 for further information related to our *Deferred preneed receipts held in trust*.

Maturity dates of our fixed income securities range from 2017 to 2041. Maturities of fixed income securities, excluding mutual funds, at March 31, 2017 are estimated as follows:

	Fair Value
	(In thousands)
Due in one year or less	\$ 71,410
Due in one to five years	26,461
Due in five to ten years	33,537
Thereafter	7,631
	<u>\$ 139,039</u>

Earnings from all our merchandise and service trust investments are recognized in revenue when merchandise is delivered or a service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenue. 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 revenue in the period in which they are earned. Recognized trust fund income (realized and unrealized) related to these trust investments was \$14.3 million and \$12.0 million for the three months ended March 31, 2017 and 2016, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in *Other expense, net* and a decrease to *Preneed funeral receivables, net and trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other expense, net*, which reduces *Deferred preneed receipts held in trust*. See Note 6 for further information related to our *Deferred preneed receipts held in trust*.

We have determined that the remaining unrealized losses in our 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 merchandise and service trust investment unrealized losses, their associated values, and the duration of unrealized losses as of March 31, 2017 and December 31, 2016, respectively, are shown in the following tables:

March 31, 2017							
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total		
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses	
(In thousands)							
Fixed income securities:							
U.S. Treasury	\$ 24,169	\$ (372)	\$ —	\$ —	\$ 24,169	\$ (372)	
Canadian government	4,011	(45)	173	(14)	4,184	(59)	
Corporate	1,383	(15)	2,564	(56)	3,947	(71)	
Asset-backed	—	—	51	(1)	51	(1)	
Equity securities:							
Preferred stock	112	(29)	95	(25)	207	(54)	
Common stock:							
United States	58,091	(5,017)	13,858	—	71,949	(5,017)	
Canada	3,353	(430)	124	(11)	3,477	(441)	
Other international	3,846	(357)	7,567	(2,082)	11,413	(2,439)	
Mutual funds:							
Equity	25,972	(1,954)	132,756	(10,474)	158,728	(12,428)	
Fixed income	26,910	(447)	30,967	(6,335)	57,877	(6,782)	
Other	—	—	1,400	(30)	1,400	(30)	
Trust investments, at fair value							
Fixed income commingled funds	147,847	(8,666)	189,555	(19,028)	337,402	(27,694)	
Private equity	72,487	(467)	18,383	(664)	90,870	(1,131)	
Trust investments, at net asset value	28	(17)	20,373	(2,942)	20,401	(2,959)	
Trust investments, at net asset value	72,515	(484)	38,756	(3,606)	111,271	(4,090)	
Total temporarily impaired securities	<u>\$ 220,362</u>	<u>\$ (9,150)</u>	<u>\$ 228,311</u>	<u>\$ (22,634)</u>	<u>\$ 448,673</u>	<u>\$ (31,784)</u>	
December 31, 2016							
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total		
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses	
(In thousands)							
Fixed income securities:							
U.S. Treasury	\$ 25,996	\$ (557)	\$ —	\$ —	\$ 25,996	\$ (557)	
Canadian government	2,847	(30)	191	(12)	3,038	(42)	
Corporate	1,710	(15)	3,560	(77)	5,270	(92)	
Residential mortgage-backed	—	—	55	(3)	55	(3)	
Equity securities:							
Preferred stock	125	(17)	98	(22)	223	(39)	
Common stock:							
United States	87,059	(8,149)	14,939	(3,376)	101,998	(11,525)	
Canada	2,832	(254)	482	(9)	3,314	(263)	
Other international	5,390	(1,301)	7,368	(1,866)	12,758	(3,167)	
Mutual funds:							
Equity	108,109	(5,080)	127,273	(21,762)	235,382	(26,842)	
Fixed income	34,120	(817)	31,654	(6,551)	65,774	(7,368)	
Other	26	(2)	1,160	(15)	1,186	(17)	
Trust investments, at fair value							
Fixed income commingled funds	268,214	(16,222)	186,780	(33,693)	454,994	(49,915)	
Private equity	75,041	(687)	17,656	(480)	92,697	(1,167)	
Trust investments, at net asset value	693	(481)	22,812	(4,709)	23,505	(5,190)	
Trust investments, at net asset value	75,734	(1,168)	40,468	(5,189)	116,202	(6,357)	
Total temporarily impaired securities	<u>\$ 343,948</u>	<u>\$ (17,390)</u>	<u>\$ 227,248</u>	<u>\$ (38,882)</u>	<u>\$ 571,196</u>	<u>\$ (56,272)</u>	

4. 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 merchandise and service trusts are variable interest entities. 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 3 and 5 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 revenue* into *Deferred preneed receipts held in trust*. Amounts are withdrawn from the trusts when the contract obligations are performed. Cash flows from preneed cemetery contracts are presented as operating cash flows in our unaudited condensed Consolidated Statement of Cash Flows.

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

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

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Deposits	\$ 39,522	\$ 36,998
Withdrawals	\$ 38,534	\$ 32,411
Purchases of available-for-sale securities	\$ 398,813	\$ 131,851
Sales of available-for-sale securities	\$ 384,538	\$ 118,581

The components of *Preneed cemetery receivables, net and trust investments* in our unaudited condensed Consolidated Balance Sheet at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017	December 31, 2016
	(In thousands)	
Trust investments, at market	\$ 1,534,024	\$ 1,435,083
Cash and cash equivalents	107,287	123,146
Trust investments	1,641,311	1,558,229
Receivables from customers	1,049,235	1,038,592
Unearned finance charges	(33,055)	(33,427)
	2,657,491	2,563,394
Allowance for cancellation	(75,746)	(75,674)
Preneed cemetery receivables, net and trust investments	\$ 2,581,745	\$ 2,487,720

[Table of Contents](#)

The costs and values associated with the trust investments measured at market at March 31, 2017 and December 31, 2016 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Value represents the market value of the underlying securities held by the trusts.

March 31, 2017					
Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value	
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 7,450	\$ 10	\$ (6)	\$ 7,454
Canadian government	2	9,052	10	(84)	8,978
Corporate	2	1,587	15	(40)	1,562
Asset-backed	2	169	16	—	185
Equity securities:					
Common stock:					
United States	1	542,523	76,165	(11,907)	606,781
Canada	1	8,897	5,188	(60)	14,025
Other international	1	33,081	3,542	(2,550)	34,073
Mutual funds:					
Equity	1	372,427	17,328	(13,079)	376,676
Fixed income	1	264,979	2,959	(10,310)	257,628
Trust investments, at fair value		1,240,165	105,233	(38,036)	1,307,362
Fixed income commingled funds		181,054	5,100	(293)	185,861
Private equity		41,393	4,962	(5,554)	40,801
Trust investments, at net asset value		222,447	10,062	(5,847)	226,662
Trust investments, at market		<u>\$ 1,462,612</u>	<u>\$ 115,295</u>	<u>\$ (43,883)</u>	<u>\$ 1,534,024</u>

December 31, 2016					
Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value	
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 70,070	\$ 567	\$ (281)	\$ 70,356
Canadian government	2	9,109	49	(66)	9,092
Corporate	2	1,596	18	(34)	1,580
Asset-backed	2	170	13	—	183
Equity securities:					
Common stock:					
United States	1	539,445	72,682	(21,680)	590,447
Canada	1	9,027	4,807	(84)	13,750
Other international	1	42,870	3,023	(5,229)	40,664
Mutual funds:					
Equity	1	356,079	7,812	(29,603)	334,288
Fixed income	1	94,383	1,535	(9,854)	86,064
Trust investments, at fair value		1,122,749	90,506	(66,831)	1,146,424
Fixed income commingled funds		245,813	5,347	(1,681)	249,479
Private equity		37,881	4,616	(3,317)	39,180
Trust investments, at net asset value		283,694	9,963	(4,998)	288,659
Trust investments, at market		<u>\$ 1,406,443</u>	<u>\$ 100,469</u>	<u>\$ (71,829)</u>	<u>\$ 1,435,083</u>

Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed quarterly by the Investment Committee of the Board of Directors.

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

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

The valuation of other investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. These funds are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of March 31, 2017, our unfunded commitment for our private equity investments was \$49.7 million which, if called, would be funded by the assets of the trusts.

The change in our trust investments measured at fair value with significant unobservable inputs (Level 3) is as follows:

	Three Months Ended March 31, 2016
(In thousands)	
Fair value, beginning balance	\$ 1,504
Net unrealized losses included in <i>Accumulated other comprehensive income</i> ⁽¹⁾	(207)
Fair value, ending balance	<u>\$ 1,297</u>

[Table of Contents](#)

- (1) All net unrealized losses recognized in *Accumulated other comprehensive income* for our 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 receipts held in trust*. See Note 6 for further information related to our *Deferred preneed receipts held in trust*.

