Access Plans USA, Inc.
Form 10-Q
August 14, 2007

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**U. S. SECURITIES AND EXCHANGE COMMISSION**
**Washington, D. C. 20549**

**FORM 10-Q**

**(Mark One)**

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Three Months Ended June 30, 2007**

**OR**

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

**Commission File Number: 001-15667**

**ACCESS PLANS USA, INC.**

**(Exact name of business issuer as specified in its Charter)**

| **OKLAHOMA** | **73-1494382** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **4929 ROYAL LANE, SUITE 200 IRVING, TEXAS** | **75063** |
| (Address of principal executive offices) | (Zip Code) |

**(866) 578-1665**
(Issuer s telephone number)

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 þ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated in Rule 12b-2 of the Exchange Act.

Large Accelerated filer: o Accelerated filer: o Non-accelerated filer: þ

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of August 14, 2007 the Registrant had outstanding 20,269,145 shares of Common Stock, $.01 par value.

**ACCESS PLANS USA, INC.**
**FORM 10-Q**
**For the Quarter Ended June 30, 2007**
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Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Chief Executive Officer - Peter W. Nauert
Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Chief Financial Officer - Robert L. Bintliff
Certification Pursuant to Section 906 of Chief Executive Officer - Peter W. Nauert
Certification Pursuant to Section 906 of Chief Financial Officer - Robert L. Bintliff

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Our financial statements which are prepared in accordance with Regulation S-X are set forth in this report beginning on page 25.

## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is qualified in its entirety by the more detailed information in our 2006 Annual Report on Form 10-K and the financial statements contained in this report, including the notes thereto, and our other periodic reports filed with the Securities and Exchange Commission since December 31, 2006 and our Schedule 14A Proxy Statement filed with the Commission on December 29, 2006 (collectively referred to as the Disclosure Documents ). Certain forward-looking statements contained in this report and in the Disclosure Documents regarding our business and prospects are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in the forward-looking statements. Our ability to achieve these results is subject to the risks and uncertainties discussed in our Form 10-K and in our Proxy Statement. Any forward-looking statements contained in this report represent our judgment as of the date of this report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements.

Access Plans USA, Inc. (Access Plans) develops and distributes quality affordable consumer driven healthcare programs for individuals, families, affinity groups and employer groups across the nation. Our products and programs are designed to deal with the rising costs of healthcare. They include health insurance plans and non-insurance healthcare discount programs to provide solutions for the millions of Americans who can no longer afford or do not have access to traditional health insurance coverage.

The current organization of our business, including our new Insurance Marketing Division, is a result of our January 30, 2007 merger with Insurance Capital Management USA, Inc. ( ICM ). As a result of this merger, and to properly reflect our broadened mission of providing access to affordable healthcare for all Americans, we changed our name from Precis, Inc. to Access Plans USA, Inc. Beginning in 2007, our operations are organized under three business divisions:

***Consumer Plan Division.*** Our Consumer Plan Division, which operates as The Capella Group, Inc. ( Capella ) and was previously referred to as the Consumer Healthcare Savings segment, develops and markets non-insurance medical discount programs and defined benefit plans through multiple distribution channels under the Care Entrée[tm] and other brand names.

***Insurance Marketing Division***. Our Insurance Marketing Division, which operates as Insuraco USA LLC ( Insuraco ), provides web-based technology, specialty products and marketing of individual health insurance products and related benefit plans, primarily through a broad network of independent agency channels under Care Entrée[tm] and other brand names.

***Regional Healthcare Division.*** Our Regional Healthcare Division, which operates as Access HealthSource, Inc./Access Administrators, Inc. ( AAI ) and was previously referred to as the Employer and Group Healthcare Services segment, offers third-party claims administration, provider network management, and utilization management services for employer groups that utilize partially self funded strategies to finance their employee benefit programs.

**Summary Results of Operations**

For the second quarter, we reported revenue of $10,261,000, an increase of $4,611,000 or 81.6%, compared to $5,650,000 during the comparable quarter in 2006. Second quarter 2007 revenue included $5,586,000 attributable to the insurance marketing operations acquired in the merger with Insurance Capital Management USA, Inc. on January 30, 2007, which more than offset revenue declines in the company s Consumer Plan and Regional Health Care divisions.

In the second quarter of 2007, we recorded a non-cash charge of $4,092,000, equal to the full amount of the carrying value of goodwill of the company s Regional Health Care Division at June 30, 2007. This charge was necessitated by the loss of contract

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renewals for certain major clients in the El Paso, Texas market. Additionally, earnings for the quarter were also adversely impacted by $1,341,000 of charges related to unsuccessful marketing initiatives and non-recurring legal expenses.

Our net loss for the second quarter of 2007 was $5,018,000 or $(.27) per fully diluted share, compared to a net loss of $179,000 or $(.01) per fully diluted share for the comparable quarter in 2006. Excluding the goodwill charge and other charges noted above, we would have generated operating income of $398,000, before taxes for the second quarter of 2007. We generated $111,000 of cash from operating activities during the second quarter of 2007.

For the first six months of 2007, we reported revenues of $18,461,000 compared to $11,743,000 for the same period of 2006, a year-over-year increase of 57.2%. Revenue for the first six months of 2007 included $9,014,000 attributed to the insurance marketing operations. We reported a loss from continuing operations of $5,074,000, or $(.29) per fully diluted share, compared to income from continuing operations in first six months of 2006 of $691,000 or $.05 per fully diluted share. Financial results for the first six months of 2007 were impacted by the second quarter goodwill charge and the other charges and non-recurring legal expenses discussed above. Excluding those charges and expenses, we would have generated pre-tax operating income of $339,000 in the first six months of 2007. We have generated year-to-date cash from operating activities of $681,000.

**Critical Accounting Policies**

***Basis of Presentation.*** The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Company s wholly-owned subsidiaries, Capella, Insuraco, and AAI. All significant inter-company accounts and transactions have been eliminated. Certain reclassifications have been made to prior period financial statements to conform to the current presentation of the financial statements.

***Use of Estimates.*** The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain significant estimates are required in the evaluation of goodwill and intangible assets for impairment. Actual results could differ from those estimates and such differences could be material.

***Fair Value of Financial Instruments.*** The recorded amounts of short-term investments, accounts receivable, income taxes receivable, notes receivable, accounts payable, accrued liabilities, income taxes payable, capital lease obligations and debt approximate fair value because of the short-term maturity of these items.

***Recently Issued Accounting Standards***. In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in U.S. Generally Accepted Accounting Principles ( GAAP ) and expands disclosures about fair value measurements. Application of this standard is required beginning in 2008.

In February 2007, the ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value on specified election dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings.

Management is currently assessing what impact, if any, the application of these standards could have on the Company s financial statements.

***Revenue Recognition.*** Revenue recognition varies based upon source.

*Consumer Plan Division Revenues.* We recognize Consumer Plan program membership revenues, other than initial enrollment fees, on each monthly anniversary date. Membership revenues are reduced by the amount of estimated refunds. For members that are billed directly, the billed amount is collected almost entirely by electronic charge to the members credit cards, automated

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clearinghouse or electronic check. The settlement of those charges occurs within a day or two. Under certain private label arrangements, the Company s private label partners bill their members for the membership fees and the Company s portion of the membership fees is periodically remitted to the Company. During the time from the billing of these private-label membership fees and the remittance to it, the Company records a receivable from the private label partners and records an estimated allowance for uncollectible amounts. The allowance of uncollectible receivables is based upon review of the aging of outstanding balances, the credit worthiness of the private label partner and its history of paying the agreed amounts owed.

Membership enrollment fees, net of direct costs, are deferred and amortized over the estimated membership period that averages eight to ten months. Independent marketing representative fees, net of direct costs, are deferred and amortized over the term of the applicable contract. Judgment is involved in the allocation of costs to determine the direct costs netted against those deferred revenues, as well as in estimating the membership period over which to amortize such net revenue. The Company maintains a statistical analysis of the costs and membership periods as a basis for adjusting these estimates from time to time.

*Insurance Marketing Division Revenues.* The revenue of our insurance marketing division is primarily from sales commissions due from the insurance companies we represent. These sales commissions are generally a percentage of the commissionable insurance premium and other related amounts charged and collected by the insurance companies. Commission income and policy fees, other than enrollment fees and corresponding commission expense payable to agents, are generally recognized at their gross amount, as earned on a monthly basis, until such time as the underlying policyholder contract is terminated. Advanced commissions received are recorded as unearned commission revenue. Initial enrollment fees are deferred and amortized over the estimated lives of the respective policies. The estimated weighted average life for the policies sold ranges from 18 to 24 months and is based upon the Company s historical policyholder contract termination experience.

*Regional Healthcare Division Revenues.* AAI s principal sources of revenues include administrative fees for third-party claims administration, network provider fees for the preferred provider network and utilization and management fees. These fees are based on monthly or per member per month fee schedules under specified contractual agreements. Revenues from these services are recognized in the periods in which the services are performed and when collection is reasonably assured.

***Commission Expense.***

*Consumer Plan*. Commissions on Consumer Plan revenues are accrued in the month in which a member has enrolled in the Care Entrée program. Commissions on insurance policy premiums are generally recognized as incurred on a monthly basis until such time as the underlying policyholder contract is terminated. Commissions on Consumer Plan revenues are only paid to our independent marketing representatives in the following month after the related membership fees have been received by us. In 2007 we began advancing on certain Consumer Plan programs to increase sales.

*Insurance Marketing*. Commission expense is generally recognized as earned on a monthly basis until such time as the underlying policyholder s contract is terminated. Advances of commissions up to one year are paid to agents in the insurance marketing division based on certain insurance policy premium commissions.

***Acquisition Costs***. Certain acquisition costs such as the lead expenses are capitalized and amortized over the estimated lives of the respective policies. The estimated weighted average life for the policies sold ranges from eighteen months to two years and is based upon the Company s historical policyholder contract termination experience.

***Stock Option Expense and Option-Pricing Model.*** Recognized compensation expense for stock options granted to employees includes: (a) compensation cost for all share-based payments previously granted, but not yet vested, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments currently granted based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Binomial Lattice option-pricing model is used to estimate the option fair values. The option-pricing model requires a number of assumptions, of which the most significant are: expected stock price volatility, the expected pre-vesting forfeiture rate and the risk-free interest rate. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending

June 30, 2007 equal to the expected option term. Expected pre-vesting forfeitures were estimated based on actual historical pre-vesting forfeitures over the most recent periods ending June 30, 2007 for the expected option term. The risk-free interest rate is based on the interest rate of zero-coupon United States Treasury securities over the expected option term.

***Intangible Asset Valuation.*** Our intangible assets as of June 30, 2007, consisted primarily of $16,730,000 of goodwill, $13,343,000 of this is attributable to the January 2007 ICM acquisition. Goodwill represents the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized. In June 2007, AAI recorded a $4,092,000 impairment to goodwill that resulted from failure to obtain certain contract renewals. In 2006, AAI recorded a $4,066,000 impairment to goodwill including tax considerations that resulted from current and projected reductions in earnings primarily due to a decline in the number of lives covered under plans that it administered. In 2005, Capella recorded a charge of $12,900,000 due to continuing decline in members and revenues to a lower level than previously predicted and pending litigation and regulatory activity that was announced in the second quarter of that year. In 2004, our intangible assets were reduced by $2,000,000 to reflect impairment of the goodwill related to our acquisition in 2000 of Foresight. Significant judgments and estimates were required in connection with the impairment test to determine the estimated future cash flows and fair value of the reporting unit.

***Income Taxes.*** Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The net deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. During the three months ended June 30, 2007, we evaluated the probability of recognizing the benefit of deferred tax assets through the reduction of taxes otherwise payable in the future. We determined that a valuation allowance to fully offset deferred tax assets is still appropriate as of June 30, 2007.

***Accounts Receivable.*** Accounts receivable generally represent commissions and fees due from insurance carriers and plan sponsors. Accounts receivable are reviewed on a monthly basis to determine if any receivables will be potentially uncollectible. An allowance is provided for any accounts receivable balance where recovery is considered to be doubtful. Bad debt is written off as incurred.

***Advanced Agent Commissions.*** Our Insurance Marketing segment advances agent commissions for certain insurance programs. Repayment of the advanced commissions is typically accomplished by withholding earned commissions from the agent until such time as the outstanding balance, plus accumulated interest, has been fully repaid. Advanced agent commissions are reviewed on a quarterly basis to determine if any advanced agent commissions will likely be uncollectible. An allowance is provided for any advanced agent commission balance where recovery is considered to be doubtful. Any bad debt is written off as incurred. We believe all such balances will be collected in full and, accordingly, we have not recorded any additional provision.

***Fixed Assets.*** Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and principally on accelerated methods for tax purposes. Leasehold improvements are depreciated using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Ordinary maintenance and repairs are charged to expense as incurred. Expenditures that extend the physical or economic life of property and equipment are capitalized.

***Acquisitions.*** On January 30, 2007, we completed our merger with Insurance Capital Management USA, Inc. ( ICM ). Under the terms of the merger, the shareholders of ICM received our common stock shares based on the adjusted earnings before income taxes, depreciation and amortization ( adjusted EBITDA ) of ICM and its subsidiary companies. On January 30, 2007, the ICM shareholders were issued 4,498,529 common stock shares. Further, on May 31, 2007, the ICM shareholders received an additional 2,257,853 common stock shares as a result of the acquired ICM companies achieved adjusted EBITDA of $1,250,000 over four consecutive calendar quarters ending on December 31, 2006.

***Reclassifications.*** Certain prior period amounts have been reclassified to conform to the current period s presentation.

**Results of Operations**

***Consumer Plan Division.*** The operating results for our Consumer Plan Division were as follows:

| **Dollars in Thousands** | **For the Three Months Ended June 30,** | | | | **For the Six Months Ended June 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | **2006** | **Dollar Change** | **Percent Change** | **2007** | **2006** | **Dollar Change** | **Percent Change** |
| Revenues | $ 2,985 | $ 3,682 | $ (697) | (18.9%) | $ 6,005 | $ 7,827 | $ (1,822) | (23.3%) |
| Operating expenses: | | | | | | | | |
| Commissions | 746 | 942 | (196) | (20.8%) | 1,419 | 2,075 | (656) | (31.6%) |
| Cost of operations | 1,186 | 1,499 | (313) | (20.9%) | 2,404 | 2,851 | (447) | (15.7%) |
| Sales and marketing | 273 | 268 | 5 | 1.9% | 479 | 582 | (103) | (17.7%) |
| General and administrative | 1,469 | 1,139 | 330 | 29.0% | 2,247 | 2,220 | 27 | 1.2% |
| Total operating expenses | 3,674 | 3,848 | (174) | (4.5%) | 6,549 | 7,728 | (1,179) | (15.3%) |
| Operating (loss) income | $ (689) | $ (166) | $ (523) | 315.1% | $ (544) | $ 99 | $ (643) | (649.5%) |
| Percent of revenue: | | | | | | | | |
| Revenues | 100% | 100% | | | 100% | 100% | | |
| Operating expenses: | | | | | | | | |
| Commissions | 25.0% | 25.6% | | | 23.6% | 26.5% | | |
| Cost of operations | 39.7% | 40.7% | | | 40.0% | 36.4% | | |
| Sales and marketing | 9.1% | 7.3% | | | 8.0% | 7.4% | | |
| General and administrative | 49.2% | 30.9% | | | 37.4% | 28.4% | | |
| Total operating expenses | 123.0% | 104.5% | | | 109.0% | 98.7% | | |
| Operating (loss) income | (23.0%) | (4.5%) | | | (9.0%) | 1.3% | | |

*Service Revenues.* Our Consumer Plan Division programs have been under continuing pressure from increasing competition and regulatory scrutiny, as well as the unwillingness of some healthcare providers to accept our savings cards based on concerns over assurance of payment. In late 2002, we implemented an escrow account requirement to address provider concerns over assurance of payment. While this feature had shown limited success in improving acceptance by providers, it made our programs more complex and difficult to sell. As of December 2006, we discontinued these Personal Medical Accounts ( PMAs ) and returned the funds that we held in those accounts to our customers. In some of the states in which we have a significant number of members, especially Florida, Texas and California, our healthcare savings products are under scrutiny by state regulators and officials. This regulatory scrutiny has impaired our ability to market these products in those states and elsewhere, further contributing to the decline in membership enrollments and increases in terminated memberships. The table below reflects the decline in our Consumer Plan Division program membership over the preceding eight fiscal quarters:

| | 1st Qtr 2005 | 2nd Qtr 2005 | 3rd Qtr 2005 | 4th Qtr 2005 | 1st Qtr 2006 | 2nd Qtr 2006 | 3rd Qtr 2006 | 4th Qtr 2006 | 1st Qtr 2007 | 2nd Qtr 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Member Count - End of Qtr** | 51,895 | 46,514 | 41,958 | 37,952 | 37,281 | 35,823 | 34,020 | 31,826 | 29,854 | 27,933 |
| **Percent Change** | (8.88%) | (10.37%) | (9.79%) | (9.54%) | (1.77%) | (3.91%) | (5.03%) | (6.45%) | (6.20%) | (8.73% |
| **Average revenue per member, net of sales and marketing costs** | $ 25.70 | $ 26.24 | $ 26.16 | $ 24.03 | $ 23.86 | $ 22.54 | $ 22.40 | $ 22.32 | $ 23.14 | $ 22.76 |

During the first quarter and continuing through the second quarter of 2007, the Consumer Plan Division concentrated resources on three functions designed to increase sales later in the year: 1) new product development and product packaging, in which new features were added to existing products and new product lines were created, including defined benefit programs that provide limited insured

benefits; 2) identification and targeting of new distribution channels, including tele-sales call centers and a new independent agent distribution program; and 3) enhanced systems applications to streamline processing of business to facilitate a wider range of distribution channels and expand the company s web-based technology capabilities. These efforts resulted in significantly higher costs, that were charged to General and Administrative expenses as discussed below.

*Commissions.* The decreases in commissions from the three-month period ending June 30, 2006 to the three-month period ending June 30, 2007 and for the six months ended June 30, 2006 to the six months ended June 30, 2007 were due to the decreased membership revenue discussed previously. The decrease in commissions as a percentage of revenues is primarily due to reduced override commissions for terminated sales representatives.

*Cost of Operations.* The decrease in cost of operations from the three months ended June 30, 2006 to the three months ended June 30, 2007 was due primarily to reduction in variable costs of $254,000 that include reduction in provider network fees of $221,000 related to decreased membership revenue, discussed previously, and decrease in customer service costs of $82,000 related to outsourcing customer service functions that was implemented in December 2006, offset by an increase in short-term system enhancement costs for new applications to support new product initiatives of $84,000.

The decrease in cost of operations from the six month period ending June 30, 2006 to the six month period ending June 30, 2007 was due to reduction in variable costs of $491,000 that include reduction in provider network fees of $420,000 related to decreased membership revenue, discussed previously, and decrease in customer service costs of $171,000 related to outsourcing customer service functions that was implemented in December 2006. This decrease was offset by an increase in short-term system enhancement costs for new applications to support new product initiatives of $224,000 . The increase in cost of operations as a percent of revenue was primarily due to the increase in system cost as discussed previously.

*Sales and Marketing Expenses.* The increase in sales and marketing expenses from the three months ended June 30, 2006 to the three months ended June 30, 2007 was due primarily to new product roll-outs in the second quarter of 2007. The decrease in sales and marketing expenses from the six months ended June 30, 2006 to the six months ended June 30, 2007 was primarily due to higher consulting costs of $116,000 for various sales and marketing activities during the first quarter of 2006.

*General and Administrative Expenses.* The increase in general and administrative expenses from the three months ended June 30, 2006 to the three months ended June 30, 2007 was due primarily to costs of $522,000 related to new product development and marketing initiatives, that have not begun to generate earnings, and an increase in legal and legal settlement costs of $328,000 related to the Zermino lawsuit discussed in Part II of this report and the costs associated with the filing of an application for a license under California Knox-Keene Act. This increase was offset by decreases in staffing, occupancy and other related costs of $492,000 as the result of the outsourcing, office relocation and other management initiatives. The increase in general and administrative expenses as a percent of revenue is due to the reasons discussed previously.

The increase in general and administrative expenses from the six months ended June 30, 2006 to the six months ended June 30, 2007 was primarily due to the expenses related to new product development and marketing initiatives and legal costs and settlements incurred in the second quarter discussed previously. This increase was offset by decreases for outsourcing and office relocation and other management initiatives of $908,000. The increase in general and administrative expenses as a percent of revenue was due to the reasons discussed previously.

***Insurance Marketing Division.*** The operating results for our Insurance Marketing Division were as follows:

| Dollars in Thousands | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | Dollar Change | Percent Change | 2007 | 2006 | Dollar Change | Percent Change |
| Revenues | $ 5,586 | $ | $ 5,586 | na | $ 9,014 | $ | $ 9,014 | na |
| Operating expenses: | | | | | | | | |
| Commissions | 3,524 | | 3,524 | na | 5,878 | | 5,878 | na |
| Cost of operations | 403 | | 403 | na | 495 | | 495 | na |
| Sales and marketing | 879 | | 879 | na | 1,513 | | 1,513 | na |
| General and administrative | 414 | | 414 | na | 519 | | 519 | na |
| Total operating expenses | 5,220 | | 5,220 | na | 8,405 | | 8,405 | na |
| Operating income | $ 366 | $ | $ 366 | na | $ 609 | $ | $ 609 | na |
| Percent of revenue: | | | | | | | | |
| Revenues | 100% | | | | 100% | | | |
| Operating expenses: | | | | | | | | |
| Commissions | 63.1% | 0.0% | | | 65.2% | 0.0% | | |
| Cost of operations | 7.2% | 0.0% | | | 5.5% | 0.0% | | |
| Sales and marketing | 15.7% | 0.0% | | | 16.8% | 0.0% | | |
| General and administrative | 7.4% | 0.0% | | | 5.8% | 0.0% | | |
| Total operating expenses | 93.4% | 0.0% | | | 93.2% | 0.0% | | |
| Operating income | 6.6% | 0.0% | | | 6.7% | 0.0% | | |

Operating results for the Insurance Marketing Division are included only from February 2007 forward, after the completion on January 30, 2007 of the acquisition of Insurance Capital Management USA, Inc. However, ICM s 2006 results prior to acquisition are discussed below for comparative purposes.

*Service Revenues.* Revenues for the three months ended June 30, 2007 of $5,586,000, an increase of 28% over the prior year pre-acquisition quarter revenue of $4,300,000, is primarily due to growth in major medical insurance sales through the AHCP agency channel. Year-to-date revenues of $9,014,000 are also approximately 28% higher than the corresponding prior year pre-acquisition period for the same reasons previously discussed.

*Commissions and Cost of Operations.* Commissions and cost of operations, as a percentage of revenues approximate 70% for both the second quarter and year to date.

*General and Administrative Expenses.* General and administrative expenses from the three months ended June 30, 2007 include an asset impairment charge of $174,000 attributable to an unsuccessful tele-sales marketing initiative. Without this charge, combined sales, marketing and general and administrative costs would have aggregated $1,114,000, level with the pro-rated corresponding amount for the two months ended March 31, 2007.

*Operating Income.* Operating income for the three months ended June 30, 2007 of $366,000 is consistent with the pro-rated corresponding amount for the two month period ended March 31, 2007. Without the impairment charge previously discussed, operating income for the second quarter 2007 would have been $540,000. This increase over 2006 is the result of growth in revenue and the relatively fixed nature of the majority of operating expenses.

***Regional Healthcare Division.*** The operating results for our Regional Healthcare Division were as follows:

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| Dollars in Thousands | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | Dollar Change | Percent Change | 2007 | 2006 | Dollar Change | Percent Change |
| Revenues | $ 1,680 | $ 1,943 | $ (263) | (13.5%) | $ 3,416 | $ 3,859 | $ (443) | (11.5%) |
| Operating expenses: | | | | | | | | |
| Cost of operations | 1,090 | 1,231 | (141) | (11.5%) | 2,246 | 2,385 | (139) | (5.8%) |
| Sales and marketing | 148 | 154 | (6) | (3.9%) | 277 | 323 | (46) | (14.2%) |
| General and administrative | 465 | 147 | 318 | 216.3% | 684 | 300 | 384 | 128.0% |
| Goodwill impairment | 4,092 | | 4,092 | na | 4,092 | | 4,092 | na |
| Total operating expenses | 5,795 | 1,532 | 4,263 | 278.3% | 7,299 | 3,008 | 4,291 | 142.7% |
| Operating (loss) income | $ (4,115) | $ 411 | $ (4,526) | (1,101.2%) | $ (3,883) | $ 851 | $ (4,734) | (556.3%) |
| Percent of revenue: | | | | | | | | |
| Revenues | 100.0% | 100.0% | | | 100.0% | 100.0% | | |
| Operating expenses: | | | | | | | | |
| Cost of operations | 64.9% | 63.4% | | | 65.7% | 61.8% | | |
| Sales and marketing | 8.8% | 7.9% | | | 8.1% | 8.4% | | |
| General and administrative | 27.7% | 7.6% | | | 20.0% | 7.8% | | |
| Total operating expenses | 101.4% | 78.9% | | | 93.8% | 78.0% | | |
| Operating (loss) income | (1.4%) | 21.1% | | | 6.2% | 22.0% | | |

*Service Revenues.* The primary element of our Regional Healthcare Division is our wholly-owned subsidiary, AAI, through which we offer full third-party administration services. Through AAI, we provide a wide range of healthcare claims administration services and other cost containment procedures that are frequently required by state and local governmental entities and other large employers that have chosen to self fund their required healthcare benefits. AAI helps us offer a more complete suite of healthcare service products. Also through AAI, we provide individuals and employee groups access to preferred provider networks, medical escrow accounts and full third-party administration capabilities to adjudicate and pay medical claims.

