

SERVICE CORP INTERNATIONAL

Form 10-K

February 20, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 1-6402-1

Service Corporation International

(Exact name of registrant as specified in its charter)

Texas 74-1488375

(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification no.)

1929 Allen Parkway 77019

Houston, Texas (Zip code)

(Address of principal executive offices)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
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Common Stock (\$1 par value)	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
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<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in 12b-2 of the act). Yes No

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The aggregate market value of the common stock held by non-affiliates of the registrant (assuming that the registrant's only affiliates are its executive officers and directors) was \$6,700,898,710 based upon a closing market price of \$35.79 on June 30, 2018 of a share of common stock as reported on the New York Stock Exchange.

The number of shares outstanding of the registrant's common stock as of February 15, 2019 was 181,303,103 (net of treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement in connection with its 2019 Annual Meeting of Stockholders (Part III).

SERVICE CORPORATION INTERNATIONAL
INDEX

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>5</u>
<u>Item 1A. Risk Factors</u>	<u>10</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>16</u>
<u>Item 2. Properties</u>	<u>16</u>
<u>Item 3. Legal Proceedings</u>	<u>16</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>16</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>18</u>
<u>Item 6. Selected Financial Data</u>	<u>19</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>37</u>
<u>Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>84</u>
<u>Item 9A. Controls and Procedures</u>	<u>84</u>
<u>Item 9B. Other Information</u>	<u>84</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers, and Corporate Governance</u>	<u>85</u>
<u>Item 11. Executive Compensation</u>	<u>85</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>85</u>
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	<u>85</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>85</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>85</u>
<u>Item 16. Form 10-K Summary</u>	<u>87</u>
<u>Signatures</u>	<u>88</u>

GLOSSARY

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

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

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

Care Trust Corpus — The deposits and net realized capital gains and losses included in a perpetual care trust that cannot be withdrawn. In certain states, some or all of the net realized capital gains can be distributed, so they are not included in the corpus.

Cemetery Merchandise and Services — Stone and bronze memorials, markers, outer burial containers, floral placement, graveside services, merchandise installations, urns, and interments.

Cemetery Perpetual Care Trust or Endowment Care Fund (ECF) — A trust fund established for the purpose of maintaining cemetery grounds and property into perpetuity. For these trusts, the corpus remains in the trust in perpetuity and the investment earnings or elected distributions are withdrawn regularly and are intended to defray our expenses incurred to maintain the cemetery. In certain states, some or all of the net realized capital gains can also be distributed. Additionally, some states allow a total return distribution that may contain elements of income, capital appreciation, and principal.

Cemetery Property — Developed lots, lawn crypts, mausoleum spaces, niches, and cremation memorialization property items (constructed and ready to accept interments) and undeveloped land we intend to develop for the sale of interment rights. Includes the construction-in-progress balance during the pre-construction and construction phases of projects creating new developed property items.

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

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

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

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

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

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

Funeral Merchandise and Services — Merchandise such as burial caskets and related accessories, outer burial containers, urns and other cremation receptacles, casket and cremation memorialization products, flowers, and professional services relating to funerals including arranging and directing services, use of funeral facilities and motor vehicles, removal, preparation, embalming, cremations, memorialization, visitations, travel protection, and catering.

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

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

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

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

Lawn Crypt — Cemetery property in which an underground outer burial receptacle constructed of concrete and reinforced steel has been pre-installed in predetermined designated areas.

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

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

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

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

Outer Burial Container — A reinforced container intended to inhibit the subsidence of the earth and house the casket after it is placed in the ground, also known as a burial vault.

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

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

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

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

Preneed Receivables, Net — After adoption of "Revenue from Contracts with Customers" on January 1, 2018, represents amounts due from customers when we have delivered the merchandise, performed the service, or transferred control of the cemetery property interment rights prior to a death occurring or amounts due from customers on irrevocable preneed contracts. Prior to adoption, represents all amounts due from customers on preneed contracts.

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

Travel Protection — A product that provides shipment of remains to the servicing funeral home or cemetery of choice if the purchaser passes away outside of a certain radius of their residence, without any additional expense to the family.

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

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

PART I

Item 1. Business.

General

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries unequalled in geographic scale and reach. At December 31, 2018, we operated 1,481 funeral service locations and 481 cemeteries (including 286 funeral service/cemetery combination locations), which are geographically diversified across 44 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. We are well known for our Dignity Memorial® brand, North America's first transcontinental brand of deathcare products and services. Our other brands include Dignity Planning,™ National Cremation Society®, Advantage® Funeral and Cremation Services, Funeraria del Angel,™ Making Everlasting Memories®, Neptune Society™ and Trident Society.™ 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.

History

We were incorporated in Texas in July of 1962. Our original business plan was based on efficiencies of scale, specifically reducing overhead costs by sharing resources such as preparation services, back office administration support, transportation, and personnel among funeral service locations in a business "cluster." After proving the plan's effectiveness in Houston in the early 1960s, we set out to apply this operating strategy through the acquisition of deathcare businesses in other markets over the next three decades. Beginning in 1993, we expanded beyond North America, acquiring major deathcare companies in Australia, the United Kingdom, and France, plus smaller holdings in other European countries and South America.

During the mid to late 1990s, acquisitions of deathcare facilities became extremely competitive, resulting in increased prices for acquisitions and substantially reduced returns on invested capital. In 1999, we significantly reduced our level of acquisition activity and over the next several years implemented various initiatives to pay down debt, increase cash flow, reduce overhead costs, increase efficiency, and leverage our scale. We divested our international businesses and many North American funeral service locations and cemeteries that were either underperforming or did not fit within our long-term strategy. At the same time, we began to capitalize on the strength of our network by introducing to North America the first transcontinental brand of deathcare services and products — Dignity Memorial® (see www.dignitymemorial.com). Information contained on our website is not part of this report.

In late 2006, having arrived at a position of significant financial strength and improved operating efficiency, we acquired the then second largest company in the North American deathcare industry, Alderwoods Group. In early 2010, we acquired the then fifth largest company in the North American deathcare industry, Keystone North America. In June of 2011, we acquired 70% of the outstanding shares of The Neptune Society, Inc. (Neptune), which is the nation's largest direct cremation organization, now known as SCI Direct. Subsequently, in 2013 and 2014, we acquired the remaining 30% of the outstanding shares of Neptune. In December 2013, we purchased Stewart Enterprises, Inc. (Stewart), the then second largest operator of funeral service locations and cemeteries in North America.

Funeral and Cemetery Operations

Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and other related businesses. See Note 12 in Part II, Item 8. Financial Statements and Supplementary Data, for financial information about our business segments and geographic areas.

