
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 **SEPTEMBER 30, 2022**

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 November 2, 2022 was 153,805,512 (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 Marker — A method of identifying a deceased person in a particular burial space, crypt, niche, or cremation memorialization property. Permanent burial and cremation memorialization cemetery markers are usually made of bronze or stone.

Cemetery Merchandise and Services — Stone and bronze memorials, cemetery 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, glass front niches, 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 to a preneed customer 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 health and 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.

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 unaudited Condensed 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 service provided by a third-party 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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(In thousands, except per share amounts)				
Revenue				
Property and merchandise revenue	\$ 508,746	\$ 532,722	\$ 1,600,109	\$ 1,607,090
Service revenue	403,725	432,458	1,278,841	1,287,934
Other revenue	65,249	69,192	202,028	204,864
Total revenue	977,720	1,034,372	3,080,978	3,099,888
Costs of revenue				
Cost of property and merchandise	(256,700)	(248,957)	(779,230)	(748,716)
Cost of service	(222,636)	(210,344)	(659,978)	(615,700)
Overhead and other expenses	(267,428)	(237,068)	(767,256)	(741,702)
Costs of revenue	(746,764)	(696,369)	(2,206,464)	(2,106,118)
Gross profit	230,956	338,003	874,514	993,770
Corporate general and administrative expenses	(41,911)	(41,461)	(129,336)	(116,779)
Gains on divestitures and impairment charges, net	14,403	7,804	15,186	15,232
Operating income	203,448	304,346	760,364	892,223
Interest expense	(43,508)	(38,618)	(123,107)	(111,865)
Losses on early extinguishment of debt, net	—	—	(1,225)	(5,226)
Other (expense) income, net	(1,514)	8,218	(2,489)	9,214
Income before income taxes	158,426	273,946	633,543	784,346
Provision for income taxes	(37,521)	(64,003)	(159,925)	(187,659)
Net income	120,905	209,943	473,618	596,687
Net income attributable to noncontrolling interests	(55)	(88)	(585)	(248)
Net income attributable to common stockholders	\$ 120,850	\$ 209,855	\$ 473,033	\$ 596,439
Basic earnings per share:				
Net income attributable to common stockholders	\$ 0.77	\$ 1.25	\$ 2.98	\$ 3.54
Basic weighted average number of shares	156,781	167,417	158,921	168,586
Diluted earnings per share:				
Net income attributable to common stockholders	\$ 0.76	\$ 1.23	\$ 2.93	\$ 3.49
Diluted weighted average number of shares	159,100	170,005	161,398	171,057

(See notes to unaudited condensed consolidated financial statements)

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Net income	\$ 120,905	\$ 209,943	\$ 473,618	\$ 596,687
Other comprehensive income:				
Foreign currency translation adjustments	(22,046)	(11,345)	(28,634)	594
Total comprehensive income	98,859	198,598	444,984	597,281
Total comprehensive income attributable to noncontrolling interests	(50)	(87)	(579)	(247)
Total comprehensive income attributable to common stockholders	\$ 98,809	\$ 198,511	\$ 444,405	\$ 597,034

(See notes to unaudited condensed consolidated financial statements)

Service Corporation International

Condensed Consolidated Balance Sheet (Unaudited)

	September 30, 2022	December 31, 2021
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 167,965	\$ 268,626
Receivables, net of reserves of \$5,836 and \$6,338, respectively	86,471	106,051
Inventories	31,595	25,935
Other	52,315	40,448
Total current assets	338,346	441,060
Preneed receivables, net of reserves of \$24,363 and \$20,727, respectively, and trust investments	5,278,066	6,015,323
Cemetery property	1,912,232	1,900,844
Property and equipment, net	2,297,950	2,252,158
Goodwill	1,907,169	1,915,082
Deferred charges and other assets, net of reserves of \$3,616 and \$4,577, respectively	1,150,264	1,169,813
Cemetery perpetual care trust investments	1,607,502	1,996,898
Total assets	\$ 14,491,529	\$ 15,691,178
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 641,400	\$ 659,494
Current maturities of long-term debt	63,510	65,016
Income taxes payable	1,678	3,751
Total current liabilities	706,588	728,261
Long-term debt	4,127,411	3,901,304
Deferred revenue, net	1,600,338	1,532,749
Deferred tax liability	447,433	437,902
Other liabilities	407,269	438,903
Deferred receipts held in trust	3,921,886	4,766,492
Care trusts' corpus	1,603,182	1,976,118
Commitments and contingencies (Note 9)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 167,598,044 and 166,821,502 shares issued, respectively, and 154,737,723 and 163,114,202 shares outstanding, respectively	154,738	163,114
Capital in excess of par value	951,247	979,096
Retained earnings	559,631	727,021
Accumulated other comprehensive income	11,586	40,214
Total common stockholders' equity	1,677,202	1,909,445
Noncontrolling interests	220	4
Total equity	1,677,422	1,909,449
Total liabilities and equity	\$ 14,491,529	\$ 15,691,178

(See notes to unaudited condensed consolidated financial statements)

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

	Nine months ended September 30,	
	2022	2021
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 473,618	\$ 596,687
Adjustments to reconcile net income to net cash provided by operating activities:		
Losses on early extinguishment of debt, net	1,225	5,226
Depreciation and amortization	130,451	119,200
Amortization of intangibles	14,059	15,095
Amortization of cemetery property	69,059	75,394
Amortization of loan costs	5,182	4,736
Provision for expected credit losses	11,404	8,545
Provision for (benefit from) deferred income taxes	7,302	(8,125)
Gains on divestitures and impairment charges, net	(15,186)	(15,232)
Gain on sale of investments	(1,169)	—
Share-based compensation	11,063	10,630
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease (increase) in receivables	15,349	(9,921)
Decrease (increase) in other assets	2,622	(39,681)
(Decrease) increase in payables and other liabilities	(17,147)	84,404
Effect of preneed sales production and maturities:		
Increase in preneed receivables, net and trust investments	(248,289)	(246,867)
Increase in deferred revenue, net	173,474	92,991
Increase in deferred receipts held in trust	22,426	37,280
Net cash provided by operating activities	655,443	730,362
Cash flows from investing activities:		
Capital expenditures	(252,763)	(177,767)
Business acquisitions, net of cash acquired	(13,488)	(9,221)
Real estate acquisitions	(8,901)	(15,642)
Proceeds from divestitures and sales of property and equipment	31,394	25,602
Proceeds from sale of investments and other	1,330	—
Payments for Company-owned life insurance policies	(1,788)	(3,666)
Net cash used in investing activities	(244,216)	(180,694)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	325,000	820,000
Debt issuance costs	—	(13,640)
Scheduled payments of debt	(27,212)	(27,110)
Early payments and extinguishment of debt	(65,591)	(699,837)
Principal payments on finance leases	(26,779)	(25,421)
Proceeds from exercise of stock options	16,840	34,521
Purchase of Company common stock	(586,562)	(344,373)
Payments of dividends	(118,435)	(109,285)
Bank overdrafts and other	(13,854)	(3,497)
Net cash used in financing activities	(496,593)	(368,642)
Effect of foreign currency	(4,744)	(197)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(90,110)	180,829
Cash, cash equivalents, and restricted cash at beginning of period	278,555	238,610
Cash, cash equivalents, and restricted cash at end of period	\$ 188,445	\$ 419,439

(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	Noncontrolling Interest	Total
(In thousands, except per share amounts)							
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, 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, 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
Comprehensive income	—	—	—	209,855	(11,344)	87	198,598
Dividends declared on common stock (\$0.23 per share)	—	—	—	(38,365)	—	—	(38,365)
Employee share-based compensation earned	—	—	3,534	—	—	—	3,534
Stock option exercises	666	—	17,601	—	—	—	18,267
Restricted stock awards, net of forfeitures	—	—	—	—	—	—	—
Noncontrolling interest payments	—	—	—	—	—	(60)	(60)
Purchase of Company common stock	—	(2,554)	(15,092)	(139,544)	—	—	(157,190)
Other	—	—	(1,000)	—	—	—	(1,000)
Balance at September 30, 2021	\$ 176,391	\$ (10,310)	\$ 989,834	\$ 746,019	\$ 39,961	\$ —	\$ 1,941,895