During June and July of 2007, we received notice that our contracts with two of our major customers would not be renewed. Together, these contracts account for approximately $3,300,000 or 50% of AAI s total annual revenue. The loss of revenue from those contracts is expected to adversely impact our results of operations beginning in the fourth quarter of 2007, when the non-renewed contracts expire. The loss of these contracts along with other events contributed to the re-evaluation of the carrying value of AAI s goodwill as discussed below.

Regional Healthcare Services revenues from the three months and six months ended June 30, 2006 to the three months and six months ended June 30, 2007 decreased primarily due to the decline in the number of lives covered in the plans of one of our major customers.

*Cost of Operations.* The decreases in cost of operations from the three and six months ended June 30, 2006 to the three and six months ended June 30, 2007 were due primarily to decreased revenues discussed previously. The increases in cost of operations as a percent of revenue were because fixed costs did not decline proportionately with the revenue decline discussed above.

*Sales and Marketing Expenses.* The decreases in sales and marketing expenses from the three months and six months ended June 30, 2006 to the three months and six months ended June 30, 2007 were primarily due to decreases in sales and public relations activities. AAI maintains direct relationships with its large self-funded clients in the El Paso market and does not utilize advertising or outside sales forces.

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*General and Administrative Expenses.* The increases in general and administrative expenses from the three months and six months ended June 30, 2006 to the three months and six months ended June 30, 2007 are due primarily to substantially greater legal fees and settlements in 2007 related to the investigation of AAI as discussed below.

*Goodwill Impairment.* During the second quarter, and in July 2007, we announced several adverse events related to the loss of two major customers and possible loss or non-renewal of another major customer beyond contract expirations in 2007. Further, we reported on the status of an investigation that we believe involves allegations of executive officer corruption relating to contract procurement by AAI and other companies from certain local governmental entities. Failure to obtain these contract renewals and other events are expected to result in a substantial decline in revenues. That decline in revenue represents a significant adverse change in the business climate that will adversely affect the value of AAI. Accordingly, as of June 30, 2007, we re-evaluated the carrying value of goodwill related to AAI and determined that an impairment charge for the recorded amount of $4,092,000 was appropriate.

***Corporate and Other.*** The operating costs for our corporate and other activities were as follows:

| **Dollars in Thousands** | **For the Three Months Ended June 30,** | | | | **For the Six Months Ended June 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | **2006** | **Dollar Change** | **Percent Change** | **2007** | **2006** | **Dollar Change** | **Percent Change** |
| Revenues | $ 10 | $ 25 | $ (15) | (60.0%) | $ 26 | $ 57 | $ (31) | (54.4%) |
| Commissions | 2 | 14 | (12) | (85.7%) | 7 | 28 | (21) | (75.1%) |
| Cost of Operations | 4 | | 4 | 100.0% | 5 | | 5 | |
| Sales and Marketing | | | | | | | | |
| General and administrative | 601 | 399 | 202 | 50.6% | 1,290 | 917 | 373 | 40.6% |
| Total operating expenses | 607 | 413 | 194 | 47.0% | 1,302 | 945 | 357 | 37.7% |
| Operating loss | $ (597) | $ (388) | $ (209) | 53.9% | $ (1,276) | $ (888) | $ (388) | 43.6% |

Until December, 2006 we reported the financial results of our wholly-owned subsidiary Care Financial of Texas, L.L.C. (Care Financial) as a separate segment, Financial Services. Financial Services included two divisions Care Financial which offered high deductible and scheduled benefit insurance policies and Care 125 which offered life insurance and annuities, along with Healthcare Savings Accounts (HSAs), Healthcare Reimbursement Arrangements (HRAs) and medical and dependent care Flexible Spending Accounts (FSAs). Care 125 was discontinued in December 2006 and Care Financial is now included with Corporate and Other.

*Service Revenues and Commissions.* Revenues for Care Financial continue to decline as we have de-emphasized this product line.

*General and Administrative Expenses.* The increase in general and administrative expenses from the three months ended June 30, 2006 to the three months ended June 30, 2007 was primarily due to increase in management personnel costs related to integration of ICM.

The increase in general and administrative expenses from the six months ended June 30, 2006 to the six months ended June 30, 2007 was primarily due to stock options awarded to officers and directors of $260,000 during the first quarter 2007 and the increases in the second quarter previously discussed.

**Income Tax Provision**

SFAS 109, Accounting for Income Taxes , requires the separate recognition, measured at currently enacted tax rates, of deferred tax assets and deferred tax liabilities for the tax effect of temporary differences between the financial reporting and tax reporting bases of assets and liabilities, and net operating loss carry forward balances for tax

purposes. A valuation allowance must be established for deferred tax assets if it is more likely than not that all or a portion will not be realized. At June 30, 2007 and December 31, 2006, we had non-current deferred tax assets of $105,000 and $387,000, respectively, and current deferred tax liabilities of $105,000 and

$387,000, respectively. The non-current deferred tax asset is primarily due to the net operating loss carry-forward that if not utilized will expire at various dates through 2020, offset by a deferred tax asset valuation allowance of $1,287,000. The deferred tax liability is primarily due to prepaid expenses. We evaluate the probability of recognizing the benefit of deferred tax assets through the reduction of taxes otherwise payable in the future and provide an allowance against the carrying amount of such deferred tax assets if it is more probable than not that some or all of the assets will not be realized.

On July 14, 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes guidance to address inconsistencies among entities with the measurement and recognition in accounting for income tax positions for financial statement purposes. Specifically, FIN 48 addresses the timing of the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when the company determines that it is more-likely-than-not that the tax position will be ultimately sustained. We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. We have analyzed all filing positions in federal and state tax jurisdictions where we are required to file income tax returns. Our major tax jurisdictions include the federal jurisdiction and the state of Texas. Tax years open to examination include 2003 through 2006 for the federal return. A federal audit for 2004 has been completed with no change to our tax liability. The Texas audit for Capella for the years 2002-2005 have been concluded with no material change to our tax provision. We have elected to recognize penalties and interest related to tax liabilities as a component of income tax expense and income taxes payable. As of June 30, 2007, income taxes payable included $99,000 of accrued interest expense and $26,000 of accrued penalties related to state tax liabilities. We plan to settle the state tax liabilities and pay any related interest and penalties during 2007.

**Liquidity and Capital Resources**

***Operating Activities.*** Net cash provided by operating activities for the three months ended June 30, 2007 and the three months ended June 30, 2006 was $111,000 and $1,257,000, respectively. The decrease in net cash provided by operating activities of $1,146,000 was due primarily to a federal tax refund of $994,000 received in the second quarter of 2006.

Net cash provided by operating activities for the six months ended June 30, 2007 and the six months ended June 30, 2006 was $681,000 and $1,872,000, respectively. The decrease in net cash provided by operating activities of $1,191,000 was due primarily to a receipt of a state franchise tax refund of $133,000 in first quarter of 2006 and the federal tax refund discussed previously.

***Investing Activities.*** Net cash provided by investing activities for the three months ended June 30, 2007 was $237,000 and net cash used for the three months ended June 30, 2006 was $1,383,000. The increase in net cash from investing activities of $1,620,000 was due primarily to the increase in the cash requirement to maintain restricted short-term investments of $1,170,000 in second quarter of 2006.

Net cash provided by investing activities for the six months ended June 30, 2007 was $115,000 and net cash used for the six months ended June 30, 2006 was $2,131,000. The increase in net cash from investing activities of $2,246,000 was due primarily to cash used in a business combination related to our acquisition of AAI of $521,000 in the first quarter of 2006 and cash provided by the decrease in the requirement to maintain restricted short-term investments, as discussed above.

***Financing Activities.*** Net cash used in financing activities for the three months ended June 30, 2007 and the three months ended June 30, 2006 was $241,000 and $68,000, respectively. The increase in net cash used in financing activities of $173,000 was due primarily to a net decrease in deferred commissions of $319,000, offset by an increase in accrued costs for the ICM acquisition of $68,000 and an increase in short term debt of $109,000.

Net cash used in financing activities for the six months ended June 30, 2007 and the six months ended June 30, 2006 was $172,000 and $136,000, respectively. The increase in net cash used in financing activities of $36,000 was primarily due to a net decrease in deferred commissions of $156,000, offset by net increases as discussed above.

On June 30, 2007, March 31, 2007 and December 31, 2006 we had working capital of $1,904,000, $2,331,000 and $3,996,000, respectively. The decrease in working capital from March 31, 2007 of $427,000 was due primarily to an increase in accrued liabilities related to legal fees and settlement costs in the Consumer Plan and Regional Healthcare

segments as discussed previously. The decrease in working capital from December 31, 2006 to June 30, 2007 of $2,092,000 is due primarily to the assumption of liabilities related to the January 2007 ICM acquisition and legal fees previously discussed.

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We have obtained line of credit facilities and short-term notes from a commercial banking institution and from a specialty lending corporation. The commercial bank outstanding balance at June 30, 2007 of $1,865,000 comprises $906,000 of short term notes, and $959,000 drawn down under the current line of credit facilities and the proceeds are used to fund the advancing of agent commissions for certain programs. These debt obligations are collateralized by certain future commissions and fees. At June 30, 2007 we are able to borrow an additional $291,000 under this facility provided that the borrowings are solely for the funding of advanced agent commissions. $473,500 of the total commercial bank borrowings of $1,865,000 mature and became payable July 15, 2007 and were paid during the third quarter of 2007. The remaining balance of $1,392,000 has scheduled maturity dates in 2008 and is expected to be fully paid prior to March 31, 2008. Interest is charged at prime plus 1.5%. We are the primary party on the loan agreement and Peter Nauert, our Chairman, has executed a personal guarantee.

As part of the ICM acquisition, we assumed a three-year loan that was obtained in November 2006, from a specialty lending corporation in the amount of $600,000 of which $552,000 remains outstanding at June 30, 2007. $204,000 of the outstanding balance has been classified as short-term debt and the remaining balance of $348,000 has been classified as long-term debt. The loan bears interest at prime plus 5.0%. We are the primary party on the loan agreement and Peter Nauert, our Chairman, has executed a personal guarantee.

We do not have any capital commitments. However, we may utilize capital for strategic acquisitions should such opportunities present themselves. We require working capital to advance commissions to our agents prior to our receipt of the underlying commission from the insurance carrier. We have access to a sufficient amount of working capital to meet our needs, but our ability to grow the Insurance Marketing Division will depend on our ability to gain access to increasing amounts of working capital sources. We believe that our existing cash and cash equivalents, and cash provided by operations, will be sufficient to fund our normal operations and capital expenditures for the next 12 months. However, growth in our Insurance Marketing Division may necessitate additional financing to fund future advances.

Because our capital requirements cannot be predicted with certainty, there is no assurance that we will not require any additional financing during the next 12 months, and if required, that any additional financing will be available on terms satisfactory to us or advantageous to our stockholders.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any investments in market risk sensitive instruments.

## ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and our Chief Financial Officer are primarily responsible for establishing and maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act ) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. These controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Furthermore, our Chief Executive Officer and our Chief Financial Officer are responsible for the design and supervision of our internal controls over financial reporting that are then effected by and through our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These policies and procedures

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

In connection with our quarter end close process and the preparation of this report, an evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective at June 30, 2007. However, in the prior quarter the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective at March 31, 2007, due to one material weakness and one significant deficiency in internal control over financial reporting noted below. Our management reported to our auditors and the audit committee of our board of directors that, other than the changes being implemented to remediate the material weakness and significant deficiency noted below, no other change in our disclosure controls and procedures and internal control over financial reporting occurred during the second quarter of 2007 that would materially affect or was reasonably likely to materially affect our disclosure controls and procedures or internal control over financial reporting.

**Changes to Internal Control over Financial Reporting**

During the first quarter of 2007 and the subsequent evaluation of disclosure controls and procedures effective as of March 31, 2007, management recognized the need to improve its internal controls over financial reporting in the following areas:

**Material Weakness**

Processes and controls for the recording of insurance commission revenues for the insurance marketing operation acquired during the quarter were not sufficient to provide for the timely recording of revenue transactions.

**Significant Deficiency**

Processes and controls for recording stock option expense pursuant to SFAS 123R did not provide for timely recording of stock option expense.

We remediated these weaknesses during the second quarter.

## PART II OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

There are no new legal proceedings to report during the six months ended June 30, 2007. Except as described below, there have been no developments on legal proceedings discussed in our 2006 annual report on Form 10-K.

***Kirk, et al v Precis, Inc. and David May.*** On September 8, 2003, the case styled Robert Kirk, Individually and D/B/A US Asian Advisors, LLC, *et al* vs. Precis, Inc. and David May, Defendants was initiated in the District Court of Tarrant County, Texas, Case No. 236 201 468 03. The plaintiffs alleged that they were not allowed to exercise certain stock options and warrants in May 2003 due to actions and inactions of Mr. May and that these actions and inactions constitute fraud, misrepresentation, negligence and legal malpractice. Plaintiffs sought damages equal to the difference between the exercise price of the stock options or warrants and the market value of our common stock on May 7, 2002 (presumably the closing sale price of $15.75) or an aggregate sum of $1,592,050, plus exemplary damages and costs. On July 13, 2005, the court entered a judgment in our favor, ordering that the plaintiffs take nothing by way of their lawsuit. The order set aside a previous jury verdict in favor of the plaintiffs. The trial court s judgment was

affirmed by the Court of Appeals for the Second Judicial District of Texas and, in July 2007, the Texas Supreme Court declined to review the case. The plaintiffs may request reconsideration or may apply for a *writ of certiorari* to the U.S. Supreme Court. While we cannot offer any assurance as to the outcome of the appeal, we believe that there exists no basis on which the judgment in our favor will be overturned.

***Investigation of National Center for Employment of the Disabled, Inc. and Access HealthSource, Inc.( AAI )***
In June 2004, we acquired AAI and its subsidiaries from National Center for Employment of the Disabled, Inc. (now known as Ready One Industries, NCED ). Robert E. Jones, the C.E.O. of NCED was elected to and served on our Board of Directors until his March 2006 resignation. Frank Apodaca served as the President and C.E.O. of AAI from the date of our 2004 acquisition until August 3, 2007, on which date he was notified that his employment with us would end on September 3, 2007. Mr. Apodaca also served as Chief Administrative Officer and a member of the Board of Directors of NCED. Mr. Apodaca also served as our President from June 10, 2004 to January 30, 2007. Until July 2006, his employment agreement with us allowed him to spend up to 20% of his time on matters related to NCED s operations. NCED is one of our greater than 10% shareholders as a result of shares it received from our acquisition of AAI.

There is a continuing federal investigation of AAI and Mr. Apodaca and there has been publicity in the El Paso, Texas area about the investigation which involves several elected officials and over 20 companies that do business with local government entities in the El Paso area. Although no indictments of Mr. Apodaca or AAI have occurred, we believe that the investigation involves, among other things, allegations of official corruption relating to contract procurement by Mr. Apodaca and AAI and other companies from these local governmental entities. We can offer no assurance as to the outcome of the investigation. Mr. Apodaca has been placed on administrative leave and has been given notice that his employment will terminate on September 3, 2007. In addition to the negative financial effect from the loss of business we have suffered and may suffer as a result of the investigation and the publicity surrounding the investigation, our financial condition and the results of our operations will be materially affected should the investigation result in formal allegations of wrongdoing by AAI. We may be required to pay fines or restitution, and our ability to operate AAI under its state licenses may be restricted or terminated. In addition, the publicity and financial effect resulting from the investigation may affect our other divisions ability to attract business, secure financing, and general reputation.

We are a party to various other claims and legal proceedings arising out of the normal course of our business. Although there can be no assurance, in the opinion of management, the ultimate outcome of these other claims and lawsuits should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

## ITEM 1A. RISK FACTORS

### Our Risk Factors

The matters discussed below and elsewhere in this report should be considered when evaluating our business operations and strategies. Additionally, there may be risks and uncertainties that we are not aware of or that we currently deem immaterial, which may become material factors affecting our operations and business success. Many of the factors are not within our control. We provide no assurance that one or more of these factors will not:

- adversely affect the market price of our common stock,
- adversely affect our future operations,
- adversely affect our business,
- adversely affect our financial condition,
- adversely affect our results of operations,
- require significant reduction or discontinuance of our operations,

require us to seek a merger partner, or



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require us to sell additional stock on terms that are highly dilutive to our shareholders.

***THIS REPORT CONTAINS CAUTIONARY STATEMENTS RELATING TO FORWARD LOOKING INFORMATION.***

We have included some forward-looking statements in this section and other places in this report regarding our expectations. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Some of these forward-looking statements can be identified by the use of forward-looking terminology including believes, expects, may, will, should or anticipates or the negative ther other variations thereon or comparable terminology, or by discussions of strategies that involve risks and uncertainties. You should read statements that contain these words carefully because they:

discuss our future expectations,

contain projections of our future operating results or of our future financial condition, or

state other forward-looking information.

We believe it is important to discuss our expectations. However, it must be recognized that events may occur in the future over which we have no control and which we are not accurately able to predict. Any forward-looking statements contained in this report represent our judgment as of the date of this report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements.

***DURING THE FIRST SIX MONTHS OF 2007 AND DURING 2006, 2005 AND 2004 WE INCURRED LOSSES FROM OPERATIONS AND THESE LOSSES MAY CONTINUE.***

During the six months ended June 30, 2007 and the years ended December 31, 2006, 2005 and 2004 we incurred losses from continuing operations of $5,074,000, $6,814,000, $13,229,000 and $1,657,000, respectively and net losses of $5,074,000, $7,724,000, $13,371,000 and $1,956,000, respectively. As part of those operating losses and net losses, we incurred goodwill impairment charges of $4,092,000, $6,866,000 including tax considerations of $426,000, $12,900,000 and $2,000,000 in 2007, 2006, 2005 and 2004, respectively. In 2007, we recorded goodwill impairment charges of $4,092,000 for AAI due to the loss of significant contracts. In 2006, we recorded goodwill impairment charges of $4,066,000 including tax considerations of $426,000 for AAI and $2,800,000 for Capella, respectively. In 2005, we recorded a goodwill impairment charge of $12,900,000 related to Capella. In 2004, we recorded a goodwill impairment charge of $2,000,000 related to Foresight, Inc. ( Foresight ). The operating loss before goodwill impairment charges in 2005 was primarily attributable to the continuing costs associated with our Care Entrée[tm] medical savings program. There is no assurance that losses from our Care Entrée[tm] medical savings program will not continue or that our other operations will become or continue to be profitable in 2007 or thereafter.

***OUR REVENUES IN THE CONSUMER PLAN DIVISION ARE LARGELY DEPENDENT ON THE INDEPENDENT MARKETING REPRESENTATIVES, WHOSE REDUCED SALES EFFORTS OR TERMINATION MAY RESULT IN SIGNIFICANT LOSS OF REVENUES.***

Our success and growth depend in large part upon our ability to attract, retain and motivate the network of independent marketing representatives who principally market our Care Entrée[tm] medical savings program and the USA Healthcare Savings products that we are introducing in 2007. Our independent marketing representatives typically offer and sell the Care Entrée[tm] program on a part-time basis, and may engage in other business activities. These marketing representatives may give higher priority to other products or services, reducing their efforts devoted to marketing our Care Entrée[tm] program. Also, our ability to attract and retain marketing representatives could be negatively affected by adverse publicity relating to our Care Entrée[tm] program and operations.

Under our network marketing system, the marketing representatives downline organizations are headed by a relatively small number of key representatives who are responsible for a substantial percentage of our total revenues. The loss of a significant number of marketing representatives, including any key representatives, for any reason, could adversely affect our revenues and operating results, and could impair our ability to attract new distributors.

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***A LARGE PART OF OUR CONSUMER PLAN DIVISION REVENUES ARE DEPENDENT ON KEY RELATIONSHIPS WITH A FEW PRIVATE LABEL RESELLERS AND WE MAY BECOME MORE DEPENDENT ON SALES BY A FEW PRIVATE LABEL RESELLERS.***

Our revenues from sales of our independent marketing representatives have declined and continue to decline. As a result, we have become more dependent on sales made by private label resellers to whom we sell our discount medical programs. If sales made by our independent marketing representatives continue to decline or if our efforts to increase sales through private label resellers succeed, we may become more dependent on sales made by our private label resellers. Because a large number of these sales may be made by a few resellers, our revenues and operating results may be adversely affected by the loss of our relationship with any of those private label resellers.

***DEVELOPMENT AND MAINTENANCE OF RELATIONSHIPS WITH PREFERRED PROVIDER ORGANIZATIONS ARE CRITICAL AND THE LOSS OF SUCH RELATIONSHIPS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.***

As part of our business operations, we must develop and maintain relationships with preferred provider organizations within each market area that our services are offered. Development and maintenance of these relationships with healthcare providers within a preferred provider organization is in part based on professional relationships and the reputation of our management and marketing personnel. Because many members that receive healthcare services are self-insured and responsible for payment for healthcare services received, failure to pay or late payments by members may negatively affect our relationship with the preferred provider organizations. Consequently, preferred provider organization relationships may be adversely affected by events beyond our control, including departures of key personnel and alterations in professional relationships and members failures to pay for services received. The loss of a preferred provider organization within a geographic market area may not be replaced on a timely basis, if at all, and may have a material adverse effect on our business, financial condition and results of operations.

***WE CURRENTLY RELY HEAVILY ON ONE KEY PREFERRED PROVIDER ORGANIZATION AND THE LOSS OF OR A CHANGE IN OUR RELATIONSHIP WITH THIS PROVIDER COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.***

Private Healthcare Systems ( PHCS ), a division of MultiPlan, Inc., is the preferred provider organization through which most of our members obtain savings on medical services through our Care Entrée^tm program. The loss of PHCS as a preferred provider organization or a disruption of our members access to PHCS could affect our ability to retain our members and could, therefore, adversely affect our business. While we currently enjoy a good relationship with PHCS and MultiPlan, there are no assurances that we will continue to have a good relationship with them in the future, or that MultiPlan, having recently acquired PHCS, may choose to change its business strategy in a way that adversely affects us by either limiting or terminating our members access to the PHCS network or by entering into agreements with our competitors to provide their members access to PHCS.

***WE FACE COMPETITION FOR MARKETING REPRESENTATIVES AS WELL AS COMPETITIVE OFFERINGS OF HEALTHCARE PRODUCTS AND SERVICES.***

Within the healthcare savings membership industry competition for members is becoming more intense. We offer membership programs that provide products and services similar to or directly in competition with products and services offered by our network-marketing competitors as well as the providers of such products and services through other channels of distribution. Some of our private label resellers have chosen to sell a product that is competitive to ours in order to maintain multiple sources for their products. Others may also choose to sell competing products. Furthermore, marketing representatives have a variety of products that they can choose to market, whether competing with us in the healthcare market or not.

Our business operations compete in two channels of competition. First, we compete based upon the healthcare products and services offered. These competitors include companies that offer healthcare products and services through membership programs much like our programs, as well as insurance companies, preferred provider organization networks and other organizations that offer benefit programs to their customers. Second, we compete with all types of network marketing companies throughout the U.S. for new marketing representatives. Many of our competitors have substantially larger customer bases and greater financial and other resources.

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We provide no assurance that our competitors will not provide healthcare benefit programs comparable or superior to our programs at lower membership prices or adapt more quickly to evolving healthcare industry trends or changing industry requirements. Increased competition may result in price reductions, reduced gross margins, and loss of market share, any of which could adversely affect our business, financial condition and results of operations. There is no assurance that we will be able to compete effectively with current and future competitors.

***GOVERNMENT REGULATION MAY ADVERSELY AFFECT OUR FINANCIAL POSITION AND LIMIT OUR OPERATIONS.***

Most of the discount medical programs that we offer through our Consumer Plan Division are sold without the need for an insurance license by any federal, state or local regulatory licensing agency or commission. In comparison, companies that provide insurance benefits and operate healthcare management organizations and preferred provider organizations are regulated by state licensing agencies and commissions. These regulations extensively cover operations, including scope of benefits, rate formula, delivery systems, utilization review procedures, quality assurance, enrollment requirements, claim payments, marketing and advertising. Several states have enacted laws and regulations overseeing discount medical plans. We do not know the full extent of these regulations and additional states may also impose regulation. Our need to comply with these regulations may adversely affect or limit our future operations. The cost of complying with these laws and regulations has and will likely continue to have a material effect on our financial position.

