

SERVICE CORPORATION INTERNATIONAL

Form 10-Q

July 27, 2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to

Commission file number 1-6402-1

SERVICE CORPORATION INTERNATIONAL

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation or
organization)

74-1488375

(I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas

(Address of principal executive offices)

77019

(Zip code)

713-522-5141

(Registrant's telephone number, including area code)

None

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

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

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

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

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

(Do not check if smaller reporting
company)

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

YES NO

The number of shares outstanding of the registrant's common stock as of July 25, 2012 was 214,892,986 (net of treasury shares).

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GLOSSARY

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

Atneed — Funeral and cemetery arrangements after a death has occurred.

Burial Vaults — A reinforced container intended to inhibit the subsidence of the earth and house the casket after it is placed in the ground.

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

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

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.

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

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

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

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

Preneed — Purchase of products and services prior to a death occurring.

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
Revenues	\$597,372	\$576,774	\$1,199,878	\$1,156,473
Costs and expenses	(469,183)	(461,751)	(944,122)	(915,004)
Gross profits	128,189	115,023	255,756	241,469
General and administrative expenses	(29,558)	(24,685)	(55,517)	(53,518)
Gains (losses) on divestitures and impairment charges, net	1,058	(9,843)	568	(10,263)
Operating income	99,689	80,495	200,807	177,688
Interest expense	(33,894)	(33,879)	(67,482)	(67,438)
Losses on early extinguishment of debt, net	—	(1,835)	—	(2,149)
Other (expense) income, net	(2,221)	46	1,684	720
Income before income taxes	63,574	44,827	135,009	108,821
Provision for income taxes	(25,935)	(18,089)	(49,055)	(42,154)
Net income	37,639	26,738	85,954	66,667
Net income attributable to noncontrolling interests	(563)	(645)	(853)	(1,810)
Net income attributable to common stockholders	\$37,076	\$26,093	\$85,101	\$64,857
Basic earnings per share:				
Net income attributable to common stockholders	\$0.17	\$0.11	\$0.39	\$0.27
Basic weighted average number of shares	215,898	238,498	218,015	239,131
Diluted earnings per share:				
Net income attributable to common stockholders	\$0.17	\$0.11	\$0.39	\$0.27
Diluted weighted average number of shares	218,906	241,435	221,058	241,589
Dividends declared per share	\$0.06	\$0.05	\$0.11	\$0.10

(See notes to unaudited condensed consolidated financial statements)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Net income	\$37,639	\$26,738	\$85,954	\$66,667
Other comprehensive income:				
Foreign currency translation adjustments	(8,267)	(1,588)	(2,522)	9,920
Total comprehensive income	29,372	25,150	83,432	76,587
Total comprehensive income attributable to noncontrolling interests	(580)	(643)	(855)	(1,814)
Total comprehensive income attributable to common stockholders	\$28,792	\$24,507	\$82,577	\$74,773

(See notes to unaudited condensed consolidated financial statements)

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CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	June 30, 2012	December 31, 2011
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 105,343	\$ 128,569
Receivables, net	91,040	103,892
Deferred tax assets	38,161	44,316
Inventories, net	25,497	25,513
Other	22,618	25,803
Total current assets	282,659	328,093
Preneed funeral receivables, net and trust investments	1,490,823	1,478,865
Preneed cemetery receivables, net and trust investments	1,706,375	1,595,940
Cemetery property, at cost	1,493,709	1,497,703
Property and equipment, net	1,618,672	1,618,361
Goodwill	1,354,259	1,361,493
Deferred charges and other assets	421,586	430,851
Cemetery perpetual care trust investments	1,057,261	1,016,506
Total assets	\$9,425,344	\$9,327,812
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$334,323	\$358,904
Current maturities of long-term debt	30,500	23,554
Income taxes	5,772	3,150
Total current liabilities	370,595	385,608
Long-term debt	1,869,264	1,861,116
Deferred preneed funeral revenues	559,566	575,546
Deferred preneed cemetery revenues	865,301	833,303
Deferred tax liability	432,491	405,615
Other liabilities	397,378	414,773
Deferred preneed funeral and cemetery receipts held in trust	2,496,896	2,424,356
Care trusts' corpus	1,057,423	1,015,300
Commitments and contingencies (Note 15)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 225,865,767 and 224,665,395 shares issued, respectively, and 214,771,352 and 222,955,853 shares outstanding, respectively	214,771	222,956
Capital in excess of par value	1,354,236	1,430,330
Accumulated deficit	(316,456	) (367,044
Accumulated other comprehensive income	103,328	105,852
Total common stockholders' equity	1,355,879	1,392,094
Noncontrolling interests	20,551	20,101
Total equity	1,376,430	1,412,195
Total liabilities and equity	\$9,425,344	\$9,327,812
(See notes to unaudited condensed consolidated financial statements)		

