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# 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 **JUNE 30, 2021**

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 no.)

**1929 Allen Parkway**

**Houston  
Texas**

(Address of principal executive offices)

**77019**

(Zip code)

**Registrant's telephone number, including area code: (713) 522-5141**

#### Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol (s)	Name of Each Exchange on Which Registered
Common Stock (\$1 par value)	SCI	New York Stock Exchange

#### Securities registered pursuant to Section 12(g) of the Act: None

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 every Interactive Data File required to be submitted 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 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

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 in 12b-2 of the act). Yes  No

The number of shares outstanding of the registrant's common stock as of July 27, 2021 was 167,578,506 (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, including cremation, and cemetery arrangements sold once death has occurred.

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

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 Trusts' Corpus — The deposits and net realized capital gains and losses included in the perpetual care trusts 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 Merchandise and Services — Stone and bronze memorials, markers, outer burial containers, floral placement, graveside services, merchandise installations, urns, and interments.

Cemetery Perpetual Care Trust or Endowment Care Fund (ECF) — A trust fund established for the purpose of maintaining cemetery grounds and property into perpetuity. For these trusts, the corpus remains in the trust in perpetuity and the investment earnings or elected distributions are withdrawn 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. Additionally, some states allow a total return distribution that may contain elements of income, capital appreciation, and principal.

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 or Amortization of Cemetery Property — 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 Interment Rights — The exclusive right to determine the human remains that will be interred in a specific cemetery property space. See also Cemetery Property Revenue below.

Cemetery Property Revenue — Recognized sales of interment rights in cemetery property when the receivable is deemed collectible and the property is fully constructed and available for interment.

Combination Location (Combos) — Locations where a funeral service location is physically located within or adjoining an SCI-owned cemetery location.

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 items 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, outer burial containers, urns and other cremation receptacles, casket and cremation memorialization products, 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, travel protection, and catering.

Funeral Recognized Preneed Revenue — Funeral merchandise and travel protection, net, 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 (interment), in mausoleums (entombment), in niches (inurnment), or in cremation memorialization property (inurnment).

Lawn Crypt — Cemetery property in which an underground outer burial receptacle constructed of concrete and reinforced steel has been 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 funeral 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/or 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 upon the cancellation of the contract. Also referred to as a preneed trust.

Outer Burial Container — 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 a burial vault.

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

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

Preneed Cemetery Sales Production — Sales of preneed cemetery contracts. These sales are recorded in *Deferred revenue, net* until the merchandise is delivered, the service is performed, or the property has been constructed and is available for interment.

Preneed Funeral Sales Production — Sales of preneed funeral trust-funded and insurance-funded contracts. Preneed funeral trust-funded contracts are recorded in *Deferred revenue, net* 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.

Preneed Receivables, Net — Amounts due from customers when we have delivered the merchandise, performed the service, or transferred control of the cemetery property interment rights prior to a death occurring and amounts due from customers on irrevocable preneed contracts.

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. Management has published a white paper on the corporate website for further understanding of accounting for preneed sales. You can view the white paper at <http://investors.sci-corp.com> under Featured Documents. Documents and information on our website are not incorporated by reference herein.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements Service Corporation International Condensed Consolidated Statement of Operations (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
(In thousands, except per share amounts)				
Revenue				
Property and merchandise revenue	\$ 519,777	\$ 414,596	\$ 1,074,368	\$ 792,479
Service revenue	391,617	354,799	855,476	722,327
Other revenue	76,141	50,640	135,672	108,194
Total revenue	987,535	820,035	2,065,516	1,623,000
Costs of revenue				
Cost of property and merchandise	(248,067)	(207,102)	(499,759)	(403,550)
Cost of service	(202,378)	(173,515)	(405,356)	(371,039)
Overhead and other expenses	(268,377)	(220,651)	(514,181)	(450,600)
Costs of revenue	(718,822)	(601,268)	(1,419,296)	(1,225,189)
Gross profit	268,713	218,767	646,220	397,811
Corporate general and administrative expenses	(29,038)	(37,169)	(65,771)	(68,982)
Gains on divestitures and impairment charges, net	6,162	737	7,428	5,282
Operating income	245,837	182,335	587,877	334,111
Interest expense	(37,435)	(41,767)	(73,247)	(86,118)
Losses on early extinguishment of debt, net	(5,226)	(11)	(5,226)	(150)
Other income (expense), net	655	1,166	996	(81)
Income before income taxes	203,831	141,723	510,400	247,762
Provision for income taxes	(46,042)	(36,170)	(123,656)	(60,208)
Net income	157,789	105,553	386,744	187,554
Net income attributable to noncontrolling interests	(84)	(45)	(160)	(105)
Net income attributable to common stockholders	\$ 157,705	\$ 105,508	\$ 386,584	\$ 187,449
Basic earnings per share:				
Net income attributable to common stockholders	\$ 0.94	\$ 0.59	\$ 2.29	\$ 1.04
Basic weighted average number of shares	168,450	177,902	169,180	179,378
Diluted earnings per share:				
Net income attributable to common stockholders	\$ 0.92	\$ 0.59	\$ 2.25	\$ 1.03
Diluted weighted average number of shares	170,863	179,666	171,616	181,639

(See notes to unaudited condensed consolidated financial statements)

## Service Corporation International Condensed Consolidated Statement of Comprehensive Income (Unaudited)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>(In thousands)</b>			
Net income	\$ 157,789	\$ 105,553	\$ 386,744	\$ 187,554
Other comprehensive income:				
Foreign currency translation adjustments	6,934	13,738	11,939	(17,464)
Total comprehensive income	164,723	119,291	398,683	170,090
Total comprehensive income attributable to noncontrolling interests	(84)	(47)	(160)	(105)
Total comprehensive income attributable to common stockholders	\$ 164,639	\$ 119,244	\$ 398,523	\$ 169,985

(See notes to unaudited condensed consolidated financial statements)

# Service Corporation International

## Condensed Consolidated Balance Sheet (Unaudited)

	June 30, 2021	December 31, 2020
	(In thousands, except share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 436,796	\$ 230,857
Receivables, net of reserves of \$6,435 and \$6,031, respectively	89,972	92,939
Inventories	25,036	23,929
Other	34,770	28,427
Total current assets	586,574	376,152
Preneed receivables, net of reserves of \$20,421 and \$19,204, respectively, and trust investments	5,785,651	5,345,720
Cemetery property	1,862,309	1,879,340
Property and equipment, net	2,150,623	2,133,664
Goodwill	1,884,806	1,880,007
Deferred charges and other assets, net of reserves of \$5,351 and \$6,902, respectively	1,108,207	1,080,053
Cemetery perpetual care trust investments	1,966,279	1,820,489
Total assets	\$ 15,344,449	\$ 14,515,425
<b>LIABILITIES &amp; EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 594,778	\$ 575,948
Current maturities of long-term debt	66,460	228,352
Income taxes payable	30,254	11,634
Total current liabilities	691,492	815,934
Long-term debt	3,772,448	3,514,182
Deferred revenue, net	1,520,245	1,488,909
Deferred tax liability	439,844	437,308
Other liabilities	437,965	420,039
Deferred receipts held in trust	4,608,554	4,272,382
Care trusts' corpus	1,955,790	1,814,050
Commitments and contingencies (Note 9)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 175,724,671 and 174,792,272 shares issued, respectively, and 167,969,163 and 170,717,236 shares outstanding, respectively	167,969	170,717
Capital in excess of par value	984,791	981,934
Retained earnings	714,073	560,731
Accumulated other comprehensive income	51,305	39,366
Total common stockholders' equity	1,918,138	1,752,748
Noncontrolling interests	(27)	(127)
Total equity	1,918,111	1,752,621
Total liabilities and equity	\$ 15,344,449	\$ 14,515,425

(See notes to unaudited condensed consolidated financial statements)

## Service Corporation International Condensed Consolidated Statement of Cash Flows (Unaudited)

	<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 386,744	\$ 187,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Losses on early extinguishment of debt, net	5,226	150
Depreciation and amortization	79,552	75,582
Amortization of intangibles	10,127	11,304
Amortization of cemetery property	52,362	33,696
Amortization of loan costs	3,118	2,571
Provision for expected credit losses	6,389	9,023
Provision for deferred income taxes	1,986	5,681
Gains on divestitures and impairment charges, net	(7,428)	(5,282)
Share-based compensation	7,096	7,044
Change in assets and liabilities, net of effects from acquisitions and dispositions:		
(Increase) decrease in receivables	(1,002)	2,781
Increase in other assets	(31,340)	(18,232)
Increase in payables and other liabilities	56,891	41,936
Effect of preneed sales production and maturities:		
Increase in preneed receivables, net and trust investments	(160,465)	(16,520)
Increase in deferred revenue, net	66,107	39,374
Increase (decrease) in deferred receipts held in trust	14,401	(12,360)
Net cash provided by operating activities	489,764	364,302
<b>Cash flows from investing activities:</b>		
Capital expenditures	(103,161)	(104,828)
Business acquisitions, net of cash acquired	(3,591)	(26,271)
Real estate acquisitions	(10,498)	(32,766)
Proceeds from divestitures and sales of property and equipment	12,232	12,136
Payments for Company-owned life insurance policies	(3,534)	(3,848)
Proceeds from Company-owned life insurance policies and other	—	3,519
Net cash used in investing activities	(108,552)	(152,058)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	820,000	190,000
Debt issuance costs	(13,618)	—
Scheduled payments of debt	(18,070)	(16,455)
Early payments and extinguishment of debt	(699,837)	(95,897)
Principal payments on finance leases	(16,091)	(20,453)
Proceeds from exercise of stock options	16,254	15,126
Purchase of Company common stock	(187,183)	(210,568)
Payments of dividends	(70,920)	(68,133)
Bank overdrafts and other	(7,030)	6,686
Net cash used in financing activities	(176,495)	(199,694)
Effect of foreign currency	3,311	(4,575)
Net increase in cash, cash equivalents, and restricted cash	208,028	7,975
Cash, cash equivalents, and restricted cash at beginning of period	238,610	242,620
Cash, cash equivalents, and restricted cash at end of period	\$ 446,638	\$ 250,595

(See notes to unaudited condensed consolidated financial statements)