Government regulation of health and life insurance, annuities and healthcare coverage and health plans is a changing area of law and varies from state to state. Although we are not an insurance company, the insurance companies from which we obtain our products and financial services are subject to various federal and state regulations applicable to their operations. These insurance companies must comply with constantly evolving regulations and make changes occasionally to services, products, structure or operations in accordance with the requirements of those regulations. We may also be limited in how we market and distribute our products and financial services as a result of these laws and regulations.

We market memberships in associations that have been formed to provide various consumer benefits to their members. These associations may include in their benefit packages insurance products that are issued under group or blanket policies covering the association s members. Most states allow these memberships to be sold under certain circumstances without a licensed insurance agent making each sale. If a state were to determine that our sales of these memberships do not comply with their regulations, our ability continue selling such memberships would be affected and we might be subject to fines and penalties and may have to issue refunds or provide restitution to the associations and their members.

***WE MAINTAIN DATA THAT IS PRIVATE TO OUR MEMBERS AND CUSTOMERS. OUR FAILURE TO PROTECT THAT DATA COULD ADVERSLY AFFECT OUR FINANCIAL POSITION AND OPERATIONS BY DAMAGING OUR REPUTATION, HARMING OUR BUSINESS AND CAUSING US TO EXPEND CAPITAL AND OTHER RESOURCES TO PROTECT AGAINST FUTURE SECURITY BREACHES.***

Certain of our services are based upon the collection, distribution, and protection of sensitive private data. Unauthorized users might access that data, and human error or technological failures might cause the wrongful dissemination of that data. If we experience a security breach, the integrity of certain of our services may be affected and such a breach could violate certain of our marketing partner agreements, which could give our marketing partners the right to terminate such agreements with us. We have incurred, and may incur in the future, significant costs to protect against the threat of a security breach. We may also incur significant costs to solve problems that may be caused by future breaches or to prevent such breaches. Any breach or perceived breach could subject us to legal claims from our marketing partners or customers and/or regulatory or law enforcement entities under laws that govern the protection of non-public personal information. Moreover, any public perception that we have engaged in the unauthorized release of, or have failed to adequately protect, private information could adversely affect our ability to attract and retain members and customers. In addition, unauthorized third parties might alter information in our databases, which would adversely affect both our ability to market our services and the credibility of our information.

***THE FAILURE OF OUR NETWORK MARKETING ORGANIZATION TO COMPLY WITH FEDERAL AND STATE REGULATION COULD RESULT IN ENFORCEMENT ACTION AND IMPOSITION OF PENALTIES,***

***MODIFICATION OF OUR NETWORK MARKETING SYSTEM, AND NEGATIVE PUBLICITY.***

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Our network marketing organization is subject to federal and state laws and regulations administered by the Federal Trade Commission and various state agencies. These laws and regulations include securities, franchise investment, business opportunity and criminal laws prohibiting the use of pyramid or endless chain types of selling organizations. These regulations are generally directed at ensuring that product and service sales are ultimately made to consumers (as opposed to other marketing representatives) and that advancement within the network marketing organization is based on sales of products and services, rather than on investment in the company or other non-retail sales related criteria.

The compensation structure of a network marketing organization is very complex. Compliance with all of the applicable regulations and laws is uncertain because of:

- the evolving interpretations of existing laws and regulations, and
- the enactment of new laws and regulations pertaining in general to network marketing organizations and product and service distribution.

Accordingly, there is the risk that our network marketing system could be found to not comply with applicable laws and regulations that could:

- result in enforcement action and imposition of penalty,
- require modification of the marketing representative network system,
- result in negative publicity, or
- have a negative effect on distributor morale and loyalty.

Any of these consequences could have a material adverse effect on our results of operations as well as our financial condition.

***THE LEGALITY OF OUR NETWORK MARKETING ORGANIZATION IS SUBJECT TO CHALLENGE BY OUR MARKETING REPRESENTATIVES, WHICH COULD RESULT IN SIGNIFICANT DEFENSE COSTS, SETTLEMENT PAYMENTS OR JUDGMENTS, AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.***

Our network marketing organization is subject to legality challenge by our marketing representatives, both individually and as a class. Generally, these challenges would be based on claims that our marketing network program was operated as an illegal pyramid scheme in violation of federal securities laws, state unfair practice and fraud laws and the Racketeer Influenced and Corrupt Organizations Act. Proceedings resulting from these claims could result in significant defense costs, settlement payments, or judgments, and could have a material adverse effect on us.

***THE ADVERTISING AND PROMOTIONAL ACTIVITIES OF OUR INDEPENDENT MARKETING REPRESENTATIVES AND PRIVATE-LABEL CUSTOMERS ARE SUBJECT TO AND MAY VIOLATE FEDERAL AND STATE REGULATION CAUSING US TO BE SUBJECT TO THE IMPOSITION OF CIVIL PENALTIES, FINES, INJUNCTIONS AND LOSS OF STATE LICENSES.***

The Federal Trade Commission ( FTC ) and most states regulate advertising, product claims, and other consumer matters, including advertising of our healthcare savings products. All advertising, promotional and solicitation materials used by our independent marketing representatives and private label customers must be approved by us prior to use. We are currently under investigation by the Texas Attorney General as a result of the activities of one of our private label customers, with whom we have terminated our relationship. While we have not been the target of FTC enforcement action for the advertising of, or product claims related to, our healthcare savings products, there can be no assurance that the FTC will not question our advertising or other operations in the future. In addition, there can be no assurance that a state, in addition to Texas, will not interpret our product claims presumptively valid under federal law as illegal under that state s regulations, or that future FTC regulations or decisions will not restrict the permissible scope of the claimed savings. We are subject to the risk of claims by our independent marketing representatives and private label customers and members of our Care Entree programs and those under private label arrangements may file actions on their own behalf, as a class or otherwise, and may file complaints with the FTC or state or local

consumer affairs offices. These agencies may take action on their own initiative against us for alleged advertising or product claim violations. These actions may include consent decrees and the refund of amounts paid by the complaining members, refunds to an entire class of independent marketing representatives, private label customers or members, or other damages, as well as changes in our method of doing business. A complaint because of a practice of one independent marketing representative or private label customer, whether or not that practice was authorized by us, could result in an order affecting some or all of our independent marketing

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representatives and private label customers in the particular state, and an order in one state could influence courts or government agencies in other states considering similar matters. Proceedings resulting from these complaints may result in significant defense costs, settlement payments or judgments and could have a material adverse effect on our operations.

***WE MAY HAVE EXPOSURE AND LIABILITY RELATING TO NON-COMPLIANCE WITH THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996 AND THE COST OF COMPLIANCE COULD BE MATERIAL.***

In April 2003 privacy regulations promulgated by The Department of Health and Human Services pursuant to the Health Insurance Portability and Accountability Act of 1996 ( HIPAA ). HIPAA imposes extensive restrictions on the use and disclosure of individually identifiable health information by certain entities. Also as part of HIPAA, the Department of Health and Human Services has issued final regulations standardizing electronic transactions between health plans, providers and clearinghouses. Healthcare plans, providers and claims administrators are required to conform their electronic and data processing systems to HIPAA electronic transaction requirements. While we believe we are currently compliant with these regulations, we cannot be certain of the extent to which the enforcement or interpretation of these regulations will affect our business. Our continuing compliance with these regulations, therefore, may have a significant impact on our business operations and may be at material cost in the event we are subject to these regulations. Sanctions for failing to comply with standards issued pursuant to HIPAA include criminal and civil sanctions.

***DISRUPTIONS IN OUR OPERATIONS DUE TO OUR RELIANCE ON OUR MANAGEMENT INFORMATION SYSTEM MAY OCCUR AND COULD ADVERSELY AFFECT OUR CLIENT RELATIONSHIPS.***

We manage information related to our Consumer Plan Division membership primarily on management information system. This is a proprietary system and we do not rely on any third party for its support and maintenance. There is no assurance that we will be able to continue operating without experiencing any disruptions in our operations or that our relationships with our members, marketing representatives or providers will not be adversely affected or that our internal controls will not be adversely affected.

***WE HAVE MANY COMPETITORS AND MAY NOT BE ABLE TO COMPETE EFFECTIVELY WHICH MAY LEAD TO A LACK OF REVENUES AND DISCONTINUANCE OF OUR OPERATIONS.***

We compete with numerous well-established companies that design and implement membership programs and other healthcare programs. Some of our competitors may be companies that have programs that are functionally similar or superior to our programs. Most of our competitors possess substantially greater financial, marketing, personnel and other resources than us. They may also have established reputations relating to their programs.

Due to competitive market forces, we may experience price reductions, reduced gross margins and loss of market share in the future, any of which would result in decreases in sales and revenues. These decreases in revenues would adversely affect our business and results of operations and could lead to discontinuance of operations. There can be no assurance that:

- we will be able to compete successfully;
- our competitors will not develop programs that render our programs less marketable or even obsolete; or
- we will be able to successfully enhance our programs when necessary.

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***THE GOODWILL ACQUIRED PURSUANT TO OUR ACQUISITIONS OF CAPELLA, AAI AND ICM MAY BECOME FURTHER IMPAIRED AND REQUIRE A WRITE-DOWN AND THE RECOGNITION OF AN IMPAIRMENT EXPENSE THAT MAY BE SUBSTANTIAL.***

In connection with our acquisitions of Capella, AAI and ICM, we recorded goodwill that had an aggregate asset value of $16,725,000 at June 30, 2007. This carrying value has been reduced through impairment charges of $4,092,000 in 2007, $6,866,000 in 2006, $12,900,000 in 2005, and $2,000,000 in 2004. In the event that the goodwill is determined to be further impaired for any reason, we will be required to write-down or reduce the value of the goodwill and recognize an additional impairment expense. The impairment expense may be substantial in amount and, in such case, adversely affect the results of our operations for the applicable period and may negatively affect the market value of our common stock.

***OUR SUBSIDIARY, AAI, DERIVES A LARGE PERCENTAGE OF ITS INCOME FROM A FEW KEY CLIENTS AND THE LOSS OF ANY OF THOSE CLIENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.***

AAI provides full service third-party administration services to adjudicate and pay medical claims for employers who have self-funded all or any portion of their healthcare costs. Their primary market is governmental entities in the metropolitan area of El Paso, Texas, including cities and school districts. There are a limited number of these types of entities within that metropolitan area. During the second quarter, and in July 2007, we announced several adverse events related to the loss of two major customers and possible loss or non-renewal of another major customer beyond contract expirations in 2007. As of June 30, 2007, we re-evaluated the carrying value of goodwill related to AAI and determined that an impairment charge of $4,092,000 that reduced the carrying value of the goodwill to zero for the loss of these contracts was appropriate. There is no assurance that AAI will obtain renewal or extension on its remaining contracts. The loss of any of these remaining contractual relationships will adversely affect on our operating results and the loss of more than one of these contractual relationships could have a material adverse effect on our financial condition.

***WE MAY FIND IT DIFFICULT TO INTEGRATE INSURACO S BUSINESS AND OPERATIONS WITH OUR BUSINESS AND OPERATIONS.***

Although we believe that Insuraco s marketing and distribution of insurance products and financial services will complement and fit well with our business and the need for marketing of our healthcare savings programs and third-party claims administration services, Insuraco s business is new to us. Our unfamiliarity with this business may make it more difficult to integrate Insuraco s operations with ours. We will not achieve the anticipated benefits of the merger-acquisition unless we successfully integrate the Insuraco operations. There can be no assurance that this will occur.

***WE ARE DEPENDENT ON THIRD-PARTY SERVICE PROVIDERS AND THE FAILURE OF SUCH SERVICE PROVIDERS TO ADEQUATELY PROVIDE SERVICES TO US COULD AFFECT OUR FINANCIAL RESULTS BECAUSE SUCH FAILURE COULD AFFECT OUR RELATIONSHIP WITH OUR CUSTOMERS.***

As a cost efficiency measure, we have entered into agreements with third parties for their provision of services to us in exchange for a monthly fee normally calculated on a per member basis. These services include the enrollment of members through different media, operation of a member-services call center, claims administration, billing and collection services, and the production and distribution of fulfillment member marketing materials. One of these is our agreement with Lifeguard Emergency Travel, Inc. ( Lifeguard ) for the provision of these services to many of our members and prospective members. As a result of these outsourcing agreements, we may lose direct control over these key functions and operations. The failure by Lifeguard or any of our other third-party service providers to perform the services to the same or similar level of quality that we could provide could adversely affect our relationships with our members, customers, marketing representatives and our ability to retain and attract members, customers, marketing representatives and, accordingly, have a material adverse effect on our financial condition and results of operations.

***THE AVAILABILITY OF OUR INSURANCE PRODUCTS AND FINANCIAL SERVICES ARE DEPENDENT ON OUR STRATEGIC RELATIONSHIPS WITH VARIOUS INSURANCE COMPANIES AND THE UNAVAILABILITY OF THOSE PRODUCTS AND SERVICES FOR ANY REASON MAY RESULT IN SIGNIFICANT LOSS OF REVENUES.***

We are not an insurance company and only market and distribute insurance products and financial services developed and offered by insurance companies. We must develop and maintain relationships with insurance companies that provide products and services for

a particular market segment (the elderly, the young family, etc.) that we in turn make available to the independent agents with whom they have contracted to sell the products and services to the individual consumer. Of the eight insurance companies with whom Insuraco had strategic relationships prior to our acquisition, more than 95% of Insuraco s 2006 and 2005 revenue was attributable to the insurance products and financial services offered by five of the companies. Thus, we are dependent on a relatively small number of insurance companies to provide product and financial services for sale through our channels.

Development and maintenance of relationships with the insurance companies may in part be based on professional relationships and the reputation of our management and marketing personnel. Consequently, the relationships with insurance companies may be adversely affected by events beyond our control, including departures of key personnel and alterations in professional relationships. Our success and growth depend in large part upon our ability to establish and maintain these strategic relationships, contractual or otherwise, with various insurance companies to provide their products and services, including those insurance products and financial services that may be developed in the future. The loss or termination of these strategic relationships could adversely affect our revenues and operating results. Furthermore, the loss or termination may also impair our ability to maintain and attract new insurance agencies and their agents to distribute the insurance products and services that we offer.

***WE ARE DEPENDENT UPON INDEPENDENT INSURANCE AGENCIES AND THEIR AGENTS TO OFFER AND SELL OUR INSURANCE PRODUCTS AND FINANCIAL SERVICES.***

We are principally dependent upon independent insurance agencies and their agents to offer and sell the insurance products and financial services that we offer and distribute. These insurance agencies and their agents may offer and distribute insurance products and financial services that are competitive with ours. These independent agencies and their agents may give higher priority and greater incentives (financial or otherwise) to other insurance products or financial services, reducing their efforts devoted to marketing and distribution of the insurance products and financial services that we offer. Also, our ability to attract and retain independent insurance agencies could be negatively affected by adverse publicity relating to our products and services or our operations.

Furthermore, of the approximately 5,000 independent agents with whom Insuraco have active distribution and marketing relationships, more than 80% of Insuraco s revenues are attributable to the product sales and financial services through approximately 1,000 independent insurance agents. These agents report through approximately 20 independent general agencies. Thus, we are dependent on a small number of independent insurance agencies for a very significant percentage of our total insurance products and financial services revenue.

Development and maintenance of the relationships with independent insurance agencies and their agents may in part be based on professional relationships and the reputation of our management and marketing personnel. Consequently, these relationships may be adversely affected by events beyond our control, including departures of key personnel and alterations in professional relationships. The loss of a significant number of the independent insurance agencies (and their agents), as well as the loss of a key agency or its agents, for any reason, could adversely affect our revenue and operating results, or could impair our ability to establish new relationships or continue strategic relationships with independent insurance agencies and their agents.

***WE FACE INTENSE COMPETITION IN THE MARKET PLACE FOR OUR PRODUCTS AND SERVICES AS WELL AS COMPETITION FOR INSURANCE AGENCIES AND THEIR AGENTS FOR THE MARKETING OF THE PRODUCTS AND SERVICES OFFERED.***

Instead of utilizing captive or wholly-owned insurance agencies for the offer and sale of its products and services, we utilize independent insurance agencies and their agents as the principal marketing and distribution channel. Competition for independent insurance agencies and their agents is intense. Also, competition from products and services similar to or directly in competition with the products and services that we offer is intense, including those products and services offered and sold through the same channels utilized for distribution of our insurance products and financial services. Under arrangements with the independent insurance agencies, the agencies and their agents may offer and sell a variety of insurance products and financial services, including those that compete with the insurance products and financial services that we offer.

Thus, our business operations compete in two channels of competition. First, we compete based upon the insurance products and financial services offered. This competition includes products and services of insurance companies that

compete with the products and services of the insurance companies that we offered and sell. Second, we compete with all types of marketing and distribution companies throughout the U.S. for independent insurance agencies and their agents. Many of our competitors have substantially larger

bases of insurance companies providing products and services, and longer-term established relationships with independent insurance agencies and agents for the sale and distribution of products and services, as well as greater financial and other resources.

There is no assurance that our competitors will not provide insurance products and financial services comparable or superior to those products and services that we offer at lower costs or prices, greater sales incentives (financial or otherwise) or adapt more quickly to evolving insurance industry trends or changing industry requirements. Increased competition may result in reduced margins on product sales and services, less than anticipated sales or reduced sales, and loss of market share, any of which could materially adversely affect our business and results of operations. There can be no assurance that we will be able to compete effectively against current and future competitors.

***WE ARE HIGHLY DEPENDENT ON PETER W. NAUERT AND THE LOSS OF HIS SERVICES WOULD HAVE A SUBSTANTIAL ADVERSE EFFECT ON OUR OPERATIONS AND FINANCIAL RESULTS.***

We are highly dependent upon Peter W. Nauert our Chief Executive Officer and Chairman. Mr. Nauert s management skills, reputation and contacts within the insurance industry, including insurance companies and insurance agencies and their agents, are key elements of our going forward business plans. The loss of the services of Mr. Nauert would adversely affect the growth and success we expect to achieve following our merger-acquisition of ICM. Mr. Nauert is currently ill with a serious medical condition. He participates with other members of our management on a regular basis and fully participates in the making of strategic decisions, but his ability to do so may become limited over time.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

a) None.
b) None.
c) None.
d) None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibits will be provided upon request by the U.S. Securities and Exchange Commission

| Exhibit No. | Description |
|---|---|
| 3.1 | Registrant s Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of Registrant s Form 10-K filed with the Commission on April 2, 2007. |
| 3.2 | Registrant s Amended and Restated Bylaws incorporated by reference to Exhibit 3.2 of Registrant s Form 10-K filed with the Commission on April 2, 2007. |
| 4.1 | Form of certificate of the common stock of Registrant is incorporated by reference to Exhibit 4.1 of Registrant s Form 10-K filed with the Commission on April 2, 2007. |
| 4.2 | Precis, Inc. 1999 Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on June 23, 2003. |
| 4.3 | Precis, Inc. 2002 IMR Stock Option Plan, incorporated by reference to the Schedule 14A filed with the Commission on June 26, 2002. |
| 4.4 | Precis, Inc. 2002 Non-Employee Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on December 29, 2006 |
| 31.1 | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Peter W. Nauert as Chairman of the Board of Directors, President and Chief Executive Officer. |
| 31.2 | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Robert L. Bintliff as Chief Financial Officer. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act Peter W. Nauert as Chairman of the Board of Directors, President and Chief Executive Officer. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of Robert L. Bintliff as Chief Financial Officer. |

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ACCESS PLANS USA, INC.**
(Registrant)

By: /s/ PETER W. NAUERT

Peter W. Nauert
Chairman of the Board of Directors,
President and Chief Executive
Officer

Date: August 14, 2007

By: /s/ ROBERT L. BINTLIFF

Robert L. Bintliff
Chief Financial Officer

Date: August 14, 2007

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**ACCESS PLANS USA, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**AS OF JUNE 30, 2007 AND DECEMBER 31, 2006**

| Dollars in Thousands | As of June 30, 2007 (unaudited) | As of December 31, 2006 * |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,856 | $ 3,232 |
| Unrestricted short-term investments | 11 | 200 |
| Restricted short-term investments | 1,100 | 1,420 |
| Total cash, cash equivalents, and short-term investments | 4,967 | 4,852 |
| Accounts and notes receivable, net | 1,050 | 190 |
| Advanced agent commissions | 4,937 | |
| Income taxes receivable, net | 315 | 246 |
| Prepaid expenses and inventory | 487 | 1,512 |
| Total current assets | 11,756 | 6,800 |
| Fixed assets, net | 686 | 924 |
| Goodwill and other intangible assets, net | 16,730 | 7,471 |
| Deferred tax asset | 105 | 387 |
| Other assets | 97 | 662 |
| Total assets | $ 29,374 | $ 16,244 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 738 | $ 178 |
| Other accrued liabilities | 2,737 | 1,614 |
| Income taxes payable | 388 | 353 |
| Deferred revenue, net | 3,674 | 82 |
| Current portion of capital leases | 141 | 190 |
| Short-term debt | 2,069 | |
| Deferred tax liability | 105 | 387 |
| Total current liabilities | 9,852 | 2,804 |
| Capital lease obligations, net of current portion | | 48 |
| Long-term debt | 348 | |
| Total liabilities | 10,200 | 2,852 |
| Commitments and contingencies | | |

| | | | | |
|---|---|---|---|---|
| Stockholders equity: | | | | |
| Preferred stock, $1.00 par value, 2,000,000 shares authorized, none issued | | | | |
| Common stock, $.01 par value, 100,000,000 shares authorized; 20,749,145 and 14,012,763 issued, respectively, and 20,269,145 and 13,512,763 outstanding, respectively | | 207 | | 140 |
| Additional paid-in capital | | 40,455 | | 29,691 |
| Accumulated deficit | | (20,479) | | (15,388) |
| Less: treasury stock (480,000 and 500,000 shares, respectively) | | (1,009) | | (1,051) |
| Total stockholders equity | | 19,174 | | 13,392 |
| Total liabilities and stockholders equity | $ | 29,374 | $ | 16,244 |

* Amounts are derived from the Company s audited financial statements.

**The accompanying notes are an integral part of these condensed consolidated financial statements.**

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**ACCESS PLANS USA, INC.**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| **Dollars in Thousands, except Earnings per Share** | **2007** | **2006** | **2007** | **2006** |
| Service revenues | $ 10,261 | $ 5,650 | $ 18,461 | $ 11,743 |
| Operating expenses: | | | | |
| Commissions | 4,272 | 956 | 7,304 | 2,103 |
| Cost of operations | 2,683 | 2,730 | 5,150 | 5,236 |
| Sales and marketing | 1,300 | 422 | 2,269 | 905 |
| General and administrative | 2,949 | 1,685 | 4,740 | 3,437 |
| Goodwill impairment | 4,092 | | 4,092 | |
| Total operating expenses | 15,296 | 5,793 | 23,555 | 11,681 |
| Operating (loss) income | (5,035) | (143) | (5,094) | 62 |
| Other expense: | | | | |
| Interest income, net | 39 | 91 | 72 | 164 |
| (Loss) earnings before taxes | (4,996) | (52) | (5,022) | 226 |
| Provision for income taxes expense (benefit) | 22 | (461) | 52 | (465) |
| (Loss) earnings from continuing operations | (5,018) | 409 | (5,074) | 691 |
| Loss from discontinued operations, net of taxes | | (588) | | (909) |
| Net loss | $ (5,018) | $ (179) | $ (5,074) | $ (218) |
| (Loss) earnings per share: | | | | |
| Basic | | | | |
| Continuing operations | $ (0.27) | $ 0.03 | $ (0.29) | $ 0.05 |
| Discontinued operations | $ | $ (0.04) | $ | $ (0.07) |
| Diluted | | | | |
| Continuing operations | $ (0.27) | $ 0.03 | $ (0.29) | $ 0.05 |
| Discontinued operations | $ | $ (0.04) | $ | $ (0.07) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 18,780,451 | 13,512,763 | 17,677,237 | 13,459,927 |
| Diluted | 18,780,451 | 13,531,302 | 17,677,237 | 13,478,466 |

**The accompanying notes are an integral part of these condensed consolidated financial statements.**

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**ACCESS PLANS USA, INC.**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**
**FOR THE SIX MONTHS ENDED JUNE 30, 2007**

| | COMMON STOCK | | ADDITIONAL PAID-IN | ACCUMULATED | TREASURY | |
|---|---|---|---|---|---|---|
| **Dollars in Thousands** | **SHARES** | **AMOUNT** | **CAPITAL** | **DEFICIT** | **STOCK** | **TOTAL** |
| Balance, December 31, 2006 (audited) | 13,512,763 | $ 140 | $ 29,691 | $ (15,388) | $ (1,051) | $ 13,392 |
| Issuance of stock in business combinations | 6,756,382 | 67 | 10,473 | | | 10,540 |
| Treasury stock adjustment | | | (25) | (17) | 42 | |
| Stock option awards | | | 316 | | | 316 |
| Net loss | | | | (5,074) | | (5,074) |
| Balance, June 30, 2007 | 20,269,145 | $ 207 | $ 40,455 | $ (20,479) | $ (1,009) | $ 19,174 |

**The accompanying notes are an integral part of these condensed consolidated financial statements.**

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**ACCESS PLANS USA, INC.**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

| | | |
|---|---|---|
| Net loss | $ (5,074) | $ (218) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 166 | 408 |
| Provision for losses on accounts and notes receivable | 122 | 56 |
| Loss on disposal and impairment of fixed assets | 335 | 188 |
| Stock options expense | 316 | 44 |
| Goodwill impairment | 4,092 | |
| Changes in operating assets and liabilities (net of business acquired): | | |
| Accounts and notes receivable, net | 74 | 88 |
| Income taxes receivable | (69) | 689 |
| Inventory | 6 | 274 |
| Prepaid expenses | 1,019 | 971 |
| Other assets | (5) | 57 |
| Accounts payable | (25) | (72) |
| Accrued liabilities | 27 | (550) |
| Deferred fees | (338) | (11) |
| Income taxes payable | 35 | (52) |
| Net cash provided by operating activities | 681 | 1,872 |
| Investing activities: | | |
| Increase in unrestricted short-term investments | 189 | 1 |
| Decrease (Increase) in restricted short-term investments | 320 | (1,170) |
| Increase in advanced agent commissions | (243) | |
| Purchase of fixed assets | (228) | (338) |
| Cash acquired (used) in business combination, net | 77 | (624) |
| Net cash used in investing activities | 115 | (2,131) |
| Financing activities: | | |
| Additional payments for business combination | 68 | |
| Payments of capital leases | (97) | (136) |
| Increase in debt, net | 13 | |
| Decrease in advance commissions from carriers | (156) | |
| Net cash used in financing activities | (172) | (136) |
| Net increase in cash and cash equivalents | 624 | (395) |
| Cash and cash equivalents at beginning of period | 3,232 | 5,861 |
| Cash and cash equivalents at end of period | $ 3,856 | $ 5,466 |

| | | |
|---|---|---|
| Supplemental disclosure: | | |
| Income taxes recovered (paid), net | $ (62) | $ 994 |
| Interest paid | $ 126 | $ 19 |
| Non-cash investing and financing activities: | | |
| Accrued cash and stock issuance for consideration on business combination | $ 10,540 | $ 521 |
| Cash-in-trust collected, net of refunds and claims paid | $ | $ (954) |

**The accompanying notes are an integral part of these condensed consolidated financial statements.**

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**ACCESS PLANS USA, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Interim Financial Information**

The accompanying condensed consolidated financial statements are unaudited, but include all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position at such dates and of the operations and cash flows for the periods then ended. The financial information is presented in a condensed format, and it does not include all of the footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Operating results for the three months and six months ended June 30, 2007 and 2006 are not necessarily indicative of results that may be expected for the entire year. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and reported amounts of revenues and expenses during the reporting periods under consideration. Actual results could differ materially from such assumptions and estimates. The accompanying condensed consolidated financial statements and related footnotes should be read in conjunction with the Company s audited financial statements, included in its December 31, 2006 Form 10-K filed with the Securities and Exchange Commission. Certain prior period amounts have been reclassified to conform to the current period s presentation.

