

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

April 30, 2015

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from _____ to _____

Commission file number 1-6402-1

SERVICE CORPORATION INTERNATIONAL

(Exact name of registrant as specified in its charter)

Texas

74-1488375

(State or other jurisdiction of incorporation or organization)

(I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas

77019

(Address of principal executive offices)

(Zip code)

713-522-5141

(Registrant's telephone number, including area code)

None

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if smaller reporting company)

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

YES NO

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

Table of Contents

SERVICE CORPORATION INTERNATIONAL
INDEX

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

Table of Contents

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

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

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

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

(See notes to unaudited condensed consolidated financial statements)

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

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

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

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

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

Edgar Filing: SERVICE CORPORATION INTERNATIONAL - Form 10-Q

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

8

Table of Contents

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

9

Table of Contents

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

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

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

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

1. Nature of Operations

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

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

Reclassifications

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

Use of Estimates in the Preparation of Financial Statements

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

Preneed Funeral and Cemetery Receivables

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

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

Table of Contents

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

Discontinued Operations

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

3. Recently Issued Accounting Standards

Revenue Recognition

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

Consolidation

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

Debt Issuance Costs

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

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

Cloud Computing Arrangements

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

Table of Contents

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

4. Preneed Funeral Activities

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

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

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

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

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

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

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

Table of Contents

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

	December 31, 2014				
	Fair Value		Unrealized	Unrealized	Fair
	Hierarchy	Cost	Gains	Losses	Value
	Level				
			(In thousands)		
Fixed income securities:					
U.S. Treasury	2	\$85,775	\$468	\$(455)	\$85,788
Canadian government	2	90,430	449	(874)	90,005
Corporate	2	24,765	423	(126)	25,062
Residential mortgage-backed	2	1,325	29	(12)	1,342
Asset-backed	2	6	—	—	6
Equity securities:					
Preferred stock	2	2,503	113	(113)	2,503
Common stock:					
United States	1	377,441	18,533	(7,405)	388,569
Canada	1	14,708	4,292	(895)	18,105
Other international	1	38,035	1,175	(1,560)	37,650
Mutual funds:					