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

	Six Months Ended	
	June 30,	
	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net income	\$85,954	\$66,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Losses on early extinguishment of debt, net	—	2,149
Depreciation and amortization	59,111	58,960
Amortization of intangible assets	12,157	12,672
Amortization of cemetery property	21,004	17,674
Amortization of loan costs	2,406	2,365
Provision for doubtful accounts	5,039	4,034
Provision for deferred income taxes	39,933	34,633
(Gains) losses on divestitures and impairment charges, net	(568)	) 10,263
Share-based compensation	4,969	4,542
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease in receivables	7,441	6,306
Increase in other assets	(7,540)	) (3,663)
Decrease in payables and other liabilities	(27,734)	) (17,317)
Effect of preneed funeral production and maturities:		
Decrease in preneed funeral receivables, net and trust investments	23,036	32,800
Decrease in deferred preneed funeral revenue	(18,805)	) (34,076)
Decrease in deferred preneed funeral receipts held in trust	(15,693)	) (12,679)
Effect of cemetery production and deliveries:		
Increase in preneed cemetery receivables, net and trust investments	(60,056)	) (26,247)
Increase in deferred preneed cemetery revenue	25,416	24,314
Increase (decrease) in deferred preneed cemetery receipts held in trust	4,032	(7,221)
Other	(1,719)	) (646)
Net cash provided by operating activities	158,383	175,530
Cash flows from investing activities:		
Capital expenditures	(52,062)	) (57,075)
Acquisitions	(10,550)	) (66,182)
Proceeds from divestitures and sales of property and equipment, net	7,135	10,038
Other	(4,514)	) 4,549
Net cash used in investing activities	(59,991)	) (108,670)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	12,907	—
Payments of debt	(829)	) (1,545)
Early extinguishment of debt	—	(28,137)
Principal payments on capital leases	(12,823)	) (11,166)
Proceeds from exercise of stock options	3,793	6,862
Purchase of Company common stock	(104,700)) (55,644)
Payments of dividends	(21,959)) (21,546)
Bank overdrafts and other	1,074	4,696

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Net cash used in financing activities	(122,537)	(106,480)
Effect of foreign currency on cash and cash equivalents	919		1,768	
Net decrease in cash and cash equivalents	(23,226	)	(37,852)
Cash and cash equivalents at beginning of period	128,569		170,846	
Cash and cash equivalents at end of period	\$105,343		\$132,994	

(See notes to unaudited condensed consolidated financial statements)