Maturity dates of our fixed income securities range from 2017 to 2023. Maturities of fixed income securities, excluding mutual funds, at March 31, 2017 are estimated as follows:

	Fair Value
	(In thousands)
Due in one year or less	\$ 3,306
Due in one to five years	14,675
Due in five to ten years	198
	<u>\$ 18,179</u>

Earnings from all our merchandise and service trust investments are recognized in current revenue when merchandise is delivered or a service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenue. 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 revenue in the period in which they are earned. Recognized trust fund income (realized and unrealized) related to these trust investments was \$12.6 million and \$9.7 million for the three months ended March 31, 2017 and 2016, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in *Other expense, net* and a decrease to *Preneed cemetery receivables, net and trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other expense, net*, which reduces *Deferred preneed receipts held in trust*. See Note 6 for further information related to our *Deferred preneed receipts held in trust*.

We have determined that the remaining unrealized losses in our 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 merchandise and service trust investment unrealized losses, their associated values and the duration of unrealized losses as of March 31, 2017 and December 31, 2016, respectively, are shown in the following tables:

	March 31, 2017					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$ 4,542	\$ (6)	\$ —	\$ —	\$ 4,542	\$ (6)
Canadian government	1,416	(10)	1,184	(74)	2,600	(84)
Corporate	—	—	731	(40)	731	(40)
Equity securities:						
Common stock:						
United States	132,638	(8,635)	11,759	(3,272)	144,397	(11,907)
Canada	420	(44)	861	(16)	1,281	(60)
Other international	5,703	(524)	7,754	(2,026)	13,457	(2,550)
Mutual funds:						
Equity	12,921	(846)	150,724	(12,233)	163,645	(13,079)
Fixed income	26,620	(445)	45,679	(9,865)	72,299	(10,310)
Trust investments, at fair value	184,260	(10,510)	218,692	(27,526)	402,952	(38,036)
Fixed income commingled funds	97,530	(293)	—	—	97,530	(293)
Private equity	—	—	16,420	(5,554)	16,420	(5,554)
Trust investments, at net asset value	97,530	(293)	16,420	(5,554)	113,950	(5,847)
Total temporarily impaired securities	\$ 281,790	\$ (10,803)	\$ 235,112	\$ (33,080)	\$ 516,902	\$ (43,883)

	December 31, 2016					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$ 15,413	\$ (281)	\$ —	\$ —	\$ 15,413	\$ (281)
Canadian government	—	—	1,192	(66)	1,192	(66)
Corporate	—	—	736	(34)	736	(34)
Equity securities:						
Common stock:						
United States	149,530	(13,680)	23,010	(8,000)	172,540	(21,680)
Canada	408	(82)	38	(2)	446	(84)
Other international	9,707	(2,330)	11,442	(2,899)	21,149	(5,229)
Mutual funds:						
Equity	125,728	(4,728)	146,332	(24,875)	272,060	(29,603)
Fixed income	26,566	(446)	45,337	(9,408)	71,903	(9,854)
Trust investments, at fair value	327,352	(21,547)	228,087	(45,284)	555,439	(66,831)
Fixed income commingled funds	133,164	(1,681)	—	—	133,164	(1,681)
Private equity	558	(1)	16,769	(3,316)	17,327	(3,317)
Trust investments, at net asset value	133,722	(1,682)	16,769	(3,316)	150,491	(4,998)
Total temporarily impaired securities	\$ 461,074	\$ (23,229)	\$ 244,856	\$ (48,600)	\$ 705,930	\$ (71,829)

5. 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. 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 3 and 4 are also accounted for as variable interest entities. We consolidate our cemetery perpetual care trust investments with a corresponding amount recorded as *Care trusts' corpus*. Cash flows from cemetery perpetual care trusts are presented as operating cash flows in our unaudited condensed Consolidated Statement of Cash Flows.

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

	Three Months Ended	
	March 31,	
	2017	2016
(In thousands)		
Deposits	\$ 9,989	\$ 9,813
Withdrawals	\$ 12,425	\$ 16,294
Purchases of available-for-sale securities	\$ 27,266	\$ 48,476
Sales of available-for-sale securities	\$ 13,975	\$ 33,522

The components of *Cemetery perpetual care trust investments* in our unaudited condensed Consolidated Balance Sheet at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017	December 31, 2016
	(In thousands)	
Trust investments, at market	\$ 1,378,853	\$ 1,349,073
Cash and cash equivalents	62,082	58,392
Cemetery perpetual care trust investments	<u>\$ 1,440,935</u>	<u>\$ 1,407,465</u>

The costs and values associated with trust investments, at market at March 31, 2017 and December 31, 2016 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Value represents the value of the underlying securities or cash held by the trusts.

March 31, 2017					
Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value	
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 10	\$ —	\$ —	\$ 10
Canadian government	2	14,085	16	(142)	13,959
Corporate	2	4,503	98	(107)	4,494
Residential mortgage-backed	2	251	1	(1)	251
Asset-backed	2	112	3	(15)	100
Equity securities:					
Preferred stock	2	1,469	18	(89)	1,398
Common stock:					
United States	1	243,197	39,567	(4,899)	277,865
Canada	1	4,863	2,875	(90)	7,648
Other international	1	10,655	275	(936)	9,994
Mutual funds:					
Equity	1	15,484	3,808	(258)	19,034
Fixed income	1	692,627	3,948	(20,870)	675,705
Other	3	622	1,256	—	1,878
Trust investments, at fair value					
Fixed income commingled funds		987,878	51,865	(27,407)	1,012,336
Private equity		278,935	—	(8,967)	269,968
Trust investments, at net asset value		100,496	2,938	(6,885)	96,549
Trust investments, at market		379,431	2,938	(15,852)	366,517
		<u>\$ 1,367,309</u>	<u>\$ 54,803</u>	<u>\$ (43,259)</u>	<u>\$ 1,378,853</u>

December 31, 2016					
Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value	
(In thousands)					
Fixed income securities:					
Canadian government	2	\$ 14,280	\$ 88	\$ (114)	\$ 14,254
Corporate	2	4,636	100	(101)	4,635
Residential mortgage-backed	2	304	—	(1)	303
Asset-backed	2	220	3	(28)	195
Equity securities:					
Preferred stock	2	1,479	2	(117)	1,364
Common stock:					
United States	1	233,643	28,679	(2,337)	259,985
Canada	1	4,828	2,631	(108)	7,351
Other international	1	14,607	148	(2,236)	12,519
Mutual funds:					
Equity	1	18,909	4,370	(412)	22,867
Fixed income	1	688,472	3,324	(28,997)	662,799
Other	3	633	1,254	—	1,887
Trust investments, at fair value					
Fixed income commingled funds		277,662	—	(9,386)	268,276
Private equity		97,108	2,240	(6,710)	92,638
Trust investments, at net asset value					
		374,770	2,240	(16,096)	360,914
Trust investments, at market					
		<u>\$ 1,356,781</u>	<u>\$ 42,839</u>	<u>\$ (50,547)</u>	<u>\$ 1,349,073</u>

Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed quarterly by the Investment Committee of the Board of Directors.

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

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

The valuation of other investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. These securities are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

Private equity investments are measured at net asset value. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of March 31, 2017, our unfunded commitment for our private equity investments was \$27.2 million which, if called, would be funded by the assets of the trusts.

[Table of Contents](#)

The change in our trust investments measured at fair value with significant unobservable inputs (Level 3) is as follows:

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Fair market value, beginning balance	\$ 1,887	\$ 1,902
Net unrealized losses included in <i>Accumulated other comprehensive income</i> ⁽¹⁾	2	(19)
Distributions and other	(11)	—
Fair market value, ending balance	<u>\$ 1,878</u>	<u>\$ 1,883</u>

(1) All net unrealized 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 6 for further information related to our *Care trusts' corpus*.

Maturity dates of our fixed income securities range from 2017 to 2040. Maturities of fixed income securities at March 31, 2017 are estimated as follows:

	Fair Value
	(In thousands)
Due in one year or less	\$ 1,795
Due in one to five years	16,719
Due in five to ten years	105
Thereafter	195
	<u>\$ 18,814</u>

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenue to the extent we incur qualifying cemetery maintenance costs. Fees charged by our wholly-owned registered investment advisor are also included in current revenue. Recognized trust fund income related to these trust investments was \$11.3 million and \$18.5 million for the three months ended March 31, 2017 and 2016, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in *Other expense, net* and a decrease to *Cemetery perpetual care trust investments*. These investment losses, if any, are offset by the corresponding reclassification in *Other expense, net*, which reduces *Care trusts' corpus*. See Note 6 for further information related to our *Care trusts' corpus*.