## Service Corporation International Condensed Consolidated Statement of Equity (Unaudited)

	Common Stock	Treasury Stock, Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Deficit)	Noncontrolling Interest	Total
(In thousands, except per share amounts)							
Balance at December 31, 2019	\$ 185,101	\$ (3,916)	\$ 1,010,361	\$ 601,903	\$ 29,864	\$ (58)	\$ 1,823,255
Cumulative effect of accounting changes	—	—	—	17,118	—	—	17,118
Comprehensive income	—	—	—	81,941	(31,200)	58	50,799
Dividends declared on common stock (\$0.19 per share)	—	—	—	(34,414)	—	—	(34,414)
Employee share-based compensation earned	—	—	3,406	—	—	—	3,406
Stock option exercises	789	—	14,337	—	—	—	15,126
Restricted stock awards, net of forfeitures	168	—	(168)	—	—	—	—
Purchase of Company common stock	—	(2,901)	(16,202)	(103,999)	—	—	(123,102)
Other	—	—	(1,095)	—	—	—	(1,095)
Balance at March 31, 2020	\$ 186,058	\$ (6,817)	\$ 1,010,639	\$ 562,549	\$ (1,336)	—	\$ 1,751,093
Cumulative effect of accounting changes	—	—	—	(129)	—	—	(129)
Comprehensive income	—	—	—	105,508	13,736	47	119,291
Dividends declared on common stock (\$0.19 per share)	—	—	—	(33,719)	—	—	(33,719)
Employee share-based compensation earned	—	—	3,638	—	—	—	3,638
Purchase of Company common stock	—	(2,277)	(12,862)	(72,327)	—	—	(87,466)
Other	47	—	1,573	—	—	—	1,620
Balance at June 30, 2020	\$ 186,105	\$ (9,094)	\$ 1,002,988	\$ 561,882	\$ 12,400	\$ 47	\$ 1,754,328

## Service Corporation International Condensed Consolidated Statement of Equity (Unaudited)

	Common Stock	Treasury Stock, Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Deficit)	Noncontrolling Interest	Total
Balance at December 31, 2020	\$ 174,792	\$ (4,075)	\$ 981,934	\$ 560,731	\$ 39,366	\$ (127)	\$ 1,752,621
Comprehensive income	—	—	—	228,879	5,005	76	233,960
Dividends declared on common stock (\$0.21 per share)	—	—	—	(35,568)	—	—	(35,568)
Employee share-based compensation earned	—	—	3,500	—	—	—	3,500
Stock option exercises	99	—	2,265	—	—	—	2,364
Restricted stock awards and units, net of forfeitures	163	—	(163)	—	—	—	—
Purchase of Company common stock	—	(2,142)	(12,304)	(91,771)	—	—	(106,217)
Retirement of treasury shares	(3)	3	—	—	—	—	—
Balance at March 31, 2021	\$ 175,051	\$ (6,214)	\$ 975,232	\$ 662,271	\$ 44,371	\$ (51)	\$ 1,850,660
Comprehensive income	—	—	—	157,705	6,934	84	164,723
Dividends declared on common stock (\$0.21 per share)	—	—	—	(35,352)	—	—	(35,352)
Employee share-based compensation earned	—	—	3,596	—	—	—	3,596
Stock option exercises	644	—	13,328	—	—	—	13,972
Restricted stock awards and units, net of forfeitures	(3)	—	3	—	—	—	—
Purchase of Company common stock	—	(1,542)	(8,955)	(70,551)	—	—	(81,048)
Noncontrolling interest payments	—	—	—	—	—	(60)	(60)
Other	33	—	1,587	—	—	—	1,620
Balance at June 30, 2021	\$ 175,725	\$ (7,756)	\$ 984,791	\$ 714,073	\$ 51,305	\$ (27)	\$ 1,918,111

(See notes to unaudited condensed consolidated financial statements)

# Service Corporation International

## Notes to Unaudited Condensed Consolidated Financial Statements

### 1. Nature of Operations

Service Corporation International (SCI) is a holding company and all operations are conducted by its subsidiaries. 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 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. We strive to offer families exceptional service in planning life celebrations and personalized remembrances.

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, travel protection, 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, and interments, are sold at our cemeteries.

### 2. Summary of Significant Accounting Policies

#### Principles of Consolidation and Basis of Presentation

Our consolidated financial statements include the accounts of Service Corporation International and all subsidiaries in which we hold a controlling financial interest. Intercompany balances and transactions have been eliminated in consolidation.

Our unaudited condensed consolidated 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. We have retained the specialized industry accounting principles when consolidating the trusts. Our trusts are variable interest entities, for which we have determined that we are the primary beneficiary as we absorb a majority of the losses and returns associated with these trusts. Although we consolidate the trusts, it does not change the legal relationships among the trusts, us, or our customers. The customers are the legal beneficiaries of these trusts; therefore, their interests in these trusts represent a liability to us.

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, 2020, 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. As a result, actual results could differ from these estimates.

#### Cash, Cash Equivalents, and Restricted Cash

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amounts of our cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

PART I

The components of cash, cash equivalents, and restricted cash were as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
Cash and cash equivalents	\$ 436,796	\$ 230,857
Restricted cash <sup>(1)</sup>		
Included in <i>Other current assets</i>	7,658	5,573
Included in <i>Deferred charges and other assets, net</i>	2,184	2,180
Total restricted cash	9,842	7,753
Total cash, cash equivalents, and restricted cash	\$ 446,638	\$ 238,610

<sup>(1)</sup> Restricted cash in both periods primarily consists of proceeds from divestitures deposited into escrow accounts under IRS code section 1031 and collateralized obligations under certain insurance policies.

### Receivables, net

The components of *Receivables, net* in our unaudited Condensed Consolidated Balance Sheet were as follows:

	June 30, 2021				
	Atneed Funeral	Atneed Cemetery	Miscellaneous	Current Portion of Notes	Total
	(In thousands)				
Receivables	\$ 40,788	\$ 32,913	\$ 22,332	\$ 374	\$ 96,407
Reserve for credit losses	(3,758)	(2,289)	35	(423)	(6,435)
Receivables, net	\$ 37,030	\$ 30,624	\$ 22,367	\$ (49)	\$ 89,972

	December 31, 2020				
	Atneed Funeral	Atneed Cemetery	Miscellaneous	Current Portion of Notes	Total
	(In thousands)				
Receivables	\$ 56,745	\$ 22,559	\$ 18,545	\$ 1,121	\$ 98,970
Reserve for credit losses	(3,752)	(1,933)	144	(490)	(6,031)
Receivables, net	\$ 52,993	\$ 20,626	\$ 18,689	\$ 631	\$ 92,939

Additionally, included in *Deferred charges and other assets, net* were long-term miscellaneous receivables, net and notes receivable, net as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
Notes receivable	\$ 10,364	\$ 12,389
Reserve for credit losses	(4,389)	(5,957)
Notes receivable, net	\$ 5,975	\$ 6,432
Long-term miscellaneous receivables	\$ 6,824	\$ 6,515
Reserve for credit losses	(962)	(945)
Long-term miscellaneous receivables, net	\$ 5,862	\$ 5,570

The following table summarizes the activity in our reserve for credit losses by portfolio segment, excluding preneed receivables which are presented in Note 3, for the six months ended June 30, 2021:

	January 1, 2021	Provision for Expected Credit Losses	Write Offs	Recoveries	Effect of Foreign Currency	June 30, 2021
(In thousands)						
Trade receivables:						
Funeral	\$ (3,752)	\$ (2,351)	\$ 3,227	\$ (903)	\$ 21	\$ (3,758)
Cemetery	(1,933)	(835)	529	(49)	(1)	(2,289)
Total reserve for credit losses on trade receivables	\$ (5,685)	\$ (3,186)	\$ 3,756	\$ (952)	\$ 20	\$ (6,047)
Miscellaneous receivables:						
Current	\$ 144	\$ (109)	\$ —	\$ —	\$ —	\$ 35
Long-term	(945)	(17)	—	—	—	(962)
Total reserve for credit losses on miscellaneous receivables	\$ (801)	\$ (126)	\$ —	\$ —	\$ —	\$ (927)
Notes receivable	\$ (6,447)	\$ 67	\$ 1,568	\$ —	\$ —	\$ (4,812)

At June 30, 2021, the amortized cost basis of our miscellaneous and notes receivables by year of origination was as follows:

	2021	2020	2019	2018	2017	Prior	Revolving Line of Credit	Total
(In thousands)								
Miscellaneous receivables:								
Current	\$ 20,298	\$ 1,225	\$ 497	\$ 258	\$ 49	\$ 5	\$ —	\$ 22,332
Long-term	1,693	1,934	2,086	880	207	24	—	6,824
Total miscellaneous receivables	\$ 21,991	\$ 3,159	\$ 2,583	\$ 1,138	\$ 256	\$ 29	\$ —	\$ 29,156
Notes receivable	\$ —	\$ —	\$ —	\$ 156	\$ —	\$ 5,081	\$ 5,501	\$ 10,738

At June 30, 2021, the payment status of our miscellaneous and notes receivables was as follows:

	Past Due					Total	Current	Total
	<30 Days	30-90 Days	90-180 Days	>180 Days	Total			
(In thousands)								
Miscellaneous receivables:								
Current	\$ —	\$ 5	\$ 95	\$ 105	\$ 205	\$ 22,127	\$ 22,332	
Long-term	—	—	—	—	—	6,824	6,824	
Total miscellaneous receivables	\$ —	\$ 5	\$ 95	\$ 105	\$ 205	\$ 28,951	\$ 29,156	
Notes receivable	\$ 1	\$ 1	\$ 1	\$ 1,116	\$ 1,119	\$ 9,619	\$ 10,738	

## Recently Issued Accounting Standards

**Reference Rate Reform**

In March 2020, the FASB issued "Reference Rate Reform" to provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. We currently have no hedging relationships and are evaluating our contracts and the optional expedients provided by the new standard.