**Note 2 Summary of Significant Accounting Policies**

***Basis of Presentation.*** The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Company s wholly-owned subsidiaries, Capella, Insuraco, and AAI. All significant inter-company accounts and transactions have been eliminated. Certain reclassifications have been made to prior period financial statements to conform to the current presentation of the financial statements.

***Use of Estimates.*** The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain significant estimates are required in the evaluation of goodwill and intangible assets for impairment. Actual results could differ from those estimates and such differences could be material.

***Fair Value of Financial Instruments.*** The recorded amounts of cash, short-term investments, accounts receivable, income taxes receivable, notes receivable, accounts payable, accrued liabilities, income taxes payable, capital lease obligations and short-term debt approximate fair value because of the short-term maturity of these items.

***Recently Issued Accounting Standards***

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in U.S. Generally Accepted Accounting Principles ( GAAP ) and expands disclosures about fair value measurements. Application of this standard is required beginning in 2008.

In February 2007, the ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value on specified election dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings.

Management is currently assessing what impact, if any, the application of these standards could have on the Company s financial statements.

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***Revenue Recognition.*** Revenue recognition varies based on source.

*Consumer Plan Division Revenues.* The Company recognizes its Consumer Plan program membership revenues, other than initial enrollment fees, on each monthly anniversary date. Membership revenues are reduced by the amount of estimated refunds. For members that are billed directly, the billed amount is collected almost entirely by electronic charge to the members credit cards, automated clearinghouse or electronic check. The settlement of those charges occurs within a day or two. Under certain private label arrangements, the Company s private label partners bill their members for the membership fees and the Company s portion of the membership fees is periodically remitted to the Company. During the time from the billing of these private-label membership fees and the remittance to it, the Company records a receivable from the private label partners and records an estimated allowance for uncollectible amounts. The allowance of uncollectible receivables is based upon review of the aging of outstanding balances, the credit worthiness of the private label partner and its history of paying the agreed amounts owed.

Membership enrollment fees, net of direct costs, are deferred and amortized over the estimated membership period that averages eight to ten months. Independent marketing representative fees, net of direct costs, are deferred and amortized over the term of the applicable contract. Judgment is involved in the allocation of costs to determine the direct costs netted against those deferred revenues, as well as in estimating the membership period over which to amortize such net revenue. The Company maintains a statistical analysis of the costs and membership periods as a basis for adjusting these estimates from time to time.

*Insurance Marketing Division Revenues.* The revenue of our insurance marketing division is primarily from sales commissions owed by the insurance companies it represents; these sales commissions are generally a percentage of premium revenue. Commission income and policy fees, other than initial enrollment fees, and corresponding commission expense payable to agents, are generally recognized at their gross amount, as earned on a monthly basis, until such time as the underlying policyholder contract is terminated. Advanced commissions received are recorded as unearned insurance commissions. Initial enrollment fees are deferred and amortized over the estimated lives of the respective programs. The estimated weighted average life for the programs sold ranges from eighteen months to two years and is based upon the Company s historical policyholder contract termination experience.

*Regional Healthcare Division Revenues.* AAI s principal sources of revenues include administrative fees for third-party claims administration, network provider fees for the preferred provider network and utilization and management fees. These fees are based on monthly or per member per month fee schedules under specified contractual agreements. Revenues from these services are recognized in the periods in which the services are performed and when collection is reasonably assured.

***Commission Expense.*** Commissions on consumer plan revenues are accrued in the month in which a member has enrolled in the Care Entrée™ program. Commissions on insurance policy premiums are generally recognized as incurred on a monthly basis until such time as the underlying policyholder contract is terminated. Commissions on consumer plan revenues are only paid to the Company s independent marketing representatives in the following month after the related membership fees have been received by the Company. Advances of commissions up to one year are paid to agents in the insurance marketing division based on certain insurance policy premium commissions. The Company does not pay advanced commissions on consumer plan membership sales.

***Stock Option Expense and Option-Pricing Model.*** Recognized compensation expense for stock options granted to employees includes: (a) compensation cost for all share-based payments previously granted, but not yet vested, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments currently granted based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Binomial Lattice option-pricing model is used to estimate the option fair values. The option-pricing model requires a number of assumptions, of which the most significant are expected stock price volatility, the expected pre-vesting forfeiture rate and the risk-free interest rate. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending June 30, 2007 equal to the expected option term. Expected pre-vesting forfeitures were estimated based on actual historical pre-vesting forfeitures over the most recent periods ending June 30, 2007 for the expected option term. The risk-free interest rate is based on the interest rate of zero-coupon United States Treasury securities over the expected option term.

***Income Taxes.*** Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The net deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. During the three months and six months ended June 30, 2007, we evaluated the probability of recognizing the benefit of deferred tax assets through the reduction of

taxes otherwise payable in the future. We determined that a valuation allowance to fully offset net deferred tax assets is still appropriate as of June 30, 2007.

On July 14, 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes guidance to address inconsistencies among entities with the measurement and recognition in accounting for income tax positions for financial statement purposes. Specifically, FIN 48 addresses the timing of the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when the company determines that it is more-likely-than-not that the tax position will be ultimately sustained. We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. We have analyzed all filing positions in federal and state tax jurisdictions where we are required to file income tax returns. Our major tax jurisdictions include the federal jurisdiction and the state of Texas. Tax years open to examination include 2003 through 2006 for the federal return. A federal audit for 2004 has been completed with no change to our tax liability. The Texas audit for Capella for the years 2002-2005 have been concluded with no material change to our tax provision. We have elected to recognize penalties and interest related to tax liabilities as a component of income tax expense and income taxes payable. As of June 30, 2007, income taxes payable included $99,000 of accrued interest expense and $26,000 of accrued penalties related to state tax liabilities. We plan to settle the state tax liabilities and pay any related interest and penalties during 2007

***Accounts Receivable.*** Accounts receivable generally represent commissions and fees due from insurance carriers and plan sponsors. Accounts receivable are reviewed on a monthly basis to determine if any receivables will be potentially uncollectible. An allowance is provided for any accounts receivable balance where recovery is considered to be doubtful. Bad debt is written off as incurred.

***Advanced Agent Commissions.*** The Company s insurance marketing subsidiary advances agent commissions for certain insurance programs. Repayment of the advanced commissions is typically accomplished by withholding earned commissions from the agent until such time as the outstanding balance, plus accumulated interest, has been fully repaid. Advanced agent commissions are reviewed on a quarterly basis to determine if any advanced agent commissions will likely be uncollectible. An allowance is provided for any advanced agent commission balance where recovery is considered to be doubtful. Any bad debt is written off as incurred. The Company believes all such balances will be collected in full by the carriers and, accordingly, has not recorded any obligation attributable to this contingent liability.

***Fixed Assets.*** Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and principally on accelerated methods for tax purposes. Leasehold improvements are depreciated using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Ordinary maintenance and repairs are charged to expense as incurred. Expenditures that extend the physical or economic life of property and equipment are capitalized.

***Acquisitions.*** On January 30, 2007, the Company completed its merger with Insurance Capital Management USA, Inc. ( ICM ). Under the terms of the merger, the shareholders of ICM received shares of Company common stock based on the adjusted earnings before income taxes, depreciation and amortization ( adjusted EBITDA ) of the ICM and its acquired companies. On January 30, 2007, the ICM shareholders were issued 4,498,529 common stock shares. Further, on May 31, 2007, the ICM shareholders received an additional 2,257,853 common stock shares as a result of the acquired ICM companies having achieved adjusted EBITDA of $1,250,000 over the four consecutive calendar quarters ending on December 31, 2006.

***Intangible Asset Valuation.*** Our intangible assets as of June 30, 2007, consisted primarily of $16,725,000 of goodwill. Goodwill represents the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized. In June 2007, AAI recorded a $4,092,000 impairment to goodwill that resulted from failure to obtain certain contract renewals. In 2006, AAI recorded a $4,066,000 impairment to goodwill including tax considerations that resulted from current and projected reductions in earnings primarily due to a decline in the number of lives covered under plans that it administered. In 2005, Capella recorded a charge of $12,900,000 due to continuing decline in members and revenues to a lower level than previously predicted and pending litigation and regulatory activity that

was announced in the second quarter of that year. In 2004, our intangible assets were reduced by $2,000,000 to reflect impairment of the goodwill related to our acquisition in 2000 of Foresight. Significant judgments and estimates were required in connection with the impairment test to determine the estimated future cash flows and fair value of the reporting unit.

***Reclassifications.*** Certain prior period amounts have been reclassified to conform to the current period s presentation.

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**Note 3 Business Acquisition**

On January 30, 2007, the Company completed its merger with Insurance Capital Management USA, Inc. ( ICM ). Under the terms of the merger, the shareholders of ICM received shares of Company common stock based on the adjusted earnings before income taxes, depreciation and amortization ( adjusted EBITDA ) of ICM and its subsidiary companies. On January 30, 2007, the ICM shareholders were issued 4,498,529 of common stock shares of the Company. Further, on May 31, 2007, the ICM shareholders received an additional 2,257,853 shares of our common stock since the acquired ICM companies achieved adjusted EBITDA of $1,250,000 over four consecutive calendar quarters ending on December 31, 2006

The closing purchase price consideration of $11,211,000 consists of $10,540,000 of our common stock (6,756,382 shares) and $671,000 of costs directly related to the acquisition. The purchase price was allocated as follows:

| **Dollars in Thousands** | **(Unaudited)** |
|---|---|
| Cash | $ 77 |
| Accounts receivable | 915 |
| Advanced agent commissions | 4,834 |
| Other assets | 37 |
| Fixed assets | 35 |
| Goodwill | 13,348 |
| Accounts payable and accrued liabilities | (1,545) |
| Deferred revenue, net | (4,086) |
| Short-term debt | (2,004) |
| Long-term debt | (400) |
| Total | $ 11,211 |
| First stocks given to ICM shareholders | 7,018 |
| Second stocks given to ICM shareholders | 3,522 |
| Acquisition costs | 671 |
| | $ 11,211 |

The allocation of $13,348,000 to goodwill is considered appropriate as ICM strategically complements the Company s current business by providing a significant source of new revenue from the distribution of insurance products and adding new distribution channels for our Care Entrée$^{tm}$ and private-label healthcare savings programs. ICM also has proven experience in the development, marketing and distribution of insurance products and financial services and, through its contractual arrangements with various insurance companies, will be a continuing source of leading-edge insurance products. The Company is in the process of evaluating whether a portion of the goodwill should be allocated to identifiable intangible assets.

The following proforma condensed results of operations have been prepared as if our acquisition of ICM occurred on January 1, 2006:

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| Dollars in Thousands | For the Three Months Ended June 30, 2007 | 2006 | For the Six Months Ended June 30, 2007 | 2006 |
|---|---|---|---|---|
| Service revenues | $ 10,261 | $ 9,981 | $ 20,127 | $ 20,210 |
| (Loss) earnings from continuing operations | $ (5,018) | $ 385 | $ (5,090) | $ 854 |
| Loss from discontinued operations | $ | $ (588) | $ | $ (909) |
| Net loss | $ (5,018) | $ (203) | $ (5,090) | $ (55) |
| (Loss) earnings per share: | | | | |
| Basic | | | | |
| Continuing operations | $ (0.25) | $ 0.02 | $ (0.25) | $ 0.04 |
| Discontinued operations | $ | $ (0.03) | $ | $ (0.04) |
| Diluted | | | | |
| Continuing operations | $ (0.25) | $ 0.02 | $ (0.25) | $ 0.04 |
| Discontinued operations | $ | $ (0.03) | $ | $ (0.04) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 20,242,944 | 20,269,145 | 20,242,944 | 20,216,309 |
| Diluted | 20,242,944 | 20,287,684 | 20,242,944 | 20,234,848 |

**Note 4 Goodwill**

Recorded goodwill must be reviewed and analyzed to determine its fair value and possible impairment. This review and analysis is conducted at least annually, and may be conducted more frequently if an event occurs or circumstances change that would, more likely than not, reduce the fair value of a reporting unit below its carrying amount. The aggregate fair market value of the reporting unit s assets, including recorded goodwill, in excess of the fair value of the reporting unit s liabilities, may not exceed the fair value of the reporting unit s equity. The fair value of the reporting unit s equity is based upon valuation techniques that estimate the amount at which the reporting unit as a whole could be bought or sold in a current transaction between willing parties. The downward trending of our common stock price has a material effect on the fair value of our goodwill in future accounting periods.

In June 2007, the Company announced the failure of its subsidiary, AAI, to obtain certain contract renewals and the expected failure to obtain other future contract renewals. The Company believes that the investigation of official corruption in contract procurement of over twenty companies, including AAI, that do business with local government entities in the El Paso area may have directly contributed to AAI s failure to obtain contract renewals. (See Note 11.) Accordingly, as of June 30, 2007, based upon management s cash flow projections, the Company recorded an impairment loss related to AAI of $4,092,000, reducing the carrying value of the goodwill related to AAI to zero.

**Note 5 Advanced Agent Commissions**

Advanced agent commissions consist of:

| **Dollars in Thousands** | | **As of June 30, 2007 Unaudited** |
|---|---|---|
| Programs funded by: | | |
| Commercial bank | $ | 1,865 |
| Other debt | | 552 |
| Advances received from insurance carriers | | 2,265 |
| Sub-total | | 4,682 |
| Provision for doubtful recoveries | | (255) |
| Total advanced agent commissions | $ | 4,937 |

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**Note 6 Deferred Revenues**

Deferred revenues consist of:

| Dollars in Thousands | As of June 30, 2007 Unaudited | As of December 31, 2007 |
|---|---|---|
| Unearned commissions | $ 3,233 | $ |
| Deferred enrollment fees, net of acquisition costs | 441 | 82 |
| Total deferred revenue | $ 3,674 | $ 82 |

**Note 7 Short-term and Long-term Debt**

The Company s short-term and long-term debt consists of:

| Dollars in Thousands | As of June 30, 2007 Unaudited |
|---|---|
| Short-term debt: | |
| Commercial bank revolving lines of credit | $ 1,865 |
| Loan from specialty lending corporation | 204 |
| Total short-term debt | $ 2,069 |
| Long-term debt: | |
| Loan from specialty lending corporation | $ 348 |
| Total long-term debt | $ 348 |

We have obtained line of credit facilities and short-term notes from a commercial banking institution and from a specialty lending corporation. The commercial bank outstanding balance at June 30, 2007 of $1,865,000 comprises $906,000 of short term notes, and $959,000 drawn down under the current line of credit facilities and the proceeds are used to fund the advancing of agent commissions for certain programs. These debt obligations are collateralized by certain future commissions and fees. At June 30, 2007 we are able to borrow an additional $291,000 under this facility provided that the borrowings are solely for the funding of advanced agent commissions. $473,500 of the total commercial bank borrowings of $1,865,000 matured and became payable July 15, 2007 and were paid during the third quarter of 2007. The remaining balance of $1,392,000 has scheduled maturity dates in 2008 and is expected to be fully paid prior to March 31, 2008. Interest is charged at prime plus 1.5%. We are the primary party on the loan agreement and Peter Nauert, our Chairman, has executed a personal guarantee.

As part of the ICM acquisition, the Company assumed a three-year loan that was obtained in November 2006, from a specialty lending corporation in the amount of $600,000. The loan bears interest at prime plus 5.0%. $204,000 of the outstanding balance has been classified as short-term debt and the current balance of $348,000 has been classified as long-term debt. We are the primary party on the loan agreement and Peter Nauert, our Chairman, has executed a personal guarantee.

**Note 8 Common Stock Options**

***Second Quarter 2007 Stock Option Information.*** Total estimated unrecognized compensation cost from unvested stock options as of June 30, 2007 was approximately $210,000, which is expected to be recognized over a weighted

average period of approximately 1.7 years.

The following table summarizes stock options outstanding and changes during the period:

35

1,129

181,651

Dividends declared on common stock ($.44 per share)
—

—

(87,570
)

—

—

—

(87,570
)
Stock option exercises
3,054

—

28,877

—

—

—

31,931

Restricted stock awards, net of forfeitures

254

(9
)

(245
)

—

—

—

—

Employee share-based compensation earned
—

—

13,843

—

—

—

13,843

Purchase of Company common stock
—

(12,455
)

(71,664
)

(261,264
)

—

—

(345,383
)
Tax benefits related to share-based awards
—

—

18,123

—

—

—

18,123

Purchase of noncontrolling interest
—

—

2,775

—

—

(4,850
)

(2,075
)
Noncontrolling interest payments
—

—

—

—

—

(222
)

(222
)
Retirement of treasury shares
(7,969
)

7,969

—

—

—

—

—

Other
62

—

1,663

—

—

—

1,725

Balance at December 31, 2015
$
200,859

$
(5,086
)

$
1,092,106

$
(109,351
)

$
6,164

$
4,709

$
1,189,401

Comprehensive income
—

—

—

177,038

10,328

270

187,636

Dividends declared on common stock ($.51 per share)
—

—

(98,418
)

—

—

—

(98,418
)
Stock option exercises
2,108

—

15,554

—

—

—

17,662

Restricted stock awards, net of forfeitures
241

(1
)

(240
)

—

—

—

—

Employee share-based compensation earned
—

—

14,056

—

—

—

14,056

Purchase of Company common stock
—

(8,812
)

(48,042
)

(171,074
)

—

—

(227,928
)
Tax benefits related to share-based awards
—

—

12,685

—

—

—

12,685

Purchase of noncontrolling interest
—

—

364

—

—

(2,325
)

(1,961
)
Noncontrolling interest payments
—

—

—

—

—

(120
)

(120
)
Retirement of treasury shares
(7,901
)

7,901

—

—

—

—

—

Other
96

—

2,138

—

—

—

2,234

Balance at December 31, 2016
$
195,403

$
(5,998
)

$
990,203

$
(103,387
)

$
16,492

$
2,534

$
1,095,247

(See notes to consolidated financial statements)

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SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

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

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

Our consolidated financial statements include the accounts of Service Corporation International (SCI) and all subsidiaries in which we hold a controlling financial interest. Our financial statements also include the accounts of the funeral merchandise and service trusts, cemetery merchandise and service trusts, and cemetery perpetual care trusts in which we have a variable interest and are the primary beneficiary. Intercompany balances and transactions have been eliminated in consolidation.

Reclassifications to Prior Period Financial Statements and Adjustments

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation with no effect on our previously reported results of operations, consolidated financial position, or cash flows. For the year 2016, we recorded in General and administrative expenses an out-of-period expense of $5.5 million for previously improperly capitalized acquisition costs. Such amounts are immaterial to both current and prior period financial statements.

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 and Cash Equivalents

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.

Accounts Receivable and Allowance for Doubtful Accounts

Our trade receivables primarily consist of amounts due for funeral services already performed. We provide various allowances and cancellation reserves for our funeral and cemetery preneed and atneed receivables as well as for our preneed funeral and preneed cemetery deferred revenue. These allowances are based on an analysis of historical trends of collection and cancellation activity. Atneed funeral and cemetery receivables are considered past due after 30 days. Collections are generally managed by the locations or third party agencies acting on behalf of the locations, until a receivable is 180 days delinquent at which time it is fully reserved and sent to a collection agency. These estimates are impacted by a number of factors, including changes in the economy, relocation, and demographic or competitive

changes in our areas of operation.

Inventories and Cemetery Property

Funeral and cemetery merchandise are stated at the lower of average cost or market. Cemetery property is recorded at cost. Inventory costs and cemetery property are relieved using specific identification in performance of a contract. Amortization expense for cemetery property was $66.7 million, $62.4 million, and $60.4 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Property and Equipment, Net

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense whereas renewals and major replacements that extend the assets useful lives are capitalized. Depreciation is recognized ratably over the estimated useful lives of the various classes of assets. Buildings are depreciated over a period ranging from seven to forty years, equipment is depreciated over a period from three to eight years, and leasehold improvements are depreciated over the shorter of the lease term or ten years. Depreciation and amortization expense related to property and equipment was $147.2 million, $141.5 million, and $140.0 million for the years ended December 31, 2016, 2015, and 2014, respectively. When property is sold or retired, the cost and related accumulated depreciation are removed from the Consolidated Balance Sheet; resulting gains and losses are included in the Consolidated Statement of Operations in the period of sale or disposal.

Leases

We have lease arrangements related to funeral service locations and transportation equipment that were primarily classified as capital leases at December 31, 2016. Lease terms related to funeral service locations generally range from one to 40 years with options to renew at varying terms. Lease terms related to transportation equipment generally range from one to five years with options to renew at varying terms. We calculate operating lease expense ratably over the lease term. We consider reasonably assured renewal options and fixed escalation provisions in our calculation. For more information related to leases, see Note 11.

Goodwill

The excess of purchase price over the fair value of identifiable net assets acquired in business combinations is recorded as goodwill. Goodwill is tested annually during the fourth quarter for impairment by assessing the fair value of each of our reporting units.

Our goodwill impairment test involves estimates and management judgment. In the first step of our goodwill impairment test, we compare the fair value of a reporting unit to its carrying amount, including goodwill. We determine fair value of each reporting unit using both a market and income approach. Our methodology considers discounted cash flows and multiples of EBITDA (earnings before interest, taxes, depreciation, and amortization). The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. We do not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. If the aggregate fair value is less than the related carrying amount for a reporting unit, we compare the implied fair value of goodwill to the carrying amount of goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

For our most recent annual impairment test performed in the fourth quarter, we used a 6.5% discount rate, growth rates ranging from 1.2% to 5.7% over a five-year period, plus a terminal value determined using the constant growth method in projecting our future cash flows. Fair value was calculated as the sum of the projected discounted cash flows of our reporting units over the next five years plus terminal value at the end of those five years. Our terminal value was calculated using a long-term growth rate of 2.5% and 2.9% for our funeral and cemetery reporting units, respectively.

In addition to our annual review, we assess the impairment of goodwill whenever certain events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. No interim goodwill impairment reviews were required in 2016 or 2015. For more information related to goodwill, see Note 7.

Other Intangible Assets

Our intangible assets include customer relationships, trademarks and tradenames, and other intangible assets primarily resulting from acquisitions. Our trademark and tradenames and certain other intangible assets are considered to have an indefinite life and are not subject to amortization. We test for impairment of intangible assets annually during the fourth quarter.