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 values and the duration of unrealized losses as of March 31, 2017 and December 31, 2016, respectively, are shown in the following tables:

[Table of Contents](#)

	March 31, 2017					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
Canadian government	\$ 1,501	\$ (14)	\$ 1,943	\$ (128)	\$ 3,444	\$ (142)
Corporate	628	(13)	1,453	(94)	2,081	(107)
Residential mortgage-backed	203	(1)	—	—	203	(1)
Asset-backed	41	(10)	10	(5)	51	(15)
Equity securities:						
Preferred stock	367	(6)	416	(83)	783	(89)
Common stock:						
United States	28,989	(2,332)	10,246	(2,567)	39,235	(4,899)
Canada	129	(24)	757	(66)	886	(90)
Other international	4,547	(66)	2,663	(870)	7,210	(936)
Mutual funds:						
Equity	399	(27)	1,941	(231)	2,340	(258)
Fixed income	266,649	(1,819)	342,090	(19,051)	608,739	(20,870)
Trust investments, at fair value	303,453	(4,312)	361,519	(23,095)	664,972	(27,407)
Fixed income commingled funds	269,968	(8,967)	—	—	269,968	(8,967)
Private equity	924	(31)	34,880	(6,854)	35,804	(6,885)
Trust investments, at net asset value	270,892	(8,998)	34,880	(6,854)	305,772	(15,852)
Total temporarily impaired securities	\$ 574,345	\$ (13,310)	\$ 396,399	\$ (29,949)	\$ 970,744	\$ (43,259)

	December 31, 2016					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
Canadian government	\$ 66	\$ (1)	\$ 1,961	\$ (113)	\$ 2,027	\$ (114)
Corporate	397	(7)	1,866	(94)	2,263	(101)
Residential mortgage-backed	303	(1)	—	—	303	(1)
Asset-backed	28	(22)	101	(6)	129	(28)
Equity securities:						
Preferred stock	846	(36)	417	(81)	1,263	(117)
Common stock:						
United States	34,844	(1,339)	12,974	(998)	47,818	(2,337)
Canada	78	(47)	558	(61)	636	(108)
Other international	4,177	(508)	5,715	(1,728)	9,892	(2,236)
Mutual funds:						
Equity	877	(17)	2,899	(395)	3,776	(412)
Fixed income	263,231	(4,678)	348,623	(24,319)	611,854	(28,997)
Trust investments, at fair value	304,847	(6,656)	375,114	(27,795)	679,961	(34,451)
Fixed income commingled funds	265,345	(9,346)	2,931	(40)	268,276	(9,386)
Private equity	21,426	(268)	33,519	(6,442)	54,945	(6,710)
Trust investments, at net asset value	286,771	(9,614)	36,450	(6,482)	323,221	(16,096)
Total temporarily impaired securities	\$ 591,618	\$ (16,270)	\$ 411,564	\$ (34,277)	\$ 1,003,182	\$ (50,547)

6. Deferred Preneed Receipts Held in Trust and Care Trusts' Corpus

Deferred preneed receipts held in trust

We consolidate the merchandise and service trusts associated with our preneed activities. Although the consolidation of the merchandise and service trusts is required by accounting standards, 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 receipts held in trust* in our unaudited condensed Consolidated Balance Sheet at March 31, 2017 and December 31, 2016 are detailed below.

	March 31, 2017			December 31, 2016		
	Preneed Funeral	Preneed Cemetery	Total	Preneed Funeral	Preneed Cemetery	Total
	(In thousands)					
Trust investments	\$ 1,585,715	\$ 1,641,311	\$ 3,227,026	\$ 1,546,517	\$ 1,558,229	\$ 3,104,746
Accrued trust operating payables and other	(605)	(401)	(1,006)	(589)	(361)	(950)
Deferred preneed receipts held in trust	\$ 1,585,110	\$ 1,640,910	\$ 3,226,020	\$ 1,545,928	\$ 1,557,868	\$ 3,103,796

[Table of Contents](#)

Care trusts' corpus

The *Care trusts' corpus* reflected in our unaudited condensed Consolidated Balance Sheet represents the cemetery perpetual care trusts, including the related accrued expenses. The components of *Care trusts' corpus* in our unaudited condensed Consolidated Balance Sheet at March 31, 2017 and December 31, 2016 are detailed below.

	March 31, 2017	December 31, 2016
	(In thousands)	
Cemetery perpetual care trust investments	\$ 1,440,935	\$ 1,407,465
Accrued trust deferred taxes, operating payables, and other	1,330	778
Care trusts' corpus	<u>\$ 1,442,265</u>	<u>\$ 1,408,243</u>

Other expense, net

The components of *Other expense, net* in our unaudited condensed Consolidated Statement of Operations for the three months ended March 31, 2017 and 2016 are detailed below. See Notes 3, 4, and 5 for further discussion of the amounts related to the funeral, cemetery, and cemetery perpetual care trusts.

	Three Months Ended March 31, 2017				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
	(In thousands)				
Realized gains	\$ 11,561	\$ 40,029	\$ 843	\$ —	\$ 52,433
Realized losses	(5,544)	(14,261)	(1,969)	—	(21,774)
Impairment charges	(4,267)	(765)	(7)	—	(5,039)
Interest, dividend, and other ordinary income	2,810	7,773	12,576	—	23,159
Trust expenses and income taxes	(4,109)	(11,075)	(5,170)	—	(20,354)
Net trust investment (loss) income	451	21,701	6,273	—	28,425
Reclassification to deferred preneed receipts held in trust and care trusts' corpus	(451)	(21,701)	(6,273)	—	(28,425)
Other expense, net	—	—	—	(434)	(434)
Total other expense, net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (434)</u>	<u>\$ (434)</u>

	Three Months Ended March 31, 2016				
	Funeral Trusts	Cemetery Trusts	Cemetery Perpetual Care Trusts	Other, Net	Total
	(In thousands)				
Realized gains	\$ 6,824	\$ 6,246	\$ 1,494	\$ —	\$ 14,564
Realized losses	(19,651)	(22,853)	(1,616)	—	(44,120)
Impairment charges	(1,118)	(2,049)	(115)	—	(3,282)
Interest, dividend, and other ordinary income	2,773	2,360	12,990	—	18,123
Trust expenses and income taxes	(4,442)	(4,853)	(5,757)	—	(15,052)
Net trust investment (loss) income	(15,614)	(21,149)	6,996	—	(29,767)
Reclassification to deferred preneed receipts held in trust and care trusts' corpus	15,614	21,149	(6,996)	—	29,767
Other expense, net	—	—	—	(242)	(242)
Total other expense, net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (242)</u>	<u>\$ (242)</u>

7. 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 statutes of limitation, and increases or decreases in valuation allowances on deferred tax assets. Our effective tax rate was a benefit of 77.4% and expense of 40.5% for the three months ended March 31, 2017 and 2016, respectively. The effective tax rate for the three months ended March 31, 2017 is lower than the federal statutory tax rate of 35% primarily due to the recent IRS tax settlement discussed below and a

[Table of Contents](#)

result of tax benefits recognized during the quarter on the settlement of employee share-based awards in accordance with a revised accounting standard for share-based compensation.

Unrecognized Tax Benefits

As of March 31, 2017, the total amount of our unrecognized tax benefits was \$79.5 million and the total amount of our accrued interest was \$7.3 million.

We reached an agreement with the Internal Revenue Service (“IRS”) to resolve the issues under audit with respect to tax years 1999 through 2005. In March 2017, we received from the IRS Office of Appeals the fully executed Form 870-AD, which, subject to finalization of computations, effectively settles the issues under audit for those years. As a result of this resolution, we recognized a reduction in our unrecognized tax benefits of \$143.0 million of which \$102.5 million was recognized as income tax benefit for the matters that were effectively settled with an increase in our taxes payable of \$40.5 million.

We remain under audit for years 2006 and 2007 as a result of carryback claims. In addition, we are under audit by various state jurisdictions for years 2000 through 2015. There are currently no federal or provincial audits in Canada. It is reasonably possible that the amount of unrecognized tax benefits could significantly decrease over the next 12 months. However, due to the uncertainty regarding the timing of completion and possible outcomes on the outstanding audits, a current estimate of the range of decrease that may occur within the next 12 months cannot be made.