**3. Preneed Activities**

## Preneed receivables, net and trust investments

The components of *Preneed receivables, net and trust investments* in our unaudited Condensed Consolidated Balance Sheet were as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
Preneed receivables, net	\$ 1,173,639	\$ 1,069,965
Trust investments, at market	6,338,420	5,851,188
Insurance-backed fixed income securities and other	239,871	245,056
Trust investments	6,578,291	6,096,244
Less: Cemetery perpetual care trust investments	(1,966,279)	(1,820,489)
Preneed trust investments	4,612,012	4,275,755
<i>Preneed receivables, net and trust investments</i>	\$ 5,785,651	\$ 5,345,720

Preneed receivables, net comprised the following:

	June 30, 2021		
	Funeral	Cemetery	Total
	(In thousands)		
Preneed receivables	\$ 151,979	\$ 1,069,526	\$ 1,221,505
Unearned finance charges	(12,677)	(14,768)	(27,445)
Preneed receivables, at amortized cost	139,302	1,054,758	1,194,060
Reserve for credit losses	(11,851)	(8,570)	(20,421)
Preneed receivables, net	\$ 127,451	\$ 1,046,188	\$ 1,173,639
	December 31, 2020		
	Funeral	Cemetery	Total
	(In thousands)		
Preneed receivables	\$ 143,896	\$ 979,259	\$ 1,123,155
Unearned finance charges	(14,018)	(19,968)	(33,986)
Preneed receivables, at amortized cost	129,878	959,291	1,089,169
Reserve for credit losses	(10,940)	(8,264)	(19,204)
Preneed receivables, net	\$ 118,938	\$ 951,027	\$ 1,069,965

At June 30, 2021, the amortized cost basis of our preneed receivables by year of origination was as follows:

	2021	2020	2019	2018	2017	Prior	Total
<b>(In thousands)</b>							
Preneed receivables, at amortized cost:							
Funeral	\$ 26,933	\$ 51,591	\$ 32,566	\$ 10,989	\$ 5,258	\$ 11,965	\$ 139,302
Cemetery	287,169	363,895	187,176	115,548	62,872	38,098	1,054,758
Total preneed receivables, at amortized cost	\$314,102	\$415,486	\$219,742	\$126,537	\$ 68,130	\$ 50,063	\$ 1,194,060

At June 30, 2021, the payment status of our preneed receivables was as follows:

	<b>Past Due</b>				<b>Total</b>	<b>Current</b>	<b>Total</b>
	<b>&lt;30 Days</b>	<b>30-90 Days</b>	<b>90-180 Days</b>	<b>&gt;180 Days</b>			
<b>(In thousands)</b>							
Preneed receivables, at amortized cost:							
Funeral	\$ 3,736	\$ 3,829	\$ 1,271	\$ 16,782	\$ 25,618	\$ 113,684	\$ 139,302
Cemetery	29,043	23,172	3,313	1,049	56,577	998,181	1,054,758
Total preneed receivables, at amortized cost	\$ 32,779	\$ 27,001	\$ 4,584	\$ 17,831	\$ 82,195	\$1,111,865	\$ 1,194,060

The following table summarizes the activity for the reserve for credit losses on preneed receivables for the six months ended June 30, 2021:

	January 1, 2021	Provision for Expected Credit Losses	Write Offs	Effect of Foreign Currency	June 30, 2021
<b>(In thousands)</b>					
Funeral	\$ (10,940)	\$ (2,635)	\$ 1,727	\$ (3)	\$ (11,851)
Cemetery	(8,264)	(509)	209	(6)	(8,570)
Total reserve for credit losses on preneed receivables	\$ (19,204)	\$ (3,144)	\$ 1,936	\$ (9)	\$ (20,421)

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>(In thousands)</b>				
Deposits	\$ 133,819	\$ 98,341	\$ 254,102	\$ 203,894
Withdrawals	\$ 117,578	\$ 99,264	\$ 230,158	\$ 213,856
Purchases of securities	\$ 379,836	\$ 456,639	\$ 812,567	\$ 905,291
Sales of securities	\$ 399,076	\$ 441,743	\$ 831,075	\$ 793,569
Realized gains from sales of securities <sup>(1)</sup>	\$ 174,732	\$ 92,435	\$ 304,919	\$ 144,592
Realized losses from sales of securities <sup>(1)</sup>	\$ (17,644)	\$ (61,756)	\$ (33,812)	\$ (147,158)

<sup>(1)</sup> All realized gains and losses are recognized in *Other income (expense), net* for our trust investments and are offset by a corresponding reclassification in *Other income (expense), net to Deferred receipts held in trust and Care trusts' corpus*.

## PART I

The cost and market values associated with trust investments recorded at market value 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.

	Fair Value Hierarchy Level	June 30, 2021			
		Cost	Unrealized Gains	Unrealized Losses	Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 45,983	\$ 1,146	\$ (277)	\$ 46,852
Canadian government	2	32,537	40	(8)	32,569
Corporate	2	1,139	9	(10)	1,138
Residential mortgage-backed	2	1,073	79	(5)	1,147
Asset-backed	2	283	3	(11)	275
Equity securities:					
Preferred stock	2	4,881	570	—	5,451
Common stock:					
United States	1	1,534,925	623,471	(31,579)	2,126,817
Canada	1	48,637	18,449	(1,115)	65,971
Other international	1	114,125	51,488	(2,293)	163,320
Mutual funds:					
Equity	1	807,456	175,706	(3,506)	979,656
Fixed income	1	1,034,053	41,466	(6,780)	1,068,739
Other	3	187	2	—	189
Trust investments, at fair value		3,625,279	912,429	(45,584)	4,492,124
Commingled funds					
Fixed income		659,509	35,879	(2,229)	693,159
Equity		274,669	122,299	(21)	396,947
Money market funds		399,566	—	—	399,566
Private equity		279,305	84,718	(7,399)	356,624
Trust investments, at net asset value		1,613,049	242,896	(9,649)	1,846,296
Trust investments, at market		\$ 5,238,328	\$ 1,155,325	\$ (55,233)	\$ 6,338,420



	Fair Value Hierarchy Level	December 31, 2020			
		Cost	Unrealized Gains	Unrealized Losses	Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 44,907	\$ 1,566	\$ (272)	\$ 46,201
Canadian government	2	30,210	51	(157)	30,104
Corporate	2	1,669	14	(8)	1,675
Residential mortgage-backed	2	2,438	131	—	2,569
Asset-backed	2	174	3	(5)	172
Equity securities:					
Preferred stock	2	358	—	(24)	334
Common stock:					
United States	1	1,500,125	503,757	(54,748)	1,949,134
Canada	1	35,016	10,915	(1,823)	44,108
Other international	1	110,775	39,837	(1,831)	148,781
Mutual funds:					
Equity	1	821,406	95,155	(10,437)	906,124
Fixed income	1	1,022,409	35,872	(19,298)	1,038,983
Other	3	188	2	—	190
Trust investments, at fair value		3,569,675	687,303	(88,603)	4,168,375
Commingled funds					
Fixed income		657,219	37,474	(173)	694,520
Equity		283,329	97,704	—	381,033
Money market funds		330,745	—	—	330,745
Private equity		217,953	68,846	(10,284)	276,515
Trust investments, at net asset value		1,489,246	204,024	(10,457)	1,682,813
Trust investments, at market		\$ 5,058,921	\$ 891,327	\$ (99,060)	\$ 5,851,188

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. The funds' managers have not communicated the timing of any liquidations.

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
(In thousands)				
Fair value, beginning balance	\$ 190	\$ 418	\$ 190	\$ 8,218
Net realized and unrealized gains (losses) included in <i>Other income (expense), net</i> <sup>(1)</sup>	(1)	717	(1)	(257)
Purchases	—	4,559	—	4,569
Sales	—	(5,271)	—	(5,296)
Transfers	—	—	—	(6,811)
Fair value, ending balance	\$ 189	\$ 423	\$ 189	\$ 423

<sup>(1)</sup> All net realized and unrealized gains (losses) recognized in *Other income (expense), net* for our trust investments are offset by a corresponding reclassification in *Other income (expense), net* to *Deferred receipts held in trust and Care trusts' corpus*.

PART I

Maturity dates of our fixed income securities range from 2021 to 2040. Maturities of fixed income securities (excluding mutual funds) at June 30, 2021 are estimated as follows:

	<b>Fair Value</b>
	<b>(In thousands)</b>
Due in one year or less	\$ 50,680
Due in one to five years	24,461
Due in five to ten years	6,605
Thereafter	235
Total estimated maturities of fixed income securities	\$ 81,981

Recognized trust fund income (realized and unrealized) related to our preneed trust investments was \$43.8 million and \$27.0 million, for the three months ended June 30, 2021 and 2020, respectively. Recognized trust fund income (realized and unrealized) related to our cemetery perpetual care trust investments was \$27.0 million and \$17.3 million for the three months ended June 30, 2021 and 2020, respectively.

Recognized trust fund income (realized and unrealized) related to our preneed trust investments was \$88.8 million and \$59.2 million, for the six months ended June 30, 2021 and 2020, respectively. Recognized trust fund income (realized and unrealized) related to our cemetery perpetual care trust investments was \$47.8 million and \$36.8 million for the six months ended June 30, 2021 and 2020, respectively.

### Deferred revenue, net

*Deferred revenue, net* represents future revenue, including distributed trust investment earnings associated with unperformed trust-funded preneed contracts that are not held in trust accounts. Future revenue and net trust investment earnings that are held in trust accounts are included in *Deferred receipts held in trust*.

The components of *Deferred revenue, net* in our unaudited Condensed Consolidated Balance Sheet were as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>(In thousands)</b>	
Deferred revenue	\$ 2,200,975	\$ 2,127,878
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts	(680,730)	(638,969)
<i>Deferred revenue, net</i>	\$ 1,520,245	\$ 1,488,909

The following table summarizes the activity for our contract liabilities, which are reflected in *Deferred revenue, net* and *Deferred receipts held in trust*:

	<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(In thousands)</b>	
Beginning balance — <i>Deferred revenue, net</i> and <i>Deferred receipts held in trust</i>	\$ 5,761,291	\$ 5,306,479
Net preneed contract sales	644,559	496,467
(Dispositions) acquisitions of businesses, net	(604)	12,777
Net investment gains (losses) <sup>(1)</sup>	312,837	(189,474)
Recognized revenue from backlog <sup>(2)</sup>	(270,817)	(226,663)
Recognized revenue from current period sales	(285,596)	(237,296)
Change in amounts due on unfulfilled performance obligations	(40,933)	(18,151)
Change in cancellation reserve	(108)	1,070
Effect of foreign currency and other	8,170	(6,891)
Ending balance — <i>Deferred revenue, net</i> and <i>Deferred receipts held in trust</i>	\$ 6,128,799	\$ 5,138,318

<sup>(1)</sup> Includes both realized and unrealized investment gains (losses).

<sup>(2)</sup> Includes current year trust fund income through the date of performance.

## 4. 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 22.6% and 25.5% for the three months ended June 30, 2021 and 2020, respectively. Our effective tax rate was 24.2% and 24.3% for the six months ended June 30, 2021 and 2020, respectively. The lower effective tax rate for the three months ended June 30, 2021 was primarily due to the higher excess tax benefits recognized on the settlement of employee share-based awards. The effective tax rate for the six months ended June 30, 2021 and 2020 was higher than the federal statutory tax rate of 21% primarily due to state tax expenses, partially offset by excess tax benefits recognized on the settlement of employee share-based awards.

### Unrecognized Tax Benefits

As of June 30, 2021, the total amount of our unrecognized tax benefits was \$1.4 million and the total amount of our accrued interest was \$0.7 million.

The federal statutes of limitation have expired for all tax years prior to 2017, and we are not currently under audit by the IRS. Various state jurisdictions are auditing years 2013 through 2018. There are currently no federal or provincial audits in Canada; however, years subsequent to 2015 remain open and could be subject to examination. We believe that it is reasonably possible that the recorded amount of gross unrecognized tax benefits may decrease by \$1.4 million within the next twelve months as a result of concluding various state tax matters.