We have the largest number of combination locations in North America. Funeral service/cemetery combination locations are those businesses in which a funeral service location is physically located within or adjoining a cemetery that we own. Combination locations allow certain facility, personnel, and equipment costs to be shared between the funeral service location and cemetery locations. Such combination facilities typically can be more cost competitive and have higher gross margins than if the funeral and cemetery operations are operated separately. Combination locations also create synergies between funeral and cemetery preneed sales force personnel and give families added convenience to purchase both funeral and cemetery merchandise and services at a single location.

Funeral service locations provide all professional services related to funerals and cremations, including the use of funeral home 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, travel protection, and other ancillary merchandise, is sold at funeral service locations.

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

We also sell cemetery property interment rights and funeral and cemetery merchandise and services whereby a customer contractually agrees to the terms of certain products and services to be delivered and performed in the future. We define these sales as preneed sales. As a result of such preneed sales, our preneed backlog of unfulfilled funeral and cemetery contracts was \$11.1 billion and \$10.7 billion at December 31, 2018 and 2017, respectively.

The following table at December 31, 2018 provides the number of our funeral service locations and cemeteries by country, and by state, territory, or province:

Country, State/Territory/Province	Number of Funeral Service Locations	Number of Cemeteries	Total
United States			
Alabama	33	13	46
Arizona	33	11	44
Arkansas	12	3	15
California	159	38	197
Colorado	30	11	41
Connecticut	20	—	20
Delaware	—	1	1
District of Columbia	1	—	1
Florida	139	61	200
Georgia	34	18	52
Hawaii	7	3	10
Idaho	6	1	7
Illinois	38	24	62
Indiana	52	13	65
Iowa	5	2	7
Kansas	8	5	13
Kentucky	11	5	16
Louisiana	24	10	34
Maine	11	—	11
Maryland	16	13	29
Massachusetts	27	—	27
Michigan	35	—	35
Minnesota	11	2	13
Mississippi	12	3	15
Missouri	25	10	35
Nebraska	9	2	11
Nevada	15	6	21
New Hampshire	6	—	6
New Jersey	21	—	21
New Mexico	1	—	1
New York	64	—	64
North Carolina	54	17	71
Ohio	36	15	51
Oklahoma	13	7	20
Oregon	14	4	18
Pennsylvania	22	16	38
Puerto Rico	5	9	14
Rhode Island	4	—	4

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South Carolina	12	9	21
Tennessee	40	18	58
Texas	171	62	233
Utah	4	3	7
Virginia	36	24	60
Washington	39	15	54
West Virginia	8	10	18
Wisconsin	—	7	7
Canada			
Alberta	9	—	9

6

British Columbia	36	7	43
Manitoba	4	3	7
New Brunswick	5	—	5
Nova Scotia	12	—	12
Ontario	39	—	39
Quebec	40	—	40
Saskatchewan	13	—	13
Total ⁽¹⁾	1,481	481	1,962

(1) Includes businesses held for sale at December 31, 2018.

We believe we have satisfactory title to the properties owned and used in our business, subject to various liens, encumbrances, and easements that are incidental to ownership rights and uses and do not materially detract from the value of the property. At December 31, 2018, we owned approximately 87% of the real estate and buildings used at our facilities, and the remainder of the facilities were leased under both capital and operating leases. At December 31, 2018, our 481 cemeteries contained a total of approximately 35,504 acres, of which approximately 66% was developed.

Our corporate headquarters are located at 1929 Allen Parkway, Houston, Texas 77019. The property consists of approximately 160,000 square feet of office space and 185,000 square feet of parking space on approximately seven acres. We also lease approximately 35,000 square feet of office space in Houston, Texas, which we utilize for corporate activities. We own a building in Jefferson, Louisiana with approximately 96,200 square feet of office space that we use, in part, for corporate activities.

A map of our locations in North America is presented below:

Competition

Although there are several public companies that own funeral service locations and cemeteries, the majority of deathcare businesses in North America are locally-owned, independent operations. We estimate that our funeral and cemetery market share in North America is approximately 15%-16% based on estimated total industry revenue. The position of a single funeral service location or cemetery in any community is a function of the name, reputation, and location of that funeral service location or cemetery, although competitive pricing, professional service and attention, and well-maintained locations are also important.

We believe we have an unparalleled network of funeral service locations and cemeteries that offer high quality products and services at prices that are competitive with local competing funeral service locations, cemeteries, and retail locations. Within this network, the funeral service locations and cemeteries operate under various names as most operations were acquired

as existing businesses. We have co-branded the majority of our operations under the name Dignity Memorial®. We believe our branding strategy gives us a strategic advantage and identity in the industry. While this branding process is intended to emphasize our seamless national network of funeral service locations and cemeteries, the original names associated with acquired operations, and their inherent goodwill and heritage, generally remain the same. For example, Geo. H. Lewis & Sons Funeral Directors is now Geo. H. Lewis & Sons Funeral Directors, a Dignity Memorial® provider.

Strategies for Growth

We believe we are well positioned for long-term profitable growth. We are the largest consolidated deathcare company in North America and are poised to benefit from the aging of the American population. The demographic landscape is a factor driving our company strategy. The average age of our preneed cemetery consumer is late fifties to early sixties. The average age of our preneed funeral consumer is late sixties to early seventies. And the average age of our atneed consumer is late seventies to early eighties. We know that the Baby Boomers are already impacting our business today through the growth in our preneed cemetery sales programs. We anticipate seeing a similar impact on our preneed funeral results, and then ultimately on our atneed results.

We have three core strategies designed to grow the company and enhance shareholder value: 1) grow revenue, 2) leverage our unparalleled scale, and 3) deploy capital. These strategies are centered on the consumer and our competitive advantages.

Grow Revenue

Our first core strategy is to grow revenue by remaining relevant to the customer and growing our preneed sales. **Remaining Relevant to the Customer.** Remaining relevant to our customer is key to generating revenue growth in a changing customer environment. We are constantly evolving to meet the varying preferences and needs of our customers. In our funeral segment, we focus on memorialization services that will be meaningful to the customers, family members, and friends. We continue to offer contemporary product and service offerings. We also focus on the religious, ethnic, and cultural traditions important to our customers. Additionally, we continue to incorporate technology to aid in the visualization of our product and service offerings to ensure the selection process for the customer's experience is simple and transparent.

In our cemetery segment, we have created tiers within our cemetery product offerings to provide more choices for our customers. As with our funeral segment, we cater to the religious, ethnic, and cultural traditions important to our customers. We continue to develop innovative products such as recurring floral placements and customized cemetery property offerings.