8. Debt

Debt as of March 31, 2017 and December 31, 2016 was as follows:

	March 31, 2017	December 31, 2016
	(In thousands)	
7.625% Senior Notes due October 2018	\$ 250,000	\$ 250,000
4.5% Senior Notes due November 2020	200,000	200,000
8.0% Senior Notes due November 2021	150,000	150,000
5.375% Senior Notes due January 2022	425,000	425,000
5.375% Senior Notes due May 2024	850,000	850,000
7.5% Senior Notes due April 2027	200,000	200,000
Term Loan due March 2021	665,000	673,750
Bank Credit Facility due March 2021	385,000	350,000
Obligations under capital leases	183,043	208,758
Mortgage notes and other debt, maturities through 2050	3,722	3,753
Unamortized premiums, net	8,102	8,313
Unamortized debt issuance costs	(31,608)	(32,984)
Total debt	3,288,259	3,286,590
Less: Current maturities of long-term debt	(63,606)	(89,974)
Total long-term debt	\$ 3,224,653	\$ 3,196,616

Current maturities of debt at March 31, 2017 include amounts due under our Term Loan, mortgage notes and other debt, and capital leases within the next year. Our consolidated debt had a weighted average interest rate of 4.75% and 4.68% at March 31, 2017 and December 31, 2016, respectively. Approximately 63% of our total debt had a fixed interest rate at both March 31, 2017 and December 31, 2016.

During the three months ended March 31, 2017 and 2016, we paid \$20.0 million and \$15.9 million in cash interest, respectively.

Bank Credit Agreement

As of March 31, 2017, we have \$385.0 million of outstanding borrowings under our Bank Credit Facility due March 2021; \$665.0 million of outstanding borrowings under our Term Loan due March 2021; and have issued \$32.7 million of letters of credit. The bank credit agreement due March 2021 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 agreement contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, and certain dividend and share repurchase restrictions. As of March 31, 2017, we were in compliance with all of our debt covenants. We pay a quarterly fee on the unused commitment, which was 0.30% at March 31, 2017. As of March 31, 2017, we have \$282.3 million in borrowing capacity under the Bank Credit Facility.

Debt Issuances and Additions

[Table of Contents](#)

In January 2017, we drew \$25.0 million and in March 2017 we drew \$10.0 million on our Bank Credit Facility due March 2021 to make required payments on our Term Loan due March 2021 and for general corporate purposes.

Debt Extinguishments and Reductions

During the three months ended March 31, 2017, we made aggregate principal debt payments of \$8.8 million for scheduled payments towards our Term Loan due March 2021.

9. 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 value of receivables on preneed contracts are impracticable to estimate because of the lack of a trading market and the diverse number of individual contracts with varying terms.

The fair value of our debt instruments at March 31, 2017 and December 31, 2016 was as follows:

	March 31, 2017	December 31, 2016
	(In thousands)	
7.625% Senior Notes due October 2018	\$ 270,000	\$ 272,353
4.5% Senior Notes due November 2020	202,500	205,000
8.0% Senior Notes due November 2021	174,708	175,500
5.375% Senior Notes due January 2022	440,938	444,614
5.375% Senior Notes due May 2024	882,003	884,000
7.5% Senior Notes due April 2027	230,532	231,590
Term Loan due March 2021	665,000	673,750
Bank Credit Facility due March 2021	385,000	350,000
Mortgage notes and other debt, maturities through 2050	3,721	3,753
Total fair value of debt instruments	<u>\$ 3,254,402</u>	<u>\$ 3,240,560</u>

The fair value of our long-term, fixed-rate loans were estimated using market prices for those loans, and therefore they are classified within Level 2 of the fair value measurements hierarchy. The Term Loan, Bank Credit Facility agreement, and the mortgage and other debt are classified within Level 3 of the fair value measurements hierarchy. The fair value of these instruments has been estimated using a discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements. An increase (decrease) in the inputs results in a directionally opposite change in the fair value of the instruments.

10. Equity**(All shares reported in whole numbers)**

Our components of *Accumulated other comprehensive income* are as follows:

[Table of Contents](#)

	Foreign Currency Translation Adjustment	Unrealized Gains and Losses	Accumulated Other Comprehensive Income
	(In thousands)		
Balance at December 31, 2016	\$ 16,492	\$ —	\$ 16,492
Activity in 2017	3,164	—	3,164
Net unrealized gains associated with available-for-sale securities of the trusts, net of taxes	—	69,351	69,351
Reclassification of net unrealized gain activity attributable to the <i>Deferred preneed receipts held in trust</i> and <i>Care trusts' corpus</i> , net of taxes	—	(69,351)	(69,351)
Balance at March 31, 2017	<u>\$ 19,656</u>	<u>\$ —</u>	<u>\$ 19,656</u>
Balance at December 31, 2015	\$ 6,164	\$ —	\$ 6,164
Activity in 2016	22,707	—	22,707
Net unrealized gains associated with available-for-sale securities of the trusts, net of taxes	—	17,985	17,985
Reclassification of net unrealized gain activity attributable to the <i>Deferred preneed receipts held in trust</i> and <i>Care trusts' corpus</i> , net of taxes	—	(17,985)	(17,985)
Balance at March 31, 2016	<u>\$ 28,871</u>	<u>\$ —</u>	<u>\$ 28,871</u>

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*.

Share Repurchases

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our stock repurchase program. During the three months ended March 31, 2017, we repurchased 2,813,134 shares of common stock at an aggregate cost of \$83.5 million, which is an average cost per share of \$29.67. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$284.8 million at March 31, 2017.

Subsequent to March 31, 2017, we repurchased 362,260 shares of common stock at an aggregate cost of \$11.2 million, which is an average cost per share of \$30.88. After these second quarter repurchases, the remaining dollar value of shares authorized to be repurchased under our repurchase program is \$273.6 million.

11. 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 the United States and Canada, where we conduct both funeral and cemetery operations.

Our reportable segment information is as follows:

	Funeral	Cemetery	Reportable Segments
	(In thousands)		
Three months ended March 31,			
Revenue from external customers:			
2017	\$ 498,764	\$ 278,946	\$ 777,710
2016	\$ 492,189	\$ 257,030	\$ 749,219
Operating profit:			
2017	\$ 112,607	\$ 64,558	\$ 177,165
2016	\$ 107,211	\$ 55,712	\$ 162,923

The following table reconciles operating profit from reportable segments to our consolidated income before income taxes:

[Table of Contents](#)

	Three Months Ended	
	March 31,	
	2017	2016
Operating profit from reportable segments	\$ 177,165	\$ 162,923
General and administrative expenses	(42,504)	(38,904)
Gains (losses) on divestitures and impairment charges, net	4,935	(347)
Operating income	139,596	123,672
Interest expense	(40,636)	(43,082)
Loss on early extinguishment of debt	—	(581)
Other expense, net	(434)	(242)
Income before income taxes	<u>\$ 98,526</u>	<u>\$ 79,767</u>

Our geographic area information is as follows:

	<u>United States</u>	<u>Canada</u>	<u>Total</u>
	(In thousands)		
Three months ended March 31,			
Revenue from external customers:			
2017	\$ 727,240	\$ 50,470	\$ 777,710
2016	\$ 708,887	\$ 40,332	\$ 749,219

12. Commitments and Contingencies

Insurance Loss Reserves

We purchase comprehensive general liability, morticians' and cemetery professional liability, automobile liability, and workers' compensation insurance coverage all of which are 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 March 31, 2017 and December 31, 2016, we have self-insurance reserves of \$78.6 million and \$78.0 million, respectively.

Litigation and Regulatory Matters

We are a party to various litigation and regulatory matters, investigations, and proceedings. Some of the more frequent routine litigations incidental to our business are based on burial practices claims and employment related matters, including discrimination, harassment, and wage and hour laws and regulations. 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 matters 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 matters. We accrue such insurance recoveries when they become probable of being paid and can be reasonably estimated.

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

Charles Samborsky, et al, individually and on behalf of those persons similarly situated, v. SCI California Funeral Services, Inc., et al ; Case No. BC544180; in the Superior Court of the State of California for the County of Los Angeles, Central District-Central Civil West Courthouse. This lawsuit was filed in April 2014 against an SCI subsidiary and purports to have been brought on behalf of employees who worked as family service counselors in California since April 2010. The plaintiffs allege causes of action for various violations of state laws regulating wage and hour pay. The plaintiffs seek unpaid wages, compensatory and punitive damages, attorneys' fees and costs, interest, and injunctive relief. The claims have been sent to arbitration. We cannot quantify our ultimate liability, if any, in this lawsuit.