## 5. Debt

The components of Debt are:

	June 30, 2021	December 31, 2020
	(In thousands)	
8.0% Senior Notes due November 2021	\$ —	\$ 150,000
7.5% Senior Notes due April 2027	152,710	152,710
4.625% Senior Notes due December 2027	550,000	550,000
5.125% Senior Notes due June 2029	750,000	750,000
3.375% Senior Notes due August 2030	850,000	850,000
4.0% Senior Notes due May 2031	800,000	—
Term Loan due May 2024	585,000	601,250
Bank Credit Facility due May 2024	—	525,000
Obligations under finance leases	148,972	148,864
Mortgage notes and other debt, maturities through 2050	49,973	51,766
Unamortized premiums and discounts, net	—	(317)
Unamortized debt issuance costs	(47,747)	(36,739)
Total debt	3,838,908	3,742,534
Less: Current maturities of long-term debt	(66,460)	(228,352)
Total long-term debt	\$ 3,772,448	\$ 3,514,182

Current maturities of debt at June 30, 2021 include amounts due under our term loan, mortgage notes and other debt, and finance lease payments due within the next year as well as the portion of debt issuance costs expected to be recognized in the next twelve months.

Our consolidated debt had a weighted average interest rate of 3.79% and 3.62% at June 30, 2021 and December 31, 2020, respectively. Approximately 82% and 66% of our total debt had a fixed interest rate at June 30, 2021 and December 31, 2020, respectively.

During the six months ended June 30, 2021 and 2020, we paid \$69.0 million and \$83.9 million in cash interest, respectively.

## Bank Credit Facility

The Bank Credit Facility 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 June 30, 2021, we were in compliance with all of our debt covenants. We issued \$34.0 million of letters of credit and pay a quarterly fee on the unused commitment, which was 0.10% at June 30, 2021. As of June 30, 2021, we had \$966.0 million in borrowing capacity under the Bank Credit Facility.

## Debt Issuances and Additions

During the six months ended June 30, 2021, we issued or added \$820.0 million of debt including:

- \$800.0 million unsecured 4.0% Senior Notes due May 2031; and
- \$20.0 million on our Bank Credit Facility due May 2024.

Net proceeds from newly issued debt during the six months ended June 30, 2021 were used to pay down our Bank Credit Facility due May 2024, to redeem our 8.0% Senior Notes due November 2021, and for general corporate purposes. These transactions resulted in additional debt issuance costs of \$13.6 million.

During the six months ended June 30, 2020, we drew \$190.0 million on our Bank Credit Facility for general corporate purposes.

## Debt Extinguishments and Reductions

During the six months ended June 30, 2021, we made aggregate debt payments of \$717.9 million for scheduled and early extinguishment payments including:

- \$545.0 million in aggregate principal of our Bank Credit Facility due May 2024;
- \$16.3 million in aggregate principal of our Term Loan due May 2024;
- \$150.0 million in aggregate principal of 8.0% Senior Notes due November 2021;
- \$4.8 million of premiums paid on early extinguishment; and
- \$1.8 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of \$5.2 million recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations for the six months ended June 30, 2021.

During the six months ended June 30, 2020, we made aggregate debt payments of \$112.4 million for scheduled and early extinguishment payments including:

- \$95.0 million in aggregate principal of our Bank Credit Facility due May 2024;
- \$16.3 million in aggregate principal of our Term Loan due May 2024;
- \$0.8 million in aggregate principal of 7.5% Senior Notes due April 2027 repurchased on the open market;
- \$0.1 million of premiums paid on early extinguishment; and
- \$0.2 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of \$0.2 million recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations for the six months ended June 30, 2020.

## 6. Credit Risk and Fair Value of Financial Instruments

### Fair Value Estimates

The fair value estimates of the following financial instruments have been determined using available market information and appropriate valuation methodologies. The carrying values of cash and cash equivalents, trade receivables, and trade payables approximate the fair values of those instruments due to the short-term nature of the instruments. The carrying values of receivables on preneed funeral and cemetery contracts approximate fair value due to the large number of diverse individual contracts with varying terms.

The fair value of our debt instruments at June 30, 2021 and December 31, 2020 was as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
8.0% Senior Notes due November 2021	\$ —	\$ 159,000
7.5% Senior Notes due April 2027	185,022	185,639
4.625% Senior Notes due December 2027	584,694	590,700
5.125% Senior Notes due June 2029	814,822	840,368
3.375% Senior Notes due August 2030	836,698	883,099
4.0% Senior Notes due May 2031	818,200	—
Term Loan due May 2024	585,000	601,250
Bank Credit Facility due May 2024	—	525,000
Mortgage notes and other debt, maturities through 2050	49,126	51,659
Total fair value of debt instruments	\$ 3,873,562	\$ 3,836,715

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

## 7. Equity

**(All shares reported in whole numbers)**

### Share Repurchase Program

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our share repurchase program. During the six months ended June 30, 2021, we repurchased 3,683,396 shares of common stock at an aggregate cost of \$187.3 million, which is an average cost per share of \$50.85. During May 2021, our Board of Directors increased our share repurchase authorization to \$500 million. After these repurchases and the increase in our share repurchase authorization, the remaining dollar value of shares authorized to be purchased under the share repurchase program was \$460.2 million at June 30, 2021.

Subsequent to June 30, 2021, we repurchased 407,683 shares for \$22.5 million at an average cost per share of \$55.19. After these repurchases, the remaining dollar value of shares authorized to be purchased under the share repurchase program is \$437.7 million.

## 8. 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, including disaggregated revenue, was as follows and includes a reconciliation of gross profit to our consolidated income before income taxes.

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>(In thousands)</b>				
<b>Revenue from customers:</b>				
Funeral revenue:				
Atneed revenue	\$ 282,333	\$ 256,166	\$ 620,403	\$ 520,954
Matured preneed revenue	159,452	158,357	349,641	321,940
Core funeral revenue	441,785	414,523	970,044	842,894
Non-funeral home revenue	16,882	14,146	36,611	28,597
Recognized preneed revenue	33,113	27,663	74,862	60,463
Other revenue	39,923	24,615	69,624	53,889
Total funeral revenue	531,703	480,947	1,151,141	985,843
Cemetery revenue:				
Atneed revenue	109,030	91,102	233,651	176,145
Recognized preneed property revenue	222,866	152,117	441,140	268,199
Recognized preneed merchandise and services revenue	87,718	69,844	173,536	138,508
Core cemetery revenue	419,614	313,063	848,327	582,852
Other revenue	36,218	26,025	66,048	54,305
Total cemetery revenue	455,832	339,088	914,375	637,157
Total revenue from customers	\$ 987,535	\$ 820,035	\$ 2,065,516	\$ 1,623,000
<b>Gross profit:</b>				
Funeral gross profit	\$ 108,428	\$ 115,957	\$ 299,173	\$ 219,533
Cemetery gross profit	160,285	102,810	347,047	178,278
Gross profit from reportable segments	268,713	218,767	646,220	397,811
Corporate general and administrative expenses	(29,038)	(37,169)	(65,771)	(68,982)
Gains on divestitures and impairment charges, net	6,162	737	7,428	5,282
Operating income	245,837	182,335	587,877	334,111
Interest expense	(37,435)	(41,767)	(73,247)	(86,118)
Losses on early extinguishment of debt, net	(5,226)	(11)	(5,226)	(150)
Other income (expense), net	655	1,166	996	(81)
Income before income taxes	\$ 203,831	\$ 141,723	\$ 510,400	\$ 247,762

Our geographic area information was as follows:

	<b>United States</b>	<b>Canada</b>	<b>Total</b>
	<b>(In thousands)</b>		
<b>Three months ended June 30,</b>			
Revenue from external customers:			
2021	\$ 933,644	\$ 53,891	\$ 987,535
2020	\$ 781,842	\$ 38,193	\$ 820,035
<b>Six months ended June 30,</b>			
Revenue from external customers:			
2021	\$ 1,953,614	\$ 111,902	\$ 2,065,516
2020	\$ 1,541,114	\$ 81,886	\$ 1,623,000

## 9. Commitments and Contingencies

### Insurance Loss Reserves

We purchase comprehensive general liability, morticians and cemetery professional liability, automobile liability, and workers' compensation insurance coverage structured with high deductibles. The high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. As of June 30, 2021 and December 31, 2020, we had self-insurance reserves of \$93.7 million and \$92.8 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, or if we determine an amount for which we would be willing to settle the matter to avoid further costs and risk, 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 as a defendant in various lawsuits alleging violations of federal and state laws regulating wage and hour pay, including but not limited to the Fredeen lawsuit described below.

*Lisa Fredeen, an aggrieved employee and on behalf of other aggrieved employees v. California Cemetery and Funeral Services, LLC, et al; Case No. BC706930;* in the Superior Court of the State of California for the County of Los Angeles. This lawsuit was filed against SCI subsidiaries on May 18, 2018 and purports to be brought on behalf of the defendants' current and former non-exempt California employees during the four years preceding the filing of the complaint. This lawsuit asserts numerous claims for alleged wage and hour pay violations under the California Labor Code and the California Private Attorneys General Act. The plaintiff seeks unpaid wages, compensatory and punitive damages, civil penalties, attorneys' fees and costs, and interest. Given the nature of this lawsuit, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

***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, Louisiana. This case was filed as a class action in June 2013 against an SCI subsidiary in connection with SCI's 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 appealed the dismissal. On May 6, 2021, the Louisiana Court of Appeals affirmed the dismissal. Plaintiffs have applied to the Louisiana Supreme Court to review the dismissal. Given the nature of this lawsuit, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

***Operational Claims.*** We are named a defendant in various lawsuits alleging operational claims, including but not limited to the State of California and Taylor lawsuits described below.

*The People of the State of California v. Service Corporation International, a Texas corporation, SCI Direct, Inc. a Florida Corporation, S.E. Acquisition of California, Inc., a California corporation dba Neptune Society of Northern California, Neptune Management Corp., a California corporation, Trident Society, Inc. a California corporation, and Does 1 through 100, inclusive, Case No. RG 19045103;* in the Superior Court of the State of California in and for the County of Alameda. In July 2019, we received a letter from the Attorney General, State of California, Department of Justice ("CAAG") alleging that the allocation of prices among certain of our cremation service contracts and cremation merchandise contracts, and the related preneed trust funding, violates section 7735 of the California Business and Professions Code and that provisions of these same contracts constitute false advertising and deceptive sales practices in violation of California consumer protection laws. On November 21, 2019, we filed a complaint, *S.E. Combined Services of California, Inc., a California Corporation dba Neptune Society of Northern California, Neptune Management Corp. a California Corporation, and Trident Society, Inc. v. Xavier Becerra, Attorney General of the State of California, and Does 1-50, Case No. 34-2019-00269617;* in the Sacramento County Superior Court seeking declaratory relief holding, in general, that our practices, methods, and documentation utilized in the sale of preneed funeral goods and services are in all respects compliant with California law. On December 2, 2019, the CAAG filed the complaint, referenced above, seeking permanent injunction from making false statements and engaging in unfair competition, a placement of funds into preneed trusts, civil penalties, customer refunds, attorneys' fees, and costs. We believe our

## PART I

contracts comply with applicable laws. Given the nature of this lawsuit, we are unable to estimate a reasonably possible loss or range of loss, if any.