(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	Noncontrolling Interest	Total
(In thousands, except per share amounts)							
Balance at December 31, 2021	\$ 166,822	\$ (3,708)	\$ 979,096	\$ 727,021	\$ 40,214	\$ 4	\$ 1,909,449
Comprehensive income	—	—	—	219,513	7,279	54	226,846
Dividends declared on common stock (\$0.25 per share)	—	—	—	(39,964)	—	—	(39,964)
Employee share-based compensation earned	—	—	3,687	—	—	—	3,687
Stock option exercises	7	—	265	—	—	—	272
Restricted stock awards and units, net of forfeitures	147	—	(147)	—	—	—	—
Purchase of Company common stock	—	(4,104)	(24,613)	(227,638)	—	—	(256,355)
Noncontrolling interest payments	—	—	—	—	—	(162)	(162)
Other	—	—	(1,127)	—	—	—	(1,127)
Balance at March 31, 2022	\$ 166,976	\$ (7,812)	\$ 957,161	\$ 678,932	\$ 47,493	\$ (104)	\$ 1,842,646
Comprehensive income	—	—	—	132,670	(13,866)	475	119,279
Dividends declared on common stock (\$0.25 per share)	—	—	—	(39,663)	—	—	(39,663)
Employee share-based compensation earned	—	—	3,713	—	—	—	3,713
Stock option exercises	574	—	15,351	—	—	—	15,925
Restricted stock awards and units, net of forfeitures	2	—	(2)	—	—	—	—
Purchase of Company common stock	—	(1,545)	(9,327)	(92,887)	—	—	(103,759)
Noncontrolling interest payments	—	—	—	—	—	(141)	(141)
Other	24	—	1,559	—	—	—	1,583
Balance at June 30, 2022	\$ 167,576	\$ (9,357)	\$ 968,455	\$ 679,052	\$ 33,627	\$ 230	\$ 1,839,583
Comprehensive income	—	—	—	120,850	(22,041)	50	98,859
Dividends declared on common stock (\$0.25 per share)	—	—	—	(38,808)	—	—	(38,808)
Employee share-based compensation earned	—	—	3,663	—	—	—	3,663
Stock option exercises	23	—	620	—	—	—	643
Restricted stock awards and units, net of forfeitures	—	(1)	1	—	—	—	—
Purchase of Company common stock	—	(3,503)	(21,482)	(201,463)	—	—	(226,448)
Noncontrolling interest payments	—	—	—	—	—	(60)	(60)
Other	—	—	(10)	—	—	—	(10)
Balance at September 30, 2022	\$ 167,599	\$ (12,861)	\$ 951,247	\$ 559,631	\$ 11,586	\$ 220	\$ 1,677,422

(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 cemetery markers and bases, outer burial containers, flowers and floral placement, other ancillary merchandise, graveside memorial services, merchandise installation, and interments, are sold at our cemeteries.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

Our unaudited condensed consolidated financial statements include the accounts of Service Corporation International 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. 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.

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation with no effect on our consolidated net income or cash flows.

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, 2021, 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.

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

	September 30, 2022	December 31, 2021
(In thousands)		
Cash and cash equivalents	\$ 167,965	\$ 268,626
Restricted cash ⁽¹⁾		
Included in <i>Other current assets</i>	18,245	7,847
Included in <i>Deferred charges and other assets, net</i>	2,235	2,082
Total restricted cash	20,480	9,929
Total cash, cash equivalents, and restricted cash	\$ 188,445	\$ 278,555

⁽¹⁾ 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:

	September 30, 2022				
	Atneed Funeral	Atneed Cemetery	Miscellaneous	Current Portion of Notes	Total
(In thousands)					
Receivables	\$ 33,613	\$ 26,019	\$ 32,500	\$ 175	\$ 92,307
Reserve for credit losses	(3,228)	(2,104)	(359)	(145)	(5,836)
Receivables, net	\$ 30,385	\$ 23,915	\$ 32,141	\$ 30	\$ 86,471

	December 31, 2021				
	Atneed Funeral	Atneed Cemetery	Miscellaneous	Current Portion of Notes	Total
(In thousands)					
Receivables	\$ 49,011	\$ 27,461	\$ 35,650	\$ 267	\$ 112,389
Reserve for credit losses	(3,597)	(2,231)	(344)	(166)	(6,338)
Receivables, net	\$ 45,414	\$ 25,230	\$ 35,306	\$ 101	\$ 106,051

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

	September 30, 2022	December 31, 2021
(In thousands)		
Notes receivable	\$ 8,473	\$ 8,684
Reserve for credit losses	(2,546)	(3,424)
Notes receivable, net	\$ 5,927	\$ 5,260
Long-term miscellaneous receivables	\$ 8,139	\$ 8,146
Reserve for credit losses	(1,070)	(1,153)
Long-term miscellaneous receivables, net	\$ 7,069	\$ 6,993

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 nine months ended September 30, 2022:

	December 31, 2021	(Provision) benefit for Expected Credit Losses	Acquisitions (Divestitures), net	Write Offs	Recoveries	Effect of Foreign Currency and Other	September 30, 2022
(In thousands)							
Trade receivables:							
Funeral	\$ (3,597)	\$ (4,192)	\$ (27)	\$ 6,082	\$ (1,698)	\$ 204	\$ (3,228)
Cemetery	(2,231)	(572)	(17)	881	(168)	3	(2,104)
Total reserve for credit losses on trade receivables	\$ (5,828)	\$ (4,764)	\$ (44)	\$ 6,963	\$ (1,866)	\$ 207	\$ (5,332)
Miscellaneous receivables:							
Current	\$ (344)	\$ (38)	\$ —	\$ —	\$ —	\$ 23	\$ (359)
Long-term	(1,153)	83	—	—	—	—	(1,070)
Total reserve for credit losses on miscellaneous receivables	\$ (1,497)	\$ 45	\$ —	\$ —	\$ —	\$ 23	\$ (1,429)
Notes receivable	\$ (3,590)	\$ 15	\$ —	\$ 877	\$ —	\$ 7	\$ (2,691)

At September 30, 2022, the amortized cost basis of our miscellaneous and notes receivables by year of origination was as follows:

	2022	2021	2020	2019	2018	Prior	Revolving Line of Credit	Total
(In thousands)								
Miscellaneous receivables:								
Current	\$ 31,008	\$ 747	\$ 348	\$ 301	\$ 94	\$ 2	\$ —	\$ 32,500
Long-term	2,757	2,726	1,162	1,293	193	8	—	8,139
Total miscellaneous receivables	\$ 33,765	\$ 3,473	\$ 1,510	\$ 1,594	\$ 287	\$ 10	\$ —	\$ 40,639
Notes receivable	\$ —	\$ —	\$ —	\$ 49	\$ —	\$ 4,675	\$ 3,924	\$ 8,648

At September 30, 2022, 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			
(In thousands)							
Miscellaneous receivables:							
Current	\$ —	\$ —	\$ —	\$ 135	\$ 135	\$ 32,365	\$ 32,500
Long-term	—	—	—	—	—	8,139	8,139
Total miscellaneous receivables	\$ —	\$ —	\$ —	\$ 135	\$ 135	\$ 40,504	\$ 40,639
Notes receivable	\$ —	\$ —	\$ —	\$ 1,116	\$ 1,116	\$ 7,532	\$ 8,648

Recently Issued Accounting Standards

Business Combinations

In October 2021, the Financial Accounting Standards Board ("FASB") amended guidance to require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. Generally, this new guidance will result in the Company recognizing contract assets and contract liabilities consistent with those reported by the acquiree immediately before the acquisition date. We have adopted the new guidance and will apply it to customer contracts acquired in business combinations, if any, after January 1, 2022. The adoption had no impact on our consolidated results of operations, consolidated financial position, and cash flows.