Growing Preneed Sales. Our preneed sales program drives current year and future revenue growth in both segments of our business. We believe we have a unique competitive advantage in growing preneed sales due to our size and scale. Within the funeral segment, our preneed funeral program creates greater brand awareness, secures future market share, and diversifies our revenue stream. We leverage our scale through a highly trained preneed sales force of approximately 4,300 counselors who provide customers informed guidance about various service and merchandise options designed to fit the needs of today's consumer.

Within the cemetery segment, we offer a variety of property, merchandise, and service options designed to meet the needs of various religious, ethnic, and cultural preferences. Over the past three years, we have substantially increased our property options by implementing a tiering strategy that might offer as many as five unique choices for ground burial, mausoleum, or cremation memorialization. Our scale enables us to synchronize the construction of contemporary inventory with customer demand.

Leverage Our Unparalleled Scale

We leverage our unparalleled scale by developing our sales organization, using our scale to benefit our preneed backlog, as well as optimizing our network and deploying customer-facing technology. Our size and broad geographic network of businesses gives us a significant advantage in the industry.

Developing Our Sales Organization. Over the past several years, we have invested in the infrastructure and training of our sales organization. We continue to use and invest in technology to support our sales counselors. We have utilized a customer relationship management system (CRM) that has helped to increase sales production while managing costs. Our CRM system has enabled us to quickly respond to new leads, improving the efficiency and effectiveness of

our sales counselors. We believe that our scale allows us to operate, finance, and expand our sales organization in a manner that our competitors cannot afford to replicate.

Growing Our Preneed Backlog. With our \$11.1 billion backlog, we benefit from having access to well recognized financial partners in the industry. For our trust investments, we have access to preeminent money managers and lower fee structures, which we believe are low risk structures that will provide us with higher returns and lower costs of administration over time. We also enjoy favorable terms with our third-party insurance provider. These arrangements with third-party partners and the favorable terms we receive on our trust investments cannot be duplicated by the independent operator, and give us a competitive advantage in asset growth leading to enhanced profitability over time.

Optimizing Our Network and Deploying Customer-Facing Technology. We continue to drive operating discipline and leverage our scale through standardizing processes and capitalizing on new technologies to improve the customer experience.

We regularly examine our purchasing spend to look for opportunities to consolidate our supplier base, modify processes and policies for more efficient purchasing, and employ metrics to manage and improve supplier performance. Our advancements in technology are changing the way we present our product and service offerings to customers. Our atneed point of sale system, HMIS+, uses a digital platform and photographs to create a seamless presentation of our products and services. Our newly implemented preneed sales system, Beacon, provides customers with the convenience of a mobile digital presentation. We also continue to refresh our websites to provide a better mobile experience and enhanced search engine capability. These customer-facing applications have resulted in favorable customer satisfaction ratings and increased package sales.

Deploy Capital

Our third core strategy is to maximize capital deployment opportunities to the highest and best use in a disciplined and balanced manner. Our strong liquidity and robust cash flow generation enables us to continue our long-standing commitment to use capital deployment to grow our business and enhance shareholder value. Our priorities for capital deployment are: 1) investing in acquisitions and building new funeral service locations, 2) paying dividends, 3) repurchasing shares, and 4) managing debt.

Investing in Acquisitions and Building New Funeral Service Locations. We plan to use our capital to manage our footprint by focusing on strategic acquisitions and building new funeral homes where the expected returns are attractive and exceed our weighted average cost of capital. We target businesses with favorable customer dynamics and/or where we can achieve additional economies of scale. Within our funeral segment, we continue to pursue strategic acquisitions and to build new funeral service locations in areas that provide us with the potential for scale and in areas with the highest return customer categories and market traits. Within our cemetery segment, we plan to pursue strategic acquisitions to create more opportunities to sell to Baby Boomers through our customer-driven strategy. We believe our unparalleled business footprint and geographic diversity uniquely position us to benefit from the aging Baby Boomer population. We have a successful track record of integrating new businesses and achieving favorable returns on the capital deployed.

Paying Dividends. Our quarterly dividend rate has steadily grown from \$0.025 per common share in 2005 to \$0.17 per common share at the end of 2018. We target a payout ratio of 30% to 40% of earnings excluding special items and intend to grow our cash dividend commensurate with the growth in our business. While we intend to pay regular quarterly cash dividends for the foreseeable future, all future dividends are subject to limitations in our debt covenants and final determination by our Board of Directors each quarter upon review of our financial performance.

Repurchasing Shares. Absent opportunities for strategic acquisitions, we expect to continue to repurchase shares of our common stock in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. The volume and timing of our purchases is determined as we evaluate the opportunity to capture value for our shareholders. Since 2010, we have reduced the number of shares outstanding by 25%. In February 2018, our Board of Directors increased our repurchase authorization for up to \$400.0 million. The remaining dollar value of shares authorized to be purchased under the share repurchase program was \$192.5 million at December 31, 2018. Subsequent to December 31, 2018, we repurchased 193,395 shares for \$7.9 million at an average cost per share of \$40.70

Managing Debt. With a focus on maintaining liquidity and financial flexibility, we may seek to reduce our revolver borrowings or make open market debt repurchases when it is opportunistic to do so relative to other capital deployment opportunities to manage our near-term debt maturity profile.

Associates

At December 31, 2018, we employed 16,129 individuals on a full-time basis and 7,953 individuals on a part-time basis. Of the full-time associates, 13,827 were employed in the funeral and cemetery operations and 2,302 were employed in corporate or other overhead activities and services. All eligible associates in the United States who so elect are covered by our group health and life insurance plans. Associates covered by a collective bargaining agreement are typically covered by union health plans and are not eligible to participate in our health insurance plan. At December 31, 2018 and 2017, there were 9,362 and 8,154 associates, respectively, who had elected to participate in our group health insurance plans. Eligible associates in the United States are covered by retirement plans of SCI or various subsidiaries, while international associates are covered by other SCI (or SCI subsidiary) defined contribution

or government-mandated benefit plans. Approximately 2.5% of our associates are represented by unions. Although labor disputes occur from time to time, relations with associates are generally considered favorable.

Regulation

Our funeral operations are regulated by the Federal Trade Commission (the “FTC”) under the FTC’s Trade Regulation Rule on Funeral Industry Practices (the “Funeral Rule”), which went into effect in 1984. The Funeral Rule defines certain acts or practices as unfair or deceptive and contains certain requirements to prevent these acts or practices. The preventive measures require a funeral provider to give consumers accurate, itemized price information and various other disclosures about funeral merchandise and services and prohibit a funeral provider from: 1) misrepresenting legal, crematory, and cemetery requirements; 2) embalming for a fee without permission; 3) requiring the purchase of a casket for direct cremation; and 4) requiring consumers to buy certain funeral merchandise or services as a condition for furnishing other funeral merchandise or services.