*Nancy Taylor, on behalf of herself and others similarly situated v. Service Corporation International and others, Case No. 20-cv-60709*; in the United States District Court Southern District of Florida Fort Lauderdale Division. This case was filed in April 2020 as a Florida class action alleging that the allocation of prices among certain of our cremation service contracts and cremation merchandise contracts, and the related preneed trust funding, and the failure to disclose commissions paid and sales practices associated with the sale of third-party travel protection plans, violate the Florida Deceptive and Unfair Trade Practices Act and constitute unjust enrichment. Plaintiff seeks refunds, general, actual, compensatory and exemplary damages, civil penalties, interest, and attorney fees. Given the nature of this lawsuit, we are unable to estimate a reasonably possible loss or range of loss, if any.

### **Unclaimed Property Audit**

We received notices from two third-party auditors representing the unclaimed property departments of thirty-nine states regarding certain preneed funeral and cemetery contracts. The states claim that such contracts are subject to the states' unclaimed property or escheatment laws and generally assert that all or a portion of the trusted preneed funds are escheatable if the beneficiary and/or purchaser is deceased or presumed deceased and no services or merchandise have been provided. We received notice from one of the auditors that no additional property is due to be reported for the states that they represent including: Alabama, Kentucky, Nebraska, New Mexico, Oklahoma, Oregon, South Carolina, South Dakota, Texas, and West Virginia. We consider the unclaimed property audits resolved in those ten states. We have reserved all of our rights, claims, and defenses. Given the nature of this matter, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

### **Other Potential Contingencies**

In October 2018, we received a letter from the Illinois Office of the Comptroller claiming that our subsidiary improperly withdrew a total of \$13.6 million from perpetual care trusts covering 24 of our cemeteries in Illinois. We believe these withdrawals were entirely proper for the ongoing care of those cemeteries under Illinois law.

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.

## **10. 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 stock that shared in our earnings.

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>(In thousands, except per share amounts)</b>				
Amounts attributable to common stockholders:				
Net income — basic and diluted	\$ 157,705	\$ 105,508	\$ 386,584	\$ 187,449
Weighted average shares:				
Weighted average shares — basic	168,450	177,902	169,180	179,378
Stock options	2,363	1,740	2,382	2,221
Restricted share units	50	24	54	40
Weighted average shares — diluted	170,863	179,666	171,616	181,639
Amounts attributable to common stockholders:				
Earnings per share:				
Basic	\$ 0.94	\$ 0.59	\$ 2.29	\$ 1.04
Diluted	\$ 0.92	\$ 0.59	\$ 2.25	\$ 1.03



The computation of diluted EPS excludes outstanding stock options and restricted share units in certain periods in which the inclusion of such equity awards would be antidilutive to the periods presented. Total antidilutive options and restricted stock units not currently included in the computation of diluted earnings per share are as follows (in shares):

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>(In thousands)</b>			
Antidilutive options	1,612	2,706	1,445	1,486
Antidilutive restricted share units	—	67	—	49

## 11. Acquisitions and Divestiture-Related Activities

### Acquisitions

We spent \$3.6 million and \$26.3 million, net of cash acquired, for several business acquisitions, and \$10.5 million and \$32.8 million, net of cash acquired, for several real estate acquisitions during the six months ended June 30, 2021 and 2020, respectively.

### Divestiture-Related Activities

As divestitures occur in the normal course of business, gains or losses on the sale of such locations are recognized in the unaudited Condensed Consolidated Statement of Operations line item *Gains on divestitures and impairment charges, net*, which comprised the following:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>(In thousands)</b>			
Gains on divestitures, net	\$ 6,267	\$ 737	\$ 7,593	\$ 8,366
Impairment losses	(105)	—	(165)	(3,084)
Gains on divestitures and impairment charges, net	\$ 6,162	\$ 737	\$ 7,428	\$ 5,282

## 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 June 30, 2021, we operated 1,458 funeral service locations and 485 cemeteries (including 297 funeral service/cemetery combination locations), which are geographically diversified across 44 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. 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. We strive to offer families exceptional service in planning life celebrations and personalized remembrances. Our Dignity Memorial® brand serves approximately 500,000 families each year with professionalism, compassion, and attention to detail.

Our financial position is enhanced by our \$13.2 billion backlog of future revenue from both trust and insurance-funded preneed sales at June 30, 2021. Preneed selling provides us with a strategic opportunity to gain future market share. We also 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 that the property is developed and available for use.

We have adequate liquidity and a favorable debt maturity profile, which allow us to reinvest and grow our business as well as return capital to shareholders through share repurchases and dividends.

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 atneed revenue. The average revenue per funeral contract is influenced by the mix of traditional and cremation services because our average revenue for cremations is lower than that for traditional burials. To further enhance revenue opportunities, we continue to focus on our cremation customers' preferences and remaining relevant by developing additional memorialization merchandise and services that specifically appeal to cremation customers. We believe the presentation of these additional merchandise and services through our customer-facing technology improves our customers' experience by reducing administrative burdens and allowing them to visualize the enhanced product and service offerings, which we believe will help drive increases in the average revenue for a cremation in future periods.

### Recent Trends

Like most businesses world-wide, COVID-19 is still impacting various aspects of our business operations; however, we cannot, with certainty, predict the scope, severity, or duration with which COVID-19 will continue to impact our business, financial condition, results of operations, and cash flows.

In early 2020, the rigorous restrictions placed on gatherings and mandated by state, provincial, and local governments posed a unique challenge for our locations. We quickly implemented technology solutions, including livestreaming on social media, which allowed extended family and friends to virtually participate in the ceremony alongside the immediate family. Atneed funeral directors continue to use virtual meeting platforms as a tool to discuss and plan service details with client families. Our preneed sales teams continue to overcome social distancing obstacles in certain areas of the country by leveraging virtual arrangements with customers who may prefer to purchase cemetery property and merchandise from the safety of their home or setting up outdoor canopies to discuss pre-planning from a safe distance. Although they may face challenges to meet face-to-face, our funeral directors continue to listen, understand, suggest, and plan important details for honoring a loved one's life.

By capitalizing on our physical and digital presence in our response to the COVID-19 crisis, we have been able to further leverage our scale. The accelerated use of new technology required to successfully meet customer needs during COVID-19 has provided many advantages and further differentiates us from our competitors. The utilization of new technology is increasing digital sales leads to record levels and producing a more effective and efficient sales model through enhanced use of our customer relationship management platform. In addition, we see an improvement in our relationship with our customers due to a dedicated focus on service excellence and honoring the details of every life we are privileged to serve, as well as enabling a seamless interaction with families through a best-in-class website experience. Our continued focus on service excellence during these trying times has been recognized by families who continue to share their positive experiences publicly across Google, Facebook, and Yelp. Our all-time average review rating has continued to increase through 2021 and directly reflects the efforts of our front-line heroes, who consistently go above and beyond for families.

As community restrictions have lifted and vaccine distribution becomes more widespread, we have experienced unprecedented growth in our preneed cemetery sales as well as a significant increase in the number of families who desire memorial services. We view this as further evidence that our customers continue to value what our team does best, which is helping our client families gain closure and healing through the process of grieving, remembrance, and celebration.

For further discussion of our key operating metrics, see our "[Cash Flow](#)" and "[Results of Operations](#)" 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 \$489.8 million in the first six months of 2021. As of June 30, 2021, we had \$966.0 million in remaining borrowing capacity under our Bank Credit Facility.

Our Bank Credit Facility requires us to maintain certain leverage and interest coverage ratios. As of June 30, 2021, we were in compliance with all of our debt covenants. Our leverage ratio has recently benefited from the strong earnings associated with the increase in services performed throughout the COVID-19 pandemic; however, as these impacts subside in future years, we expect leverage to return to our 3.5 to 4.0x target leverage range. Our financial covenant requirements and actual ratios as of June 30, 2021 were as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.75 (Max)	2.49
Interest coverage ratio	3.00 (Min)	9.60

We believe we have the financial strength and flexibility to reward shareholders through share repurchases and dividends while maintaining a prudent capital structure and pursuing new opportunities for profitable growth.

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 minimum operating cash requirements, a portion of our cash on hand is encumbered.

We consistently 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:

***Investing in Acquisitions and Building New Funeral Service Locations.*** We manage our footprint by focusing on strategic acquisitions and building new funeral service locations where the expected returns are attractive and exceed our weighted average cost of capital by a meaningful margin. We target businesses with favorable customer dynamics and/or where we can achieve additional economies of scale. We continue to pursue strategic acquisitions and build new funeral service locations in areas that provide us with the potential for scale.

***Paying Dividends.*** Our quarterly dividend rate has steadily grown from \$0.025 per common share in 2005 to \$0.21 per common share in 2021. We target a payout ratio of 30% to 40% of after-tax earnings excluding special items 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.

***Repurchasing Shares.*** Absent opportunities for strategic acquisitions, we expect to continue to repurchase shares of our common stock in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. There can be no assurance that we will buy our common stock under our repurchase program in the future.

During the six months ended June 30, 2021, we repurchased 3,683,396 shares of common stock at an aggregate cost of \$187.3 million, which is an average cost per share of \$50.85. During May 2021, our Board of Directors increased our share repurchase authorization to \$500 million. After these repurchases and the increase in our share repurchase authorization, the remaining dollar value of shares authorized to be purchased under the share repurchase program was \$460.2 million at June 30, 2021.

Subsequent to June 30, 2021, we repurchased 407,683 shares for \$22.5 million at an average cost per share of \$55.19. After these repurchases, the remaining dollar value of shares authorized to be purchased under the share repurchase program is \$437.7 million.

***Managing Debt.*** We will seek to make open market debt repurchases when it is opportunistic to do so relative to other capital deployment opportunities and 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 are available to substantially reduce our long-term debt maturities should we choose to do so.