Our intangible assets impairment tests involve estimates and management judgment. For trademark and tradenames, our test uses the relief from royalty method whereby we determine the fair value of the assets by discounting the cash flows that represent a savings over having to pay a royalty fee for use of the trademark and tradenames. The

discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. For our most recent annual impairment test performed in the fourth quarter, we estimated that the pre-tax savings would range from 1.0% to 4.0% of the revenue associated with the trademark and tradenames, based primarily on our research of intellectual property valuation and licensing databases. We also assumed a terminal growth rate of 2.5% and 2.9% for our funeral and cemetery segments, respectively, and discounted the cash flows at a 6.7% discount rate based on the relative risk of these assets to our overall business.

In addition to our annual review, we assess the impairment of intangible assets whenever certain events or changes in circumstances indicate that the carrying value may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results and significant negative industry or economic trends. No interim intangible impairment reviews were required in 2016 or 2015.

Certain of our intangible assets associated with prior acquisitions are relieved using specific identification in performance of a contract. We amortize all other finite-lived intangible assets on a straight-line basis over their estimated useful lives which range from two to forty years. For more information related to intangible assets, see Note 7.

Fair Value Measurements

We measure the available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certain available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts have been classified in Level 3 of the hierarchy due to the significant management judgment required as a result of the absence of quoted market prices, inherent lack of liquidity, or the long-term nature of the securities. For additional disclosures for all of our available-for-sale securities, see Notes 3, 4, and 5.

Treasury Stock

We make treasury stock purchases in the open market or through privately negotiated transactions subject to market conditions and normal trading restrictions. We account for the repurchase of our common stock under the par value method. In 2016, we canceled 7.9 million shares of common stock held in our treasury. We canceled 8.0 million and 11.0 million shares of common stock held in our treasury in 2015 and 2014, respectively. These retired treasury shares were changed to authorized but unissued status.

Foreign Currency Translation

All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at exchange rates in effect as of the end of the reporting period. Revenue and expense items are translated at the average exchange rates for the reporting period. The resulting translation adjustments are included in Equity as a component of Accumulated other comprehensive income in the Consolidated Statement of Equity and Consolidated Balance Sheet.

The functional currency of SCI and its subsidiaries is the respective local currency. The transactional currency gains and losses that arise from transactions denominated in currencies other than the functional currencies of our operations are recorded in Other (expense) income , net in the Consolidated Statement of Operations. We do not have an investment in foreign operations considered to be in highly inflationary economies.

Funeral Operations

Revenue is recognized when funeral merchandise is delivered or funeral services are performed. We sell price-guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. Revenue associated with sales of preneed funeral contracts is deferred until funeral merchandise is delivered or the funeral services are performed, generally at the time of need. Travel protection and certain memorialization merchandise sold on a preneed basis is delivered to the customer at the time of sale and is recognized at the time delivery has occurred. While these items are sold as part of preneed funeral

arrangements they are also offered on a stand-alone basis. The total consideration received for these arrangements is allocated to each item based on relative selling price determined using either vendor specific objective evidence of the selling price or third-party evidence of selling price. Vendor specific objective evidence of the selling price is determined based on the price we sell the items for on a stand-alone basis. Third-party evidence

of selling price is based on the price of our largely interchangeable products that are sold in stand-alone sales to similarly situated customers. There is no general right of return for delivered items.

Pursuant to state or provincial law, all or a portion of the proceeds from funeral merchandise or services sold on a preneed basis may be required to be paid into trust funds. We defer investment earnings related to these merchandise and service trusts until the associated merchandise is delivered or services are performed. Costs related to sales of merchandise and services are charged to expense when merchandise is delivered or services are performed. Sales taxes collected are recognized on a net basis in our consolidated financial statements. See Note 3 for more information regarding preneed funeral activities.

Cemetery Operations

Revenue associated with sales of cemetery merchandise and services is recognized when merchandise is delivered or the service is performed. Revenue associated with sales of preneed cemetery property interment rights is deferred until the property is constructed and a minimum of 10% of the sales price is collected. For non-personalized merchandise (such as vaults) and services, we defer the revenue until the merchandise is delivered or the services are performed. For personalized marker merchandise, with the customer’s direction generally obtained at the time of sale, we can choose to order, store, and transfer title to the customer. In situations in which we have no further obligation or involvement related to the merchandise, we recognize revenue and record the cost of sales upon the earlier of vendor storage of these items or delivery in our cemetery. The total consideration received for these arrangements is allocated to each item based on relative selling price determined using vendor specific objective evidence of the selling price. Vendor specific objective evidence of the selling price is determined based on the price we sell the items for on a stand-alone basis. There is no general right of return for delivered items.

Pursuant to state or provincial law, all or a portion of the proceeds from cemetery merchandise or services sold on a preneed basis may be required to be paid into trust funds. We defer investment earnings related to these merchandise and services trusts until the associated merchandise is delivered or services are performed.

A portion of the proceeds from the sale of cemetery property interment rights is required by state or provincial law to be paid into perpetual care trust funds. Investment earnings from these trusts are distributed to us regularly, are recognized in current cemetery revenue, and are intended to defray cemetery maintenance costs, which are expensed as incurred. The principal of such perpetual care trust funds generally cannot be withdrawn.

Costs related to the sale of property interment rights include the property and construction costs specifically identified by project. Property and construction costs are charged to expense when the revenue is recognized by specific identification in the performance of a contract. Costs related to sales of merchandise and services are charged to expense when merchandise is delivered or when services are performed. Sales taxes collected are recognized on a net basis in our consolidated financial statements. See Notes 4 and 5 for more information regarding preneed cemetery and perpetual care activities.

Preneed Funeral and Cemetery Receivables

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

If a preneed contract is canceled prior to delivery, state or provincial law determines the amount of the refund owed to the customer, if any, including the amount of the attributed investment earnings. Upon cancellation, we receive the amount of principal deposited to the trust and previously undistributed net investment earnings and, where required, issue a refund to the customer. We retain excess funds, if any, and recognize the attributed investment earnings (net of any investment earnings payable to the customer) as revenue in the Consolidated Statement of Operations. In certain jurisdictions, we may be obligated to fund any shortfall if the amount deposited by the customer exceeds the funds in

trust. Based on our historical experience, we have provided an allowance for cancellation of these receivables, which is recorded as a reduction in receivables with a corresponding offset to deferred revenue.

Income Taxes

We compute income taxes using the liability method. Our ability to realize the benefit of our deferred tax assets requires us to achieve certain future earnings levels. We have established a valuation allowance against a portion of our deferred tax assets

and we could be required to further adjust that valuation allowance in the near term if market conditions change materially and future earnings are, or are projected to be, significantly different than our current estimates. An increase in the valuation allowance would result in additional income tax expense in such period. All deferred tax assets and liabilities, along with any related valuation allowances are classified as non-current on our Consolidated Balance Sheet.

Recently Issued Accounting Standards

Revenue Recognition

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

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

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

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

Inventory

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

Financial Instruments

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

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

Leases

In February 2016, the FASB amended "Leases" to increase transparency and comparability among organizations. Under the new standard, an entity will be required to recognize lease assets and liabilities on its balance sheet and

disclose key information about leasing arrangements. In addition, the new standard offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This new standard will be effective for us on January 1, 2019. We are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

Stock Compensation

In March 2016, the FASB amended "Stock Compensation" to simplify certain aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and

classification on the statement of cash flows. The new guidance is effective for us on January 1, 2017. If we had adopted this amendment for the year ended December 31, 2016, Net cash provided by operating activities and Net cash used in financing activities would have both increased by $12.7 million and our Provision for income taxes would have decreased by $12.7 million.

Cash Flow

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

Goodwill

In January 2017, the FASB amended "Goodwill" to simplify the subsequent measurement of goodwill. Amended guidance eliminates Step 2 from the goodwill impairment test. Instead, impairment is defined as the amount by which the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill. The new guidance is effective for us on January 1, 2020, and we are evaluating the impact on our consolidated results of operations, consolidated financial position, and cash flows.

3. Preneed Funeral Activities

Preneed funeral receivables, net and trust investments

Preneed funeral receivables, net and trust investments represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, related to unperformed, price-guaranteed preneed funeral contracts. Our funeral merchandise and service trusts are variable interest entities. We have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from Deferred preneed funeral revenue into Deferred preneed receipts held in trust. Amounts are withdrawn from the trusts after the contract obligations are performed. Cash flows from preneed funeral contracts are presented as operating cash flows in our Consolidated Statement of Cash Flows.

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

The table below sets forth certain investment-related activities associated with our preneed funeral merchandise and service trusts for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (In thousands) | |
| Deposits | $121,668 | $121,109 | $102,553 |
| Withdrawals | $157,549 | $160,135 | $131,352 |
| Purchases of available-for-sale securities[1] | $377,813 | $453,092 | $1,238,257 |
| Sales of available-for-sale securities[1] | $387,959 | $458,236 | $1,318,512 |

(1) The higher level of activity in 2014 was the result of changing the legal structure of the trust investments.

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The components of Preneed funeral receivables, net and trust investments in our Consolidated Balance Sheet at December 31 were as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| Trust investments, at market | $1,152,752 | $1,109,394 |
| Cash and cash equivalents | 122,517 | 134,642 |
| Assets associated with businesses held for sale | — | (39) |
| Insurance-backed fixed income securities | 271,248 | 271,116 |
| Trust investments | 1,546,517 | 1,515,113 |
| Receivables from customers | 312,556 | 290,689 |
| Unearned finance charge | (12,562) | (11,235) |
| | 1,846,511 | 1,794,567 |
| Allowance for cancellation | (29,066) | (34,270) |
| Preneed funeral receivables, net and trust investments | $1,817,445 | $1,760,297 |

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The activity in Preneed funeral receivables, net and trust investments for the years ended December 31 was as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (In thousands) | |
| Beginning balance — Preneed funeral receivables and trust investments | $1,760,297 | $1,843,023 | $1,870,243 |
| Net preneed contract sales | 296,896 | 283,927 | 247,994 |
| Cash receipts from customers, net of refunds | (246,436) | (234,413) | (211,830) |
| Deposits to trust | 121,668 | 121,109 | 102,553 |
| Acquisitions (divestitures) of businesses, net | 3,560 | 1,400 | (19,203) |
| Net undistributed investment earnings (losses) [1] | 65,954 | (38,510) | 22,480 |
| Maturities and distributed earnings | (193,604) | (200,635) | (162,059) |
| Change in cancellation allowance | 5,295 | 2,787 | 7,644 |
| Effect of foreign currency and other | 3,815 | (18,391) | (14,799) |
| Ending balance — Preneed funeral receivables and trust investments | $1,817,445 | $1,760,297 | $1,843,023 |

(1) Includes both realized and unrealized investment earnings.

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair value at December 31, 2016 and 2015 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.

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

| | Fair Value Hierarchy Level | December 31, 2015 Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $64,140 | $89 | $(1,270) | $62,959 |
| Canadian government | 2 | 56,975 | 323 | (55) | 57,243 |
| Corporate | 2 | 18,983 | 235 | (284) | 18,934 |
| Residential mortgage-backed | 2 | 1,299 | 29 | (22) | 1,306 |
| Asset-backed | 2 | 5 | — | — | 5 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 1,951 | 41 | (158) | 1,834 |
| Common stock: | | | | | |
| United States | 1 | 344,544 | 30,885 | (19,149) | 356,280 |
| Canada | 1 | 11,882 | 2,651 | (1,077) | 13,456 |
| Other international | 1 | 32,193 | 2,636 | (3,907) | 30,922 |
| Mutual funds: | | | | | |
| Equity | 1 | 324,231 | 1,263 | (43,975) | 281,519 |
| Fixed income | 1 | 155,893 | 154 | (13,092) | 142,955 |
| Other | 3 | 3,687 | 1,069 | — | 4,756 |
| Trust investments, at fair value | | 1,015,783 | 39,375 | (82,989) | 972,169 |
| Fixed income commingled funds | | 102,063 | 228 | (1,103) | 101,188 |
| Private equity | | 38,724 | 3,780 | (6,467) | 36,037 |
| Trust investments, at net asset value | | 140,787 | 4,008 | (7,570) | 137,225 |
| Trust investments, at market | | $1,156,570 | $43,383 | $(90,559) | $1,109,394 |

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

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

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

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

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks' notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of December 31, 2016, our unfunded commitment for our private equity and other investments was $31.8 million which, if called, would be funded by the assets of the trusts.

The change in our market-based funeral merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Fair value, beginning balance at January 1 | $4,756 | $4,891 | $801 |
| Net unrealized gains (losses) included in Accumulated other comprehensive income[(1)] | 478 | (167) | 876 |
| Purchases | 89 | 32 | 3,214 |
| Sales | (47) | — | — |
| Fair value, ending balance at December 31 | $5,276 | $4,756 | $4,891 |

(1) All unrealized gains recognized in Accumulated other comprehensive income for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Accumulated other comprehensive income to Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

Maturity dates of our fixed income securities range from 2017 to 2041. Maturities of fixed income securities at December 31, 2016 are estimated as follows:

| | Fair Value (In thousands) |
|---|---|
| Due in one year or less | $ 76,744 |
| Due in one to five years | 27,298 |
| Due in five to ten years | 31,374 |
| Thereafter | 8,443 |
| | $ 143,859 |

Earnings from all our funeral merchandise and service trust investments are recognized in funeral revenue when merchandise is delivered or a service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenue in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenue. Recognized earnings (realized and unrealized) related to our funeral merchandise and service trust investments were $49.9 million, $52.9 million, and $62.8 million for the years ended December 31, 2016, 2015, and 2014, respectively.

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

We have determined that the remaining unrealized losses in our funeral merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our funeral merchandise and service trust investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2016 and 2015, are shown in the following tables.

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | In Loss Position Less Than 12 Months | | In Loss Position Greater Than 12 Months | | Total | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| | | | (In thousands) | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | $25,996 | $(557) | $— | $— | $25,996 | $(557) |
| Canadian government | 2,847 | (30) | 191 | (12) | 3,038 | (42) |
| Corporate | 1,710 | (15) | 3,560 | (77) | 5,270 | (92) |
| Asset-backed | — | — | 55 | (3) | 55 | (3) |
| Equity securities: | | | | | | |
| Preferred stock | 125 | (17) | 98 | (22) | 223 | (39) |
| Common stock: | | | | | | |
| United States | 87,059 | (8,149) | 14,939 | (3,376) | 101,998 | (11,525) |
| Canada | 2,832 | (254) | 482 | (9) | 3,314 | (263) |
| Other international | 5,390 | (1,301) | 7,368 | (1,866) | 12,758 | (3,167) |
| Mutual funds: | | | | | | |
| Equity | 108,109 | (5,080) | 127,273 | (21,762) | 235,382 | (26,842) |
| Fixed income | 34,120 | (817) | 31,654 | (6,551) | 65,774 | (7,368) |
| Other | 26 | (2) | 1,160 | (15) | 1,186 | (17) |
| Trust investments, at fair value | 268,214 | (16,222) | 186,780 | (33,693) | 454,994 | (49,915) |
| Fixed income commingled funds | 75,041 | (687) | 17,656 | (480) | 92,697 | (1,167) |
| Private equity | 693 | (481) | 22,812 | (4,709) | 23,505 | (5,190) |
| Trust investments, at net asset value | 75,734 | (1,168) | 40,468 | (5,189) | 116,202 | (6,357) |
| Total temporarily impaired securities | $343,948 | $(17,390) | $227,248 | $(38,882) | $571,196 | $(56,272) |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | In Loss Position Less Than 12 Months | | In Loss Position Greater Than 12 Months | | Total | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| | | | (In thousands) | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | $36,113 | $(1,268) | $141 | $(2) | $36,254 | $(1,270) |
| Canadian government | 209 | (7) | 971 | (48) | 1,180 | (55) |
| Corporate | 4,618 | (156) | 3,880 | (128) | 8,498 | (284) |
| Residential mortgage-backed | 378 | (6) | 132 | (16) | 510 | (22) |
| Equity securities: | | | | | | |
| Preferred stock | 449 | (60) | 42 | (98) | 491 | (158) |
| Common stock: | | | | | | |
| United States | 128,925 | (16,448) | 14,537 | (2,701) | 143,462 | (19,149) |
| Canada | 1,941 | (355) | 1,051 | (722) | 2,992 | (1,077) |
| Other international | 9,473 | (1,638) | 6,154 | (2,269) | 15,627 | (3,907) |
| Mutual funds: | | | | | | |
| Equity | 186,016 | (23,385) | 79,892 | (20,590) | 265,908 | (43,975) |
| Fixed income | 109,154 | (5,052) | 27,061 | (8,040) | 136,215 | (13,092) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Trust investments, at fair value | 477,276 | (48,375) | 133,861 | (34,614) | 611,137 | (82,989) |
| Fixed income commingled funds | 70,964 | (457) | 15,243 | (646) | 86,207 | (1,103) |
| Private equity | — | — | 18,714 | (6,467) | 18,714 | (6,467) |
| Trust investments, at net asset value | 70,964 | (457) | 33,957 | (7,113) | 104,921 | (7,570) |
| Total temporarily impaired securities | $548,240 | $(48,832) | $167,818 | $(41,727) | $716,058 | $(90,559) |

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Deferred preneed funeral revenue

At December 31, 2016 and 2015, Deferred preneed funeral revenue, net of allowance for cancellation, represents future funeral revenue, including distributed trust investment earnings associated with unperformed trust-funded preneed funeral contracts that are not held in trust accounts. Deferred preneed funeral revenue is recognized in current funeral revenue when merchandise is delivered or the service is performed. Future funeral revenue and net trust investment earnings that are held in trust accounts are included in Deferred preneed receipts held in trust.

The following table summarizes the activity in Deferred preneed funeral revenue for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Beginning balance — Deferred preneed funeral revenue | $557,897 | $540,164 | $551,948 |
| Net preneed contract sales | 251,134 | 232,628 | 198,195 |
| Acquisitions (divestitures) of businesses, net | 2,170 | (2,895) | (21,639) |
| Net investment earnings (losses) [1] | 66,656 | (37,208) | 24,256 |
| Recognized deferred preneed revenue | (277,248) | (276,359) | (258,534) |
| Change in cancellation allowance | 8,411 | 11,675 | 21,272 |
| Change in deferred preneed receipts held in trust | (28,506) | 90,351 | 26,131 |
| Effect of foreign currency and other | 766 | (459) | (1,465) |
| Ending balance — Deferred preneed funeral revenue | $581,280 | $557,897 | $540,164 |

(1) Includes both realized and unrealized investment earnings.

Insurance-funded preneed contracts

Not included in our Consolidated Balance Sheet are insurance-funded preneed contracts that will be funded by life insurance or annuity contracts issued by third party insurers. Where permitted by state or provincial law, customers may arrange their preneed contract by purchasing a life insurance or annuity policy from third-party insurance companies, for which we earn a commission as general sales agent for the insurance company. These general agency commissions (GA revenue) are based on a percentage per contract sold and are recognized as funeral revenue when the insurance purchase transaction between the customer and third-party insurance provider is completed. GA revenue recognized in 2016, 2015, and 2014 was $135.8 million, $137.0 million, and $123.0 million, respectively. Direct selling costs incurred pursuant to the sale of insurance-funded preneed contracts are expensed as incurred. The policy amount of the insurance contract between the customer and the third-party insurance company generally equals the amount of the preneed contract. We do not reflect the unfulfilled insurance-funded preneed contract amounts in our Consolidated Balance Sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenue as we perform these funerals.

4. Preneed Cemetery Activities

Preneed cemetery receivables, net and trust investments

Preneed cemetery receivables, net and trust investments represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, for contracts sold in advance of when the property interment rights, merchandise, or services are needed. Our cemetery merchandise and service trusts are variable interest entities. We have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from Deferred preneed cemetery revenue into Deferred preneed receipts held in trust. Amounts are withdrawn from the trusts when the contract obligations are performed. Cash flows from preneed cemetery contracts are presented as operating cash flows in our Consolidated Statement of Cash Flows.

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

The table below sets forth certain investment-related activities associated with our preneed cemetery merchandise and service trusts for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (In thousands) | |
| Deposits | $158,114 | $ 153,252 | $129,581 |
| Withdrawals | $144,308 | $ 163,732 | $150,064 |
| Purchases of available-for-sale securities[1] | $656,452 | $ 625,648 | $1,786,800 |
| Sales of available-for-sale securities[1] | $631,440 | $ 628,484 | $1,842,417 |

(1) The higher level of activity in 2014 was the result of changing the legal structure of the trust investments.

The components of Preneed cemetery receivables, net and trust investments in the Consolidated Balance Sheet at December 31 were as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| Trust investments, at market | $1,435,083 | $1,343,916 |
| Cash and cash equivalents | 123,146 | 118,583 |
| Trust investments | 1,558,229 | 1,462,499 |
| Receivables from customers | 1,038,592 | 958,503 |
| Unearned finance charges | (33,427) | (31,332) |
| | 2,563,394 | 2,389,670 |
| Allowance for cancellation | (75,674) | (71,503) |
| Preneed cemetery receivables, net and trust investments | $2,487,720 | $2,318,167 |

The activity in Preneed cemetery receivables, net and trust investments for the years ended December 31 was as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (In thousands) | |
| Beginning balance — Preneed cemetery receivables and trust investments | $2,318,167 | $2,306,669 | $2,292,348 |
| Net preneed contract sales | 862,298 | 799,497 | 688,336 |
| Cash receipts from customers, net of refunds | (784,267) | (716,686) | (615,489) |
| Deposits to trust | 158,114 | 153,252 | 129,581 |
| (Divestitures) acquisitions of businesses, net | (2,083) | 4,404 | (10,898) |
| Net undistributed investment earnings (losses) [1] | 79,557 | (42,189) | (18,038) |
| Maturities, deliveries, and associated earnings | (144,308) | (163,732) | (150,064) |
| Change in cancellation allowance | (1,966) | (2,046) | 843 |
| Effect of foreign currency and other | 2,208 | (21,002) | (9,950) |
| Ending balance — Preneed cemetery receivables and trust investments | $2,487,720 | $2,318,167 | $2,306,669 |

(1) Includes both realized and unrealized investment earnings.

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The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair value at December 31, 2016 and 2015 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.

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

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| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $69,727 | $25 | $(1,437) | $68,315 |
| Canadian government | 2 | 9,725 | 183 | (99) | 9,809 |
| Corporate | 2 | 5,115 | 26 | (118) | 5,023 |
| Residential mortgage-backed | 2 | 129 | 3 | (3) | 129 |
| Asset-backed | 2 | 170 | 15 | — | 185 |
| Equity securities: | | | | | |
| Common stock: | | | | | |
| United States | 1 | 531,885 | 44,181 | (32,037) | 544,029 |
| Canada | 1 | 8,992 | 3,858 | (891) | 11,959 |
| Other international | 1 | 50,041 | 4,207 | (5,799) | 48,449 |
| Mutual funds: | | | | | |
| Equity | 1 | 356,712 | 1,620 | (49,642) | 308,690 |
| Fixed income | 1 | 203,932 | 92 | (18,527) | 185,497 |
| Other | 3 | 1,382 | 122 | — | 1,504 |
| Trust investments, at fair value | | 1,237,810 | 54,332 | (108,553) | 1,183,589 |
| Fixed income commingled funds | | 124,103 | — | (639) | 123,464 |
| Private equity | | 35,411 | 5,954 | (4,502) | 36,863 |
| Trust investments, at net asset value | | 159,514 | 5,954 | (5,141) | 160,327 |
| Trust investments, at market | | $1,397,324 | $60,286 | $(113,694) | $1,343,916 |

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

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

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

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

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks' notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of December 31, 2016, our unfunded commitment for our private equity and other investments was $32.7 million which, if called, would be funded by the assets of the trusts.

The change in our market-based cemetery merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Fair value, beginning balance at January 1 | $1,504 | $203 | $— |
| Net unrealized (losses) gains included in Accumulated other comprehensive income[1] | — | (27 ) | 7 |
| Net realized losses included in Other (expense) income, net[2] | (212 ) | — | — |
| Purchases | — | 1,328 | 196 |
| Sales | (1,292 ) | — | — |
| Fair value, ending balance at December 31 | $— | $1,504 | $203 |

(1) All unrealized gains recognized in Accumulated other comprehensive income for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Accumulated other comprehensive income to Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

(2) All losses recognized in Other (expense) income, net for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Other (expense) income, net to Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

Maturity dates of our fixed income securities range from 2017 to 2041. Maturities of fixed income securities (excluding mutual funds) at December 31, 2016 are estimated as follows:

| | Fair Value (In thousands) |
|---|---|
| Due in one year or less | $ 7,154 |
| Due in one to five years | 26,237 |
| Due in five to ten years | 34,244 |
| Thereafter | 13,576 |
| | $ 81,211 |

Earnings from all our cemetery merchandise and service trust investments are recognized in cemetery revenue when merchandise is delivered or a service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenue in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenue. Recognized earnings (realized and unrealized) related to our cemetery merchandise and service trust investments were $44.5 million, $45.5 million, and $48.2 million for the years ended December 31, 2016, 2015, and 2014, respectively.