Our operations are also subject to regulation, supervision, and licensing under numerous federal, state, and local laws and regulations as well as Canadian and provincial laws and regulations. For example, state laws impose licensing requirements for funeral service locations and funeral directors and regulate preneed sales including our preneed trust activities. Our facilities are subject to environmental, health, and safety regulations. We take various measures to comply with the Funeral Rule and all laws and regulations. For example, we have established and maintain policies, procedures, and business practices; we engage in training of our personnel; and we carry out ongoing reviews of our compliance efforts. We believe that we are in substantial compliance with the Funeral Rule and all laws and regulations.

Federal, state, and local legislative bodies and regulatory agencies (including Canadian legislative bodies and agencies) frequently propose new laws and regulations, some of which could have a material effect on our operations and on the deathcare industry in general. We cannot accurately predict the outcome of any proposed legislation or regulation or the effect that any such legislation or regulation might have on us.

Other

We make available free of charge, on or through our website, our annual, quarterly, and current reports and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission (SEC). Our website is <http://www.sci-corp.com> and our telephone number is (713) 522-5141. The SEC also maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically.

Each of our Board of Directors' standing committee charters, our Corporate Governance Guidelines, our Code of Ethics for Board Members, and our Code of Conduct for Officers and Employees are available, free of charge, through our website or, upon request, in print. We will post on our internet website all waivers to or amendments of our Code of Conduct for Officers and Employees, which are required to be disclosed by applicable law and rules of the New York Stock Exchange listing standards. Information contained on our website is not part of this report.

Item 1A. Risk Factors.

Cautionary Statement on Forward-Looking Statements

The statements in this Form 10-K that are not historical facts are forward-looking statements made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. These statements may be accompanied by words such as “believe”, “estimate”, “project”, “expect”, “anticipate”, or “predict” that convey the uncertainty of future events or outcomes. These statements are based on assumptions that we believe are reasonable; however, many important factors could cause our actual consolidated results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by, or on behalf of, the Company. These factors are discussed below. We assume no obligation and make no undertaking to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by the Company, whether as a result of new information, future events, or otherwise.

Our affiliated trust funds own investments in securities, which are affected by market conditions that are beyond our control.

In connection with our preneed merchandise and service sales and our cemetery property sales, most affiliated trust funds own investments in equity securities, fixed income securities, commingled funds, money market funds, and mutual funds. The fair value of these investments and our earnings and investment gains and losses on these securities and funds are affected by financial market conditions that are beyond our control.

The following table summarizes our investment returns (realized and unrealized), excluding certain fees, on our trust funds:

	Years Ended		
	December 31,		
	2018	2017	2016
Preneed funeral merchandise and service trust funds	(4.9)%	16.1%	7.1%
Preneed cemetery merchandise and service trust funds	(5.2)%	16.8%	7.2%
Cemetery perpetual care trust funds	(3.0)%	9.5%	9.1%

Generally, earnings or gains and losses on our trust investments are recognized and we withdraw cash when the underlying merchandise is delivered, service is performed, or upon contract cancellation. Our cemetery perpetual care trusts recognize earnings, and in certain states, capital gains and losses or fixed percentage distributions. We withdraw allowable cash when we incur qualifying cemetery maintenance costs.

If the investments in our trust funds experience significant declines in 2019 or subsequent years, there could be insufficient funds in the trusts to cover the costs of delivering merchandise and services or maintaining cemeteries in the future. We may be required to cover any such shortfall with cash flows from operations, which could have a material adverse effect on our

financial condition, results of operations, or cash flows. For more information related to our trust investments, see Note 3 in Part II, Item 8. Financial Statements and Supplementary Data.

If the fair value of these trusts, plus any other amount due to us upon delivery of the associated contracts, were to decline below the estimated costs to deliver the underlying products and services, we would record a charge to earnings to record a liability for the expected losses on the delivery of the associated contracts. As of December 31, 2018, no such charge was required.

We may be required to replenish our affiliated funeral and cemetery trust funds to meet minimum funding requirements, which would have a negative effect on our earnings and cash flow.

In certain states and provinces, we have withdrawn allowable distributable earnings, including unrealized gains, prior to the maturity or cancellation of the related contract. Additionally, some states have laws that either require replenishment of investment losses under certain circumstances or impose various restrictions on withdrawals of future earnings when trust fund values drop below certain prescribed amounts. In the event of market declines that result in a severe decrease in trust fund value, we may be required to replenish amounts in the respective trusts in some future period. As of December 31, 2018, we had unrealized losses of \$31.2 million in the various trusts within these states. See Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial and Contingent Commitments in Part II, Item 7.

Our ability to execute our strategic plan depends on many factors, some of which are beyond our control.

Our strategic plan is focused on growing our revenue, leveraging our scale, and deploying our capital. Many of the factors that impact our ability to execute our strategic plan, such as the number of deaths and general economic conditions, are beyond our control. Changes in operating conditions, such as supply disruptions and labor disputes, could negatively impact our operations. Our inability to leverage scale to drive cost savings, productivity improvements, preneed production, or earnings growth anticipated by management could affect our financial performance. Our inability to identify acquisition candidates and to complete acquisitions, divestitures, or strategic alliances as planned or to realize expected synergies and strategic benefits could impact our financial performance. Our inability to deploy capital to maximize shareholder value could impact our financial performance. We cannot give assurance that we will be able to execute any or all of our strategic plan. Failure to execute any or all of our strategic plan could have a material adverse effect on our financial condition, results of operations, and cash flows.

Our credit agreements contain covenants that may prevent us from engaging in certain transactions.

Our Bank Credit Facility contains, among other things, various affirmative and negative covenants that may prevent us from engaging in certain transactions that might otherwise be considered beneficial to us. The covenants limit, among other things, our and our subsidiaries' ability to:

- Incur additional indebtedness (including guarantee obligations);
- Create liens on assets;
- Engage in certain transactions with affiliates;
- Enter into sale-leaseback transactions;
- Engage in mergers, liquidations, and dissolutions;
- Sell assets;
- Pay dividends, distributions, and other payments in respect of our capital stock;
- Purchase our capital stock in the open market;
- Make investments, loans, or advances;
- Repay indebtedness or amend the agreements relating thereto;
- Create restrictions on our ability to receive distributions from subsidiaries; and
- Change our lines of business.