## Cash Flow

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

### Operating Activities

Net cash provided by operating activities was \$489.8 million and \$364.3 million for the six months ended June 30, 2021 and 2020, respectively. Cash flow from operations increased \$125.5 million for the six months ended June 30, 2021 versus the same period in 2020. The 2021 increase versus 2020 comprises:

- a \$378.1 million increase in cash receipts from customers,
- a \$14.9 million decrease in cash interest payments (the decrease over the prior year is due to the lack of interest payments in 2021 on the 5.375% Senior Notes due May 2024 which were redeemed in the second half of 2020), and
- a \$10.0 million increase in General Agency (GA) and other receipts, partially offset by
  - a \$120.3 million increase in employee compensation payments,
  - a \$100.4 million increase in cash tax payments,
  - a \$34.3 million increase in net trust deposits, and
  - a \$22.5 million increase in vendor and other payments.

### Investing Activities

Cash flows from investing activities used \$108.6 million and \$152.1 million for the six months ended June 30, 2021 and 2020, respectively. The \$43.5 million decreased outflow from 2021 versus 2020 is primarily due to the following:

- a \$22.7 million decrease in cash spent on business acquisitions,
- a \$22.2 million decrease in cash spent on real estate acquisitions, and
- a \$1.7 million decrease in capital expenditures, partially offset by
  - a \$3.1 million increase in payments for Company-owned life insurance policies, net of proceeds.

### Financing Activities

Financing activities used \$176.5 million for the six months ended June 30, 2021 compared to using \$199.7 million for the same period in 2020. The \$23.2 million decreased outflow from 2021 versus 2020 is primarily due to:

- a \$23.4 million decrease in purchase of Company common stock,
- a \$15.2 million increase in debt proceeds, net of repayments, and
- a \$1.1 million increase in proceeds from exercises of stock options, partially offset by
  - a \$13.7 million change in bank overdrafts and other, and
  - a \$2.8 million increase in payments of dividends.

## 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 sales activities. The obligations underlying these surety bonds are recorded on our Consolidated Balance Sheet as *Deferred revenue, net*. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.

	June 30, 2021	December 31, 2020	
	(In millions)		
Preneed funeral	\$	89.2	\$ 94.4
Preneed cemetery:			
Merchandise and services		147.0	149.4
Pre-construction		23.0	24.2
Bonds supporting preneed funeral and cemetery obligations		259.2	268.0
Bonds supporting preneed business permits		6.7	5.5
Other bonds		20.3	20.7
Total surety bonds outstanding	\$	286.2	\$ 294.2

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.

Surety bond premiums are paid annually and the bonds 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 due to a lack of surety capacity or surety company non-performance.

## Preneed Activities and Backlog of Contracts

In addition to selling our products and services to client families at the time of need, we enter into price-guaranteed preneed contracts, which provide for future funeral or cemetery merchandise and services. Because 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 contracts be deposited into merchandise and service trusts until the merchandise is delivered or the service is performed. 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. Alternatively, we may sell a life insurance or annuity policy from third-party insurance companies.

*Insurance-Funded Preneed Contracts:* Where permitted by state or provincial law, we may sell a life insurance or annuity policy from third-party insurance companies, for which we earn a commission as general sales agent for the insurance company. These general agency commissions (GA revenue) are based on a percentage per contract sold and are recognized as funeral revenue when the insurance purchase transaction between the preneed purchaser and third-party insurance provider is completed. All selling costs incurred pursuant to the sale of insurance-funded preneed contracts are expensed as incurred. We do not reflect the unfulfilled insurance-funded preneed contract amounts in our Consolidated Balance Sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenue as we perform these funerals.

## PART I

The table below details our results of insurance-funded preneed production and maturities.

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
(Dollars in millions)				
Preneed insurance-funded:				
Sales production <sup>(1)</sup>	\$ 180.3	\$ 104.9	\$ 313.6	\$ 229.9
Sales production (number of contracts) <sup>(1)</sup>	30,436	19,353	54,225	41,448
General agency revenue	\$ 43.1	\$ 27.3	\$ 77.2	\$ 59.7
Maturities	\$ 87.5	\$ 94.8	\$ 198.8	\$ 188.7
Maturities (number of contracts)	14,608	16,553	33,604	32,473

<sup>(1)</sup> Amounts are not included in our Consolidated Balance Sheet.

*Trust-Funded Preneed Contracts:* The funds collected from customers and required by state or provincial law are deposited into trusts. 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. Although this represents cash flow to us, the associated revenues are deferred until the merchandise is delivered or services are performed (typically at maturity). The funds in trust are then invested by professional money managers with oversight by independent trustees in accordance with state and provincial laws.

The tables below detail our results of preneed production and maturities, excluding insurance contracts:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
(Dollars in millions)				
<b>Funeral:</b>				
Preneed trust-funded (including bonded):				
Sales production	\$ 112.2	\$ 79.8	\$ 229.3	\$ 169.0
Sales production (number of contracts)	28,740	21,677	60,469	44,856
Maturities	\$ 82.3	\$ 71.6	\$ 172.9	\$ 150.0
Maturities (number of contracts)	19,265	19,445	42,159	39,035
<b>Cemetery:</b>				
Sales production:				
Preneed	\$ 359.7	\$ 265.2	\$ 683.9	\$ 459.3
Atneed	112.2	93.8	242.3	178.4
Total sales production	\$ 471.9	\$ 359.0	\$ 926.2	\$ 637.7
Sales production deferred to backlog:				
Preneed	\$ 150.5	\$ 116.8	\$ 275.4	\$ 211.4
Atneed	79.9	67.0	169.1	129.3
Total sales production deferred to backlog	\$ 230.4	\$ 183.8	\$ 444.5	\$ 340.7
Revenue recognized from backlog:				
Preneed	\$ 85.3	\$ 76.5	\$ 170.4	\$ 142.4
Atneed	75.7	63.8	157.9	125.6
Total revenue recognized from backlog	\$ 161.0	\$ 140.3	\$ 328.3	\$ 268.0

*Backlog of Preneed Contracts:* The following table reflects our backlog of trust-funded deferred preneed contract revenue, including amounts related to Deferred receipts held in trust at June 30, 2021 and December 31, 2020. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our Consolidated Balance Sheet) at June 30, 2021 and December 31, 2020. The backlog amounts presented include amounts due from customers for undelivered performance obligations on cancelable preneed contracts to arrive at our total backlog of deferred revenue. The table does not

include the backlog associated with businesses that are held for sale.

The table also reflects our preneed receivables and trust investments associated with the backlog of deferred preneed contract revenue, including the amounts due from customers for undelivered performance obligations on cancelable preneed contracts. 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 funds associated with this revenue. Because the future revenue exceeds the assets, future revenue will exceed the cash distributions actually received from the associated trusts and future collections from the customer.

	June 30, 2021		December 31, 2020	
	Fair Value	Cost	Fair Value	Cost
	(In billions)			
Deferred revenue, net	\$ 1.52	\$ 1.52	\$ 1.49	\$ 1.49
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts	0.68	0.68	0.64	0.64
Deferred receipts held in trust	4.61	3.77	4.27	3.66
Allowance for cancellation on trust investments	(0.32)	(0.25)	(0.29)	(0.25)
Backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	6.49	5.72	6.11	5.54
Backlog of insurance-funded revenue <sup>(1)</sup>	6.72	6.72	6.58	6.58
Total backlog of deferred revenue	\$ 13.21	\$ 12.44	\$ 12.69	\$ 12.12
Preneed receivables, net and trust investments	\$ 5.79	\$ 4.94	\$ 5.35	\$ 4.73
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts	0.68	0.68	0.64	0.64
Allowance for cancellation on trust investments	(0.32)	(0.25)	(0.29)	(0.25)
Assets associated with backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	6.15	5.37	5.70	5.12
Insurance policies associated with insurance-funded deferred revenue <sup>(1)</sup>	6.72	6.72	6.58	6.58
Total assets associated with backlog of preneed revenue	\$ 12.87	\$ 12.09	\$ 12.28	\$ 11.70

<sup>(1)</sup> Amounts are not included in our 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 June 30, 2021, the difference between the backlog and asset market amounts represents \$0.20 billion related to contracts for which we have posted surety bonds as financial assurance in lieu of trusting, \$1.13 billion collected from customers that were not required to be deposited into trusts, and \$0.18 billion in allowable cash distributions from trust assets partially offset by \$1.17 billion in amounts due on delivered property and merchandise. As of June 30, 2021, the fair value of the total backlog comprised \$3.74 billion related to cemetery contracts and \$9.47 billion related to funeral contracts. As of June 30, 2021, the fair value of the assets associated with the backlog of trust-funded deferred revenue comprised \$3.64 billion related to cemetery contracts and \$2.51 billion related to funeral contracts. As of June 30, 2021, the backlog of insurance-funded contracts of \$6.72 billion was equal to the proceeds we expect to receive from the associated insurance policies.

## 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. 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 generally remains in the trust in perpetuity and the earnings or elected distributions are withdrawn as allowed to defray 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 earnings that are distributed. Additionally, some states allow a total return distribution that may contain elements of income, capital appreciation, and principal.

## PART I

Independent trustees manage and invest the majority of the funds deposited into the funeral and cemetery merchandise and service trusts as well as the cemetery perpetual care trusts. The majority of the 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. 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.

Asset allocation is based on the liability structure of each funeral, cemetery, and perpetual care trust. Based on the various criteria set forth in the investment policy, the investment advisor recommends investment managers to the trustees. 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 several years to mature; therefore, the funds associated with these contracts are often invested through several market cycles.

Where allowed by state and provincial regulations, the cemetery perpetual care trusts' primary investment objectives are growth-oriented to provide for a fixed distribution rate from the trusts' assets, similar to university endowments. Where such distributions are limited to ordinary income, the cemetery perpetual care trusts' investment objectives emphasize providing a steady stream of current investment income with some capital appreciation. Both types of distributions are used to provide for the current and future maintenance and beautification of the cemetery properties.

As of June 30, 2021, approximately 89% of our trusts were under the control and custody of three large financial institutions. The U.S. trustees primarily use four managed limited liability companies (LLCs), one for each merchandise and service trust type and two for the cemetery perpetual care trust type, each with an 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 appropriate LLCs' units. For those accounts not eligible for participation in the LLCs or where a particular state's regulations contain other 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. These alternative investments are held in vehicles 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 alternative investment 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 one of four managed LLCs, matched to their 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, some of 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, 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.

### 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 invested 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 contracts 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 are exposed to market risk; however, we believe these securities are well-diversified. As of June 30, 2021, the largest single equity position represented less than 1% of the total securities portfolio.



*Private equity fund investments* serve to provide high rates of return with reduced volatility and lower correlation. 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 but not limited to private equity, real estate, energy, infrastructure, transportation, 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 six months ended June 30, 2021, the Standard and Poor's 500 Index increased 15.3% and the Barclay's Aggregate Index decreased 1.6%. This compares to the SCI trusts that increased 10.5% during the same period. SCI trusts have a diversified allocation of approximately 61% equities, 27% fixed income securities, 7% alternative and other investments with the remaining 5% available in cash.