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

We have determined that the remaining unrealized losses in our cemetery merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery merchandise and service trust investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2016 and 2015, are shown in the following tables:

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

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | In Loss Position Less Than 12 Months | | In Loss Position Greater Than 12 Months | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (In thousands) | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | $52,509 | $(1,435) | $21 | $(2) | $52,530 | $(1,437) |
| Canadian government | 1,190 | (34) | 841 | (65) | 2,031 | (99) |
| Corporate | 1,764 | (22) | 2,347 | (96) | 4,111 | (118) |
| Residential mortgage-backed | 42 | (1) | 18 | (2) | 60 | (3) |
| Equity securities: | | | | | | |
| Common stock: | | | | | | |
| United States | 198,755 | (26,038) | 21,355 | (5,999) | 220,110 | (32,037) |
| Canada | 473 | (6) | 1,430 | (885) | 1,903 | (891) |
| Other international | 15,560 | (2,507) | 9,412 | (3,292) | 24,972 | (5,799) |
| Mutual funds: | | | | | | |
| Equity | 207,253 | (25,991) | 86,720 | (23,651) | 293,973 | (49,642) |
| Fixed income | 139,684 | (6,323) | 44,550 | (12,204) | 184,234 | (18,527) |
| Trust investments, at fair value | 617,230 | (62,357) | 166,694 | (46,196) | 783,924 | (108,553) |
| Fixed income commingled funds | 123,464 | (639) | — | — | 123,464 | (639) |
| Private equity | — | — | 9,526 | (4,502) | 9,526 | (4,502) |
| Trust investments, at net asset value | 123,464 | (639) | 9,526 | (4,502) | 132,990 | (5,141) |
| Total temporarily impaired securities | $740,694 | $(62,996) | $176,220 | $(50,698) | $916,914 | $(113,694) |

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Deferred preneed cemetery revenue

At December 31, 2016 and 2015, Deferred preneed cemetery revenue, net of allowance for cancellation, represents future cemetery revenue, including distributed trust investment earnings associated with unperformed trust-funded preneed cemetery contracts that are not held in trust accounts. Deferred preneed cemetery revenue is recognized in current cemetery revenue when merchandise is delivered or the service is performed. Future cemetery revenue and net trust investment earnings that are held in trust accounts are included in Deferred preneed receipts held in trust.

The following table summarizes the activity in Deferred preneed cemetery revenue for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Beginning balance — Deferred preneed cemetery revenue | $1,120,001 | $1,062,381 | $1,016,275 |
| Net preneed and atneed deferred sales | 596,714 | 561,899 | 531,768 |
| (Divestitures) acquisitions of businesses, net | (1,977) | 2,357 | (25,071) |
| Net investment earnings (losses) [1] | 79,447 | (42,806) | (22,378) |
| Recognized deferred preneed and atneed revenue | (546,071) | (504,064) | (493,739) |
| Change in cancellation allowance | (3,015) | (8,048) | 3,833 |
| Change in deferred preneed receipts held in trust | (96,417) | 52,050 | 55,636 |
| Effect of foreign currency and other | 1,455 | (3,768) | (3,943) |
| Ending balance — Deferred preneed cemetery revenue | $1,150,137 | $1,120,001 | $1,062,381 |

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

5. Cemetery Perpetual Care Trusts

We are required by state and provincial law to pay into cemetery perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. Our cemetery perpetual care trusts are variable interest entities. We have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. We consolidate our cemetery perpetual care trust investments with a corresponding amount recorded as Care trusts' corpus. Cash flows from cemetery perpetual care contracts are presented as operating cash flows in our Consolidated Statement of Cash Flows.

The table below sets forth certain investment-related activities associated with our cemetery perpetual care trusts for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Deposits | $41,450 | $38,883 | $42,220 |
| Withdrawals | $48,522 | $40,447 | $46,981 |
| Purchases of available-for-sale securities[1] | $428,635 | $247,658 | $1,306,314 |
| Sales of available-for-sale securities[1] | $374,329 | $175,057 | $1,396,669 |

(1) The higher level of activity in 2014 was the result of changing the legal structure of the trust investments.

The components of Cemetery perpetual care trust investments in our Consolidated Balance Sheet at December 31 were as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| Trust investments, at market | $1,349,073 | $1,232,592 |
| Cash and cash equivalents | 58,392 | 86,835 |
| Cemetery perpetual care trust investments | $1,407,465 | $1,319,427 |

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair value at December 31, 2016 and 2015 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 or cash held by the trusts.

| | Fair Value Hierarchy Level | December 31, 2016 Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| Canadian government | 2 | $14,280 | $88 | $(114) | $14,254 |
| Corporate | 2 | 4,636 | 100 | (101) | 4,635 |
| Residential mortgage-backed | 2 | 304 | — | (1) | 303 |
| Asset-backed | 2 | 220 | 3 | (28) | 195 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 1,479 | 2 | (117) | 1,364 |
| Common stock: | | | | | |
| United States | 1 | 233,643 | 28,679 | (2,337) | 259,985 |
| Canada | 1 | 4,828 | 2,631 | (108) | 7,351 |
| Other international | 1 | 14,607 | 148 | (2,236) | 12,519 |
| Mutual funds: | | | | | |
| Equity | 1 | 18,909 | 4,370 | (412) | 22,867 |
| Fixed income | 1 | 688,472 | 3,324 | (28,997) | 662,799 |
| Other | 3 | 633 | 1,254 | — | 1,887 |
| Trust investments, at fair value | | 982,011 | 40,599 | (34,451) | 988,159 |
| Fixed income commingled funds | | 277,662 | — | (9,386) | 268,276 |
| Private equity | | 97,108 | 2,240 | (6,710) | 92,638 |
| Trust investments, at net asset value | | 374,770 | 2,240 | (16,096) | 360,914 |
| Trust investments, at market | | $1,356,781 | $42,839 | $(50,547) | $1,349,073 |

| | Fair Value Hierarchy Level | December 31, 2015 Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $650 | $20 | $(7) | $663 |
| Canadian government | 2 | 15,412 | 321 | (162) | 15,571 |
| Corporate | 2 | 12,490 | 149 | (284) | 12,355 |
| Residential mortgage-backed | 2 | 934 | 13 | (9) | 938 |
| Asset-backed | 2 | 660 | 5 | (31) | 634 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 5,850 | 55 | (159) | 5,746 |
| Common stock: | | | | | |
| United States | 1 | 230,854 | 15,224 | (10,898) | 235,180 |
| Canada | 1 | 5,460 | 2,112 | (606) | 6,966 |
| Other international | 1 | 14,793 | 160 | (2,390) | 12,563 |
| Mutual funds: | | | | | |
| Equity | 1 | 21,783 | 3,138 | (1,850) | 23,071 |
| Fixed income | 1 | 890,025 | 530 | (63,913) | 826,642 |
| Other | 3 | 645 | 1,257 | — | 1,902 |
| Trust investments, at fair value | | 1,199,556 | 22,984 | (80,309) | 1,142,231 |
| Fixed income commingled funds | | 20,616 | — | (178) | 20,438 |
| Private equity | | 75,613 | 2,406 | (8,096) | 69,923 |
| Trust investments, at net asset value | | 96,229 | 2,406 | (8,274) | 90,361 |
| Trust investments, at market | | $1,295,785 | $25,390 | $(88,583) | $1,232,592 |

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

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

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

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

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks' notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of December 31, 2016, our unfunded commitment for our private equity and other investments was $31.0 million which, if called, would be funded by the assets of the trusts.

The change in our market-based cemetery perpetual care trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31 :

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Fair value, beginning balance at January 1 | $1,902 | $1,556 | $1,599 |
| Net unrealized (losses) gains included in Accumulated other comprehensive income(1) | (15 ) | 346 | (26 ) |
| Sales | — | — | (17 ) |
| Fair value, ending balance at December 31 | $1,887 | $1,902 | $1,556 |

(1) All unrealized (losses) gains recognized in Accumulated other comprehensive income for our cemetery perpetual care trust investments are offset by a corresponding reclassification in Accumulated other comprehensive income to Care trusts' corpus. See Note 6 for further information related to our Care trusts' corpus.

Maturity dates of our fixed income securities range from 2017 to 2040. Maturities of fixed income securities at December 31, 2016 are estimated as follows:

| | Fair Value (In thousands) |
|---|---|
| Due in one year or less | $ 1,834 |
| Due in one to five years | 17,283 |
| Due in five to ten years | 69 |
| Thereafter | 201 |
| | $ 19,387 |

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenue to the extent we incur qualifying cemetery maintenance costs. Fees charged by our wholly-owned registered investment advisor are also included in current revenue in the period in which they are earned. Recognized earnings related to these cemetery perpetual care trust investments were $67.6 million, $59.6 million, and $72.4 million for the years ended December 31, 2016, 2015, and 2014, respectively.

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

We have determined that the remaining unrealized losses in our cemetery perpetual care trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings, and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery perpetual care trust investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2016 and 2015, are shown in the following table:

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

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| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | In Loss Position Less Than 12 Months | | In Loss Position Greater Than 12 Months | | Total | |
| | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses | Fair Market Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Fixed income securities: | | | | | | |
| U.S. Treasury | $364 | $(6) | $35 | $(1) | $399 | $(7) |
| Canadian government | 1,569 | (60) | 1,371 | (102) | 2,940 | (162) |
| Corporate | 4,693 | (134) | 4,147 | (150) | 8,840 | (284) |
| Residential mortgage-backed | 303 | (3) | 117 | (6) | 420 | (9) |
| Asset-backed | 146 | (12) | 360 | (19) | 506 | (31) |
| Equity securities: | | | | | | |
| Preferred stock | 4,029 | (159) | — | — | 4,029 | (159) |
| Common stock: | | | | | | |
| United States | 81,564 | (7,793) | 14,900 | (3,105) | 96,464 | (10,898) |
| Canada | 622 | (31) | 1,026 | (575) | 1,648 | (606) |
| Other international | 8,735 | (941) | 2,347 | (1,449) | 11,082 | (2,390) |
| Mutual funds: | | | | | | |
| Equity | 4,580 | (606) | 1,258 | (1,244) | 5,838 | (1,850) |
| Fixed income | 519,993 | (18,205) | 294,309 | (45,708) | 814,302 | (63,913) |
| Trust investments, at fair value | 626,598 | (27,950) | 319,870 | (52,359) | 946,468 | (80,309) |
| Fixed income commingled funds | 20,438 | (178) | — | — | 20,438 | (178) |
| Private equity | 13,139 | (75) | 30,438 | (8,021) | 43,577 | (8,096) |
| Trust investments, at net asset value | 33,577 | (253) | 30,438 | (8,021) | 64,015 | (8,274) |
| Total temporarily impaired securities | $660,175 | $(28,203) | $350,308 | $(60,380) | $1,010,483 | $(88,583) |

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

Deferred preneed receipts held in trust

We consolidate the merchandise and service trusts associated with our preneed funeral and cemetery activities as we are the primary beneficiary of the trusts. Although we consolidate the merchandise and service trusts, it does not change the legal relationships among the trusts, us, or our customers. The customers are the legal beneficiaries of these merchandise and service trusts; therefore, their interests in these trusts represent a liability to us.

The components of Deferred preneed receipts held in trust in our Consolidated Balance Sheet at December 31, 2016 and 2015 are detailed below.

| | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Preneed Funeral | Preneed Cemetery | Total | Preneed Funeral | Preneed Cemetery | Total |
| | | (In thousands) | | | (In thousands) | |
| Trust investments | $1,546,517 | $1,558,229 | $3,104,746 | $1,515,113 | $1,462,499 | $2,977,612 |
| Accrued trust operating payables and other | (589) | (361) | (950) | (1,381) | (2,845) | (4,226) |
| Deferred preneed receipts held in trust | $1,545,928 | $1,557,868 | $3,103,796 | $1,513,732 | $1,459,654 | $2,973,386 |

Care trusts' corpus

The Care trusts' corpus reflected in our Consolidated Balance Sheet represents the cemetery perpetual care trusts, including the related accrued expenses.

The components of Care trusts' corpus in our Consolidated Balance Sheet are detailed below.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | (In thousands) | |
| Cemetery perpetual care trust investments | $1,407,465 | $1,319,427 |
| Accrued trust operating payables and other | 778 | 137 |
| Care trusts' corpus | $1,408,243 | $1,319,564 |

Other (expense) income, net

The components of Other (expense) income, net in our Consolidated Statement of Operations for the years ended December 31, 2016, 2015, and 2014 are detailed below. See Notes 3, 4, and 5 for further discussion of the amounts related to our funeral, cemetery, and cemetery perpetual care trusts.

| | Year Ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts | Other, Net | Total |
| | | | (In thousands) | | |
| Realized gains | $38,704 | $53,253 | $ 8,327 | $— | $100,284 |
| Realized losses | (46,432 ) | (60,795 ) | (6,579 ) | — | (113,806 ) |
| Impairment charges | (4,625 ) | (5,872 ) | (1,360 ) | — | (11,857 ) |
| Interest, dividend, and other ordinary income | 20,299 | 17,428 | 56,594 | — | 94,321 |
| Trust expenses and income taxes | (20,190 ) | (22,137 ) | (22,801 ) | — | (65,128 ) |
| Net trust investment (losses) income | (12,244 ) | (18,123 ) | 34,181 | — | 3,814 |
| Reclassification to deferred preneed receipts held in trust and care trusts' corpus | 12,244 | 18,123 | (34,181 ) | — | (3,814 ) |
| Other expense, net | — | — | — | (631 ) | (631 ) |
| Total other expense, net | $— | $— | $ — | $(631) | $(631 ) |

| | Year Ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts | Other, Net | Total |
| | (In thousands) | | | | |
| Realized gains | $42,034 | $51,510 | $ 6,933 | $— | $100,477 |
| Realized losses | (31,403 ) | (40,092 ) | (7,708 ) | — | (79,203 ) |
| Impairment charges | (3,519 ) | (4,345 ) | (1,812 ) | — | (9,676 ) |
| Interest, dividend, and other ordinary income | 25,952 | 27,089 | 56,253 | — | 109,294 |
| Trust expenses and income taxes | (21,852 ) | (31,472 ) | (32,643 ) | — | (85,967 ) |
| Net trust investment income | 11,212 | 2,690 | 21,023 | — | 34,925 |
| Reclassification to deferred preneed receipts held in trust and care trusts' corpus | (11,212 ) | (2,690 ) | (21,023 ) | — | (34,925 ) |
| Other expense, net | — | — | — | (132 ) | (132 ) |
| Total other expense, net | $— | $— | $ — | $(132) | $(132 ) |

| | Year Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Funeral Trusts | Cemetery Trusts | Cemetery Perpetual Care Trusts | Other, Net | Total |
| | | | (In thousands) | | |
| Realized gains | $168,567 | $271,507 | $134,259 | $— | $574,333 |
| Realized losses | (113,748 ) | (138,473 ) | (51,093 ) | — | (303,314 ) |
| Impairment charges | (41,846 ) | (60,040 ) | (8,072 ) | — | (109,958 ) |
| Interest, dividend, and other ordinary income | 22,668 | 17,597 | 52,126 | — | 92,391 |
| Trust expenses and income taxes | (19,590 ) | (20,833 ) | (34,243 ) | — | (74,666 ) |
| Net trust investment income | 16,051 | 69,758 | 92,977 | — | 178,786 |
| Reclassification to deferred preneed receipts held in trust and care trusts' corpus | (16,051 ) | (69,758 ) | (92,977 ) | — | (178,786 ) |
| Other income, net | — | — | — | 1,780 | 1,780 |
| Total other income, net | $— | $— | $— | $1,780 | $1,780 |

7. Goodwill and Intangible Assets

The changes in the carrying amounts of goodwill for our funeral and cemetery reporting units are as follows: (in thousands):

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Funeral | Cemetery | Total | Funeral | Cemetery | Total |
| | (In thousands) | | | | | |
| Balance as of January 1 | $1,490,502 | $305,838 | $1,796,340 | $1,510,879 | $299,974 | $1,810,853 |
| Increase (decrease) in goodwill related to acquisitions | 26,809 | (151 ) | 26,658 | 6,460 | 6,201 | 12,661 |
| Reduction of goodwill related to divestitures | (26,554 ) | (270 ) | (26,824 ) | (8,908 ) | (262 ) | (9,170 ) |
| Effect of foreign currency | 2,898 | 9 | 2,907 | (17,929 ) | (75 ) | (18,004 ) |
| Activity | 3,153 | (412 ) | 2,741 | (20,377 ) | 5,864 | (14,513 ) |
| Balance as of December 31 | $1,493,655 | $305,426 | $1,799,081 | $1,490,502 | $305,838 | $1,796,340 |

The components of intangible assets at December 31 were as follows:

| | Useful Life | | | |
|---|---|---|---|---|
| | Minimum | Maximum | 2016 | 2015 |
| | (Years) | | (In thousands) | |
| Amortizing intangibles: | | | | |
| Covenants-not-to-compete | 2 | -20 | $211,549 | $206,822 |
| Customer relationships | 10 | -20 | 146,876 | 154,364 |
| Tradenames | 5 | -5 | 9,150 | 12,750 |
| Other | 5 | -40 | 11,927 | 11,927 |
| | | | 379,502 | 385,863 |
| Less: Accumulated amortization | | | 268,061 | 257,157 |
| Amortizing intangibles, net | | | 111,441 | 128,706 |
| Non-amortizing intangibles: | | | | |
| Tradenames | | Indefinite | 245,984 | 230,659 |
| Other | | Indefinite | 10,640 | 10,640 |
| Non-amortizing intangibles | | | 256,624 | 241,299 |
| Intangible assets, net | | | $368,065 | $370,005 |

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As part of our annual recoverability-testing process during 2016, we recognized $1.2 million of impairment on four tradenames. Amortization expense for intangible assets was $31.0 million, $31.5 million, and $36.6 million for the years ended December 31, 2016, 2015, and 2014, respectively. The following is estimated amortization expense, excluding certain intangibles for which we are unable to provide an estimate because they are amortized based on specific identification in the performance of a preneed contract, for the five years subsequent to December 31, 2016 (in thousands):

| | |
|---|---|
| 2017 | $11,718 |
| 2018 | $10,961 |
| 2019 | $7,711 |
| 2020 | $6,613 |
| 2021 | $6,504 |

8. Income Taxes

The provision or benefit for income taxes includes U.S. federal income taxes (determined on a consolidated return basis), foreign income taxes, and state income taxes.

Income from continuing operations before income taxes for the years ended December 31 was composed of the following components:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| United States | $287,946 | $331,622 | $360,800 |
| Foreign | 38,712 | 38,729 | 41,800 |
| | $326,658 | $370,351 | $402,600 |

Income tax provision (benefit) for the years ended December 31 consisted of the following:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Current: | | | |
| United States | $113,629 | $94,502 | $67,511 |
| Foreign | 12,084 | 9,270 | 10,859 |
| State | 16,150 | 13,207 | 17,939 |
| Total current income taxes | 141,863 | 116,979 | 96,309 |
| Deferred: | | | |
| United States | $(19,496 ) | $15,918 | $108,514 |
| Foreign | 22,708 | (878 ) | (653 ) |
| State | 4,278 | 3,008 | 21,810 |
| Total deferred income taxes | 7,490 | 18,048 | 129,671 |
| Total income taxes | $149,353 | $135,027 | $225,980 |

We made income tax payments of $115.0 million, $105.4 million, and $106.3 million in 2016, 2015, and 2014, respectively, and received refunds of $2.4 million, $1.9 million, and $0.6 million, respectively.

The differences between the U.S. federal statutory income tax rate and our effective tax rate for the years ended December 31 were as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Computed tax provision at the applicable federal statutory income tax rate | $114,331 | $129,623 | $140,910 |
| State and local taxes, net of federal income tax benefits | 13,279 | 10,542 | 25,736 |
| Foreign jurisdiction differences | (2,557) | (5,183) | (4,424) |
| Permanent differences associated with divestitures | 9,267 | 2,909 | 61,892 |
| Changes in uncertain tax positions | 5,669 | 4,046 | 4,624 |
| Foreign valuation allowance, net of federal income tax benefits | 15,850 | — | — |
| Other | (6,486) | (6,910) | (2,758) |
| Provision for income taxes | $149,353 | $135,027 | $225,980 |
| Total consolidated effective tax rate | 45.7 % | 36.5 % | 56.1 % |

The higher effective tax rate for the twelve months ended December 31, 2016 was a result of a valuation allowance recorded against foreign net deferred tax assets for which a future net benefit may not be realized, and non-deductible goodwill resulting from gains on divestitures. The higher effective tax rate for the twelve month ended December 31, 2014 was due primarily to the non-deductible goodwill resulting from gains on required divestitures associated with the Stewart acquisition.

Deferred taxes are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates. The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities as of December 31 consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| Inventories and cemetery property | $(335,795) | $(338,143) |
| Property and equipment | (149,450) | (168,265) |
| Intangibles | (294,251) | (302,217) |
| Other | (6,980) | (12,047) |
| Deferred tax liabilities | (786,476) | (820,672) |
| Loss and tax credit carryforwards | 157,795 | 171,725 |
| Deferred revenue on preneed funeral and cemetery contracts | 223,174 | 226,483 |
| Accrued liabilities | 84,230 | 102,351 |
| Deferred tax assets | 465,199 | 500,559 |
| Less: Valuation allowance | (132,500) | (126,654) |
| Net deferred income tax liability | $(453,777) | $(446,767) |

Deferred tax assets and deferred income tax liabilities are recognized in our Consolidated Balance Sheet at December 31 as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| Non-current deferred tax assets | $861 | $23,817 |
| Non-current deferred tax liabilities | (454,638) | (470,584) |
| Net deferred income tax liability | $(453,777) | $(446,767) |

In addition to the loss and tax credit carryforward amounts reflected as deferred tax assets in the table above, we have taken certain tax deductions related to the exercised employee stock options and vested restricted shares that are in excess of the share-based compensation amounts recorded in our consolidated financial statements (“windfall tax benefits”). Such windfall tax benefits are not recognized in our consolidated financial statements unless they reduce income taxes payable. For the year ended December 31, 2016, restricted share vesting and stock option exercises resulted in windfall tax benefits

where the tax deduction exceeded the previously disallowed book expense in the amount of $34.0 million or $12.7 million, net of tax.

At December 31, 2016 and 2015, U.S. income taxes had not been provided on $308.6 million and $259.8 million, respectively, of the remaining undistributed earnings of our Canadian subsidiaries. We intend to permanently reinvest these undistributed foreign earnings in those businesses outside the United States. It is not practicable to determine the amount of federal income taxes, if any, that might become due if such earnings are repatriated.

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2014 to December 31, 2016 (in thousands):

| | Federal, State and Foreign Tax (In thousands) |
|---|---|
| Balance at December 31, 2013 | $ 177,830 |
| Additions to tax positions related to the current year | 8,721 |
| Additions to tax positions related to prior years | 10,085 |
| Reductions to tax positions related to the current year | (1,075 ) |
| Reductions to tax positions related to prior years | (2,325 ) |
| Reductions to tax positions related to the acquisition of Stewart, offset to goodwill | (1,556 ) |
| Balance at December 31, 2014 | $ 191,680 |
| Additions to tax positions related to the current year | 3,235 |
| Reduction to tax positions related to prior years | (12,370 ) |
| Balance at December 31, 2015 | $ 182,545 |
| Reductions to tax positions related to prior years | (4,219 ) |
| Balance at December 31, 2016 | $ 178,326 |

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rates were $161.8 million, $157.2 million, and $154.8 million as of December 31, 2016, 2015, and 2014, respectively.

We include potential accrued interest and penalties related to unrecognized tax benefits within our income tax provision account. We have accrued $57.3 million, $51.6 million, and $47.6 million for the payment of interest, net of tax benefits, and penalties as of December 31, 2016, 2015, and 2014, respectively. We recognized an increase of interest and penalties of $5.7 million, $4.0 million, and $3.1 million for the years ended December 31, 2016, 2015, and 2014, respectively. To the extent interest and penalties are not assessed with respect to uncertain tax positions or the uncertainty of deductions in the future, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

We file income tax returns, including tax returns for our subsidiaries, with federal, state, local and foreign jurisdictions. We consider the United States to be our most significant jurisdiction; however, all tax returns are subject to routine compliance review by the taxing authorities in the jurisdictions in which we file tax returns in the ordinary course of business.

We have reached an agreement in principle with the IRS to resolve the issues under audit with respect to tax years 1999 through 2005 which cleared the Joint Committee on Taxation without change on February 7, 2017. Final resolution with the IRS is subject to, among other things, the execution of certain agreements and the closing of the case. There can be no assurance that the resolution will be finalized on the terms currently contemplated, or at all. Additionally, SCI and Subsidiaries received a letter of no change to its federal tax liability for the tax years 2008-2010, and its tax years 2006-2007 remain under audit as a result of carryback claims. Our Canadian affiliate, Service Corporation International Canada ULC, concluded the audit of its Canadian income tax returns during 2016 for the years 2010-2012 with no material impact. Furthermore, we are under audit by various state jurisdictions for years 2000 through 2015.