Adrian Mercedes Vasquez, an individual and on behalf of others similarly situated, v. California Cemetery and Funeral Services, LLC, et al; Case No. BC58837; in the Superior Court of the State of California for the County of Los Angeles. This lawsuit was filed in July 2015 against SCI subsidiaries and purports to be brought on behalf of current and former non-exempt California employees of defendants during the four years preceding the filing of the complaint. The plaintiff alleges numerous causes of action for alleged wage and hour pay violations. The plaintiff seeks unpaid wages, compensatory and punitive damages, attorneys' fees and costs, interest, and injunctive relief. The claims have been ordered to arbitration, with the arbitrator to determine whether the claims will proceed as a class or individual claims. In addition, the plaintiff filed an unfair labor practice charge against defendants with the National Labor Relations Board alleging that by enforcing a mandatory arbitration provision, defendants allegedly violated the National Labor Relations Act. We cannot quantify our ultimate liability, if any, in this lawsuit.

Nicole Romano, individually and on behalf of all others similarly situated v. SCI Direct, Inc., et al; Case No. BC656654; in the Superior Court of California for the County of Los Angeles. This lawsuit was filed in April 2017 against an SCI subsidiary and purports to have been brought on behalf of persons who worked as independent sales representatives in California during the four years preceding the filing of the complaint. The plaintiff alleges numerous causes of action for alleged wage and hour pay violations, including mis-classifying the independent sales representatives as independent contractors instead of employees. The plaintiff seeks unpaid wages, compulsory and punitive damages, attorneys' fees and costs, interest and injunctive relief. We cannot quantify our ultimate liability, if any, in the lawsuit.

Claims Regarding Acquisition of Stewart Enterprises. We are involved 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 concerning the combination. We filed exceptions to the plaintiffs' complaint that were granted in June 2014. Thus, subject to appeals, SCI will no longer be party to the suit. The case has continued against our subsidiary Stewart Enterprises and its former individual directors. However, in October 2016, the court entered a judgment dismissing all of plaintiffs' claims. Plaintiffs have filed documents indicating that they are appealing the dismissal. We cannot quantify our ultimate liability, if any, for the payment of damages.

Operational Claims. We are subject to the following lawsuit.

Linda Allard, on behalf of herself and all others similarly situated v. SCI Direct, Inc., Case No 16-1033; In the United

[Table of Contents](#)

States District Court, Middle District of Tennessee. This case was filed in June 2016 as a class action under the Telephone Consumer Protection Act (the "Act"). Plaintiff alleges she received telemarketing telephone calls that were made with a prerecorded voice or made by an automatic telephone dialing system in violation of the Act. Plaintiff seeks actual and statutory damages, as well as attorney's fees and costs. We cannot quantify our ultimate liability, if any, in this lawsuit.

Unclaimed Property Audit. We are involved in the following matter.

We received notices from a third party auditor representing unclaimed property departments of 36 states regarding preneed funeral and cemetery contracts that were not funded by the purchase and assignment of the proceeds of insurance policies. The auditor claims that we are subject to the laws of those states concerning escheatment of unclaimed funds. The auditor seeks escheatment of funds from the portion of such contracts for which it claims that we will probably not be required to provide services or merchandise in the future. No actual audits have commenced at this time. We cannot quantify our ultimate liability, if any, in this matter.

The ultimate outcome of the matters described above cannot be determined at this time. We intend to vigorously defend all of the above matters; 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.

13. 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:

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands, except per share amounts)	
Amounts attributable to common stockholders:		
Net income:		
Net income — basic	\$ 174,702	\$ 47,445
After tax interest on convertible debt	12	12
Net income — diluted	\$ 174,714	\$ 47,457
Weighted average shares (denominator):		
Weighted average shares — basic	188,260	194,924
Stock options	4,425	2,985
Restricted stock units	61	—
Convertible debt	121	121
Weighted average shares — diluted	192,867	198,030
Net income per share:		
Basic	\$ 0.93	\$ 0.24
Diluted	\$ 0.91	\$ 0.24

The computation of diluted EPS excludes outstanding stock options in certain periods in which the inclusion of such options would be anti-dilutive in the periods presented. Total options not included in the computation of dilutive EPS are as follows (in shares):

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Antidilutive options	898	1,886

14. Divestiture-Related Activities

As divestitures occur in the normal course of business, gains or losses on the sale of such assets are recognized in the income statement line item *Gains (losses) on divestitures and impairment charges, net*, which consist of the following:

	Three Months Ended	
	March 31,	
	2017	2016
	(In thousands)	
Gains on divestitures, net	\$ 16,751	\$ 1,426
Impairment losses	(11,816)	(1,773)
Gains (losses) on divestitures and impairment charges, net	\$ 4,935	\$ (347)

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 service locations and cemeteries unequaled in geographic scale and reach. At March 31, 2017, we operated 1,500 funeral service locations and 475 cemeteries (including 283 funeral service/cemetery combination locations), which are geographically diversified across 45 states, eight Canadian provinces, the District of Columbia, and Puerto Rico.

We are well known for our Dignity Memorial® brand, North America's first transcontinental brand of deathcare products and services. Our other brands are Dignity Planning™, National Cremation Society®, Advantage® Funeral and Cremation Services, Funeraria del Angel™, Making Everlasting Memories®, Neptune Society™, and Trident Society™. Our funeral and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses, which enables us to serve a wide array of customer needs. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis.

Our financial position is enhanced by our approximately \$10.2 billion backlog of future revenue from both trust and insurance-funded sales at March 31, 2017, which is the result of preneed 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 merchandise and service sales is deferred until the time of need, sales of preneed cemetery property provide 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.

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 revenue. 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 have developed memorialization merchandise and services that specifically appeal to cremation customers. We believe that these additional merchandise and services will help drive increases in the average revenue for a cremation 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 \$188.4 million in the three months ended March 31, 2017. We have \$282.3 million in borrowing capacity under our bank credit agreement.

Our bank credit agreement requires us to maintain certain leverage and interest coverage ratios. As of March 31, 2017, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of March 31, 2017 are as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.25 (Max)	3.70
Interest coverage ratio	3.00 (Min)	5.40

We believe our sources of liquidity can be supplemented by our ability to access the capital markets for additional debt or equity securities. In March 2016, we entered into a new \$1.4 billion bank credit agreement due March 2021 with a syndicate of banks. The credit agreement consists of a \$700.0 million Bank Credit Facility and a \$700.0 million Term Loan. We used \$550.0 million of the Term Loan due March 2021 and \$30.0 million of the Bank Credit Facility due March 2021 to repay \$270.0 million outstanding borrowings on the Bank Credit Facility due July 2018 and \$310.0 million outstanding borrowings on the Term Loan due July 2018.

We believe that our unencumbered cash on hand, future operating cash flows, and the available capacity under our bank credit agreement will give us adequate liquidity to meet our short-term needs as well as our long-term financial obligations. Due to cash balances residing in Canada and expected minimum operating cash in transit, a portion of our cash on hand is encumbered.

[Table of Contents](#)

We intend 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:

Invest in acquisitions and new builds. We intend to make acquisitions of funeral service locations and cemeteries when pricing and terms are favorable. We expect an acquisition investment to earn an after-tax cash return in excess of our weighted average cost of capital with room for execution risk. We will also invest in the construction of funeral service locations. We target businesses with favorable customer segments and/or where we can achieve additional economies of scale.

Pay a dividend. Our quarterly dividend rate has steadily grown from \$0.025 per common share in 2005 to \$0.13 per common share in 2017. We target a payout ratio of 35% to 45% and intend to grow our cash dividend commensurate with the growth in our business. 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 shares. Absent a strategic acquisition opportunity, we believe share repurchases are attractive at the appropriate price. During the three months ended March 31, 2017, we repurchased 2,813,134 shares of common stock at an aggregate cost of \$83.5 million, which is an average cost per share of \$29.67. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$284.8 million at March 31, 2017. 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 bank 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.

Subsequent to March 31, 2017, we repurchased 362,260 shares of common stock at an aggregate cost of \$11.2 million, which is an average cost per share of \$30.88. After these second quarter repurchases, the remaining dollar value of shares authorized to be repurchased under our repurchase program is \$273.6 million.

Repurchase debt. We will seek to make open market debt repurchases when it is opportunistic to do so relative to other capital development opportunities to manage our near-term debt maturity profile. We have a relatively consistent annual cash flow stream that is generally resistant to down economic cycles. This cash flow stream and our significant liquidity is available to substantially reduce our long-term debt maturities should we choose to do so. Furthermore, our 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 our operating and investing needs.

Operating Activities

Net cash provided by operating activities increased \$3.6 million to \$188.4 million in the first three months of 2017, compared to \$184.8 million in the first three months of 2016. Included in 2017 are a decrease in system and process transition costs of \$2.9 million and a \$2.3 million decrease in excess tax benefits from share-based awards. See discussion regarding the change in accounting treatment for excess tax benefits from share-based awards in Part I, Item 1. Financial Statements, Note 2.