Financial Instruments

In March 2022, the FASB amended guidance to require public companies to disclose the vintage year of receivable write-offs during the reporting period. This new disclosure is required for us beginning with our Form 10-Q for the three months ended March 31, 2023 and we will add the additional disclosures if write-offs during the period are material. The amended guidance is not expected to have any impact on our consolidated results of operations, consolidated financial position, and cash flows.

Fair Value Measurements

In June 2022, the FASB amended guidance to clarify that the fair value of investments in equity instruments with contractual sale restrictions should not be discounted as a result of the contractual restrictions. Additionally, the new guidance mandated disclosure of the fair value of any such securities, a description of the nature and duration of the restrictions, and circumstances that could cause a lapse in the restrictions. The new guidance is effective for us beginning with valuations that occur after January 1, 2024 and is not expected to have any impact on our consolidated results of operations, consolidated financial position, and cash flows.

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:

	September 30, 2022	December 31, 2021
	(In thousands)	
Preneed receivables, net	\$ 1,347,159	\$ 1,243,781
Trust investments, at market	5,320,816	6,536,851
Insurance-backed fixed income securities and other	217,593	231,589
Trust investments	5,538,409	6,768,440
Less: Cemetery perpetual care trust investments	(1,607,502)	(1,996,898)
Preneed trust investments	3,930,907	4,771,542
<i>Preneed receivables, net and trust investments</i>	\$ 5,278,066	\$ 6,015,323

Preneed receivables, net comprised the following:

September 30, 2022			
	Funeral	Cemetery	Total
(In thousands)			
Preneed receivables	\$ 176,702	\$ 1,213,588	\$ 1,390,290
Unearned finance charges	(11,270)	(7,498)	(18,768)
Preneed receivables, at amortized cost	165,432	1,206,090	1,371,522
Reserve for credit losses	(13,713)	(10,650)	(24,363)
Preneed receivables, net	\$ 151,719	\$ 1,195,440	\$ 1,347,159

December 31, 2021			
	Funeral	Cemetery	Total
(In thousands)			
Preneed receivables	\$ 162,183	\$ 1,125,539	\$ 1,287,722
Unearned finance charges	(12,038)	(11,176)	(23,214)
Preneed receivables, at amortized cost	150,145	1,114,363	1,264,508
Reserve for credit losses	(12,722)	(8,005)	(20,727)
Preneed receivables, net	\$ 137,423	\$ 1,106,358	\$ 1,243,781

At September 30, 2022, the amortized cost basis of our preneed receivables by year of origination was as follows:

	2022	2021	2020	2019	2018	Prior	Total
(In thousands)							
Preneed receivables, at amortized cost:							
Funeral	\$ 61,654	\$ 48,407	\$ 24,884	\$ 13,341	\$ 4,633	\$ 12,513	\$ 165,432
Cemetery	401,803	396,951	226,421	101,421	48,875	30,619	1,206,090
Total preneed receivables, at amortized cost	\$463,457	\$445,358	\$251,305	\$114,762	\$ 53,508	\$ 43,132	\$1,371,522

At September 30, 2022, the payment status of our preneed receivables was as follows:

	Past Due				Total	Current	Total
	<30 Days	30-90 Days	90-180 Days	>180 Days			
(In thousands)							
Preneed receivables, at amortized cost:							
Funeral	\$ 4,913	\$ 3,146	\$ 2,007	\$ 20,517	\$ 30,583	\$ 134,849	\$ 165,432
Cemetery	42,306	24,116	6,045	5,965	78,432	1,127,658	1,206,090
Total preneed receivables, at amortized cost	\$ 47,219	\$ 27,262	\$ 8,052	\$ 26,482	\$109,015	\$1,262,507	\$1,371,522

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The following table summarizes the activity for the reserve for credit losses on preneed receivables for the nine months ended September 30, 2022:

	December 31, 2021	Provision for Expected Credit Losses	Write Offs	Effect of Foreign Currency	September 30, 2022
(In thousands)					
Funeral	\$ (12,722)	\$ (3,498)	\$ 2,498	\$ 9	\$ (13,713)
Cemetery	(8,005)	(3,202)	538	19	(10,650)
Total reserve for credit losses on preneed receivables	\$ (20,727)	\$ (6,700)	\$ 3,036	\$ 28	\$ (24,363)

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(In thousands)				
Deposits	\$ 134,918	\$ 134,923	\$ 403,340	\$ 389,025
Withdrawals	\$ 120,314	\$ 111,196	\$ 366,465	\$ 341,354
Purchases of securities	\$ 389,487	\$ 475,748	\$ 1,293,426	\$ 1,287,957
Sales of securities	\$ 378,798	\$ 418,261	\$ 1,202,445	\$ 1,249,066
Realized gains from sales of securities ⁽¹⁾	\$ 53,134	\$ 97,155	\$ 274,373	\$ 402,074
Realized losses from sales of securities ⁽¹⁾	\$ (69,442)	\$ (23,983)	\$ (150,085)	\$ (57,795)

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

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	September 30, 2022			
		Cost	Unrealized Gains	Unrealized Losses	Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 45,521	\$ 29	\$ (2,109)	\$ 43,441
Canadian government	2	29,079	15	—	29,094
Corporate	2	1,357	—	(129)	1,228
Residential mortgage-backed	2	1,424	—	(110)	1,314
Asset-backed	2	299	1	(50)	250
Equity securities:					
Preferred stock	2	4,350	—	(2,009)	2,341
Common stock:					
United States	1	1,674,835	210,790	(272,253)	1,613,372
Canada	1	44,694	10,484	(13,826)	41,352
Other international	1	145,601	5,905	(29,682)	121,824
Mutual funds:					
Equity	1	933,390	39,591	(184,846)	788,135
Fixed income	1	1,129,188	2,767	(181,305)	950,650
Other	3	187	1	—	188
Trust investments, at fair value		4,009,925	269,583	(686,319)	3,593,189
Commingled funds					
Fixed income		726,801	9	(97,686)	629,124
Equity		308,184	6,918	(9,379)	305,723
Money market funds		317,884	—	—	317,884
Alternative investments		302,912	172,349	(365)	474,896
Trust investments, at net asset value		1,655,781	179,276	(107,430)	1,727,627
Trust investments, at market		\$ 5,665,706	\$ 448,859	\$ (793,749)	\$ 5,320,816

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	Fair Value Hierarchy Level	December 31, 2021			
		Cost	Unrealized Gains	Unrealized Losses	Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 51,002	\$ 795	\$ (283)	\$ 51,514
Canadian government	2	29,881	28	—	29,909
Corporate	2	170	6	(2)	174
Residential mortgage-backed	2	1,407	58	(15)	1,450
Asset-backed	2	274	2	(10)	266
Equity securities:					
Preferred stock	2	4,843	4	(1,024)	3,823
Common stock:					
United States	1	1,648,785	624,349	(56,092)	2,217,042
Canada	1	34,787	19,617	(898)	53,506
Other international	1	129,486	42,171	(9,819)	161,838
Mutual funds:					
Equity	1	875,828	140,893	(10,116)	1,006,605
Fixed income	1	1,025,327	12,560	(18,675)	1,019,212
Other	3	187	1	—	188
Trust investments, at fair value		3,801,977	840,484	(96,934)	4,545,527
Commingled funds					
Fixed income		662,125	115,939	(3,171)	774,893
Equity		230,926	161,125	(114)	391,937
Money market funds		408,762	—	—	408,762
Alternative investments		292,888	128,197	(5,353)	415,732
Trust investments, at net asset value		1,594,701	405,261	(8,638)	1,991,324
Trust investments, at market		\$ 5,396,678	\$ 1,245,745	\$ (105,572)	\$ 6,536,851

Our alternative investments include funds invested in limited partnerships with interests in private equity, private market real estate, energy and natural resources, infrastructure, transportation, and private debt including both distressed debt 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.