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

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance at December 31, 2010	\$242,020	\$(985)	\$1,603,112	\$(477,459)	\$ 112,768	\$ 492	\$1,479,948
Comprehensive income	—	—	—	64,857	9,916	1,814	76,587
Dividends declared on common stock (\$.10 per share)	—	—	(23,788)	—	—	—	(23,788)
Employee share-based compensation earned	—	—	4,542	—	—	—	4,542
Stock option exercises	1,016	—	5,846	—	—	—	6,862
Restricted stock awards, net of forfeitures	539	—	(539)	—	—	—	—
Purchase of Company common stock	—	(5,455)	(50,189)	—	—	—	(55,644)
Acquisition	—	—	—	—	—	18,857	18,857
Noncontrolling interest payment	—	—	—	—	—	(568)	(568)
Other	72	1	680	—	—	—	753
Balance at June 30, 2011	\$243,647	\$(6,439)	\$1,539,664	\$(412,602)	\$ 122,684	\$ 20,595	\$1,507,549
Balance at December 31, 2011	224,666	(1,710)	1,430,330	(367,044)	105,852	20,101	1,412,195
Comprehensive income	—	—	—	85,101	(2,524)	855	83,432
Dividends declared on common stock (\$.11 per share)	—	—	(23,802)	—	—	—	(23,802)
Employee share-based compensation earned	—	—	4,969	—	—	—	4,969
Stock option exercises	635	—	3,158	—	—	—	3,793
Restricted stock awards, net of forfeitures	483	—	(483)	—	—	—	—
Purchase of Company common stock	—	(9,385)	(60,802)	(34,513)	—	—	(104,700)
Noncontrolling interest payment	—	—	—	—	—	(405)	(405)
Other	82	—	866	—	—	—	948
	\$225,866	\$(11,095)	\$1,354,236	\$(316,456)	\$ 103,328	\$ 20,551	\$1,376,430

Balance at June 30,
2012

(See notes to unaudited condensed consolidated financial statements)

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SERVICE CORPORATION INTERNATIONAL

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

1. Nature of Operations

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries primarily operating in the United States and Canada. Our operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. Funeral service locations provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles and preparation and embalming services. Funeral-related merchandise, including caskets, casket memorialization products, burial vaults, cremation receptacles, cremation memorial products, flowers, and other ancillary products and services, is sold at funeral service locations. Cemeteries provide cemetery property interment rights, including mausoleum spaces, lots, and lawn crypts, and sell cemetery-related merchandise and services, including stone and bronze memorials, markers, merchandise installations, and burial openings and closings. We also sell preneed funeral and cemetery products and services whereby a customer contractually agrees to the terms of certain products 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, 2011, 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.

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, 2011. 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 prior to the delivery of the related goods and services, the preneed funeral and cemetery receivables are offset by a comparable deferred revenue amount. These receivables generally have an interest component for which interest income is recorded when the interest amount is considered collectible and realizable, which typically coincides with cash payment. We do not accrue interest on financing receivables that are not paid in accordance with the contractual payment date given the nature of our goods and services, the nature of our contracts with customers, and the timing of the delivery of our services. We do not consider receivables to be past due until the service or goods are required to be delivered at which time the preneed receivable is paid or reclassified as a trade receivable with payment terms of less than 30 days. As the preneed funeral and cemetery receivables are offset by comparable deferred revenue amounts, we have no risk of loss related to these receivables.

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

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board (FASB) amended the Fair Value Measurements and Disclosure (FVM&D) Topic of the Accounting Standards Codification (ASC) to expand disclosures about items marked to fair value that are categorized within Level 3 of the fair value hierarchy to include qualitative explanations of the valuation methodology used, sensitivity analysis of the inputs into the valuation, and quantitative information about those inputs. The amendment also requires that items that are not measured at fair value but for which the fair value is disclosed also disclose the level in the fair value hierarchy in which those items were categorized. We adopted the amended guidance in the first quarter of 2012 and the appropriate disclosures are contained in Notes 4, 5, and 6. Comprehensive Income

In June 2011, the FASB amended the Comprehensive Income Topic of the ASC to require the disclosure of the components of other comprehensive income, which we previously disclosed elsewhere in our filings, be shown as either part of one statement of comprehensive income or as a separate statement of comprehensive income immediately following the income statement. We adopted the amended guidance in the first quarter of 2012 and a separate Statement of Comprehensive Income is included herein.