Excluding the above items, cash flow from operations decreased \$1.6 million as a result of the following:

- a \$8.6 million increase in employee compensation;
- a \$11.9 million increase in cash tax payments;
- a \$4.0 million increase in cash interest paid;
- a \$2.0 million increase in net trust deposits;
- a \$5.6 million increase in vendor and other payments; and
- a \$2.6 million decrease in General Agency (GA) and other receipts; partially offset by
- a \$33.1 million increase in cash receipts from customers.

Investing Activities

Cash flows from investing activities used \$56.3 million in the first three months of 2017 compared to using \$26.5 million in the same period of 2016. This was primarily attributable to an increase of \$19.3 million in cash spent on acquisitions, a \$7.0 million decrease in cash receipts from divestitures and asset sales, and a \$5.1 million decrease in net withdrawals of restricted funds, partially offset by a \$1.6 million decrease in capital expenditures.

Financing Activities

[Table of Contents](#)

Financing activities used \$89.6 million in the first three months of 2017 compared to using \$84.9 million in the same period of 2016. This increase was primarily driven by an increase in purchases of Company common stock of \$28.8 million, a decrease of \$2.3 million in excess tax benefits from share-based awards, and a \$1.1 million increase in payments of dividends, partially offset by an increase in debt issuance proceeds net of payments of \$18.9 million, and increased proceeds from exercises of stock options of \$12.1 million.

We repurchased 2.8 million shares in the first three months of 2017 for \$83.5 million and 2.3 million shares in the same period of 2016 for \$54.6 million. We paid cash dividends of \$24.4 million in the first three months of 2017 and \$23.3 million in the same period of 2016.

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

	March 31, 2017	December 31, 2016
	(In millions)	
Preneed funeral	\$ 114.8	\$ 118.6
Preneed cemetery:		
Merchandise and services	135.6	141.6
Pre-construction	9.9	7.8
Bonds supporting preneed obligations	260.3	268.0
Bonds supporting preneed business permits	4.5	4.5
Other bonds	17.8	18.4
Total surety bonds outstanding	\$ 282.6	\$ 290.9

When selling preneed 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 March 31, 2017 and 2016, we had \$6.0 million and \$5.1 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 contracts, which provide for future funeral or cemetery services and merchandise. Since preneed merchandise or services 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 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 may post a surety bond as financial assurance for a certain amount of the preneed contract in lieu of placing funds into trust accounts.

Trust-Funded Preneed 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.

[Table of Contents](#)

The tables below detail our results of preneed production and maturities, excluding insurance contracts, for the three months ended March 31, 2017 and 2016.

	Three Months Ended	
	March 31,	
	2017	2016
	(In millions)	
Funeral:		
Preneed trust-funded (including bonded):		
Sales production	\$ 83.4	\$ 71.9
Sales production (number of contracts)	25,690	23,275
Maturities	\$ 67.6	\$ 57.8
Maturities (number of contracts)	18,186	17,299
Cemetery:		
Sales production:		
Preneed	\$ 207.7	\$ 183.4
Atneed	83.7	79.0
Total sales production	\$ 291.4	\$ 262.4
Sales production deferred to backlog:		
Preneed	\$ 88.1	\$ 82.1
Atneed	60.4	59.0
Total sales production deferred to backlog	\$ 148.5	\$ 141.1
Revenue recognized from backlog:		
Preneed	\$ 55.0	\$ 51.8
Atneed	57.3	57.0
Total revenue recognized from backlog	\$ 112.3	\$ 108.8

Insurance-Funded Preneed Contracts: Where permitted by state or provincial law, customers may arrange their preneed contract by purchasing a life insurance policy from third-party insurance companies, for which we earn a commission as a 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 contract. As the insurance contract is between the insurance company and the customer, we do not reflect the unfulfilled insurance-funded preneed contract amounts in our unaudited condensed Consolidated Balance Sheet.

The table below details the results of insurance-funded preneed production and maturities for the three months ended March 31, 2017 and 2016, and the number of contracts associated with those transactions.

	Three Months Ended	
	March 31,	
	2017	2016
	(In millions)	
Preneed insurance-funded:		
Sales production ⁽¹⁾	\$ 128.3	\$ 139.3
Sales production (number of contracts) ⁽¹⁾	21,029	23,065
General agency revenue	\$ 31.8	\$ 36.2
Maturities	\$ 91.3	\$ 83.9
Maturities (number of contracts)	15,476	14,424

(1) Amounts are not included in our unaudited condensed Consolidated Balance Sheet.

Backlog of Preneed Contracts: The following table reflects our backlog of trust-funded deferred preneed contract revenue, including amounts related to *Deferred preneed receipts held in trust* at March 31, 2017 and December 31, 2016. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our unaudited condensed Consolidated Balance Sheet) at March 31, 2017 and December 31, 2016. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on historical experience.

[Table of Contents](#)

The table also reflects our preneed receivables and trust investments (fair value and cost bases) associated with the backlog of deferred preneed contract revenue, net of the estimated cancellation allowance. We believe that the table below is meaningful because it sets forth the aggregate amount of future revenue we expect to recognize as a result of preneed sales, as well as the amount of assets associated with this revenue. Because the future revenue exceeds the asset amounts, future revenue will exceed the cash distributions actually received from the associated trusts. The following table does not include backlog associated with businesses held-for-sale.

	March 31, 2017		December 31, 2016	
	Fair Value	Cost	Fair Value	Cost
	(In billions)			
Deferred preneed funeral revenue	\$ 0.58	\$ 0.58	\$ 0.58	\$ 0.58
Deferred preneed funeral receipts held in trust	1.58	1.52	1.54	1.52
	\$ 2.16	\$ 2.10	\$ 2.12	\$ 2.10
Allowance for cancellation on trust investments	(0.08)	(0.08)	(0.12)	(0.12)
Backlog of trust-funded preneed funeral revenue	\$ 2.08	\$ 2.02	\$ 2.00	\$ 1.98
Backlog of insurance-funded preneed revenue ⁽¹⁾	5.41	5.41	5.37	5.37
Total backlog of preneed funeral revenue	\$ 7.49	\$ 7.43	\$ 7.37	\$ 7.35
Preneed funeral receivables, net and trust investments	\$ 1.86	\$ 1.80	\$ 1.82	\$ 1.80
Allowance for cancellation on trust investments	(0.08)	(0.08)	(0.11)	(0.11)
Assets associated with backlog of trust-funded deferred preneed funeral revenue, net of estimated allowance for cancellation	\$ 1.78	\$ 1.72	\$ 1.71	\$ 1.69
Insurance policies associated with insurance-funded deferred revenue, net of estimated allowance for cancellation ⁽¹⁾	5.41	5.41	5.37	5.37
Total assets associated with backlog of preneed funeral revenue, net of estimated allowance for cancellation	\$ 7.19	\$ 7.13	\$ 7.08	\$ 7.06
Deferred preneed cemetery revenue	\$ 1.18	\$ 1.18	\$ 1.15	\$ 1.15
Deferred preneed cemetery receipts held in trust	1.64	1.57	1.56	1.53
	\$ 2.82	\$ 2.75	\$ 2.71	\$ 2.68
Allowance for cancellation on trust investments	(0.15)	(0.15)	(0.13)	(0.13)
Total backlog of deferred cemetery revenue	\$ 2.67	\$ 2.60	\$ 2.58	\$ 2.55
Preneed cemetery receivables, net and trust investments	\$ 2.58	\$ 2.51	\$ 2.49	\$ 2.46
Allowance for cancellation on trust investments	(0.16)	(0.16)	(0.14)	(0.14)
Total assets associated with backlog of deferred cemetery revenue, net of estimated allowance for cancellation	\$ 2.42	\$ 2.35	\$ 2.35	\$ 2.32

(1) Amounts are not included in our unaudited condensed Consolidated Balance Sheet.

The fair value of our trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves, and appraisals. As of March 31, 2017, the difference between the backlog and asset fair value amounts represents \$0.26 billion related to contracts for which we have posted surety bonds as financial assurance in lieu of trusting, \$0.09 billion collected from customers that were not required to be deposited into trust, and \$0.20 billion in 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 contracts. We do not reflect the unfulfilled insurance-funded preneed amounts in our unaudited condensed Consolidated Balance Sheet because they are not assets or liabilities as defined in Statement of Accounting Concepts No. 6 as we have no claim to the insurance proceeds until the contract is fulfilled and no obligation under the contract until the benefits are assigned to us upon or after the time of need.

Trust Investments

In addition to selling our products and services to client families at the time of need, we enter into price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery merchandise and services. Since preneed funeral and cemetery merchandise or services will generally 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 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 merchandise and services in the future at the prices that were guaranteed at the time of sale.