Maturity dates of our fixed income securities range from 2022 to 2040. Maturities of fixed income securities (excluding mutual and commingled funds) at September 30, 2022 are estimated as follows:

	Fair Value
	(In thousands)
Due in one year or less	\$ 49,957
Due in one to five years	20,998
Due in five to ten years	4,177
Thereafter	195
Total estimated maturities of fixed income securities	\$ 75,327

Recognized trust fund income (realized and unrealized) related to our preneed trust investments was \$31.6 million and \$46.1 million, for the three months ended September 30, 2022 and 2021, respectively. Recognized trust fund income (realized and unrealized) related to our cemetery perpetual care trust investments was \$19.3 million and \$23.1 million for the three months ended September 30, 2022 and 2021, respectively.

Recognized trust fund income (realized and unrealized) related to our preneed trust investments was \$113.1 million and \$134.8 million, for the nine months ended September 30, 2022 and 2021, respectively. Recognized trust fund income

(realized and unrealized) related to our cemetery perpetual care trust investments was \$64.6 million and \$71.0 million for the nine months ended September 30, 2022 and 2021, 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:

	September 30, 2022	December 31, 2021
	(In thousands)	
Deferred revenue	\$ 2,435,314	\$ 2,259,364
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts	(834,976)	(726,615)
<i>Deferred revenue, net</i>	\$ 1,600,338	\$ 1,532,749

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

	Nine months ended September 30,	
	2022	2021
	(In thousands)	
Beginning balance — <i>Deferred revenue, net</i> and <i>Deferred receipts held in trust</i>	\$ 6,299,241	\$ 5,761,291
Net preneed contract sales	1,104,812	985,830
Acquisitions (dispositions) of businesses, net	616	(5,921)
Net investment (losses) gains ⁽¹⁾	(851,904)	299,374
Recognized revenue from backlog ⁽²⁾	(406,358)	(376,084)
Recognized revenue from current period sales	(498,086)	(470,644)
Change in amounts due on unfulfilled performance obligations	(108,360)	(62,323)
Change in cancellation reserve	(366)	(315)
Effect of foreign currency and other	(17,371)	2,688
Ending balance — <i>Deferred revenue, net</i> and <i>Deferred receipts held in trust</i>	\$ 5,522,224	\$ 6,133,896

⁽¹⁾ Includes both realized and unrealized investment (losses) gains.

⁽²⁾ 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, events such 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 23.7% and 23.4% for the three months ended September 30, 2022 and 2021, respectively. Our effective tax rate was 25.2% and 23.9% for the nine months ended September 30, 2022 and 2021, respectively. The higher effective tax rate for the three months ended September 30, 2022 was primarily due to fewer excess tax benefits recognized on the settlement of employee share-based awards, which increased tax expense during the quarter. The higher effective tax rate for the nine months ended September 30, 2022 was primarily due to non-deductible losses in the cash surrender value of certain life insurance policies due to negative returns in the financial markets, which increased tax expense during the year. The effective tax rate for the three and nine months ended September 30, 2022 was higher than the federal statutory tax rate of 21% primarily due to state and foreign tax expenses.

On August 16, 2022, the Inflation Reduction Act was enacted into U.S. law. We do not currently expect that the Inflation Reduction Act will have a material impact on our income taxes.

Unrecognized Tax Benefits

As of September 30, 2022, the total amount of our unrecognized tax benefits was \$1.3 million and the total amount of our accrued interest was \$0.9 million.

The federal statutes of limitation have expired for all tax years prior to 2019, and we are not currently under audit by the IRS. However, pursuant to the 2017 Tax Cuts and Jobs Act, the statute of limitations on the transition tax for the 2017 tax year does not expire until 2024. Various state jurisdictions are auditing years 2013 through 2020. There are currently no federal or provincial audits in Canada; however, years subsequent to 2016 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 \$1.3 million within the next twelve months as a result of concluding various state tax matters.

5. Debt

The components of Debt are:

	September 30, 2022	December 31, 2021
	(In thousands)	
7.5% Senior Notes due April 2027	\$ 138,274	\$ 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	800,000
Term Loan due May 2024	544,375	568,750
Bank Credit Facility due May 2024	415,000	155,000
Obligations under finance leases	123,795	136,847
Mortgage notes and other debt, maturities through 2050	60,196	48,113
Unamortized debt issuance costs	(40,719)	(45,100)
Total debt	4,190,921	3,966,320
Less: Current maturities of long-term debt	(63,510)	(65,016)
Total long-term debt	\$ 4,127,411	\$ 3,901,304

Current maturities of debt at September 30, 2022 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 unamortized debt issuance costs expected to be recognized in the next twelve months.

Our consolidated debt had a weighted average interest rate of 3.77% and 3.70% at September 30, 2022 and December 31, 2021, respectively. Approximately, 75% and 79% of our total debt had a fixed interest rate at September 30, 2022 and December 31, 2021, respectively.

During the nine months ended September 30, 2022 and 2021, we paid \$98.4 million and \$86.2 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 Facility contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, and certain dividend and share repurchase restrictions. As of September 30, 2022, we were in compliance with all of our debt covenants. We issued \$33.7 million of letters of credit and pay a quarterly fee on the unused commitment, which was 0.10% at September 30, 2022. As of September 30, 2022, we had \$551.3 million in borrowing capacity under the Bank Credit Facility. The Bank Credit Facility had an interest rate of 4.12% and 1.11% at September 30, 2022 and December 31, 2021, respectively.

Subsequent to September 30, 2022, we increased our outstanding borrowings by \$30.0 million to \$445.0 million under our Bank Credit Facility due May 2024.

Debt Issuances and Additions

During the nine months ended September 30, 2022, we issued or added \$325.0 million of debt including:

- \$310.0 million on our Bank Credit Facility due May 2024; and
- \$15.0 million in other debt.

The debt proceeds were used primarily for general corporate purposes.

During the nine months ended September 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 nine months ended September 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.

Debt Extinguishments and Reductions

During the nine months ended September 30, 2022, we made aggregate debt payments of \$92.8 million for scheduled and early debt extinguishment payments including:

- \$50.0 million in aggregate principal of our Bank Credit Facility due May 2024;
- \$24.4 million in aggregate principal of our Term Loan due May 2024;
- \$14.4 million in aggregate principal of 7.5% Senior Notes due April 2027 repurchased on the open market;
- \$1.1 million of premiums paid on early extinguishment of debt; and
- \$2.9 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of \$1.2 million recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations for the nine months ended September 30, 2022.

During the nine months ended September 30, 2021, we made aggregate debt payments of \$727.0 million for scheduled and early debt extinguishment payments including:

- \$545.0 million in aggregate principal of our Bank Credit Facility due May 2024;
- \$24.4 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 of debt; and
- \$2.8 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 nine months ended September 30, 2021.

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 as the terms and conditions of these contracts are comparable to our current contract offerings.

The fair value of our debt instruments was as follows:

	September 30, 2022	December 31, 2021
	(In thousands)	
7.5% Senior Notes due April 2027	\$ 139,950	\$ 181,511
4.625% Senior Notes due December 2027	503,937	575,443
5.125% Senior Notes due June 2029	686,850	809,737
3.375% Senior Notes due August 2030	669,060	836,825
4.0% Senior Notes due May 2031	646,144	813,552
Term Loan due May 2024	544,375	568,750
Bank Credit Facility due May 2024	415,000	155,000
Mortgage notes and other debt, maturities through 2050	56,784	46,878
Total fair value of debt instruments	\$ 3,662,100	\$ 3,987,696

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 of our Common stock in the open market or through privately negotiated transactions under our share repurchase program. During the nine months ended September 30, 2022, we repurchased 9,152,151 shares of common stock at an aggregate cost of \$586.6 million, which is an average cost per share of \$64.09. In May 2022, our Board of Directors increased our share repurchase authorization to \$600.0 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 \$307.9 million at September 30, 2022.