Our Bank Credit Facility requires us to maintain certain leverage and interest coverage ratios. These covenants and coverage ratios may require us to take actions to reduce our indebtedness or act in a manner contrary to our strategic plan and business objectives. In addition, events beyond our control, including changes in general economic and business conditions, may affect our ability to satisfy these covenants. A breach of any of these covenants could result in a default of our indebtedness. If an event of default under our Bank Credit Facility occurs, and such event of default continues unremedied for 30 days after we receive notice thereof, the lenders party thereto could elect to declare all

amounts outstanding thereunder, together with accrued interest, immediately due and payable. Any such declaration would also result in an event of default under our Senior Indenture governing our various senior notes. For additional information, see Financial Condition, Liquidity and Capital Resources in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 6 in Part II, Item 8. Financial Statements and Supplementary Data.

If we lost the ability to use surety bonding to support our preneed activities, we may be required to make material cash payments to fund certain trust funds.

We have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been issued to support our preneed funeral and cemetery activities. In the event all of the surety companies canceled or did not renew our surety bonds, which generally have twelve-month renewal periods, we would be required to either obtain replacement coverage or fund approximately \$161.9 million into state-mandated trust accounts as of December 31, 2018. There can be no assurance that we would be able to obtain replacement coverage at a similar cost or at all. The funeral and cemetery industry is competitive.

In North America, the funeral and cemetery industry is characterized by a large number of locally-owned, independent operations. To compete successfully, our funeral service locations and cemeteries must maintain good reputations and high professional standards, as well as offer attractive products and services at competitive prices. In addition, we must market ourselves in such a manner as to distinguish us from our competitors. We have historically experienced price competition from independent funeral service location and cemetery operators, monument dealers, casket retailers, low-cost funeral providers, and other nontraditional providers of merchandise and services. If we are unable to successfully compete, our financial condition, results of operations, and cash flows could be materially adversely affected.

Increasing death benefits related to preneed contracts funded through life insurance or annuity contracts may not cover future increases in the cost of providing a price-guaranteed service.

We sell price-guaranteed preneed contracts through various programs providing for future services at prices prevailing when the agreements are signed. For preneed contracts funded through life insurance or annuity contracts, we receive in cash a general agency commission from a third-party insurance company that typically averages approximately 25% of the total sale. Additionally, we receive an increasing death benefit associated with the contract of approximately 1% per year in cash at the time the service is performed. There is no guarantee that the increasing death benefit will cover future increases in the cost of providing a price-guaranteed service, and any such excess cost could be materially adverse to our financial condition, results of operations, and cash flows.

The financial condition of third-party insurance companies that fund our preneed contracts may impact our future revenue.

Where permitted, customers may arrange their preneed contract by purchasing a life insurance or annuity policy from third-party insurance companies. The customer/policy holder assigns the policy benefits to us as payment for their preneed contract at the time of need. If the financial condition of the third-party insurance companies were to deteriorate materially because of market conditions or otherwise, there could be an adverse effect on our ability to collect all or part of the proceeds of the life insurance policy, including the annual increase in the death benefit, if we fulfill the preneed contract at the time of need. Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, and cash flows.

Unfavorable results of litigation could have a material adverse impact on our financial statements.

As discussed in Note 8 of Part II, Item 8. Financial Statements and Supplementary Data, we are subject to a variety of claims and lawsuits in the ordinary course of our business. Adverse outcomes in some or all of the pending cases may result in significant monetary damages or injunctive relief against us, as litigation and other claims are subject to inherent uncertainties. Any such adverse outcomes, in pending cases or other lawsuits that may arise in the future, could have a material adverse impact on our financial position, results of operations, and cash flows.

Unfavorable publicity could affect our reputation and business.

Since our operations relate to life events involving emotional stress for our client families, our business is dependent on customer trust and confidence. Unfavorable publicity about our business generally or in relation to any specific location could affect our reputation and customers' trust and confidence in our products and services, thereby having an adverse impact upon our sales and financial results.

If the number of deaths in our markets declines, our cash flows and revenue may decrease.

If the number of deaths in our markets declines, the number of funeral services and interments performed by us could decrease and our financial condition, results of operations, and cash flows could be materially adversely affected. Variations in the death rate and seasonality of deaths throughout each year may also cause revenue to fluctuate between quarters or years.

12

If we are not able to respond effectively to changing consumer preferences, our market share, revenue, and/or profitability could decrease.

Future market share, revenue, and profit will depend in part on our ability to anticipate, identify, and respond to changing consumer preferences. We may not correctly anticipate or identify trends in consumer preferences, or we may identify them later than our competitors do. In addition, any strategies we may implement to address these trends may prove incorrect or ineffective.

The continuing upward trend in the number of cremations performed in North America could result in lower revenue, operating profit, and cash flows.

There is a continuing upward trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. In our operations during 2018, 54.9% of the comparable services we performed were cremation cases compared to 53.5% and 52.5% performed in 2017 and 2016, respectively. Our average revenue for cremations is lower than that for traditional burials. If we are unable to continue to expand our cremation memorialization products and services, and cremations remain or increase as a significant percentage of our services, our financial condition, results of operations, and cash flows could be materially adversely affected. Our funeral and cemetery businesses are high fixed-cost businesses.

The majority of our operations are managed in groups called “markets”. Markets are geographical groups of funeral service locations and cemeteries that share common resources such as operating personnel, preparation services, clerical staff, motor vehicles, and preneed sales personnel. Personnel costs, the largest component of our operating expenses, are the cost components most beneficially affected by this grouping. We must incur many of these costs regardless of the number of services or interments performed. Because we cannot immediately decrease these costs when we experience lower sales volumes, a sales decline may cause our margin percentages to decline at a greater rate than the decline in revenue.

Regulation and compliance could have a material adverse impact on our financial results.

Our operations are subject to regulation, supervision, and licensing under numerous foreign, federal, state, and local laws, ordinances, and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery merchandise and services, and various other aspects of our business. For example, the funeral industry is regulated at the federal level by the FTC, which requires funeral service locations to take actions designed to protect consumers. Our facilities are also subject to stringent health, safety, and environmental regulations. Our pay practices, including wage and hour overtime pay, are subject to federal and state regulations. Violations of applicable laws could result in fines or sanctions against us.

Businesses in general are subject to the impact of regulation and major legislation, including health care reform. We may experience significant increases in costs as a result of business regulations and laws, which are beyond our control, including increases in the cost of health care. Although we seek to control increases in these costs, continued upward pressure on costs could reduce the profitability of our business.