Recognized trust fund income (realized and unrealized) related to our preneed trust investments was \$88.8 million and \$59.2 million, for the six months ended June 30, 2021 and 2020, respectively. Recognized trust fund income (realized and unrealized) related to our cemetery perpetual care trust investments was \$47.8 million and \$36.8 million for the six months ended June 30, 2021 and 2020, respectively. Trust fund income is significantly higher compared to the prior year due to higher investment returns, higher capital gains, and an increase in services performed.

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 June 30, 2021 and 2020

### Three Months Ended June 30, 2021 and 2020

#### Management Summary

In the second quarter of 2021, we reported consolidated net income attributable to common stockholders of \$157.7 million (\$0.92 per diluted share) compared to net income attributable to common stockholders in the second quarter of 2020 of \$105.5 million (\$0.59 per diluted share). These results were impacted by certain significant items including:

	Three months ended June 30,	
	2021	2020
	(In millions)	
Pre-tax gains on divestitures and impairment charges, net	\$ 6.2	\$ 0.7
Pre-tax loss on early extinguishment of debt, net	\$ (5.2)	\$ —
Tax effect from significant items	\$ (0.7)	\$ (0.1)

In addition to the above items, the increase over the prior year quarter can be attributed to higher gross profit related to strong growth in cemetery recognized preneed revenue primarily driven by a more productive and efficient sales force. Our current period results also benefited from fewer shares outstanding, lower interest expense, and a lower effective tax rate.

## Funeral Results

	Three months ended June 30,	
	2021	2020
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$ 531.7	\$ 480.9
Less: revenue associated with acquisitions/new construction	7.1	3.2
Less: revenue associated with divestitures	0.2	1.5
Comparable <sup>(1)</sup> funeral revenue	524.4	476.2
Less: comparable recognized preneed revenue	32.8	27.7
Less: comparable general agency and other revenue	39.8	24.6
Adjusted comparable funeral revenue	\$ 451.8	\$ 423.9
Comparable services performed	84,449	89,675
Comparable average revenue per service <sup>(2)</sup>	\$ 5,350	\$ 4,727
Consolidated funeral gross profit	\$ 108.4	\$ 116.0
Less: gross profit associated with acquisitions/new construction	1.3	1.2
Less: gross losses associated with divestitures	(0.2)	(0.2)
Comparable <sup>(1)</sup> funeral gross profit	\$ 107.3	\$ 115.0

<sup>(1)</sup> We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2020 and ending June 30, 2021.

<sup>(2)</sup> 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 is preneed sales of merchandise that are delivered at the time of sale, including memorial merchandise and travel protection, net, and 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 \$531.7 million for the three months ended June 30, 2021 compared to \$480.9 million for the same period in 2020. This \$50.8 million increase is primarily attributable to the \$3.9 million increase in revenue contributed by acquired and newly constructed properties and a \$48.2 million increase in comparable revenue as described below partially offset by the loss of \$1.3 million in revenue contributed by properties that have been subsequently divested.

Comparable revenue from funeral operations was \$524.4 million for the three months ended June 30, 2021 compared to \$476.2 million for the same period in 2020. This \$48.2 million, or 10.1%, increase was primarily attributable a 13.2% increase in the comparable average revenue per funeral service that was offset somewhat by a 5.8% decrease in comparable services performed during the second quarter of 2021 compared to 2020. The decrease in comparable services performed was primarily due to COVID-19 pandemic related deaths in the prior year quarter. Additionally, we experienced a \$15.2 million increase in comparable general agency and other revenue and a \$5.1 million increase in comparable recognized preneed revenue, as both increases resulted from increases in comparable preneed funeral sales production.

Comparable average revenue per funeral service increased \$623, or 13.2% for the three months ended June 30, 2021, compared to the same period in 2020. During the second quarter of 2020, the social distancing effects from the pandemic resulted in fewer and smaller memorial funeral services, which negatively impacted our average revenue per funeral service in the prior year quarter. Our total comparable cremation rate increased 20 basis points to 59.1% for the three months ended June 30, 2021.

### Funeral Gross Profit

Consolidated funeral gross profit decreased \$7.6 million, or 6.6%, for the three months ended June 30, 2021 compared to 2020. This decrease is primarily attributable to the decrease in comparable funeral gross profit of \$7.7 million, or 6.7%. Comparable funeral gross profit decreased \$7.7 million to \$107.3 million and the comparable gross profit percentage decreased 360 basis points to 20.5%. Funeral gross profit was reduced as staffing and service levels normalized compared to the prior year quarter, driven by our customers desire for more robust remembrances and celebrations. Fixed costs increased due to higher incentive compensation expense and pent up repairs and maintenance expenses.

## Cemetery Results

	Three months ended June 30,	
	2021	2020
	(In millions)	
Consolidated cemetery revenue	\$ 455.8	\$ 339.1
Less: revenue associated with acquisitions/new construction	0.1	—
Less: revenue associated with divestitures	0.1	0.1
Comparable <sup>(1)</sup> cemetery revenue	\$ 455.6	\$ 339.0
Consolidated cemetery gross profit	\$ 160.3	\$ 102.8
Less: gross profit associated with divestitures	0.1	—
Comparable <sup>(1)</sup> cemetery gross profit	\$ 160.2	\$ 102.8

<sup>(1)</sup> We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2020 and ending June 30, 2021.

### Cemetery Revenue

Consolidated revenue from our cemetery operations increased \$116.7 million, or 34.4%, for the three months ended June 30, 2021 compared to the same period in 2020 primarily due to an increase in comparable revenue. The \$116.6 million, or 34.4%, increase in comparable revenue was primarily attributable to a \$106.3 million increase in comparable core revenue. The increase in comparable core revenue was led by \$88.5 million of growth in recognized preneed revenue as a result of strong comparable preneed cemetery property sales production for the period as well a \$17.8 million, or 19.5%, increase in atneed revenue driven by an increase in services performed.

### Cemetery Gross Profit

Consolidated cemetery gross profit increased \$57.5 million, or 55.9%, in the three months ended June 30, 2021 compared to the same period in 2020, which is primarily attributable to the increase in comparable gross profit of \$57.4 million, or 55.8%. Comparable cemetery gross profit increased \$57.4 million to \$160.2 million, and the gross profit percentage increased 490 basis points to 35.2%, primarily resulting from the preneed cemetery property revenue and other higher margin revenue increases described above. The incremental margin on the revenue increases more than offset higher fixed costs in the current quarter relative to the prior year as staffing and service levels normalized driven by customer interaction and we recorded elevated levels of incentive compensation expense compared to the prior year second quarter.

## Other Financial Statement Items

### Corporate General and Administrative Expenses

Corporate general and administrative expenses decreased \$8.1 million to \$29.0 million for the second quarter of 2021. This was primarily due to fewer workers compensation, general liability, and auto liability insurance claims in the current year and higher charitable contributions in the prior year.

### Gains on Divestitures and Impairment Charges, Net

We recognized a \$6.2 million net pre-tax gain on asset divestitures and impairments, net in the second quarter of 2021 compared to a \$0.7 million net pre-tax gain in the second quarter of 2020 on asset divestitures associated with non-strategic funeral and cemetery locations in the United States and Canada.

### Interest Expense

Interest expense decreased \$4.3 million to \$37.4 million for the three months ended June 30, 2021 primarily due to lower interest rates on our floating rate debt and debt refinancing activities over the last twelve months.

### Provision for Income Taxes

Our effective tax rate was 22.6% and 25.5% for the three months ended June 30, 2021 and 2020, respectively. The lower effective tax rate for the three months ended June 30, 2021 was primarily due to the higher excess tax benefits recognized on the settlement of employee share-based awards.

## Weighted Average Shares

The diluted weighted average number of shares outstanding was 170.9 million for the three months ended June 30, 2021 compared to 179.7 million for the same period in 2020. The decrease primarily reflects the impact of shares repurchased under our share repurchase program.

## Six Months Ended June 30, 2021 and 2020

### Management Summary

In the first six months of 2021, we reported consolidated net income attributable to common stockholders of \$386.6 million (\$2.25 per diluted share) compared to net income attributable to common stockholders for the same period in 2020 of \$187.4 million (\$1.03 per diluted share). These results were impacted by certain significant items including:

	Six months ended June 30,	
	2021	2020
	(In millions)	
Pre-tax gains on divestitures and impairment charges, net	\$ 7.4	\$ 5.3
Pre-tax losses on early extinguishment of debt, net	\$ (5.2)	\$ (0.2)
Tax effect from significant items	\$ (0.9)	\$ (1.2)

In addition to the above items, the increase over the prior year can be attributed to higher funeral and cemetery gross profit and lower interest expense, which was partially offset by higher income taxes on higher earnings. Additionally, earnings per share was positively impacted by fewer shares outstanding.

### Funeral Results

	Six months ended June 30,	
	2021	2020
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$ 1,151.1	\$ 985.8
Less: revenue associated with acquisitions/new construction	14.4	4.1
Less: revenue associated with divestitures	0.6	3.1
Comparable <sup>(1)</sup> funeral revenue	1,136.1	978.6
Less: comparable recognized preneed revenue	74.3	60.4
Less: comparable general agency and other revenue	69.4	53.9
Adjusted comparable funeral revenue	\$ 992.4	\$ 864.3
Comparable services performed	189,600	175,676
Comparable average revenue per service <sup>(2)</sup>	\$ 5,234	\$ 4,920
Consolidated funeral gross profit	\$ 299.2	\$ 219.5
Less: gross profit associated with acquisitions/new construction	3.4	1.3
Less: gross losses associated with divestitures	(1.1)	(1.1)
Comparable <sup>(1)</sup> funeral gross profit	\$ 296.9	\$ 219.3

<sup>(1)</sup> We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2020 and ending June 30, 2021.

<sup>(2)</sup> 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 is preneed sales of merchandise that are delivered at the time of sale, including memorial merchandise and travel protection, net, and 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 \$1,151.1 million for the six months ended June 30, 2021, compared to \$985.8 million for the same period in 2020. This \$165.3 million increase is primarily attributable to the \$10.3 million increase in revenue contributed by acquired and newly constructed properties and a \$157.5 million increase in comparable revenue as described below partially offset by the loss of \$2.5 million in revenue contributed by properties that have been subsequently divested.