Subsequent to September 30, 2022, we repurchased 932,211 shares for \$56.1 million at an average cost per share of \$60.18. After these repurchases, the remaining dollar value of shares authorized to be purchased under the share repurchase program is \$251.8 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.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(In thousands)				
Revenue from customers:				
Funeral revenue:				
Atneed revenue	\$ 291,640	\$ 318,432	\$ 931,000	\$ 938,835
Matured preneed revenue	167,427	172,410	528,122	522,051
Core funeral revenue	459,067	490,842	1,459,122	1,460,886
Non-funeral home revenue	18,150	18,478	56,694	55,089
Recognized preneed revenue	40,132	45,552	125,824	120,414
Other revenue	36,621	37,417	110,239	107,041
Total funeral revenue	553,970	592,289	1,751,879	1,743,430
Cemetery revenue:				
Atneed revenue	108,604	123,443	341,397	357,094
Recognized preneed property revenue	200,811	201,876	640,378	643,016
Recognized preneed merchandise and services revenue	85,707	84,989	255,535	258,525
Core cemetery revenue	395,122	410,308	1,237,310	1,258,635
Other revenue	28,628	31,775	91,789	97,823
Total cemetery revenue	423,750	442,083	1,329,099	1,356,458
Total revenue from customers	\$ 977,720	\$ 1,034,372	\$ 3,080,978	\$ 3,099,888
Gross profit:				
Funeral gross profit	\$ 101,844	\$ 168,451	\$ 414,456	\$ 474,650
Cemetery gross profit	129,112	169,552	460,058	519,120
Gross profit from reportable segments	230,956	338,003	874,514	993,770
Corporate general and administrative expenses	(41,911)	(41,461)	(129,336)	(116,779)
Gains on divestitures and impairment charges, net	14,403	7,804	15,186	15,232
Operating income	203,448	304,346	760,364	892,223
Interest expense	(43,508)	(38,618)	(123,107)	(111,865)
Losses on early extinguishment of debt, net	—	—	(1,225)	(5,226)
Other (expense) income, net	(1,514)	8,218	(2,489)	9,214
Income before income taxes	\$ 158,426	\$ 273,946	\$ 633,543	\$ 784,346

Our geographic area information was as follows:

	United States	Canada	Total
	(In thousands)		
Three months ended September 30,			
Revenue from external customers:			
2022	\$ 923,738	\$ 53,982	\$ 977,720
2021	\$ 978,850	\$ 55,522	\$ 1,034,372
Nine months ended September 30,			
Revenue from external customers:			
2022	\$ 2,905,975	\$ 175,003	\$ 3,080,978
2021	\$ 2,932,464	\$ 167,424	\$ 3,099,888

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 September 30, 2022 and December 31, 2021, we had self-insurance reserves of \$95.2 million and \$94.3 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.

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 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. The parties have reached a tentative settlement of the lawsuit that would include an immaterial payment of attorney fees and provide consumers enhanced cancellation rights for a period of sixty days. The impact of these enhanced cancellation rights is not expected to be material. The court conditionally certified the class and granted preliminary approval of the settlement.

Unclaimed Property Audits

We have received notices from 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 that no additional property is due to be reported for the states of 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.

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 earnings per share 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:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(In thousands, except per share amounts)				
Amounts attributable to common stockholders:				
Net income — basic and diluted	\$ 120,850	\$ 209,855	\$ 473,033	\$ 596,439
Weighted average shares:				
Weighted average shares — basic	156,781	167,417	158,921	168,586
Stock options	2,246	2,513	2,405	2,409
Restricted share units	73	75	72	62
Weighted average shares — diluted	159,100	170,005	161,398	171,057
Amounts attributable to common stockholders:				
Earnings per share:				
Basic	\$ 0.77	\$ 1.25	\$ 2.98	\$ 3.54
Diluted	\$ 0.76	\$ 1.23	\$ 2.93	\$ 3.49

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):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(In thousands)				
Antidilutive options	559	—	465	558

11. Acquisitions and Divestiture-Related Activities

Acquisitions

We spent \$13.5 million and \$9.2 million, net of cash acquired, for several business acquisitions during the nine months ended September 30, 2022 and 2021, respectively, and \$8.9 million and \$15.6 million, net of cash acquired, for several real estate acquisitions during the nine months ended September 30, 2022 and 2021, respectively.

Subsequent to September 30, 2022, we spent \$38.8 million, net of cash acquired, for a business acquisition on the West Coast and \$1.1 million, net of cash acquired, for real estate acquisitions.

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:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Gains on divestitures, net	\$ 14,403	\$ 9,245	\$ 15,492	\$ 16,838
Impairment losses	—	(1,441)	(306)	(1,606)
Gains on divestitures and impairment charges, net	\$ 14,403	\$ 7,804	\$ 15,186	\$ 15,232

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 September 30, 2022, we operated 1,463 funeral service locations and 488 cemeteries (including 300 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 600,000 families each year with professionalism, compassion, and attention to detail.

Our financial position is enhanced by our \$13.3 billion backlog of future revenue from both trust and insurance-funded preneed sales at September 30, 2022. 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 and recent inflationary and economic pressures are impacting various aspects of our business operations; however, we cannot, with certainty, predict the scope, severity, or duration with which COVID-19 and these inflationary and economic pressures will continue to impact our business, financial condition, results of operations, and cash flows. As these trends continue, we are actively monitoring the potential impact on our business operations from both a revenue and cost perspective.

In 2022, the families we serve are generally selecting to have funerals and celebrations of life either with the same service and merchandise levels we experienced before the COVID-19 pandemic or are choosing to celebrate with even more robust services. The increase we have seen in the number of families who desire more comprehensive memorial services has driven growth in our preneed sales as well as positively affected our average revenue per funeral service. We view this as 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 \$655.4 million in the first nine months of 2022. As of September 30, 2022, we had \$551.3 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 September 30, 2022, we were in compliance with all of our debt covenants. Our leverage ratio has recently benefited from the strong earnings

PART I

associated with the increase in funeral 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 September 30, 2022 were as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.75 (Max)	3.05
Interest coverage ratio	3.00 (Min)	8.61

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 Facility 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 allocation strategy is prioritized as follows:

Investing in Acquisitions and Building New Funeral Service and Cemetery 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.

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

Return Excess Cash to Shareholders. Absent strategic acquisition or new opportunities, we intend to return excess cash to shareholders. Our quarterly dividend rate has steadily grown from \$0.025 per common share in 2005 to \$0.25 per common share in 2022. 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.

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 \$655.4 million and \$730.4 million for the nine months ended September 30, 2022 and 2021, respectively. Excluding a \$8.3 million cash receipt from a vendor waiver and release agreement in the prior period, cash flow from operations decreased \$66.7 million for the nine months ended September 30, 2022 versus the same period in 2021. The 2022 decrease over 2021 comprises:

- a \$108.7 million increase in vendor and other payments,
- a \$60.7 million increase in employee compensation payments, and
- a \$12.1 million increase in cash interest payments partially offset by
 - a \$66.6 million increase in cash receipts from customers,
 - a \$26.6 million decrease in cash tax payments,
 - a \$11.2 million increase in net trust withdrawals, and
 - a \$10.4 million increase in General Agency (GA) commission and other receipts.

Investing Activities

Cash flows from investing activities used \$244.2 million and \$180.7 million for the nine months ended September 30, 2022 and 2021, respectively. The \$63.5 million increased outflow from 2022 over 2021 is primarily due to the following:

- a \$75.0 million increase in capital expenditures and

- a \$4.2 million increase in cash spent on business acquisitions, partially offset by
 - a \$6.7 million decrease in cash spent on real estate acquisitions,
 - a \$5.8 million increase in cash receipts from divestitures and asset sales,
 - a \$1.9 million decrease in payments for Company-owned life insurance policies, net of proceeds, and
 - a \$1.3 million increase in proceeds from sale of investments and other.