3. Recently Issued Accounting Standards

Goodwill Testing

In September 2011, the FASB amended the Intangibles - Goodwill and Other Topic of the ASC that allows us to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, after assessing the relevant information, we determine it is more likely than not that the fair value is more than the carrying amount, no additional analysis is necessary. If we determine it is more likely than not that the fair value is less than the carrying amount, then we are required to proceed to the quantitative approach. The amended guidance is effective for us in our annual test in the fourth quarter of 2012, and adoption is not expected to impact our consolidated financial condition or results of operations.

4. Preneed Funeral Activities

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

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

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

Three Months Ended June 30,	Six Months Ended June 30,
--------------------------------	------------------------------

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	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Deposits	\$21,921	\$18,913	\$44,099	\$36,229
Withdrawals	24,179	29,187	55,091	52,945
Purchases of available-for-sale securities	83,211	163,234	271,270	246,991
Sales of available-for-sale securities	86,897	224,805	271,799	334,512
Realized gains from sales of available-for-sale securities	9,754	25,388	35,765	38,265
Realized losses from sales of available-for-sale securities	(4,412)	(7,595)	(14,160)	(11,629)

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The components of Preneed funeral receivables, net and trust investments in our unaudited condensed consolidated balance sheet at June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Trust investments, at fair value	\$927,647	\$892,685
Cash and cash equivalents	90,125	101,111
Insurance-backed fixed income securities	271,573	277,650
Trust investments	1,289,345	1,271,446
Receivables from customers	243,978	246,601
Unearned finance charge	(8,403)	(5,425)
	1,524,920	1,512,622
Allowance for cancellation	(34,097)	(33,757)
Preneed funeral receivables, net and trust investments	\$1,490,823	\$1,478,865

The cost and fair values associated with our funeral merchandise and service trust investments recorded at fair value at June 30, 2012 and December 31, 2011 are detailed below. Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds, and private equity investments. Fair value represents the market value of the underlying securities held by the common trust funds, mutual funds at published values, and the estimated fair value of private equity investments (including debt as well as the estimated fair value related to the contract holder's equity in majority-owned real estate investments).

	June 30, 2012				
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)				
Fixed income securities:					
U.S. Treasury	2	\$100,936	\$5,216	\$(1,593)	\$104,559
Canadian government	2	111,163	661	(24)	111,800
Corporate	2	52,932	1,816	(831)	53,917
Residential mortgage-backed	2	3,440	67	(4)	3,503
Asset-backed	2	127	4	—	131
Equity securities:					
Preferred stock	2	2,573	87	(166)	2,494
Common stock:					
United States	1	220,714	37,656	(12,957)	245,413
Canada	1	23,450	1,799	(2,237)	23,012
Other international	1	17,198	1,231	(955)	17,474
Mutual funds:					
Equity	1	148,209	3,396	(14,893)	136,712
Fixed income	1	217,660	6,360	(12,656)	211,364
Private equity	3	37,641	213	(21,495)	16,359
Other	3	476	433	—	909
Trust investments		\$936,519	\$58,939	\$(67,811)	\$927,647

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	December 31, 2011				
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$77,299	\$4,565	\$(373)	\$81,491
Canadian government	2	114,586	838	(109)	115,315
Corporate	2	49,210	1,849	(770)	50,289
Residential mortgage-backed	2	3,292	71	(34)	3,329
Asset-backed	2	126	6	—	132
Equity securities:					
Preferred stock	2	2,041	50	(153)	1,938
Common stock:					
United States	1	258,738	40,992	(22,715)	277,015
Canada	1	23,986	2,511	(1,771)	24,726
Other international	1	18,954	1,045	(1,296)	18,703
Mutual funds:					
Equity	1	134,383	2,384	(18,982)	117,785
Fixed income	1	193,134	5,044	(13,114)	185,064
Private equity	3	35,017	218	(19,249)	15,986
Other	3	484	428	—	912
Trust investments		\$911,250	\$60,001	\$(78,566)	\$892,685

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

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

The valuation of private equity and other alternative investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of these investments is estimated based on the market value of the underlying real estate and private equity investments. The underlying real estate value is determined using the most recent available appraisals. As of June 30, 2012, private equity instruments are valued based on reported net asset values discounted by 0% to 60% for risk and 0% to 25% for liquidity. A significant increase (decrease) in the discounts results in a directionally opposite change in the fair value of the instruments. Valuation policies and procedures are determined by our Treasury department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed by our investment committee quarterly. These funds are classified as Level 3 investments pursuant to the three-level valuation hierarchy as required by the FVM&D Topic of the ASC.