Comparable revenue from funeral operations was \$1,136.1 million for the six months ended June 30, 2021 compared to \$978.6 million for the same period in 2020. This \$157.5 million, or 16.1%, increase was primarily attributable to a 7.9% increase in comparable services performed compared to 2020 primarily due to COVID-19 pandemic related deaths during the first quarter of 2021. The increase in comparable services performed comprised a 7.0% increase in services performed by our funeral service locations and a 14.0% increase in cremations performed by our non-funeral home channel. Additionally, we experienced a \$15.5 million increase in comparable general agency and other revenue and a \$13.9 million increase in comparable recognized preneed revenue, as both increases resulted from increases in comparable preneed funeral sales production.

Comparable average revenue per funeral service increased \$314, or 6.4% for the six months ended June 30, 2021 compared to the same period in 2020. During the second quarter of 2020, the social distancing effects from the pandemic resulted in fewer and smaller memorial funeral services, which negatively impacted our average revenue per funeral service in the prior year. Our total comparable cremation rate increased 30 basis points to 58.8% for the six months ended June 30, 2021.

## Funeral Gross Profit

Consolidated funeral gross profit increased \$79.7 million, or 36.3%, in the first six months of 2021 compared to 2020. This increase is primarily attributable to increases in comparable funeral gross profit of \$77.6 million, or 35.4%, as well as a \$2.1 million increase in gross profit contributed by acquired and newly constructed properties. Comparable funeral gross profit increased \$77.6 million to \$296.9 million and the comparable gross profit percentage increased 370 basis points to 26.1% as the growth in comparable funeral revenue more than offset higher fixed costs in the current period relative to the prior year as staffing and service levels normalized from our customers desire for more robust remembrances and celebrations in the current year compared to the prior year.

## Cemetery Results

	<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(In millions)</b>	
Consolidated cemetery revenue	\$ 914.4	\$ 637.2
Less: revenue associated with acquisitions/new construction	0.1	—
Less: revenue associated with divestitures	0.2	0.2
Comparable <sup>(1)</sup> cemetery revenue	\$ 914.1	\$ 637.0
Consolidated cemetery gross profit	\$ 347.0	\$ 178.3
Less: gross profit associated with divestitures	0.1	0.1
Comparable <sup>(1)</sup> cemetery gross profit	\$ 346.9	\$ 178.2

<sup>(1)</sup> We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2020 and ending June 30, 2021.

## Cemetery Revenue

Consolidated revenue from our cemetery operations increased \$277.2 million, or 43.5%, for the six months ended June 30, 2021 compared to the same period in 2020 primarily due to an increase in comparable cemetery revenue. The \$277.1 million, or 43.5%, increase in comparable cemetery revenue was primarily attributable to a \$207.9 million increase in comparable recognized preneed revenue as a result of strong comparable preneed cemetery property sales production for the period as well as a \$57.5 million, or 32.6%, increase in comparable atneed revenue driven by an increase in services performed.

## Cemetery Gross Profit

Consolidated cemetery gross profit increased \$168.7 million, or 94.6%, in the six months ended June 30, 2021 compared to the same period in 2020, which is primarily attributable to the increase in comparable gross profit of \$168.7 million, or 94.7%. Comparable cemetery gross profit increased \$168.7 million to \$346.9 million, and the gross profit percentage increased 990 basis points to 37.9%, the growth in comparable cemetery revenue more than offset higher fixed costs in the current period relative to the prior year as staffing and service levels normalized from our customers desire for more robust remembrances and celebrations in the current year compared to the prior year.

## Other Financial Statement Items

### Corporate General and Administrative Expenses

*Corporate general and administrative expenses* decreased \$3.2 million to \$65.8 million for the six months ended June 30, 2021. This was primarily due to fewer workers compensation, general liability, and auto liability insurance claims in the current year and higher charitable contributions in the prior year.

### Gains on Divestitures and Impairment Charges, Net

We recognized a \$7.4 million net pre-tax gain on asset divestitures and impairments, net in the six months ended June 30, 2021 compared to a \$5.3 million pre-tax gain on asset divestitures in the six months ended June 30, 2020 associated with the disposition of non-strategic funeral and cemetery locations in the United States and Canada. The first six months of 2020 also included \$3.1 million in impairment charges primarily related to certain tradenames.

### Interest Expense

*Interest expense* decreased \$12.9 million to \$73.2 million for six months ended June 30, 2021 primarily due to lower interest rates on our floating rate debt and debt refinancing activities over the last twelve months.

### Provision for Income Taxes

Our effective tax rate was 24.2% and 24.3% for the six months ended June 30, 2021 and 2020, respectively. The effective tax rate was higher than the federal statutory tax rate of 21% primarily due to state tax expenses partially offset by excess tax benefits recognized on the settlement of employee share-based awards.

### Weighted Average Shares

The diluted weighted average number of shares outstanding was 171.6 million for the six months ended June 30, 2021 compared to 181.6 million for the same period in 2020. The decrease primarily reflects the impact of shares repurchased under our share repurchase program.

## Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes

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. Although we base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, actual results may differ from the estimates on which our financial statements are prepared at any given point of time. Changes in these estimates could materially affect our consolidated financial position, consolidated results of operations, or cash flows. Significant items that are subject to such estimates and assumptions include revenue and expense accruals, fair value of merchandise and perpetual care trust assets, and the allocation of purchase price to the fair value of assets acquired. Our critical accounting policies have not significantly changed since December 31, 2020 and are disclosed in our Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

### Recent Accounting Pronouncements and Accounting Changes

For discussion of recent accounting pronouncements and accounting changes, see Part I, Item 1. Financial Statements, [Note 2](#) of this Form 10-Q.

## 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 consolidated results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by, or on behalf of, the Company. These factors are discussed below. We assume no obligation and make no undertaking to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by the Company, whether as a result of new information, future events, or otherwise.

- Continued effects from the COVID-19 pandemic could have material adverse consequences for our business and results of operations.
- Our affiliated trust funds own investments in securities, which are affected by market conditions that are beyond our control.
- We may be required to replenish our affiliated funeral and cemetery trust funds 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 activities, we may be required to make material cash payments to fund certain trust funds.
- Increasing death benefits related to preneed contracts funded through life insurance or annuity 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 contracts may impact our future revenue.
- Unfavorable publicity could affect our reputation and business.
- We use a combination of insurance, self-insurance, and large deductibles in managing our exposure to certain inherent risks; therefore, we could be exposed to unexpected costs that could negatively affect our financial performance.
- 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, financial condition, or cash flow.
- 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.
- A failure of a key information technology system or process could disrupt and adversely affect our business.
- Failure to maintain effective internal control over financial reporting could adversely affect our results of operations, investor confidence, and our stock price.
- The funeral and cemetery industry is competitive.
- If the number of deaths in our markets declines, our cash flows and revenue may decrease. Changes in the number of deaths are not predictable from market to market or over the short term.
- If we are not able to respond effectively to changing consumer preferences, our market share, revenue, and/or profitability could decrease.
- The continuing upward trend in the number of cremations performed in North America could result in lower revenue, operating profit, and cash flows.
- Our funeral and cemetery businesses are high fixed-cost businesses.
- Regulation and compliance could have a material adverse impact on our financial results.
- Unfavorable results of litigation could have a material adverse impact on our financial statements.
- Cemetery burial practice claims could have a material adverse impact on our financial results.
- 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 financial results.

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- Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could have a material adverse effect on the results of our operations, financial condition, or cash flows.

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2020 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](http://www.sci-corp.com). We assume no obligation and make no undertaking 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

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term "market" risk refers to the risk of gains or losses arising from changes in interest rates and prices of marketable securities. The disclosures are not meant to be precise indicators of expected future gains or losses, but rather indicators of reasonably possible gains or losses. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures. All of our market risk-sensitive instruments were entered into for purposes other than trading.

#### 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 June 30, 2021 are presented in Part I, Item 1. Financial Statements, Note 3 of this Form 10-Q. Also, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations "Financial Condition, Liquidity and Capital Resources" section for discussion of trust investments.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

As of June 30, 2021, 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 June 30, 2021 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our consolidated financial condition, consolidated results of operations, and cash flows for the periods presented in conformity with US GAAP.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2021 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 Part I, Item 1. Financial Statements, [Note 9](#) of this Form 10-Q, which information is hereby incorporated by reference herein.

### Item 1A. Risk Factors

There have been no material changes in our Risk Factors as set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

The following table summarizes our share repurchases during the three months ended June 30, 2021:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Approximate Dollar Value of Shares That May Yet be Purchased Under the Program</b>
April 1, 2021 — April 30, 2021	695,722	\$ 52.03	695,722	\$ 90,562,099
May 1, 2021 — May 31, 2021 <sup>(1)</sup>	188,084	\$ 53.20	186,786	\$ 494,995,519
June 1, 2021 — June 30, 2021 <sup>(2)</sup>	657,792	\$ 52.97	657,733	\$ 460,156,506
	1,541,598		1,540,241	

<sup>(1)</sup> 1,298 shares were purchased in May 2021 in connection with the surrender of shares by associates to satisfy certain tax withholding obligations under compensation plans. These repurchases were not part of our publicly announced program and do not affect our share repurchase program.

<sup>(2)</sup> 59 shares were purchased in June 2021 in connection with the surrender of shares by associates to satisfy certain tax withholding obligations under compensation plans. These repurchases were not part of our publicly announced program and do not affect our share repurchase program.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

No other information.

## Item 6. Exhibits

Exhibit Number	Description
3.1	— Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-10867 on Form S-3).
3.2	— Articles of Amendment to Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended September 30, 1996).
3.3	— Certificate of Amendment to Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Form 8-K filed May 25, 2018).
3.4	— Statement of Resolution Establishing Series of Shares of Series D Junior Participating Preferred Stock, dated July 27, 1998 (Incorporated by reference to Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 1998).
3.5	— Bylaws of the Company. (Incorporated by reference to Exhibit 3.4 to Form 8-K filed May 25, 2018).
4.1	— Senior Indenture dated as of February 1, 1993 by and between the Company and The Bank of New York, as trustee (Incorporated by reference as Exhibit 4.1 to Form S-4 filed September 2, 2004 (File No. 333-118763)).
4.2	— Agreement of Resignation, Appointment of Acceptance, dated December 12, 2005, among the Company, The Bank of New York and The Bank of New York Trust Company, N.A., appointing a successor trustee for the Senior Indenture dated as of February 1, 1993 (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the fiscal quarter ended June 30, 2005).
4.3	— Eighteenth Supplemental Indenture dated as of May 24, 2021, among Service Corporation International, The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York, as original trustee and BOKF, NA, as series trustee (Incorporated by reference to Exhibit 4.2 to Form 8-K filed May 24, 2021).
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 formatted Inline XBRL.
104	— Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

## Signature

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

July 29, 2021

SERVICE CORPORATION INTERNATIONAL

By: /s/ TAMMY MOORE

Tammy Moore,  
*Vice President and Corporate Controller*  
*(Principal Accounting Officer)*