Financing Activities

Financing activities used \$496.6 million for the nine months ended September 30, 2022 compared to using \$368.6 million for the same period in 2021. The \$128.0 million increased outflow from 2022 over 2021 is primarily due to the following:

- a \$242.2 million increase in purchase of Company common stock,
- a \$17.7 million decrease in proceeds from exercises of stock options,
- a \$10.3 million change in bank overdrafts and other, and
- a \$9.2 million increase in payments of dividends, partially offset by
 - a \$151.4 million decrease in debt payments, net of proceeds.

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 unaudited Condensed 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.

	September 30, 2022	December 31, 2021
	(In millions)	
Preneed funeral	\$ 68.4	\$ 89.2
Preneed cemetery:		
Merchandise and services	141.5	147.0
Pre-construction	26.0	24.8
Bonds supporting preneed funeral and cemetery obligations	235.9	261.0
Bonds supporting preneed business permits	7.1	7.0
Other bonds	23.0	20.4
Total surety bonds outstanding	\$ 266.0	\$ 288.4

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. We discontinued using surety bonds in lieu of trusting for new sales of preneed funeral and cemetery merchandise and services in 2020. As a result, we expect to see continued decreases in the outstanding surety bond amounts for these items. We continue to use surety bonds for pre-construction sales of cemetery property where permitted.

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 and 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 revenues 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 complete. 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 unaudited Condensed Consolidated Balance Sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenue as we perform these funerals.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Preneed insurance-funded:				
Sales production ⁽¹⁾	\$ 170.0	\$ 172.1	\$ 508.3	\$ 485.7
Sales production (number of contracts) ⁽¹⁾	27,864	28,694	82,710	82,919
General agency revenue	\$ 41.6	\$ 41.8	\$ 126.4	\$ 119.0
Maturities	\$ 93.8	\$ 94.9	\$ 296.8	\$ 293.7
Maturities (number of contracts)	15,459	15,671	48,737	49,320

⁽¹⁾ Amounts are not included in our unaudited Condensed 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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(Dollars in millions)				
Funeral:				
Preneed trust-funded (including bonded):				
Sales production	\$ 125.9	\$ 114.6	\$ 387.5	\$ 343.9
Sales production (number of contracts)	30,505	29,247	96,922	89,716
Maturities	\$ 84.5	\$ 88.7	\$ 265.4	\$ 261.6
Maturities (number of contracts)	20,185	20,598	62,904	62,822
Cemetery:				
Sales production:				
Preneed	\$ 341.5	\$ 325.7	\$ 1,055.1	\$ 1,009.6
Atneed	106.1	130.2	346.4	372.5
Total sales production	\$ 447.6	\$ 455.9	\$ 1,401.5	\$ 1,382.1
Sales production deferred to backlog:				
Preneed	\$ 161.6	\$ 151.6	\$ 511.1	\$ 427.0
Atneed	74.4	86.7	241.6	255.8
Total sales production deferred to backlog	\$ 236.0	\$ 238.3	\$ 752.7	\$ 682.8
Revenue recognized from backlog:				
Preneed	\$ 101.8	\$ 86.5	\$ 310.3	\$ 256.9
Atneed	76.3	79.4	234.6	237.3
Total revenue recognized from backlog	\$ 178.1	\$ 165.9	\$ 544.9	\$ 494.2

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 September 30, 2022 and December 31, 2021. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our unaudited Condensed Consolidated Balance Sheet) at September 30, 2022 and December 31, 2021. 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.

	September 30, 2022		December 31, 2021	
	Fair Value	Cost	Fair Value	Cost
	(In billions)			
Deferred revenue, net	\$ 1.60	\$ 1.60	\$ 1.53	\$ 1.53
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts	0.83	0.83	0.72	0.72
Deferred receipts held in trust	3.92	4.10	4.77	3.93
Allowance for cancellation on trust investments	(0.27)	(0.28)	(0.33)	(0.27)
Backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	6.08	6.25	6.69	5.91
Backlog of insurance-funded revenue ⁽¹⁾	7.24	7.24	6.97	6.97
Total backlog of deferred revenue	\$ 13.32	\$ 13.49	\$ 13.66	\$ 12.88
Preneed receivables, net and trust investments	\$ 5.28	\$ 5.46	\$ 6.02	\$ 5.18
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts	0.83	0.83	0.71	0.71
Allowance for cancellation on trust investments	(0.27)	(0.28)	(0.33)	(0.27)
Assets associated with backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	5.84	6.01	6.40	5.62
Insurance policies associated with insurance-funded deferred revenue ⁽¹⁾	7.24	7.24	6.97	6.97
Total assets associated with backlog of preneed revenue	\$ 13.08	\$ 13.25	\$ 13.37	\$ 12.59

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

The fair value of our trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves, and appraisals. As of September 30, 2022, the difference between the backlog and asset market amounts represents \$0.18 billion related to contracts for which we have posted surety bonds as financial assurance in lieu of trusting, \$1.26 billion collected from customers that were not required to be deposited into trusts, and \$0.15 billion in allowable cash distributions from trust assets partially offset by \$1.35 billion in amounts due on delivered property and merchandise. As of September 30, 2022, the fair value of the total backlog comprised \$3.64 billion related to cemetery contracts and \$9.68 billion related to funeral contracts. As of September 30, 2022, the fair value of the assets associated with the backlog of trust-funded deferred revenue comprised \$3.59 billion related to cemetery contracts and \$2.25 billion related to funeral contracts. As of September 30, 2022, the backlog of insurance-funded contracts of \$7.24 billion was equal to the proceeds we expect to receive from the associated insurance policies when the corresponding contract is serviced.

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.

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. 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 September 30, 2022, approximately 94% of our trusts were under the control and custody of four 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 September 30, 2022, the largest single equity position represented less than 1% of the total securities portfolio.

Alternative investments serve to provide high rates of return with reduced volatility and lower correlation to publicly-traded securities. These investments are typically longer term in duration and are diversified by strategy, manager, geography and vintage year. The investments consist of numerous limited partnerships, invested in private equity, private market real estate, energy and natural resources, infrastructure, transportation, and private debt including both distressed debt and mezzanine financing. The trustees that have oversight of their respective alternative LLCs work closely with the investment advisor in making all investment decisions.

Trust Performance

During the nine months ended September 30, 2022, the Standard and Poor's 500 Index decreased 23.9% and the Barclay's Aggregate Index decreased 14.6%. This compares to SCI trusts that decreased 17.5% during the same period. SCI trusts have a diversified allocation of approximately 55% equities, 29% fixed income securities, 11% 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 \$113.1 million and \$134.8 million for the nine months ended September 30, 2022 and 2021, respectively. Recognized trust fund income (realized and unrealized) related to our cemetery perpetual care trust investments was \$64.6 million and \$71.0 million for the nine months ended September 30, 2022 and 2021, respectively. The decline in recognized trust fund income is primarily due to negative market returns experienced during the first nine months of 2022 and lower distributions from our cemetery perpetual care trust investments in the current year.

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 and Nine Months Ended September 30, 2022 and 2021

Three Months Ended September 30, 2022 and 2021

Management Summary

In the third quarter of 2022, we reported consolidated net income attributable to common stockholders of \$120.9 million (\$0.76 per diluted share) compared to net income attributable to common stockholders in the third quarter of 2021 of \$209.9 million (\$1.23 per diluted share). These results were impacted by certain items including:

	Three months ended September 30,	
	2022	2021
	(In millions)	
Pre-tax gains on divestitures and impairment charges, net	\$ 14.4	\$ 7.8
Vendor waiver and release agreement cash receipts	\$ —	\$ 8.3
Tax effect from above items	\$ (3.4)	\$ (4.0)
Change in uncertain tax reserves and other	\$ 1.1	\$ 0.1

In addition to the above items, the decrease from the prior year is due to an expected decline in gross profit related to decreases in COVID-19 related activity combined with higher inflationary costs and lower trust fund income impacted by negative financial market returns. Additionally, fewer shares outstanding more than offset the impact of higher interest expense.