In addition, from time to time, governments and agencies propose to amend or add regulations or reinterpret existing regulations, which could increase costs and decrease cash flows. For example, foreign, federal, state, local, and other regulatory agencies have considered and may enact additional legislation or regulations that could affect the deathcare industry. These include regulations that require more liberal refund and cancellation policies for preneed sales of products and services, limit or eliminate our ability to use surety bonding, require the escheatment of trust funds, increase trust requirements, require the deposit of funds or collateral to offset unrealized losses of trusts, and/or prohibit the common ownership of funeral service locations and cemeteries in the same market. If adopted by the regulatory authorities of the jurisdictions in which we operate, these and other possible proposals could have a material adverse effect on our financial condition, results of operations, and cash flows.

Compliance with laws, regulations, industry standards, and customs concerning burial procedures and the handling and care of human remains is critical to the continued success of our business and any operations we may acquire. We are continually monitoring and reviewing our operations in an effort to ensure that we are in compliance with these laws, regulations, and standards and, where appropriate, taking appropriate corrective action. However, litigation and regulatory proceedings regarding these issues could have a material adverse effect on our financial condition, results of operations, and cash flows.

Cemetery burial practice claims could have a material adverse impact on our financial results.

Our cemetery practices have evolved and improved over time. Most of our cemeteries have been operating for decades and, therefore, may have used practices and procedures that are outdated in comparison to today's standards. When cemetery disputes occur, we may be subjected to litigation and liability for improper burial practices, including 1) burial practices of a different era that are judged today in hindsight as being outdated and 2) alleged violations of our practices and procedures by one or more of our associates. In addition, since most of our cemeteries were acquired through various acquisitions, we may be subject to litigation and liability based upon actions or events that occurred before we acquired or managed the cemeteries. Claims or litigation based upon our cemetery burial practices could have a material adverse impact on our financial condition, results of operations, and cash flows.

We use a combination of insurance, self-insurance, and large deductibles in managing our exposure to certain inherent risks; therefore, we could be exposed to unexpected costs that could negatively affect our financial performance.

Our insurance coverage is subject to deductibles, self-insured retentions, limits of liability, and similar provisions that we believe are prudent based on our operations. Because we self-insure a significant portion of expected losses under our workers' compensation, auto, and general and professional liability insurance programs, unanticipated changes in any applicable actuarial assumptions, trends and interpretations, or management estimates underlying our recorded liabilities for these losses, including potential increases in costs, could result in materially different amounts of expense than expected under these programs. These unanticipated changes could have a material adverse effect on our financial condition, results of operations, or cash flows.

A number of years may elapse before particular tax matters, for which we have established accruals, are audited and finally resolved.

The number of tax years open to audit varies depending on the tax jurisdiction. In March 2017, we received from the IRS Office of Appeals the fully executed Form 870-AD for the years 1999-2005, which effectively settled the issues under audit for those years. The federal statutes of limitations have expired for all tax years prior to 2015 and we are not currently under audit by the IRS. Various state jurisdictions are auditing years 2009 through 2017. There are currently no federal or provincial audits in Canada; however, years subsequent to 2013 remain open and could be subject to examination. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals reflect the probable outcome of known tax contingencies. However, unfavorable settlement of any particular issue may reduce a deferred tax asset or require the use of cash, which may have a material adverse impact to our financial statements. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future. See Note 5 of Part II, Item 8. Financial Statements and Supplementary Data for additional information.

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

We make judgments regarding the utilization of existing income tax credits and the potential tax effects of various financial transactions and results of operations to estimate our obligations to taxing authorities. Tax obligations include income, franchise, real estate, sales and use, and employment-related taxes. These judgments include reserves for potential adverse outcomes regarding tax positions that have been taken. Changes in federal, state, or local tax laws, adverse tax audit results, or adverse tax rulings on positions taken could have a material adverse effect on the results of our operations, financial condition, or cash flows.

Declines in overall economic conditions beyond our control could reduce future potential earnings and cash flows and could result in future impairments to goodwill and/or other intangible assets.

In addition to an annual review, we assess the impairment of goodwill and/or other intangible assets whenever 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, a significant decline in our stock price, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. If any of these factors occur, we may have a triggering event, which could result in an impairment of our goodwill and/or other intangible assets. If economic conditions worsen causing deterioration in our operating revenue, operating margins, and cash flows, we may have a triggering event that could result in an impairment of our goodwill and/or other intangible assets. Our cemetery segment, which has a goodwill balance of \$335.4 million as of December 31, 2018, is more sensitive to market conditions and goodwill impairments because it is more reliant on preneed sales, which are impacted by customer discretionary spending. For additional information, see Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Any failure to maintain the security of the information relating to our customers, their loved ones, our associates, and our vendors could damage our reputation, could cause us to incur substantial additional costs and to become subject to litigation, and could adversely affect our operating results, financial condition, or cash flow.

In the ordinary course of our business, we receive certain personal information, in both physical and electronic formats, about our customers, their loved ones, our associates, and our vendors. In addition, our online operations at

our websites depend upon the secure transmission of confidential information over public networks, including information permitting electronic payments. We maintain substantial security measures and data backup systems to protect, store, and prevent unauthorized access to such information. Nevertheless, it is possible that computer hackers and others (through cyberattacks, which are rapidly evolving and becoming increasingly sophisticated, or by other means) might defeat our security measures in the future and obtain the personal information of customers, their loved ones, our associates, and our vendors that we hold. Further, our associates, contractors, or third parties with whom we do business may attempt to circumvent our security measures to misappropriate such information and may purposefully or inadvertently cause a breach, corruption, or data loss involving such information. A breach of our security measures or failure in our backup systems could adversely affect our reputation with our customers and their loved ones, our associates, and our vendors; as well as our operations, results of

operations, financial condition, and cash flows; and could result in litigation against us or the imposition of penalties. Moreover, a security breach could require that we expend significant additional resources to upgrade further the security measures that we employ to guard such important personal information against cyberattacks and other attempts to access such information and could result in a disruption of our operations.

Our Canadian business exposes us to operational, economic, and currency risks.

Our Canadian operations represent a significant portion of our revenue. Our ability to successfully conduct operations in Canada is affected by many of the same risks we face in our U.S. operations, as well as unique costs and difficulties of managing Canadian operations. Our Canadian operations may be adversely affected by local laws, customs, and regulations, as well as political and economic conditions. Significant fluctuations in exchange rates between the U.S. dollar and the Canadian dollar may adversely affect our results of operations and cash flows.

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and may prevent us from fulfilling our obligations under our indebtedness.