It is reasonably possible that the amount of unrecognized tax benefits could significantly decrease over the next 12 months as a result of the agreement in principle reached with the IRS on the audit with respect to tax years 1999

through 2005. However, due to the uncertainty regarding the timing and amount of the final resolution on this specific audit and possible outcomes on the other outstanding audits, a current estimate of the range of decrease that may occur within the next 12 months cannot be made.

Various subsidiaries have state and foreign loss carryforwards in the aggregate of $3.8 billion with expiration dates through 2032. Such loss carryforwards will expire as follows:

| | Federal | State | Foreign | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| 2017 | $— | $241,619 | $— | $241,619 |
| 2018 | — | 111,084 | — | 111,084 |
| 2019 | — | 143,491 | — | 143,491 |
| 2020 | 200 | 183,071 | — | 183,271 |
| Thereafter | 1,900 | 3,111,526 | 6,632 | 3,120,058 |
| Total | $2,100 | $3,790,791 | $6,632 | $3,799,523 |

In addition to the above loss carryforwards, we have $52.0 million of foreign losses that have an indefinite expiration. In assessing the usefulness of deferred tax assets, management considers whether it is more likely than not that some portion or all of the net deferred tax assets will not be realized. The ultimate realization of net deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Upon reviewing the 2016 foreign operational results as of the fourth quarter, management concluded a foreign valuation allowance was necessary as it was not more likely than not that certain foreign net deferred tax assets would be realized based on all available evidence as of December 31, 2016. During 2016, an additional $15.9 million foreign valuation allowance has been recorded which was partially offset by changes in the existing foreign valuation allowances due to fluctuations in the currency exchange rate. Also, in 2016, the state valuation allowance decreased by $9.6 million due to state net operating loss expirations. These valuation allowances can be affected in future periods by changes in tax laws, changes to statutory tax rates and changes in estimates of future taxable income.

At December 31, 2016, our loss and tax credit carryforward deferred tax assets and related valuation allowances by jurisdiction are as follows (presented net of federal benefit):

| | Federal | State | Foreign | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| Loss and tax credit carryforwards | $ 914 | $136,462 | $20,419 | $157,795 |
| Valuation allowance | $ — | $101,417 | $31,083 | $132,500 |

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9. Debt

Debt as of December 31 was as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| 7.0% Senior Notes due June 2017 | $— | $295,000 |
| 7.625% Senior Notes due October 2018 | 250,000 | 250,000 |
| 4.5% Senior Notes due November 2020 | 200,000 | 200,000 |
| 8.0% Senior Notes due November 2021 | 150,000 | 150,000 |
| 5.375% Senior Notes due January 2022 | 425,000 | 425,000 |
| 5.375% Senior Notes due May 2024 | 850,000 | 850,000 |
| 7.5% Senior Notes due April 2027 | 200,000 | 200,000 |
| Term Loan due July 2018 | — | 310,000 |
| Bank Credit Facility due July 2018 | — | 270,000 |
| Term Loan due March 2021 | 673,750 | — |
| Bank Credit Facility due March 2021 | 350,000 | — |
| Obligations under capital leases | 208,758 | 204,246 |
| Mortgage notes and other debt, maturities through 2050 | 3,753 | 4,037 |
| Unamortized premiums (discounts) and other, net | 8,313 | 8,636 |
| Unamortized debt issuance costs | (32,984 ) | (42,491 ) |
| Total debt | 3,286,590 | 3,124,428 |
| Less: Current maturities of long-term debt | (89,974 ) | (86,823 ) |
| Total long-term debt | $3,196,616 | $3,037,605 |

Current maturities of debt at December 31, 2016 include amounts due under our Term Loan, mortgage notes and other debt, and capital leases within the next year.

Our consolidated debt had a weighted average interest rate of 4.68% and 5.18% at December 31, 2016 and 2015, respectively. Approximately 63% and 76% of our total debt had a fixed interest rate at December 31, 2016 and 2015, respectively.

The following table summarizes the aggregate maturities of our debt for the five years subsequent to December 31, 2016 and thereafter, excluding unamortized premiums (discounts) and debt issuance costs (in thousands):

| | |
|---|---|
| 2017 | $94,725 |
| 2018 | 350,609 |
| 2019 | 74,169 |
| 2020 | 295,231 |
| 2021 | 647,792 |
| 2022 and thereafter | 1,848,735 |
| | $3,311,261 |

Bank Credit Facility

In March 2016, we entered into a new $1.4 billion bank credit agreement due March 2021 with a syndicate of banks. As of December 31, 2016, we have $350.0 million of outstanding borrowings under our Bank Credit Facility and have issued $32.7 million of letters of credit. The Bank Credit Facility provides us with flexibility for labor, 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 December 31, 2016, we are in compliance with all covenants. We pay a quarterly fee on the unused commitment, which was 0.30% at December 31, 2016. As of December 31, 2016, we have $317.3 million in borrowing capacity under the facility.

As of December 31, 2015, we had a $500.0 million Bank Credit Facility due July 2018 with a syndicate of financial institutions, including a sublimit of $175.0 million for letters of credit. In March 2016, the new $1.4 billion credit agreement replaced the existing $500.0 million Bank Credit Facility due July 2018 and $600.0 million Term Loan due July 2018 providing for a new $700.0 million Bank Credit Facility and a $700.0 million Term Loan, both maturing in March 2021, including a sublimit of $100.0 million for letters of credit.

Debt Issuances and Additions

During the year ended December 31, 2016, we borrowed $360.0 million on our Bank Credit Facilities and $700.0 million on our Term Loan due March 2021 to make the 2016 debt payments described below, to fund acquisition activity, and for general corporate purposes. These transactions resulted in an additional $5.2 million of debt issue costs. During the year ended December 31, 2015, we borrowed $135.0 million on our Bank Credit Facility and issued an additional $300.0 million of our existing unsecured 5.375% Senior Notes due May 2024 to make the 2015 debt payments described below and for general corporate purposes. The addition to our 5.375% Senior Notes due May 2024 generated a premium of $11.3 million.

Debt Extinguishments and Reductions

During the year ended December 31, 2016, we made debt payments of $911.5 million for scheduled and early extinguishment payments including:

- $310.0 million in aggregate principal of our Term Loan due to July 2018;
- $295.0 million in aggregate principal of our 7.0% Senior Notes due 2017;
- $280.0 million in aggregate principal of our Bank Credit Facility due July 2018; and
- $26.3 million in aggregate principal of our Term Loan due March 2021.
- $0.2 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of $22.5 million recorded in Losses on early extinguishment of debt in our Consolidated Statement of Operations.

During the year ended December 31, 2015, we made debt payments of $357.6 million for scheduled and early extinguishment payments including:

- $197.4 million in aggregate principal of our 6.75% Senior Notes due April 2016;
- $100.0 million in aggregate principal of our Bank Credit Facility;
- $60.0 million in aggregate principal of our Term Loan due July 2018; and
- $0.2 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of $6.9 million recorded in Losses on early extinguishment of debt in our Consolidated Statement of Operations.

Additional Debt Disclosures

At December 31, 2016 and 2015, we had deposits of $4.7 million and $7.0 million, respectively, in restricted, interest-bearing accounts that were pledged as collateral for various credit instruments and commercial commitments. These deposits are included in Deferred charges and other assets in our Consolidated Balance Sheet.

We had assets of approximately $1.4 million and $1.5 million pledged as collateral for the mortgage notes and other debt at December 31, 2016 and 2015, respectively.

Cash interest payments for the three years ended December 31 were as follows (in thousands):

| | |
|---|---|
| Payments in 2016 | $156,950 |
| Payments in 2015 | $164,748 |
| Payments in 2014 | $175,327 |

Expected cash interest payments for the five years subsequent to December 31, 2016 and thereafter are as follows (in thousands):

| | |
|---|---|
| Payments in 2017 | $152,682 |
| Payments in 2018 | $147,342 |
| Payments in 2019 | $132,269 |
| Payments in 2020 | $130,745 |
| Payments in 2021 | $99,515 |
| Payments in 2022 and thereafter | $197,077 |

10. Credit Risk and Fair Value of Financial Instruments

Fair Value Estimates

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

The fair value of our debt instruments at December 31 was as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| 7.0% Senior Notes due June 2017 | $— | $314,618 |
| 7.625% Senior Notes due October 2018 | 272,353 | 279,375 |
| 4.5% Senior Notes due November 2020 | 205,000 | 201,500 |
| 8.0% Senior Notes due November 2021 | 175,500 | 176,438 |
| 5.375% Senior Notes due January 2022 | 444,614 | 445,188 |
| 5.375% Senior Notes due May 2024 | 884,000 | 884,094 |
| 7.5% Senior Notes due April 2027 | 231,590 | 216,500 |
| Term Loan due July 2018 | — | 310,000 |
| Bank Credit Facility due July 2018 | — | 270,000 |
| Term Loan due March 2021 | 673,750 | — |
| Bank Credit Facility due March 2021 | 350,000 | — |
| Mortgage notes and other debt, maturities through 2050 | 3,753 | 4,047 |
| Total fair value of debt instruments | $3,240,560 | $3,101,760 |

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 agreement 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.

Credit Risk Exposure

Our cash deposits, some of which exceed insured limits, are distributed among various market and national banks in the jurisdictions in which we operate. In addition, we regularly invest excess cash in financial instruments that are not insured, such as commercial paper that is offered by corporations with quality credit ratings and money market funds and Eurodollar time deposits that are offered by a variety of reputable financial institutions. We believe that the credit risk associated with such instruments is minimal.

We grant credit to customers in the normal course of business. The credit risk associated with our funeral, cemetery, and preneed funeral and preneed cemetery receivables due from customers is generally considered minimal because of the diversification of the customers served. Furthermore, bad debts have not been significant relative to the volume of deferred revenue. Customer payments on preneed funeral or preneed cemetery contracts that are either placed into state-regulated trusts

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or used to pay premiums on life insurance contracts generally do not subject us to collection risk. Insurance-funded contracts are subject to supervision by state insurance departments and are protected in the majority of states by insurance guaranty acts.

11. Commitments and Contingencies

Leases

Our leases principally relate to funeral home facilities and transportation equipment. The majority of our lease arrangements contain options to (i) purchase the property at fair value on the exercise date, (ii) purchase the property for a value determined at the inception of the lease, or (iii) renew the lease for the fair rental value at the end of the primary lease term. Rental expense for operating leases was $31.9 million, $33.3 million, and $37.2 million for the years ended December 31, 2016, 2015, and 2014, respectively. As of December 31, 2016, future minimum lease payments for non-cancelable operating and capital leases exceeding one year were as follows:

| | Operating | Capital |
|---|---|---|
| | (In thousands) | |
| 2017 | $14,201 | $59,598 |
| 2018 | 12,122 | 52,353 |
| 2019 | 10,028 | 21,533 |
| 2020 | 8,542 | 29,528 |
| 2021 | 7,564 | 24,829 |
| 2022 and thereafter | 67,655 | 20,917 |
| Total | $120,112 | $208,758 |
| Less: Interest on capital leases | | (16,417 ) |
| Total principal payable on capital leases | | $192,341 |

Employment and Management, Consulting, and Non-Competition Agreements

We have entered into employment and management, consulting, and non-competition agreements, generally for five to ten years, with certain officers and employees and former owners of businesses that we acquired. At December 31, 2016, the maximum estimated future cash commitments under agreements with remaining commitment terms, and with original terms of more than one year, were as follows:

| | Employment and Management | Consulting | Non-Competition | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| 2017 | $1,692 | $ 185 | $ 4,641 | $6,518 |
| 2018 | 1,035 | 138 | 4,436 | 5,609 |
| 2019 | 818 | 115 | 4,203 | 5,136 |
| 2020 | 375 | 45 | 3,017 | 3,437 |
| 2021 | 107 | — | 2,022 | 2,129 |
| 2022 and thereafter | — | — | 4,315 | 4,315 |
| Total | $4,027 | $ 483 | $ 22,634 | $27,144 |

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 December 31, 2016 and 2015, we have self-insurance reserves of $78.0 million and $76.6 million, respectively.

Litigation

We are a party to various litigation 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 lawsuits described herein; however, if we determine that an unfavorable outcome is

probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these litigation matters. We accrue such insurance recoveries when they become probable of being paid and can be reasonably estimated.

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

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

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

Claims Regarding Acquisition of Stewart Enterprises. We are involved in the following lawsuits.

Karen Moulton, Individually and on behalf of all others similarly situated v. Stewart Enterprises, Inc., Service Corporation International and others ; Case No. 2013-5636; in the Civil District Court Parish of New Orleans. This case was filed as a class action in June 2013 against SCI and our subsidiary in connection with SCI's proposed acquisition of Stewart Enterprises, Inc. The plaintiffs allege that SCI aided and abetted breaches of fiduciary duties by Stewart Enterprises and its board of directors in negotiating the combination of Stewart Enterprises with a subsidiary of SCI. The plaintiffs seek damages concerning the combination. We filed exceptions to the plaintiffs' complaint that were granted in June 2014. Thus, subject to appeals, SCI will no longer be party to the suit. The case has continued against our subsidiary Stewart Enterprises and its former individual directors. However, in October 2016, the court entered a judgment dismissing all of plaintiffs' claims. Plaintiffs have filed documents indicating that they are appealing the dismissal. We cannot quantify our ultimate liability, if any, for the payment of damages.

S.E. Funeral Homes of California, Inc. v. The Roman Catholic Archbishop of Los Angeles, et al.; Case No. BC559142; in the Superior Court of the State of California for the County of Los Angeles. The plaintiff is a company indirectly owned by Stewart Enterprises, Inc. The plaintiff filed this action in September 2014 to prevent The Roman Catholic Archbishop of Los Angeles (the "Archdiocese") from terminating six ground leases. In reliance on the leases having 40 year terms beginning at the earliest in 1997, the plaintiff had previously made material investments since 1997 in constructing and operating funeral homes, chapels, mausoleums, and other improvements on the leased premises. In addition, the plaintiff has created a material backlog of deferred preneed revenue that plaintiff expects to receive in the coming years. In September 2014, the Archdiocese delivered notices purporting to terminate the leases and alleging that the leases were breached because the plaintiff did not obtain the Archdiocese's consent before Stewart Enterprises, Inc. entered into a reverse merger with an affiliate of SCI. The plaintiff disputes this contention and seeks, among other things, a declaratory judgment declaring that the Archdiocese's purported termination notices are invalid, requiring specific performance of the leases, or, in the alternative, awarding the plaintiff compensatory damages. The Archdiocese filed a counterclaim and a separate action for unlawful detainer in October 2014, and all claims and actions of the respective parties have been consolidated into one case for all purposes. In February 2016, the Court entered a ruling on the parties' cross motions for summary adjudication based on the parties' opposing interpretations of the relevant lease provisions and adopted the Archdiocese's interpretation of its right to terminate the leases.

On July 27, 2016, the parties executed an agreement to settle the consolidated case. Under the settlement agreement, the Company agreed to sell to the Archdiocese substantially all of the assets used in the operations of the six mortuaries located on cemeteries of the Archdiocese and to terminate its rights under the related ground leases. The closing of the sale occurred on November 30, 2016. As a result of the settlement, the consolidated case between the parties has been dismissed.

Operational Claims. We are subject to the following lawsuit.

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

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

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

12. Equity

(All shares reported in whole numbers)

Share Authorization

We are authorized to issue 1,000,000 shares of preferred stock, $1 per share par value. No preferred shares were issued as of December 31, 2016 or 2015. At December 31, 2016 and 2015, 500,000,000 common shares of $1 par value were authorized. We had 195,403,644 and 200,859,676 shares issued and 189,405,244 and 195,772,876 outstanding at par at December 31, 2016 and 2015, respectively.

Accumulated Other Comprehensive Income

Our components of Accumulated other comprehensive income are as follows:

| | Foreign Currency Translation Adjustment | Unrealized Gains and Losses | Accumulated Other Comprehensive (Loss) Income |
|---|---|---|---|
| | (In thousands) | | |
| Balance at December 31, 2013 | $88,441 | $ — | $ 88,441 |
| Activity in 2014 | (32,141 ) | — | (32,141 ) |
| Reclassification of foreign currency translation adjustments to Net income from discontinued operations | 3,114 | — | 3,114 |
| Net unrealized losses associated with available-for- sale securities of the trusts, net of taxes | — | (166,570 ) | (166,570 ) |
| Reclassification of net unrealized losses activity attributable to the Deferred preneed receipts held in trust and Care trusts' corpus, net of taxes | — | 166,570 | 166,570 |
| Balance at December 31, 2014 | $59,414 | $ — | $ 59,414 |
| Activity in 2015 | (53,250 ) | — | (53,250 ) |
| Net unrealized losses associated with available-for- sale securities of the trusts, net of taxes | — | (85,140 ) | (85,140 ) |
| Reclassification of net unrealized losses activity attributable to the Deferred preneed receipts held in trust and Care trusts' corpus, net of taxes | — | 85,140 | 85,140 |
| Balance at December 31, 2015 | $6,164 | $ — | $ 6,164 |
| Activity in 2016 | 10,328 | — | 10,328 |
| Net unrealized gains associated with available-for-sale securities of the trusts, net of taxes | — | 120,573 | 120,573 |
| Reclassification of net unrealized gains activity attributable to the Deferred preneed receipts held in trust and Care trusts' corpus, net of taxes | — | (120,573 ) | (120,573 ) |
| Balance at December 31, 2016 | $16,492 | $ — | $ 16,492 |

The assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. The U.S. dollar amount that arises from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the cumulative currency translation adjustments in Accumulated other comprehensive income.

Share Repurchase Program

Subject to market conditions, normal trading restrictions, and limitations in our debt covenants, we may make purchases in the open market or through privately negotiated transactions under our share repurchase program. Under our share repurchase program, during 2016, we repurchased 8,811,847 shares of common stock at an aggregate cost of $227.9 million, which is an

average cost per share of $25.87. During 2015, we repurchased 12,455,281 shares of common stock at an aggregate cost of $345.3 million, which is an average cost per share of $27.72 under the program. On November 8, 2016, our Board of Directors increased our share repurchase authorization to $400.0 million. After these repurchases and increase in authorization, the remaining dollar value of shares authorized to be purchased under the share repurchase program was $366.6 million at December 31, 2016.

Subsequent to December 31, 2016, we repurchased 1,969,289 shares for $57.1 million at an average cost per share of $29.00.

Cash Dividends

On February 8, 2017 our Board of Directors approved a cash dividend of $0.13 per common share payable on March 31, 2017 to stockholders of record as of March 15, 2017.

Noncontrolling Interest

During 2016, we purchased an additional 11% of the common stock of our consolidated subsidiary, Wilson Financial Group, Inc. for $1.9 million.

13. Share-Based Compensation

Stock Benefit Plans

We maintain benefit plans whereby shares of our common stock may be issued pursuant to the exercise of stock options or restricted stock granted to officers and key employees. Our Amended and Restated Incentive Plan reserves 44,000,000 shares of common stock for outstanding and future awards of stock options, restricted stock, and other stock based awards to officers and key employees. In May 2016, our shareholders approved the 2016 Equity Incentive Plan that reserves 13,000,000 shares of common stock for outstanding and future awards of stock options, restricted stock, and other awards to officers and key employees.

Our benefit plans allow for options to be granted as either non-qualified or incentive stock options. The options historically have been granted annually, or upon hire, as approved by the Compensation Committee of the Board of Directors. The options are granted with an exercise price equal to the market price of our common stock on the date of the grant, as approved by the Compensation Committee of the Board of Directors. The options are generally exercisable at a rate of 33 1/3% each year unless alternative vesting methods are approved by the Compensation Committee of the Board of Directors. Restricted stock awards are generally expensed ratably over the period during which the restrictions lapse. At December 31, 2016 and 2015, 12,171,075 and 1,531,410 shares, respectively, were reserved for future option and restricted stock grants under our stock benefit plans.

We utilize the Black-Scholes option valuation model for estimating the fair value of our stock options. This model allows the use of a range of assumptions related to volatility, risk-free interest rate, expected holding period, and dividend yield. The expected volatility utilized in the valuation model is based on the historical volatility of our stock price. The dividend yield and expected holding period are based on historical experience and management's estimate of future events. The risk-free interest rate is derived from the U.S. Treasury yield curve based on the expected life of the option in effect at the time of grant. The fair values of our stock options are calculated using the following weighted average assumptions, based on the methods described above for the years ended December 31:

| Assumptions | 2016 | 2015 | 2014 |
|---|---|---|---|
| Dividend yield | 2.0 % | 1.8 % | 1.8 % |
| Expected volatility | 19.7% | 23.3% | 27.1% |
| Risk-free interest rate | 1.0 % | 1.3 % | 1.1 % |
| Expected holding period (years) | 4.0 | 4.0 | 4.0 |

The following table summarizes certain information with respect to stock option and restricted share compensation as included in our Consolidated Statement of Operations for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Total pretax employee share-based compensation expense included in net income | $14,056 | $13,843 | $13,127 |
| Income tax benefit related to share-based compensation included in net income | $6,427 | $5,068 | $7,368 |

We realized windfall tax deductions of $34.0 million, $43.5 million, and $31.6 million in excess of previously recorded tax benefits, based on the option and restricted share value at the time of grant for the years ended December 31, 2016, 2015, and 2014, respectively. The additional tax benefit associated with the windfall is not recognized until the deduction reduces taxes payable.

Stock Options

The following table sets forth stock option activity for the year ended December 31, 2016:

(Shares reported in whole numbers)

| | Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2015 | 11,047,920 | $ 13.98 |
| Granted | 1,863,700 | $ 22.28 |
| Exercised | (2,108,212 ) | $ 8.38 |
| Canceled | (28,272 ) | $ 20.98 |
| Outstanding at December 31, 2016 | 10,775,136 | $ 16.49 |
| Exercisable at December 31, 2016 | 6,938,591 | $ 13.69 |

The aggregate intrinsic value for stock options outstanding and exercisable was $128.3 million and $102.1 million, respectively, at December 31, 2016.

Set forth below is certain information related to stock options outstanding and exercisable at December 31, 2016:

(Shares reported in whole numbers)

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding at December 31, 2016 | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price | Number Exercisable at December 31, 2016 | Weighted-Average Exercise Price |
| $ 5.00 — 10.00 | 2,032,763 | 1.7 | $ 8.42 | 2,032,763 | $ 8.42 |
| $10.01 — 15.00 | 1,361,450 | 3.1 | $ 11.18 | 1,361,450 | $ 11.18 |
| $15.01 — 20.00 | 3,548,915 | 4.7 | $ 16.50 | 2,801,293 | $ 16.26 |
| $20.01 — 25.00 | 3,832,008 | 6.6 | $ 22.65 | 743,085 | $ 22.97 |
| $ 5.00 — 25.00 | 10,775,136 | 4.6 | $ 16.49 | 6,938,591 | $ 13.69 |

Other information pertaining to stock option activity during the years ended December 31 is as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Weighted average grant-date fair value of stock options granted | $4.01 | $3.79 | $3.34 |
| Total fair value of stock options vested (in thousands) | $7,690 | $7,973 | $6,814 |
| Total intrinsic value of stock options exercised (in thousands) | $37,284 | $52,513 | $42,048 |

For the years ended December 31, 2016, 2015, and 2014, cash received from the exercise of stock options was $17.7 million, $31.8 million, and $32.4 million, respectively. We recognized compensation expense of $7.6 million, $7.9 million, and $7.5 million related to stock options for the years ended December 31, 2016, 2015, and 2014, respectively. As of December 31, 2016, the unrecognized compensation expense related to stock options of $8.1 million is expected to be recognized over a weighted average period of 1.3 years.

Restricted Shares

Restricted share award activity was as follows:

(Shares reported in whole numbers)

| | Restricted Share Awards | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested restricted share awards at December 31, 2015 | 573,739 | $ 19.32 |
| Granted | 241,510 | $ 22.28 |
| Vested | (313,247 ) | $ 18.14 |
| Forfeited and other | (1,258 ) | $ 20.85 |
| Nonvested restricted share awards at December 31, 2016 | 500,744 | $ 21.48 |

The fair value of our restricted share units, as determined on the grant date, is being amortized and charged to income (with an offsetting credit to Capital in excess of par value) generally over the average period during which the restrictions lapse. At December 31, 2016, unrecognized compensation expense of $5.8 million related to restricted share awards, which is recorded in Capital in excess of par value on our Consolidated Balance Sheet, is expected to be recognized over a weighted average period of 1.7 years. We recognized compensation expense of $5.6 million, $5.9 million, and $5.7 million during the years ended December 31, 2016, 2015, and 2014, respectively, related to our restricted share awards.

Restricted share units activity was as follows:

(Shares reported in whole numbers)

| | Restricted Share Units | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested restricted share units at December 31, 2015 | — | $ — |
| Granted | 130,660 | $ 25.72 |
| Vested | (1,950 ) | $ 25.72 |
| Forfeited and other | (5,200 ) | $ 25.72 |
| Nonvested restricted share units at December 31, 2016 | 123,510 | $ 25.72 |

At December 31, 2016 the unrecognized compensation expense related to restricted share units of $2.4 million is expected to be recognized over a weighted average period of 2.1 years. We recognized compensation expense of $0.8 million for the year ended December 31, 2016 related to our restricted share units.