As of June 30, 2012, our unfunded commitment for our private equity and other investments was \$13.0 million which, if called, would be funded by the assets of the trusts. Our private equity and other investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years.

The change in our market-based funeral merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows (in thousands):

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	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Fair value, beginning balance	\$16,603	\$25,370	\$16,898	\$21,359
Net unrealized (losses) gains included in Accumulated other comprehensive income(1)	(284)	2,894	(1,584)	6,756
Net realized losses included in Other (expense) income, net(2)	(6)	(52)	(16)	(59)
Sales	—	—	(9)	(186)
Contributions	1,281	1,296	2,559	1,782
Distributions and other	(326)	(477)	(580)	(621)
Fair value, ending balance	\$17,268	\$29,031	\$17,268	\$29,031

All unrealized (losses) gains recognized in Accumulated other comprehensive income for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding (1) reclassification in Accumulated other comprehensive income to Deferred preneed funeral and cemetery receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral and cemetery receipts held in trust.

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

Maturity dates of our fixed income securities range from 2012 to 2053. Maturities of fixed income securities, excluding mutual funds, at June 30, 2012 are estimated as follows:

	Fair Value (In thousands)
Due in one year or less	\$129,175
Due in one to five years	57,429
Due in five to ten years	51,367
Thereafter	35,939
	\$273,910

Earnings from all our funeral merchandise and service trust investments are recognized in funeral revenues when a service is performed or merchandise is delivered. Fees charged by our wholly-owned registered investment advisor are also included in current revenues in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenues. Recognized earnings (realized and unrealized) related to these trust investments were \$9.3 million and \$9.1 million for the three months ended June 30, 2012 and 2011, respectively. Recognized earnings (realized and unrealized) related to these trust investments were \$19.2 million and \$18.7 million for the six months ended June 30, 2012 and 2011, 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) income, net and a decrease to Preneed funeral receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Deferred preneed funeral receipts held in trust. See Note 7 for further information related to our Deferred preneed funeral receipts held in trust. For the three months ended June 30, 2012 and 2011, we recorded a \$0.2 million and a \$0.1 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments, respectively. For the six months ended June 30, 2012 and 2011, we recorded a \$0.6 million and a \$3.3 million impairment charge for other-than-temporary declines in fair value related to unrealized losses on certain investments.

We have determined that the remaining unrealized losses in our funeral merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings and the severity and duration of the unrealized losses. Our funeral merchandise and service trust investment unrealized losses, their associated fair values, and the duration of unrealized losses as of June 30, 2012 and December 31, 2011, respectively, are shown in the following tables:

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	June 30, 2012		In Loss Position		Total	Unrealized
	In Loss Position Less Than 12 Months	Unrealized Losses	In Loss Position Greater Than 12 Months	Unrealized Losses		
	Fair Value		Fair Value		Fair Value	Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$30,024	\$(1,338)	\$7,699	\$(255)	\$37,723	\$(1,593)
Canadian government	6,136	(24)	—	—	6,136	(24)
Corporate	13,763	(633)	2,847	(198)	16,610	(831)
Residential mortgage-backed	975	(4)	—	—	975	(4)
Equity securities:						
Preferred stock	1,244	(110)	173	(56)	1,417	(166)
Common stock:						
United States	67,570	(8,532)	11,478	(4,425)	79,048	(12,957)
Canada	11,400	(1,855)	729	(382)	12,129	(2,237)
Other international	5,817	(510)	1,926	(445)	7,743	(955)
Mutual funds:						