We have a significant amount of indebtedness, which could have important consequences, including the following:

- It may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, acquisitions, debt service requirements, and general corporate or other purposes.

- A portion of our cash flows from operations will be dedicated to the payment of principal and interest on our indebtedness, including indebtedness we may incur in the future, and may not be available for other purposes, including to finance our working capital, capital expenditures, acquisitions, and general corporate costs or other purposes.

- It could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate and place us at a competitive disadvantage compared to our competitors that have less debt.

- It could make us more vulnerable to downturns in general economic or industry conditions or in our business, or prevent us from carrying out activities that are important to our growth.

- It could increase our interest expense if interest rates in general increase because a portion of our indebtedness, including all of our indebtedness under our senior credit facilities, bears interest at floating rates.

- It could make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including any financial and other restrictive covenants, could result in an event of default under the agreements governing our other indebtedness which, if not cured or waived, could result in the acceleration of our indebtedness.

Any of the above listed factors could materially affect our business, financial condition, results of operations, and cash flows.

In addition to our high level of indebtedness, we also have significant rental and other obligations under our operating and capital leases for funeral service locations, cemetery operating and maintenance equipment, and transportation equipment. These obligations could further increase the risks described above.

A failure of a key information technology system or process could disrupt and adversely affect our business.

We rely extensively on information technology systems, some of which are managed or provided by third-party service providers, to analyze, process, store, manage, and protect transactions and data. In managing our business, we also rely heavily on the integrity of, security of, and consistent access to this data for information such as sales, merchandise ordering, inventory replenishment, and order fulfillment. For these information technology systems and processes to operate effectively, we or our service providers must periodically maintain and update them. Our systems and the third-party systems on which we rely are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches; cyber-attacks, including the use of ransomware; catastrophic events such as fires, floods, earthquakes, tornadoes, or hurricanes; acts of war or terrorism; and design or usage errors by our associates, contractors, or third-party service providers.

Although we and our third-party service providers seek to maintain our respective systems effectively and to successfully address the risk of compromise of the integrity, security, and consistent operations of these systems, such efforts may not be successful. As a result, we or our service providers could experience errors, interruptions, delays, or cessations of service in key portions of our information technology infrastructure, which could significantly disrupt

our operations and be costly, time consuming, and resource-intensive to remedy.

Failure to maintain effective internal control over financial reporting could adversely affect our results of operations, investor confidence, and our stock price.

The accuracy of our financial reporting depends on the effectiveness of our internal control over financial reporting. Internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements and may not prevent or detect misstatements because of its inherent limitations. If we do not maintain effective internal control over financial reporting or implement controls sufficient to provide reasonable assurance

with respect to the preparation and fair presentation of our financial statements, we could be unable to file accurate financial reports on a timely basis, and our results of operations, investor confidence, and stock price could be materially adversely affected.

The application of unclaimed property laws by certain states to our preneed funeral and cemetery backlog could have a material adverse impact on our liquidity, cash flows, and financial results.

In the ordinary course, our businesses have sold preneed funeral and cemetery contracts for decades. To the extent these contracts will not be funded with the assignment of the proceeds of life insurance policies, depending on applicable state laws, we could be responsible for escheatment of the portion of the funds paid that relate to contracts which we are unlikely to fulfill. For additional information, see Unclaimed Property Audit in Note 8 in Item 1 of Part 1 of this Form 10-K. The application of unclaimed property laws could have a material adverse effect on our liquidity, cash flows, and financial results.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Information regarding properties is set forth in Part I, Item 1. Business.

Item 3. Legal Proceedings.

Information regarding legal proceedings is set forth in Note 8 of Part II, Item 8. Financial Statements and Supplementary Data.

Item 4. Mine Safety Disclosures.

Not applicable.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth as of February 20, 2019, the name and age of each executive officer of the Company, the office held, and the year first elected an officer.

Officer Name	Age	Position	Year First Became Officer
Thomas L. Ryan	53	Chairman of the Board and Chief Executive Officer	1999
Michael R. Webb	60	President and Chief Operating Officer	1998
Eric D. Tanzberger	50	Senior Vice President, Chief Financial Officer	2000
Gregory T. Sangalis	63	Senior Vice President, General Counsel and Secretary	2007
Elisabeth G. Nash	57	Senior Vice President, Operations Services	2004
Sumner J. Waring, III	50	Senior Vice President, Operations	2002
Steven A. Tidwell	57	Senior Vice President, Sales and Merchandising	2010
Tammy R. Moore	51	Vice President and Corporate Controller	2010

Mr. Ryan was elected Chairman of the Board of SCI effective in January 2016 and, previously, he had been appointed Chief Executive Officer in February 2005. He joined the Company in 1996 and served in a variety of financial management roles until November 2000, when he was asked to serve as Chief Executive Officer of European Operations based in Paris, France. In July 2002, Mr. Ryan returned to the United States where he was appointed President and Chief Operating Officer of SCI. Before joining SCI, Mr. Ryan was a certified public accountant with Coopers & Lybrand LLP for eight years. He holds a bachelor's degree in business administration from the University of Texas at Austin. Mr. Ryan serves as a member of the University of Texas McCombs Business School Advisory Council. Mr. Ryan is a member of the Board of Trust Managers of Weingarten Realty Investors (NYSE: WRI) and serves as a director of Chesapeake Energy (NYSE: CHK).

Mr. Webb was elected President and Chief Operating Officer of Service Corporation International in February 2016. Prior to that, he served as Executive Vice President and Chief Operating Officer beginning in February 2005. Mr. Webb joined the Company in 1991 when SCI acquired Arlington Corp., a regional funeral and cemetery consolidator, where he served as Chief Financial Officer. In 1993, Mr. Webb joined the Company's corporate development group, which he later led on a global basis. Prior to joining Arlington Corp., Mr. Webb held various executive financial and development roles at Days Inns of America and Telemundo Group Inc. He holds a bachelor's degree in business

administration from the University of Georgia. Mr. Webb informed the company of his intent to retire, effective March 31, 2019.

Mr. Tanzberger was appointed Senior Vice President and Chief Financial Officer in June 2006 and also served as Treasurer from July 2007 to February 2017. Mr. Tanzberger joined the Company in August 1996 and held various management positions prior to being promoted to Corporate Controller in August 2002. Before joining SCI, Mr. Tanzberger served as Assistant Corporate Controller at Kirby Marine Transportation Corp., an inland waterway barge and tanker company. He was also a certified public accountant with Coopers and Lybrand LLP. Mr. Tanzberger holds a bachelor's degree in business administration from the University of Notre Dame. He is a member of the Advisory Board of New Orleans Medical Mission Services.