Table of Contents

Also, we are required by state and provincial law to pay a portion of the proceeds from the preneed or atneed 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 distributed with the intention of offsetting the expense to maintain the cemetery property. While many states require that net capital gains or losses be retained and added to the corpus, certain states allow the net realized capital gains and losses to be included in the net ordinary earnings that are distributed.

Independent trustees manage and invest the majority of the funds deposited into the funeral and cemetery merchandise and services trusts as well as the cemetery perpetual care trusts. The majority of trustees are selected based on their respective geographic footprint and qualifications per state and provincial regulations. Most of the trustees engage the same independent investment managers. These trustees, with input from SCI's wholly-owned registered 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 is based on the liability structure of each funeral, cemetery, and perpetual care trust. The investment advisor recommends investment managers to the trustees, which 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) preserving capital within acceptable levels of volatility and risk and 2) achieving growth of principal over time sufficient to preserve and increase the purchasing power of the assets. Preneed funeral and cemetery contracts generally take years to mature; therefore, the funds associated with these contracts are often invested through several market cycles. The cemetery perpetual care trusts' investment objectives emphasize providing a steady stream of current investment income with some capital appreciation. All of the trusts seek to control risk and volatility through a combination of asset classes, investment styles, and a diverse mix of investment managers.

As of March 31, 2017, approximately 87% of our trusts were under the control and custody of three large financial institutions. The U.S. trustees primarily use three managed limited liability companies (LLCs), one for each trust type, and each with a different independent trustee as custodian. Each financial institution acting as trustee manages its allocation of trust assets in accordance with the investment policy through the purchase of the LLCs' units. For those accounts not eligible for participation in the LLCs or in the event a particular state's regulations contain investment restrictions, the trustee utilizes institutional mutual funds that comply with our investment policy or with such state restrictions. The U.S. trusts include a modest allocation to alternative investments, which comprise private equity and real estate investments. These investments are structured as 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.

Investment Structures

Each financial institution, acting as trustee, manages its allocation of trust assets in compliance with the investment policy primarily through the purchase of three managed limited liability companies (LLCs), one for each trust type and each with a different, independent trustee acting as custodian. The managed LLCs use the following structures for investments:

Commingled funds. These funds allow the trusts to access, at a reduced cost, the same investment managers and strategies used elsewhere in the portfolios.

Mutual funds. The trust funds employ institutional share class mutual funds where operationally or economically efficient. These mutual funds are utilized to invest in various asset classes including U.S. equities, non-U.S. equities, corporate bonds, government bonds, Treasury inflation protected securities (TIPS), high yield bonds, and commodities, all of which are governed by guidelines outlined in their individual prospectuses.

Separately managed accounts. To reduce the costs to the investment portfolios, the trusts utilize separately managed accounts where appropriate.

For those accounts not eligible for participation in the managed LLCs, the trustee utilizes institutional share class mutual funds that comply with our investment policy statement or with applicable state or provincial regulations. The U.S. trusts also include a modest allocation to alternative investments, which comprise primarily private equity investments. These investments are also held in LLCs and are managed by certain trustees.

Asset Classes

Fixed income investments are intended to preserve principal, provide a source of current income, and reduce overall portfolio volatility. The majority of the fixed income allocation for the trusts is in institutional share class mutual funds. Where the trusts have direct investments in individual fixed income securities, these are primarily in government and corporate instruments.

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 investments have historically provided long-term capital appreciation in excess of inflation. The trusts have direct investments in individual equity securities primarily in domestic equity portfolios that include large, mid, and small capitalization companies of different investment styles (i.e., growth and value). The majority of the equity allocation is managed by institutional investment managers that specialize in an objective-specific area of expertise. Our equity securities

[Table of Contents](#)

are exposed to market risk; however, we believe these securities are well-diversified. As of March 31, 2017, the largest single equity position represented less than 1% of the total securities portfolio.

The objective of *private equity* investments is to provide high rates of return with reduced volatility. These investments are typically long term in duration. These investments are diversified by strategy, sector, manager, and vintage year. The investments consist of numerous limited partnerships, including private equity, real estate, fund of funds, distressed debt, and mezzanine financing. The trustees that have oversight of their respective alternative LLCs work closely with the investment advisor in making all investment decisions.

Trust Performance

During the nine months ended March 31, 2017, the Standard and Poor's 500 Index increased 6.1% and the Barclay's Aggregate Index increased 0.8%, while the combined SCI trusts increased 3.9%.

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

Results of Operations — Three Months Ended March 31, 2017 and 2016

Management Summary

In the three months ended March 31, 2017, we reported net income attributable to common stockholders of \$174.7 million (\$0.91 per diluted share) compared to net income attributable to common stockholders for the same period in 2016 of \$47.4 million (\$0.24 per diluted share). These results were affected by the following items:

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Pre-tax gains (losses) from divestitures and impairment, net	\$ 4.9	\$ (0.3)
Pre-tax loss from the early extinguishment of debt	\$ —	\$ (0.6)
Pre-tax acquisition and integration costs	\$ —	\$ (5.5)
Pre-tax expenses related to system transition costs	\$ —	\$ (4.1)
Pre-tax pension termination settlement	\$ (11.6)	\$ —
Tax benefit from above items	\$ 2.4	\$ 3.7
Change in certain tax reserves	\$ 106.0	\$ (1.1)

In addition to the above items, the increase in diluted earnings per share excluding special items was primarily driven by higher operating profits led by a double digit increase in cemetery sales production and higher funeral services performed. These results were also bolstered by a lower tax rate, lower interest expense, and fewer shares outstanding resulting from our ongoing share repurchase program.

Funeral Results

	Three Months Ended March 31,	
	2017	2016
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$ 498.8	\$ 492.2
Less: Revenue associated with acquisitions/new construction	6.7	—
Less: Revenue associated with divestitures	0.1	10.2
Comparable ¹ funeral revenue	492.0	482.0
Less: Comparable recognized preneed revenue	32.1	28.8
Less: Comparable general agency and other revenue	30.1	33.6
Adjusted comparable funeral revenue	\$ 429.8	\$ 419.6
Comparable services performed	82,117	80,764
Comparable average revenue per service ²	\$ 5,234	\$ 5,195
Consolidated funeral operating profit	\$ 112.6	\$ 107.2
Less: Operating profit associated with acquisitions/new construction	2.2	—
Less: Operating (loss) profit associated with divestitures	(1.4)	1.4
Comparable funeral operating profit	\$ 111.8	\$ 105.8

(1) We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2016 and ending March 31, 2017.

(2) We calculate comparable average revenue per service by dividing comparable funeral revenue, excluding general agency revenue, recognized preneed revenue, and other revenue to avoid distorting our average of normal funeral services revenue, by the comparable number of services performed during the period. Recognized preneed revenue are preneed sales of merchandise that are delivered at the time of sale, including memorial merchandise and travel protection, and are excluded from our calculation of comparable average revenue per service because the associated service has not yet been performed.

Funeral Revenue

Consolidated revenue from funeral operations was \$498.8 million for the three months ended March 31, 2017 compared to \$492.2 million for the same period in 2016. This increase is primarily attributable to a \$10.0 million increase in comparable revenue as described below.

Comparable revenue from funeral operations was \$492.0 million for the three months ended March 31, 2017 compared to \$482.0 million for the same period in 2016. This \$10.0 million increase is due to 1.7% higher comparable services performed. An increase in matured preneed revenue and recognized preneed revenue was partially offset by a decline in general agency revenue due to lower insurance production.

Comparable average revenue per funeral service increased 0.8% in the first three months of 2017 compared to the same period in 2016. Organic sales average growth of 1.9% was somewhat offset by an increase in the cremation mix. Our total comparable cremation rate increased to 53.4% in the first three months of 2017 from 52.2% in 2016.

Funeral Operating Profit

Consolidated funeral operating profit increased \$5.4 million, or 5.0%, in the first three months of 2017 compared to the same period in 2016. This increase is primarily attributable to an increase in comparable funeral operating profit of \$6.0 million, or 5.7%. The \$6.0 million increase in comparable funeral operating profit was in line with our expectations based on the \$10.0 million increase in comparable funeral revenue when taking into account our fixed cost structure in our comparable funeral operations.

Cemetery Results

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Consolidated cemetery revenue	\$ 278.9	\$ 257.0
Less: Revenue associated with acquisitions/new construction	1.0	—
Less: Revenue associated with divestitures	—	0.2
Comparable ¹ cemetery revenue	<u>\$ 277.9</u>	<u>\$ 256.8</u>
Consolidated cemetery operating profit	\$ 64.6	\$ 55.7
Less: Operating profit associated with acquisitions/new construction	0.3	—
Less: Operating profit associated with divestitures	—	0.1
Comparable cemetery operating profit	<u>\$ 64.3</u>	<u>\$ 55.6</u>

(1) We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2016 and ending March 31, 2017.