14. Retirement Plans

We currently have a supplemental retirement plan for certain current and former key employees (SERP), a supplemental retirement plan for officers and certain key employees (Senior SERP), a retirement plan for certain non-employee directors (Directors' Plan), a Retirement Plan for Rose Hills® Trustees, a Rose Hills® Supplemental Retirement Plan, and a Stewart Supplemental Retirement Plan (collectively, the "Plans"). We also provide a 401(k) employee savings plan. All of our Plans have a measurement date of December 31.

The Plans are frozen; therefore, the participants do not earn incremental benefits from additional years of service, and we do not incur any additional service cost.

Retirement benefits under the SERP are based on years of service and average monthly compensation, reduced by benefits under Social Security. The Senior SERP provides retirement benefits based on years of service and position. The Directors' Plan provides for an annual benefit to directors following retirement, based on a vesting schedule.

We recognize pension related gains and losses in our consolidated statement of operations in the year such gains and losses are incurred. The components of the Plans' net periodic benefit cost for the years ended December 31 were as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Interest cost on projected benefit obligation | $1,179 | $1,198 | $1,293 |
| Recognized net actuarial losses (gains) | 259 | (1,327) | 2,401 |
| Total net periodic benefit cost | $1,438 | $(129) | $3,694 |

The Plans' funded status at December 31 was as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| Change in Benefit Obligation: | | |
| Benefit obligation at beginning of year | $32,305 | $36,920 |
| Interest cost | 1,179 | 1,198 |
| Actuarial gain (loss) | 259 | (1,327) |
| Benefits paid | (3,665) | (4,486) |
| Benefit obligation at end of year | $30,078 | $32,305 |
| Change in Plan Assets: | | |
| Fair value of plan assets at beginning of year | $— | $— |
| Employer contributions | 3,665 | 4,486 |
| Benefits paid, including expenses | (3,665) | (4,486) |
| Fair value of plan assets at end of year | $— | $— |
| Funded status of plan | $(30,078) | $(32,305) |
| | | |
| Funding Summary: | | |
| Projected benefit obligations | $30,078 | $32,305 |
| Accumulated benefit obligation | $30,078 | $32,305 |
| Amounts Recognized in the Consolidated Balance Sheet: | | |
| Accounts payable and accrued liabilities | $(3,448) | $(3,723) |
| Accrued pension - included in Other liabilities | (26,630) | (28,582) |
| Total accrued benefit liability | $(30,078) | $(32,305) |

The retirement benefits under the Plans are unfunded obligations of the Company. We have purchased various life insurance policies on the participants in the Plans with the intent to use the proceeds or any cash value buildup from these policies to assist in meeting, at least to the extent of such assets, the Plans' funding requirements. The face value of these insurance policies at December 31, 2016 and 2015 was $47.5 million and $48.9 million, respectively, and the cash surrender value was $37.0 million and $37.7 million, respectively. The outstanding loans against the policies are minimal and there are no restrictions in the policies regarding loans.

The Plans' weighted-average assumptions used to determine the benefit obligation and net benefit cost are as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Weighted-average discount rate used to determine obligations | 3.76% | 3.86% | 3.42% |
| Weighted-average discount rate used to determine net periodic pension cost | 3.96% | 2.47% | 3.69% |

We base our discount rate used to compute future benefit obligations using an analysis of expected future benefit payments. The reasonableness of our discount rate is verified by comparing the rate to the rate earned on high-quality fixed income investments, such as the Moody's Aa index, plus 50 basis points. The assumed rate of return on plan assets was not applicable as we pay plan benefits as they come due. As all Plans are curtailed, the assumed rate of compensation increase is zero.

The following benefit payments are expected to be paid in future years related to our Plans (in thousands):

| | |
|---|---|
| 2017 | $3,448 |
| 2018 | $3,237 |
| 2019 | $3,166 |
| 2020 | $2,739 |
| 2021 | $2,428 |
| Years 2022 through 2026 | $9,959 |

We have an employee savings plan that qualifies under section 401(k) of the Internal Revenue Code for the exclusive benefit of our United States employees. Under the plan, participating employees may contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines up to a maximum of 50%.

During 2016, 2015, and 2014, we matched a percentage of the employee contributions through contributions of cash. For these years, our matching contribution was based upon the following:

| Years of Vesting Service | Percentage of Deferred Compensation |
|---|---|
| 0 — 5 years | 75% of the first 6% of deferred compensation |
| 6 — 10 years | 100% of the first 6% of deferred compensation |
| 11 or more years | 125% of the first 6% of deferred compensation |

The amount of our matched contributions in 2016, 2015, and 2014 was $32.5 million, $30.8 million, and $26.8 million, respectively.

15. 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 United States and Canada. We conduct both funeral and cemetery operations in the United States and Canada.

Our reportable segment information is as follows:

| | Reportable Segments | | | |
|---|---|---|---|---|
| | Funeral | Cemetery | Corporate | Consolidated |
| | (In thousands) | | | |
| 2016 | | | | |
| Revenue from external customers | $1,868,883 | $1,162,254 | $— | $3,031,137 |
| Interest expense | $3,910 | $101 | $158,082 | $162,093 |
| Depreciation and amortization | $106,251 | $31,432 | $9,550 | $147,233 |
| Amortization of intangible assets | $20,442 | $10,440 | $74 | $30,956 |
| Gross profit | $364,237 | $312,197 | $— | $676,434 |
| Amortization of cemetery property | $— | $66,745 | $— | $66,745 |
| Capital expenditures | $68,434 | $113,395 | $11,617 | $193,446 |
| Total assets | $5,156,144 | $6,484,317 | $397,688 | $12,038,149 |
| 2015 | | | | |
| Revenue from external customers | $1,888,828 | $1,097,213 | $— | $2,986,041 |
| Interest expense | $4,230 | $450 | $168,217 | $172,897 |
| Depreciation and amortization | $102,937 | $29,783 | $8,736 | $141,456 |
| Amortization of intangible assets | $22,636 | $8,748 | $75 | $31,459 |
| Gross profit | $393,156 | $281,433 | $— | $674,589 |
| Amortization of cemetery property | $— | $62,407 | $— | $62,407 |
| Capital expenditures | $52,880 | $84,345 | $13,761 | $150,986 |
| Total assets | $5,141,544 | $6,181,877 | $352,976 | $11,676,397 |
| 2014 | | | | |
| Revenue from external customers | $1,920,475 | $1,073,536 | $— | $2,994,011 |
| Interest expense | $4,714 | $510 | $172,347 | $177,571 |
| Depreciation and amortization | $101,801 | $28,745 | $9,456 | $140,002 |
| Amortization of intangible assets | $24,841 | $11,700 | $99 | $36,640 |
| Gross profit | $409,701 | $265,984 | $— | $675,685 |
| Amortization of cemetery property | $— | $60,439 | $— | $60,439 |
| Capital expenditures | $52,610 | $78,588 | $13,301 | $144,499 |

The following table reconciles gross profit from reportable segments shown above to our consolidated income from continuing operations before income taxes:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Gross profit from reportable segments | $676,434 | $674,589 | $675,685 |
| General and administrative expenses | (137,730 ) | (130,813 ) | (184,749 ) |
| (Losses) gains on divestitures and impairment charges, net | (26,819 ) | 6,522 | 116,613 |
| Operating income | 511,885 | 550,298 | 607,549 |
| Interest expense | (162,093 ) | (172,897 ) | (177,571 ) |
| Losses on early extinguishment of debt, net | (22,503 ) | (6,918 ) | (29,158 ) |
| Other (expense) income, net | (631 ) | (132 ) | 1,780 |
| Income from continuing operations before income taxes | $326,658 | $370,351 | $402,600 |

Our geographic area information was as follows:

| | United States | Canada | Total |
|---|---|---|---|
| | (In thousands) | | |
| 2016 | | | |
| Revenue from external customers | $2,848,876 | $182,261 | $3,031,137 |
| Interest expense (income) | $162,341 | $(248 ) | $162,093 |
| Depreciation and amortization | $138,560 | $8,673 | $147,233 |
| Amortization of intangible assets | $30,427 | $529 | $30,956 |
| Amortization of cemetery property | $61,449 | $5,296 | $66,745 |
| Operating income | $460,387 | $51,498 | $511,885 |
| (Losses) gains on divestitures and impairment charges, net | $(27,658 ) | $839 | $(26,819 ) |
| Long-lived assets | $5,705,070 | $266,053 | $5,971,123 |
| 2015 | | | |
| Revenue from external customers | $2,805,407 | $180,634 | $2,986,041 |
| Interest expense | $172,697 | $200 | $172,897 |
| Depreciation and amortization | $132,393 | $9,063 | $141,456 |
| Amortization of intangible assets | $30,856 | $603 | $31,459 |
| Amortization of cemetery property | $58,429 | $3,978 | $62,407 |
| Operating income | $498,634 | $51,664 | $550,298 |
| Gains on divestitures and impairment charges, net | $1,778 | $4,744 | $6,522 |
| Long-lived assets | $5,729,721 | $248,734 | $5,978,455 |
| 2014 | | | |
| Revenue from external customers | $2,792,009 | $202,002 | $2,994,011 |
| Interest expense | $177,245 | $326 | $177,571 |
| Depreciation and amortization | $129,510 | $10,492 | $140,002 |
| Amortization of intangible assets | $35,895 | $745 | $36,640 |
| Amortization of cemetery property | $55,679 | $4,760 | $60,439 |
| Operating income | $557,608 | $49,941 | $607,549 |
| Gains on divestitures and impairment charges, net | $116,046 | $567 | $116,613 |

16. Supplementary Information

The detail of certain balance sheet accounts is as follows:

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| Cash and cash equivalents: | | |
| Cash | $146,684 | $106,831 |
| Commercial paper and temporary investments | 48,302 | 27,768 |
| | $194,986 | $134,599 |
| Receivables, net: | | |
| Notes receivable | $1,259 | $2,056 |
| Atneed funeral receivables, net of allowances of $1,881 and $3,343, respectively | 46,917 | 52,184 |
| Atneed cemetery receivables, net of allowances of $1,514 and $2,153, respectively | 17,765 | 13,585 |
| Other | 32,514 | 22,637 |
| | $98,455 | $90,462 |
| Other current assets: | | |
| Income tax receivable | $3,609 | $15,662 |
| Prepaid insurance | 4,437 | 5,398 |
| Restricted cash | 11,978 | 12,587 |
| Other | 14,500 | 13,508 |
| | $34,524 | $47,155 |
| Cemetery property: | | |
| Undeveloped land | $1,184,710 | $1,186,861 |
| Developed lots, lawn crypts, mausoleum spaces, cremation niches, and cremation memorialization property | 592,225 | 566,154 |
| | $1,776,935 | $1,753,015 |
| Property and equipment: | | |
| Land | $595,096 | $591,407 |
| Buildings and improvements | 1,879,553 | 1,834,403 |
| Operating equipment | 549,879 | 530,195 |
| Leasehold improvements | 33,900 | 52,121 |
| Capital leases | 234,411 | 220,784 |
| | 3,292,839 | 3,228,910 |
| Less: Accumulated depreciation | (1,328,262 ) | (1,253,867 ) |
| Less: Accumulated amortization of capital leases | (136,990 ) | (128,321 ) |
| | $1,827,587 | $1,846,722 |
| Deferred charges and other assets: | | |
| Intangible assets, net | $368,065 | $370,005 |
| Restricted cash | 4,542 | 3,907 |
| Deferred tax assets | 861 | 23,817 |
| Notes receivable, net of allowances of $11,334 | 9,598 | 10,229 |
| Cash surrender value of insurance policies | 119,819 | 108,726 |
| Other | 64,635 | 65,694 |
| | $567,520 | $582,378 |

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| Accounts payable and accrued liabilities: | | |
| Accounts payable | $155,802 | $140,019 |
| Accrued benefits | 88,392 | 86,908 |
| Accrued interest | 27,991 | 28,673 |
| Accrued property taxes | 12,883 | 11,594 |
| Self-insurance reserves | 77,993 | 76,611 |
| Bank overdraft | 20,927 | 21,808 |
| Other accrued liabilities | 55,948 | 57,203 |
| | $439,936 | $422,816 |
| Other liabilities: | | |
| Accrued pension | $26,630 | $28,582 |
| Deferred compensation | 105,013 | 92,199 |
| Customer refund obligation reserve | 52,068 | 55,153 |
| Tax liability | 235,625 | 234,176 |
| Payable to perpetual care fund | 77,148 | 71,133 |
| Other | 13,838 | 15,704 |
| | $510,322 | $496,947 |

Revenue and Costs and Expenses

The detail of certain income statement accounts is as follows for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Property and merchandise revenue: | | | |
| Funeral | $611,441 | $608,335 | $616,992 |
| Cemetery | 912,788 | 849,255 | 816,980 |
| Total property and merchandise revenue | 1,524,229 | 1,457,590 | 1,433,972 |
| Services revenue: | | | |
| Funeral | 1,126,474 | 1,146,124 | 1,167,385 |
| Cemetery | 219,044 | 217,462 | 222,834 |
| Total services revenue | 1,345,518 | 1,363,586 | 1,390,219 |
| Other revenue | 161,390 | 164,865 | 169,820 |
| Total revenue | $3,031,137 | $2,986,041 | $2,994,011 |
| Property and merchandise costs and expenses: | | | |
| Funeral | $287,272 | $290,574 | $292,031 |
| Cemetery | 489,326 | 458,023 | 485,291 |
| Total cost of property and merchandise | 776,598 | 748,597 | 777,322 |
| Services costs and expenses: | | | |
| Funeral | 627,099 | 624,294 | 630,357 |
| Cemetery | 104,570 | 103,197 | 70,439 |
| Total cost of services | 731,669 | 727,491 | 700,796 |
| Overhead and other expenses | 846,436 | 835,364 | 840,208 |
| Total cost and expenses | $2,354,703 | $2,311,452 | $2,318,326 |

Certain Non-Cash Investing and Financing Transactions

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Net change in capital expenditure accrual | $(1,435 ) | $5,571 | $1,022 |
| Options exercised by attestation | $— | $122 | $761 |
| Shares repurchased | $— | $(122 ) | $(761 ) |
| Non-cash acquisition of capital leases | $41,609 | $55,941 | $35,422 |

17. Earnings Per Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing Net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in our earnings.

A reconciliation of the numerators and denominators of basic and diluted EPS for the three years ended December 31 is presented below:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands, except per share amounts) | | |
| Amounts attributable to common stockholders: | | | |
| Income from continuing operations — basic | $177,038 | $234,162 | $170,283 |
| After tax interest on convertible debt | 43 | 50 | 51 |
| Income from continuing operations — diluted | $177,081 | $234,212 | $170,334 |
| (Loss) income from discontinued operations, net of tax | $— | $(390 ) | $2,186 |
| Net income — basic | $177,038 | $233,772 | $172,469 |
| After tax interest on convertible debt | 43 | 50 | 51 |
| Net income — diluted | $177,081 | $233,822 | $172,520 |
| Weighted average shares: | | | |
| Weighted average shares — basic | 193,086 | 200,356 | 210,741 |
| Stock options | 2,823 | 3,973 | 3,338 |
| Restricted share units | 12 | — | — |
| Convertible debt | 121 | 121 | 121 |
| Weighted average shares — diluted | 196,042 | 204,450 | 214,200 |
| Amounts attributable to common stockholders: | | | |
| Income from continuing operations per share: | | | |
| Basic | $0.92 | $1.17 | $0.81 |
| Diluted | $0.90 | $1.14 | $0.80 |
| Income from discontinued operations per share: | | | |
| Basic | $— | $— | $0.01 |
| Diluted | $— | $— | $0.01 |
| Net income per share: | | | |
| Basic | $0.92 | $1.17 | $0.82 |
| Diluted | $0.90 | $1.14 | $0.81 |

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Antidilutive options | 982 | 3 | 1,491 |

18. Acquisitions

We spent $72.9 million, $68.9 million, and $25.7 million for several smaller, tuck-in acquisitions for the three years ended December 31, 2016, 2015, and 2014, respectively. These amounts include the use of $3.7 million, $27.7 million, and $10.4 million in 1031 exchange funds for each year, respectively.

SCI Direct

During 2014, we acquired the remaining 10% of the outstanding shares of The Neptune Society Inc. (Neptune) increasing our ownership from 90% to 100%.

19. 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 income statement line item (Losses) gains on divestitures and impairment charges, net, which consist of the following for the years ended December 31:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Gains on divestitures, net | $7,829 | $13,363 | $122,535 |
| Impairment losses | (34,648 ) | (6,841 ) | (5,922 ) |
| (Losses) gains on divestitures and impairment charges, net | $(26,819) | $6,522 | $116,613 |

20. Quarterly Financial Data (Unaudited)

Quarterly financial data for 2016 and 2015 is as follows:

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | |
| 2016 | | | | |
| Revenue | $749,219 | $751,398 | $721,467 | $809,053 |
| Costs and expenses | $(586,296) | $(589,409) | $(580,722) | $(598,276) |
| Gross profit | $162,923 | $161,989 | $140,745 | $210,777 |
| Operating income | $123,672 | $94,498 | $114,386 | $179,329 |
| Income from continuing operations before income taxes[(1)] | $79,767 | $32,639 | $74,963 | $139,289 |
| Provision for income taxes | $(32,313 ) | $(16,746 ) | $(27,422 ) | $(72,872 ) |
| Net income | $47,454 | $15,893 | $47,541 | $66,417 |
| Net (income) loss attributable to noncontrolling interests | $(9 ) | $(273 ) | $186 | $(171 ) |
| Net income attributable to common stockholders | $47,445 | $15,620 | $47,727 | $66,246 |
| Net income attributable to common stockholders per share[(2)]: | | | | |
| Basic — EPS | $0.24 | $0.08 | $0.25 | $0.35 |
| Diluted — EPS | $0.24 | $0.08 | $0.24 | $0.34 |
| 2015 | | | | |
| Revenue | $748,089 | $754,219 | $714,453 | $769,280 |
| Costs and expenses | $(569,748) | $(587,452) | $(572,774) | $(581,478) |
| Gross profit | $178,341 | $166,767 | $141,679 | $187,802 |
| Operating income | $141,115 | $127,580 | $124,548 | $157,055 |
| Income from continuing operations before income taxes[(1)] | $98,118 | $84,489 | $74,045 | $113,699 |
| Provision for income taxes | $(36,653 ) | $(31,007 ) | $(26,118 ) | $(41,249 ) |
| Net income from continuing operations | $61,465 | $53,482 | $47,927 | $72,450 |
| Net loss from discontinued operations, net of tax | $— | $(390 ) | $— | $— |
| Net income | $61,465 | $53,092 | $47,927 | $72,450 |
| Net income attributable to noncontrolling interests | $(90 ) | $(497 ) | $(479 ) | $(96 ) |
| Net income attributable to common stockholders | $61,375 | $52,595 | $47,448 | $72,354 |
| Net income attributable to common stockholders per share[(2)]: | | | | |
| Basic — EPS | $0.30 | $0.26 | $0.24 | $0.37 |
| Diluted — EPS | $0.30 | $0.25 | $0.23 | $0.36 |

(1) Includes (Losses) gains on divestitures and impairment charges, net, as described in Note 19.

(2) Net income per share is computed independently for each of the quarters presented. Therefore, the sum of the quarters' net income per share may not equal the total computed for the year.

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SERVICE CORPORATION INTERNATIONAL
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
Three Years Ended December 31, 2016

| Description | Balance at Beginning of Period | Charged (Credited) to Costs and Expenses | Charged (Credited) to Other Accounts(1) | Write-Offs(2) | Balance at End of Period |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Current provision: | | | | | |
| Allowance for doubtful accounts: | | | | | |
| Year Ended December 31, 2016 | $5,496 | $10,776 | $ 66,808 | $ (79,685 ) | $3,395 |
| Year Ended December 31, 2015 | $8,546 | $6,083 | $ 63,964 | $ (73,097 ) | $5,496 |
| Year Ended December 31, 2014 | $11,637 | $7,376 | $ 55,573 | $ (66,040 ) | $8,546 |
| Due After One Year: | | | | | |
| Allowance for doubtful accounts: | | | | | |
| Year Ended December 31, 2016 | $11,334 | $— | $ — | $ — | $11,334 |
| Year Ended December 31, 2015 | $11,259 | $— | $ 75 | $ — | $11,334 |
| Year Ended December 31, 2014 | $10,986 | $— | $ 273 | $ — | $11,259 |
| Preneed Funeral and Preneed Cemetery | | | | | |
| Asset allowance for cancellation: | | | | | |
| Year Ended December 31, 2016 | $105,773 | $1,411 | $ 6,216 | $ (8,660 ) | $104,740 |
| Year Ended December 31, 2015 | $107,040 | $5,016 | $ (6,283 ) | $ — | $105,773 |
| Year Ended December 31, 2014 | $106,793 | $2,950 | $ (2,703 ) | $ — | $107,040 |
| Deferred Preneed Funeral and Cemetery | | | | | |
| Revenue allowance for cancellation: | | | | | |
| Year Ended December 31, 2016 | $(121,548) | $— | $ 4,635 | $ — | $(116,913) |
| Year Ended December 31, 2015 | $(125,030) | $— | $ 3,482 | $ — | $(121,548) |
| Year Ended December 31, 2014 | $(149,288) | $— | $ 24,258 | $ — | $(125,030) |
| Deferred tax valuation allowance: | | | | | |
| Year Ended December 31, 2016 | $126,654 | $6,336 | $ (490 ) | $ — | $132,500 |
| Year Ended December 31, 2015 | $134,201 | $(5,988 ) | $ (1,559 ) | $ — | $126,654 |
| Year Ended December 31, 2014 | $114,719 | $21,285 | $ (1,803 ) | $ — | $134,201 |

(1) Primarily relates to acquisitions and dispositions of operations.
(2) Uncollected receivables written off, net of recoveries.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a)(1)-(2) Financial Statements and Schedule:

The financial statements and schedule are listed in the accompanying Index to Financial Statements and Related Schedule on page 3 of this report.

(3) Exhibits:

The exhibits listed on the accompanying Exhibit Index on page 61 are filed as part of this report.

(b) Included in (a) above.

(c) Included in (a) above.



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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, Service Corporation International, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SERVICE CORPORATION INTERNATIONAL

By: /s/ GREGORY T. SANGALIS
(Gregory T. Sangalis,
Senior Vice President, General
Counsel, and Secretary)

Dated: February 21, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ THOMAS L. RYAN* (Thomas L. Ryan) | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | February 21, 2017 |
| /s/ ERIC D. TANZBERGER* (Eric D. Tanzberger) | Senior Vice President, Chief Financial Officer(Principal Financial Officer) | February 21, 2017 |
| /s/ TAMMY R. MOORE* (Tammy R. Moore) | Vice President and Corporate Controller (Principal Accounting Officer) | February 21, 2017 |
| /s/ R. L. WALTRIP* (R. L. Waltrip) | Founder and Chairman Emeritus, Director | February 21, 2017 |
| /s/ ANTHONY L. COELHO* (Anthony L. Coelho) | Lead Director | February 21, 2017 |
| /s/ ALAN R. BUCKWALTER, III* (Alan R. Buckwalter, III) | Director | February 21, 2017 |
| /s/ VICTOR L. LUND* (Victor L. Lund) | Director | February 21, 2017 |
| /s/ JOHN W. MECOM, JR.* | Director | February 21, 2017 |

| | | |
|---|---|---|
| (John W. Mecom, Jr.) | | |
| /s/ CLIFTON H. MORRIS, JR.* (Clifton H. Morris, Jr.) | Director | February 21, 2017 |
| /s/ ELLEN OCHOA* (Ellen Ochoa) | Director | February 21, 2017 |
| /s/ W. BLAIR WALTRIP* (W. Blair Waltrip) | Director | February 21, 2017 |
| /s/ MARCUS A. WATTS* (Marcus A. Watts) | Director | February 21, 2017 |
| /s/ EDWARD E. WILLIAMS* (Edward E. Williams) | Director | February 21, 2017 |
| *By /s/ GREGORY T. SANGALIS (Gregory T. Sangalis, as Attorney-In-Fact for each of the Persons indicated) | | February 21, 2017 |

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EXHIBIT INDEX
PURSUANT TO ITEM 601 OF REG. S-K

| Exhibit Number | | Description |
| --- | --- | --- |
| 23.1 | — | Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP). |
| 24.1 | — | Powers of Attorney. (Incorporated by reference to Exhibit 24.1 to Form 10-K for the fiscal year ended December 31, 2016.) |
| 31.1 | — | Certification of Thomas L. Ryan as Principal Executive Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | — | Certification of Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | — | Certification of Periodic Financial Reports by Thomas L. Ryan as Principal Executive Officer in satisfaction of Section 906 of the Sarbanes- Oxley Act of 2002. |
| 32.2 | — | Certification of Periodic Financial Reports by Eric D. Tanzberger as Principal Financial Officer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | — | Interactive data file. |

Pursuant to Item 601(b)(4) of Regulation S-K, there are not filed as exhibits to this report certain instruments with respect to long-term debt under which the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish a copy of any such instrument to the Commission upon request.