Additionally, he is the Secretary and Treasurer of the Board of Trustees for the National Funeral Directors Association Funeral Service Foundation.

Mr. Sangalis joined the Company in 2007 as Senior Vice President, General Counsel and Secretary. In 2012, his responsibilities were expanded to include Human Resources. He previously served as Senior Vice President, Law and Administration for Team Inc., a leading provider of specialty industrial maintenance and construction services. Prior to that, Mr. Sangalis served as Managing Director and General Counsel of Main Street Equity Ventures II, a private equity investment firm, and as Senior Vice President, General Counsel and Secretary for Waste Management, Inc., a leading provider of waste management services in North America. Mr. Sangalis holds a bachelor's degree in finance from Indiana University and a master's degree in business administration from the University of Minnesota. He earned his juris doctorate from the University of Minnesota Law School, where he graduated Cum Laude.

Ms. Nash was named Senior Vice President of Operations Services in 2010 and is currently responsible for a variety of support functions, including information technology, supply chain, centralized operations, and program management. Prior to that she was Vice President of Process Improvement and Technology, where she led the redefinition of our field and home office processes and systems. Before joining SCI, Ms. Nash served in various senior management accounting and financial positions with Pennzoil Company. She holds a bachelor's degree in business administration in accounting from Texas A&M University. Ms. Nash serves on the Board of Directors of Genesys Works.

Mr. Waring, Senior Vice President, is responsible for North American Operations. He joined SCI in 1996 as Area Vice President of Operations when SCI acquired his family's funeral business. He was appointed President of the Northeast Region in 1999 and President of the Pacific Region in September 2001. In September 2002, Mr. Waring was appointed Vice President, Western Operations, a position he held until May 2004 when he was appointed Vice President, Major Market Operations. He was promoted to Senior Vice President in 2006. In May 2015, Mr. Waring's responsibilities were expanded to include all operations in North America. Mr. Waring holds a bachelor's degree in business administration from Stetson University, a degree in mortuary science from Mount Ida College, and a master's degree in business administration from the University of Massachusetts Dartmouth. Mr. Waring serves on the Board of Directors of BankFive and the Board of Trustees of Tabor Academy.

Mr. Tidwell joined SCI as Vice President, Main Street Market Operations, in March 2010 and was promoted to Senior Vice President of Sales and Merchandising in 2012. As a co-founder of Keystone North America, Inc., Mr. Tidwell served as its President and Chief Executive Officer from May 2007 until it was acquired by SCI in March 2010. In his role, Mr. Tidwell worked closely with Keystone's Senior Leadership Team to develop and implement organic growth strategies as well as external growth and acquisition strategies. He began his career as a licensed funeral director and embalmer in Nashville, Tennessee, and has been actively involved in the funeral, and cemetery profession for over thirty-five years. He holds an associate of arts degree from John A. Gupton College and has attended Executive Management and Leadership programs at the Harvard Business School, Vanderbilt University Owen Graduate School of Management, and the Center for Creative Leadership.

Mrs. Moore joined the Company in August 2002 as Manager of Financial Reporting. She was promoted to Director of Financial Reporting in 2004 and Managing Director and Assistant Controller in June 2006. In February 2010, she was promoted to Vice President and Corporate Controller and oversees trust, general accounting, internal and external reporting, customer service, and strategic planning and analysis. Prior to joining the Company, Mrs. Moore was a certified public accountant with PricewaterhouseCoopers LLP. She holds a bachelor's degree in business administration in accounting from the University of Texas at San Antonio.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock has been traded on the New York Stock Exchange since May 14, 1974. On December 31, 2018, there were 3,761 holders of record of our common stock. In calculating the number of stockholders, we consider clearing agencies and security position listings as one stockholder for each agency or listing. At December 31, 2018, we had 181,470,582 shares outstanding, net of 3,250,000 treasury shares.

Options in our common stock are primarily traded on the Boston Exchange, the Chicago Board Options Exchange, Philadelphia Stock Exchange, and the NASDAQ Options Market. Our common stock is traded on the New York Stock Exchange under the symbol SCI.

Stock Performance Graph. The following graph assumes the total return on \$100 invested on December 31, 2013, in SCI Common Stock, the S&P 500 Index, and a peer group selected by the Company (the "Peer Group"). The Peer Group comprises Carriage Services, Inc., Hillenbrand Inc., and Matthews International Corp. Total return data assumes reinvestment of dividends.

TOTAL STOCKHOLDER RETURNS

INDEXED RETURNS

Years Ending

For equity compensation plan information, see Part III of this Form 10-K.

Under our share repurchase program, during the year ended December 31, 2018, we repurchased 7,347,838 shares at an aggregate cost of \$277.6 million, which is an average cost per share of \$37.78. During the year ended December 31, 2017, we repurchased 6,210,606 shares at an aggregate cost of \$199.6 million, which is an average cost per share of \$32.14.

In February 2018, our Board of Directors increased our repurchase authorization for up to \$400.0 million. The remaining dollar value of shares authorized to be purchased under the share repurchase program was \$192.5 million at December 31, 2018. As discussed in Item 1A, our Bank Credit Facility contains covenants that may restrict our ability to repurchase our common stock.

The following table summarizes our share repurchases during the three months ended December 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program
October 1, 2018 — October 31, 2018	3,901	\$ 42.21	3,901	\$194,266,758
November 1, 2018 — November 30, 2018	42,201	\$ 40.76	42,201	192,546,810
December 1, 2018 — December 31, 2018	—	\$ —	—	192,546,810
	46,102		46,102	

Subsequent to December 31, 2018, we repurchased 193,395 shares for \$7.9 million at an average cost per share of \$40.70.

Item 6. Selected Financial Data.

The data set forth below should be read in conjunction with our consolidated financial statements and accompanying notes to these consolidated financial statements. This historical information is not necessarily indicative of future results. The table below contains selected consolidated financial data as of and for the years ended December 31, 2014 through December 31, 2018.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in millions, except per share amounts)				
Selected Consolidated Statements of Operations Data:					
Revenue	\$3,190.2	\$3,095.0	\$3,031.1	\$2,986.0	\$2,994.0
Income from continuing operations	\$447.6	\$546.8	\$177.3	\$235.3	\$176.6
Net income	\$447.6	\$546.8	\$177.3	\$234.9	\$178.8
Net income attributable to noncontrolling interests	(0.4)	(0.2)	(0.3)	(1.2)	(6.3)
Net income attributable to common stockholders	\$447.2	\$546.7	\$177.0	\$233.8	\$172.5
Earnings per share:					