Cemetery Revenue

Consolidated revenue from our cemetery operations increased \$21.9 million, or 8.5%, in the first quarter of 2017 compared to the same period in 2016 primarily due to a \$21.1 million increase in comparable cemetery revenue in the first quarter of 2017 compared to the same period in 2016. This increase primarily resulted from higher preneed property revenue from higher preneed sales production and higher merchandise deliveries, partially offset by \$7.2 million of perpetual care trust capital gain distributions received in the first quarter of 2016 that did not reoccur in the current quarter.

Cemetery Operating Profit

Consolidated cemetery operating profit increased \$8.9 million, or 16.0%, in the first quarter of 2017 compared to the same period in 2016. Comparable cemetery operating profit increased \$8.7 million to \$64.3 million and the operating margin percentage increased 140 basis points to 23.1%. The \$8.7 million increase in comparable cemetery operating profit was the result of high margin core revenue growth of \$27.9 million when taking into account our fixed cost structure offset by the decline in the other cemetery revenue.

Other Financial Statement Items**General and Administrative Expenses**

General and administrative expenses increased \$3.6 million to \$42.5 million in the three months ended March 31, 2017 compared to \$38.9 million in the same period of 2016. The current period includes \$11.6 million related to a pension termination settlement. The prior year period includes \$4.1 million in system transition costs primarily related to our 2016 implementation of a new general ledger system and \$5.5 million related to the write off of debt costs associated with previous acquisitions. Excluding these costs in both periods, general and administrative expenses increased \$1.6 million compared to prior year quarter due to increased costs related to the company's long-term incentive compensation program primarily tied to improvements in total shareholder return.

Gains (Losses) on Divestitures and Impairment Charges, Net

Gains (losses) on divestitures and impairment charges, net, increased \$5.3 million in the three months ended March 31, 2017 compared to the same period of 2016, primarily the result of gains associated with the divestiture of non-strategic funeral locations offset by an impairment loss.

Interest Expense

Interest expense decreased \$2.4 million to \$40.6 million in the three months ended March 31, 2017 as we benefited from the debt refinancings over the past year by lowering the interest on our Senior Notes and increasing our proportion of lower variable rate debt.

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 statutes of limitation, and increases or decreases in valuation allowances. Our effective tax rate was a benefit of 77.4% and expense of 40.5% for the three months ended March 31, 2017 and 2016, respectively. The effective tax rate for the three months ended March 31, 2017 is lower than the federal statutory tax rate of 35% primarily due to the recent IRS tax settlement and a result of tax benefits recognized

[Table of Contents](#)

during the quarter on the settlement of employee share-based awards in accordance with a revised accounting standard for share-based compensation.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 192.9 million in the three months ended March 31, 2017, compared to 198.0 million in the same period in 2016. 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, 2016.

There were no significant changes to our accounting policies that have occurred subsequent to December 31, 2016, 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 2.

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 of 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.
- 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 and cemetery industry is competitive.
- Increasing death benefits related to preneed contracts funded through life insurance contracts may not cover future increases in the cost of providing a price-guaranteed service.
- The financial condition of third-party insurance companies that fund our preneed funeral contracts may impact our future revenue.
- Unfavorable results of litigation 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 revenue may decrease.
- If we are not able to respond effectively to changing consumer preferences, our market share, revenue, and profitability could decrease.
- The continuing upward trend in the number of cremations performed in North America could result in lower revenue, gross profit, and cash flows.
- Our funeral home and cemetery businesses are high fixed-cost businesses.
- Regulation and compliance could have a material adverse impact on our financial results.
- Cemetery burial practice legal claims could have a material adverse impact on our financial results.

[Table of Contents](#)

- We use a combination of insurance, self-insurance and large deductibles in managing our exposure to certain inherent risks, as such, we could be exposed to unexpected costs that could negatively affect our financial performance.
- A number of years 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 impairments to goodwill and/or other intangible assets.
- 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.
- Our Canadian business exposes us to operational, economic, and currency risks.
- Our level of indebtedness 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 may prevent us from fulfilling our obligations under our indebtedness.
- Failure to maintain effective internal control over financial reporting could adversely affect our results of operations, investor confidence, and our stock price.
- The application of unclaimed property laws by certain states to our preneed funeral and cemetery backlog could have a material adverse impact on our liquidity, cash flows, and our financial results.

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2016 Annual Report on Form 10-K. 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 operations and sales, the related trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices.

Cost and market values as of March 31, 2017 are presented in Part I, Item 1. Financial Statements and Notes 3, 4, and 5 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 March 31, 2017, 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. Based on our evaluation, our CEO and CFO have concluded that our disclosure controls and procedures are effective as of March 31, 2017 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

No changes in our internal control over financial reporting occurred during the quarter ended March 31, 2017 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 12 in Item 1 of Part I of this Form 10-Q, which information is hereby incorporated by reference herein.

Item 1A. Risk Factors

[Table of Contents](#)

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, 2016, except as set forth below.

The application of unclaimed property laws by certain states to our preneed funeral and cemetery backlog could have a material adverse impact on our liquidity, cash flows, and our financial results.

In the ordinary course, our businesses have sold preneed funeral and cemetery contracts for decades. To the extent these contracts will not be funded with the assignment of the proceeds of life insurance policies, depending on applicable state laws, we could be responsible for escheatment of the portion of the funds paid that relate to contracts which we are unlikely to fulfill. For additional information, see Unclaimed Property Audit in Note 12 in Item 1 of Part I of this Form 10-Q. The aforesaid application of unclaimed property laws could have a material adverse effect on our liquidity, cash flows and financial results.

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

On March 31, 2017, we issued 1,389 deferred common stock equivalents, or units, pursuant to provisions regarding dividends under the Amended and Restated Director Fee Plan to four non-employee directors and the heir of a former director. 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.

The following table summarizes our share repurchases during the three months ended March 31, 2017:

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 program
January 1, 2017 - January 31, 2017	1,404,199	\$ 28.89	1,397,950	\$ 326,670,875
February 1, 2017 - February 28, 2017	850,640	\$ 30.01	848,300	\$ 301,213,331
March 1, 2017 - March 31, 2017	558,295	\$ 31.10	529,200	\$ 284,756,705
	2,813,134		2,775,450	

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

- 12.1 — [Ratio of Earnings to Fixed Charges for the three months ended March 31, 2017 and 2016.](#)
- 31.1 — [Certification of Thomas L. Ryan as Principal 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 Principal 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.

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.

April 27, 2017

SERVICE CORPORATION INTERNATIONAL

By: /s/ Tammy Moore

Tammy Moore

Vice President and Corporate Controller
(Principal Accounting Officer)

SERVICE CORPORATION INTERNATIONAL
RATIO OF EARNINGS TO FIXED CHARGES

(In thousands, except ratio amounts)

	Three months ended March 31,	
	2017	2016
Earnings:		
Pretax income	\$ 98,526	\$ 79,767
Add fixed charges as adjusted (from below)	42,829	45,471
	<u>\$ 141,355</u>	<u>\$ 125,238</u>
Fixed charges:		
Interest expense:		
Corporate	\$ 39,203	\$ 41,466
Amortization of deferred financing costs	1,433	1,615
Portion of rent representative of interest	2,193	2,390
Fixed charges	<u>\$ 42,829</u>	<u>\$ 45,471</u>
Ratio (earnings divided by fixed charges)	3.30	2.75

Service Corporation International
a Texas corporation
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, Thomas L. Ryan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Service Corporation International, a Texas corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 27, 2017

/s/ Thomas L. Ryan

Thomas L. Ryan
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Service Corporation International
a Texas corporation
CERTIFICATION OF CHIEF FINANCIAL OFFICER
Section 302 Certification

I, Eric D. Tanzberger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Service Corporation International, a Texas corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 27, 2017

/s/ Eric D. Tanzberger

Eric D. Tanzberger
Chief Financial Officer
(Principal Financial Officer)

Certification of Chief Executive Officer

I, Thomas L. Ryan, of Service Corporation International, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Service Corporation International.

Dated: April 27, 2017

/s/ Thomas L. Ryan

Thomas L. Ryan
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Certification of Chief Financial Officer

I, Eric D. Tanzberger, of Service Corporation International, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Service Corporation International.

Dated: April 27, 2017

/s/ Eric D. Tanzberger

Eric D. Tanzberger
Chief Financial Officer
(Principal Financial Officer)