Funeral Results

	Three months ended September 30,	
	2022	2021
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$ 554.0	\$ 592.3
Less: revenue associated with acquisitions/new construction	11.7	1.0
Less: revenue associated with divestitures	0.2	1.3
Comparable ⁽¹⁾ funeral revenue	542.1	590.0
Less: comparable recognized preneed revenue	39.8	45.5
Less: comparable general agency and other revenue	36.1	37.2
Adjusted comparable funeral revenue	\$ 466.2	\$ 507.3
Comparable services performed	85,555	93,617
Comparable average revenue per service ⁽²⁾	\$ 5,449	\$ 5,419
Consolidated funeral gross profit	\$ 101.8	\$ 168.5
Less: gross profit (loss) associated with acquisitions/new construction	0.7	0.1
Less: gross losses associated with divestitures	(1.0)	(1.1)
Comparable ⁽¹⁾ funeral gross profit	\$ 102.1	\$ 169.5

⁽¹⁾ We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2021 and ending September 30, 2022.

⁽²⁾ We calculate comparable average revenue per service by dividing comparable funeral revenue, excluding general agency revenue, recognized preneed revenue, and other revenue to avoid distorting our average of normal funeral services revenue, by the comparable number of funeral services performed during the period. Recognized preneed revenue is 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 \$554.0 million for the three months ended September 30, 2022 compared to \$592.3 million for the same period in 2021. This \$38.3 million decrease is primarily attributable to the \$47.9 million decrease in comparable revenue offset by the \$10.7 million increase in revenue from acquired and newly constructed properties.

Comparable revenue from funeral operations was \$542.1 million for the three months ended September 30, 2022 compared to \$590.0 million for the same period in 2021. This \$47.9 million, or 8.1%, decrease was primarily driven by the decrease in core funeral revenue of \$40.7 million. Additionally, recognized preneed revenue decreased \$5.7 million, or 12.5%, primarily driven by the timing of merchandise deliveries in the prior year.

Core funeral revenue decreased \$40.7 million, or 8.3%, primarily due to a 10.0% decrease in core funeral services performed as prior year was impacted by the COVID-19 pandemic, partially offset by an increase in core average revenue per service of 1.8%. Our total comparable cremation rate increased 220 basis points to 61.4% for the three months ended September 30, 2022. The comparable core cremation rate grew by 190 basis points to 54.7%.

Funeral Gross Profit

Consolidated funeral gross profit decreased \$66.7 million, or 39.6%, for the three months ended September 30, 2022 compared to 2021. This decrease is primarily attributable to the decline in comparable funeral gross profit of \$67.4 million, or 39.8%. Comparable funeral gross profit decreased \$67.4 million to \$102.1 million and the comparable gross profit percentage decreased from 28.7% to 18.8%. This decrease is due to the expected decline in revenue mentioned above, combined with higher energy and employee-related inflationary costs as well as increased technology costs during the quarter.

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Cemetery Results

	Three months ended September 30,	
	2022	2021
	(In millions)	
Consolidated cemetery revenue	\$ 423.8	\$ 442.1
Less: revenue associated with acquisitions/new construction	2.5	—
Less: revenue associated with divestitures	—	0.1
Comparable ⁽¹⁾ cemetery revenue	\$ 421.3	\$ 442.0
Consolidated cemetery gross profit	\$ 129.1	\$ 169.6
Less: gross profit (loss) associated with acquisitions/new construction	0.8	(0.1)
Less: gross profit associated with divestitures	—	0.1
Comparable ⁽¹⁾ cemetery gross profit	\$ 128.3	\$ 169.6

⁽¹⁾ We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2021 and ending September 30, 2022.

Cemetery Revenue

Consolidated revenue from our cemetery operations decreased \$18.3 million, or 4.1%, for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to a \$20.7 million decrease in comparable cemetery revenue partially offset by \$2.5 million in revenue growth contributed by acquired and newly constructed properties.

The \$20.7 million, or 4.7%, decrease in comparable cemetery revenue was primarily attributable to a \$17.5 million decrease in comparable cemetery core revenue. This comparable cemetery core revenue decline was primarily as a result of a \$15.3 million decline in atneed revenue from an expected decrease in contract velocity compared to the third quarter of 2021 that was heavily impacted by the COVID-19 pandemic. Comparable cemetery other revenue also decreased \$3.2 million, or 10.1%, primarily from a decrease in endowment care trust fund income due to the timing of capital gains and the negative impact of the financial markets.

Cemetery Gross Profit

Consolidated cemetery gross profit decreased \$40.5 million, or 23.9%, in the three months ended September 30, 2022 compared to the same period in 2021, which is primarily attributable to the decrease in comparable cemetery gross profit of \$41.3 million, or 24.4%, partially offset by a \$0.9 million increase in gross profit from acquired and newly constructed properties. Comparable cemetery gross profit decreased \$41.3 million to \$128.3 million, and the gross profit percentage decreased to 30.5% from 38.4% due to the decline in revenue mentioned above combined with higher inflationary employee-related and maintenance costs as well as increased technology costs during the quarter.

Other Financial Statement Items

Corporate General and Administrative Expenses

Corporate general and administrative expenses increased \$0.5 million to \$41.9 million for the third quarter of 2022 compared to the third quarter of 2021 primarily from increased expenses related to workers compensation and general liability claims offset by a decline in incentive compensation costs.

Gains on Divestitures and Impairment Charges, Net

We recognized a \$14.4 million net pre-tax gain on asset divestitures and impairments in the third quarter of 2022 compared to a \$7.8 million net pre-tax gain in the third quarter of 2021 on asset divestitures associated with non-strategic funeral and cemetery locations in the United States and Canada.

Interest Expense

Interest expense increased \$4.9 million to \$43.5 million for the three months ended September 30, 2022 due to higher interest on our floating rate debt. During the third quarter, our floating rate debt carried a weighted average rate of 3.2%, which is 190 basis points higher than the weighted average rate for our floating rate debt in the prior year third quarter.

Other (Expense) Income, Net

Other (expense) income, net decreased \$9.7 million to \$1.5 million of expense during the third quarter of 2022, primarily due to a cash receipt from a vendor waiver and release recorded in the prior year quarter.

Provision for Income Taxes

Our effective income tax rate was 23.7% and 23.4% for the three months ended September 30, 2022 and 2021, respectively. The higher effective tax rate for the three months ended September 30, 2022 was primarily due to fewer excess tax benefits recognized on the settlement of employee share-based awards, which increased tax expense during the quarter. The effective tax rate for the three months ended September 30, 2022 was higher than the federal statutory tax rate of 21% primarily due to state and foreign tax expenses.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 159.1 million for the three months ended September 30, 2022 compared to 170.0 million for the same period in 2021. The decrease primarily reflects the impact of shares repurchased under our share repurchase program.

Nine Months Ended September 30, 2022 and 2021

Management Summary

In the first nine months of 2022, we reported consolidated net income attributable to common stockholders of \$473.0 million (\$2.93 per diluted share) compared to net income attributable to common stockholders for the same period in 2021 of \$596.4 million (\$3.49 per diluted share). These results were impacted by certain items including:

	Nine months ended September 30,	
	2022	2021
	(In millions)	
Pre-tax gains on divestitures and impairment charges, net	\$ 15.2	\$ 15.2
Pre-tax losses on early extinguishment of debt, net	\$ (1.2)	\$ (5.2)
Pre-tax foreign currency exchange loss	\$ (1.5)	\$ —
Vendor waiver and release agreement cash receipts	\$ —	\$ 8.3
Tax effect from significant items	\$ (3.3)	\$ (4.9)
Change in uncertain tax reserves and other	\$ 0.2	\$ —

In addition to the above items, the decrease from the prior year is primarily due to an expected decline in gross profit related to decreases in COVID-19 related activity combined with higher inflationary costs. Additionally, fewer shares outstanding and an increase in contributions from recent acquisitions and new builds of funeral homes and cemeteries helped to offset lower trust fund income recognized and higher interest expense.

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Funeral Results

	Nine months ended September 30,	
	2022	2021
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$ 1,751.9	\$ 1,743.4
Less: revenue associated with acquisitions/new construction	33.4	1.2
Less: revenue associated with divestitures	1.0	4.7
Comparable ⁽¹⁾ funeral revenue	1,717.5	1,737.5
Less: comparable recognized preneed revenue	124.8	120.3
Less: comparable general agency and other revenue	108.9	106.8
Adjusted comparable funeral revenue	\$ 1,483.8	\$ 1,510.4
Comparable services performed	272,580	284,894
Comparable average revenue per service ⁽²⁾	\$ 5,444	\$ 5,302
Consolidated funeral gross profit	\$ 414.5	\$ 474.7
Less: gross profit (losses) associated with acquisitions/new construction	4.1	(0.2)
Less: gross losses associated with divestitures	(1.6)	(3.0)
Comparable ⁽¹⁾ funeral gross profit	\$ 412.0	\$ 477.9

⁽¹⁾ We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2021 and ending September 30, 2022.

⁽²⁾ We calculate comparable average revenue per service by dividing comparable funeral revenue, excluding general agency revenue, recognized preneed revenue, and other revenue to avoid distorting our average of normal funeral services revenue, by the comparable number of funeral services performed during the period. Recognized preneed revenue is 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 \$1,751.9 million for the nine months ended September 30, 2022, compared to \$1,743.4 million for the same period in 2021. This \$8.5 million increase is primarily attributable to \$32.2 million growth in revenue contributed by acquired and newly constructed properties offset by a \$20.0 million decrease in comparable revenue as described below and the loss of \$3.7 million in revenue contributed by properties that have been subsequently divested.

Comparable revenue from funeral operations was \$1,717.5 million for the nine months ended September 30, 2022 compared to \$1,737.5 million for the same period in 2021. This \$20.0 million, or 1.2%, decrease was primarily attributable to a 4.3% decrease in our comparable funeral services performed as prior year was impacted by the COVID-19 pandemic. We experienced a \$2.1 million increase in comparable general agency and other revenue and a \$4.5 million increase in comparable recognized preneed revenue as the growth from both resulted from higher comparable preneed funeral sales production.

Comparable average revenue per funeral service grew 2.7% for the nine months ended September 30, 2022 compared to the same period in 2021. This average revenue growth was primarily attributable to our customers desire for more comprehensive services including items such as catering and flowers. Our total comparable cremation rate increased 190 basis points to 60.8% for the nine months ended September 30, 2022.

Funeral Gross Profit

Consolidated funeral gross profit decreased \$60.2 million, or 12.7%, in the first nine months of 2022 compared to 2021. This decrease is primarily attributable to the \$65.9 million, or 13.8%, decrease in comparable funeral gross profit, partially offset by the \$4.3 million increase in gross profit contributed by acquired and newly constructed properties. Comparable funeral gross profit decreased \$65.9 million to \$412.0 million and the comparable gross profit percentage decreased from 27.5% to 24.0%. This decrease in gross profit is due to the expected decline in revenue mentioned above combined with higher energy and employee-related inflationary costs as well as increased technology costs during the year.

Cemetery Results

	Nine months ended September 30,	
	2022	2021
	(In millions)	
Consolidated cemetery revenue	\$ 1,329.1	\$ 1,356.5
Less: revenue associated with acquisitions/new construction	10.9	—
Less: revenue associated with divestitures	—	0.3
Comparable ⁽¹⁾ cemetery revenue	\$ 1,318.2	\$ 1,356.2
Consolidated cemetery gross profit	\$ 460.1	\$ 519.1
Less: gross profit (losses) associated with acquisitions/new construction	6.0	(0.2)
Less: gross profit associated with divestitures	(0.1)	0.2
Comparable ⁽¹⁾ cemetery gross profit	\$ 454.2	\$ 519.1

⁽¹⁾ We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2021 and ending September 30, 2022.

Cemetery Revenue

Consolidated revenue from our cemetery operations decreased \$27.4 million, or 2.0%, for the nine months ended September 30, 2022 compared to the same period in 2021 primarily due to a \$38.0 million, or 2.8%, decrease in comparable cemetery revenue partially offset by a \$10.9 million increase in revenue contributed by newly constructed and acquired properties.

The \$38.0 million, or 2.8%, decrease in comparable cemetery revenue was primarily attributable to a \$31.8 million decrease in comparable cemetery core revenue primarily as a result of a \$16.9 million, or 4.7%, decline in comparable cemetery atneed revenue from an expected decrease in contract velocity compared to the same period in 2021 that was heavily impacted by the COVID-19 pandemic. Comparable cemetery recognized preneed revenue also decreased \$14.9 million, or 1.7%, and comparable cemetery other revenue decreased \$6.2 million, or 6.3%, primarily from lower endowment care trust fund income due to the timing of capital gains and the negative impact of the financial markets.

Cemetery Gross Profit

Consolidated cemetery gross profit decreased \$59.0 million in the nine months ended September 30, 2022 compared to the same period in 2021, which is primarily attributable to the decrease in comparable cemetery gross profit of \$64.9 million partially offset by a \$6.2 million increase in revenue contributed by newly constructed and acquired properties. Comparable cemetery gross profit decreased \$64.9 million to \$454.2 million, and the gross profit percentage decreased to 34.5% from 38.3%. The decrease in gross profit is due to the decline in comparable cemetery revenue mentioned above combined with higher employee-related and maintenance inflationary costs as well as increased technology costs during the year.

Other Financial Statement Items

Corporate General and Administrative Expenses

Corporate general and administrative expenses increased \$12.6 million to \$129.3 million for the nine months ended September 30, 2022. The increase is related to workers compensation and general liability insurance claims as well as expenses related to incentive compensation.

Interest Expense

Interest expense increased \$11.2 million to \$123.1 million for the nine months ended September 30, 2022 primarily due to our May 2021 refinancing combined with higher interest on our floating rate debt.

Other (Expense) Income, Net

Other (expense) income, net decreased \$11.7 million to \$2.5 million of expense for the nine months ended September 30, 2022, primarily due to a cash receipt from a vendor waiver and release agreement recorded in the prior year.

Provision for Income Taxes

Our effective tax rate was 25.2% and 23.9% for the nine months ended September 30, 2022 and 2021, respectively. The higher effective tax rate for the nine months ended September 30, 2022 was primarily due to non-deductible losses in the cash surrender value of certain life insurance policies due to negative returns in the financial markets, which increased tax

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expense during the year. The effective tax rate for the nine months ended September 30, 2022 was higher than the federal statutory tax rate of 21% primarily due to state and foreign tax expenses.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 161.4 million for the nine months ended September 30, 2022 compared to 171.1 million for the same period in 2021. 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, 2021 and are disclosed in our Annual Report on [Form 10-K](#) for the year ended December 31, 2021.

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," "predict," or other similar words that convey the uncertainty of future events or outcomes. The absence of these words, however, does not mean that the statements are not forward-looking. 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.

- 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 results may be adversely affected by significant weather events, natural disasters, catastrophic events, or public health crises.
- 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 life 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.
- Risks associated with our supply chain could materially adversely affect our financial performance.
- 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.
- 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 2021 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at www.sci-corp.com. We assume no obligation 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 September 30, 2022 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 September 30, 2022, 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 September 30, 2022 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 September 30, 2022 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, 2021.

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

The following table summarizes our share repurchases during the three months ended September 30, 2022:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program
July 1, 2022 — July 31, 2022 ⁽¹⁾	528,043	\$ 69.98	524,119	\$ 497,405,520
August 1, 2022 — August 31, 2022	1,533,406	\$ 65.88	1,533,406	\$ 396,380,544
September 1, 2022 — September 30, 2022	1,441,911	\$ 61.36	1,441,911	\$ 307,904,870
	3,503,360		3,499,436	

⁽¹⁾ 3,924 shares were purchased in July 2022 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).
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.

November 2, 2022

SERVICE CORPORATION INTERNATIONAL

By: /s/ TAMMY MOORE

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