
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, 2017

OR

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

For the transition period from to

Commission file number 1-6402-1

Service Corporation International

(Exact name of registrant as specified in its charter)

Texas

*(State or other jurisdiction of
incorporation or organization)*

1929 Allen Parkway

Houston, Texas

(Address of principal executive offices)

74-1488375

*(I.R.S. employer
identification no.)*

77019

(Zip code)

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

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

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark 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 ☐

(Do not check if smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The 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 \$6,501,405,154 based upon a closing market price of \$33.45 on June 30, 2017 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 12, 2018 was 185,008,791 (net of treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement in connection with its 2018 Annual Meeting of Stockholders (Part III).

SERVICE CORPORATION INTERNATIONAL

INDEX

	<u>Page</u>
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	<u>5</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>11</u>
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	<u>17</u>
<u>Item 2.</u> <u>Properties</u>	<u>17</u>
<u>Item 3.</u> <u>Legal Proceedings</u>	<u>17</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>19</u>
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>19</u>
<u>Item 6.</u> <u>Selected Financial Data</u>	<u>20</u>
<u>Item 7.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>38</u>
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	<u>39</u>
<u>Item 9.</u> <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>83</u>
<u>Item 9A.</u> <u>Controls and Procedures</u>	<u>83</u>
<u>Item 9B.</u> <u>Other Information</u>	<u>84</u>
<u>PART III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers, and Corporate Governance</u>	<u>84</u>
<u>Item 11.</u> <u>Executive Compensation</u>	<u>84</u>
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>84</u>
<u>Item 13.</u> <u>Certain Relationships and Related Transactions and Director Independence</u>	<u>84</u>
<u>Item 14.</u> <u>Principal Accountant Fees and Services</u>	<u>84</u>
<u>PART IV</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	<u>84</u>
<u>Item 16.</u> <u>Form 10-K Summary</u>	<u>84</u>
<u>Signatures</u>	<u>87</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 right to inter human remains in a specific cemetery property space. See also Cemetery Property Revenue below.

Cemetery Property Revenue — Recognized sales of interment rights in cemetery property when a minimum of 10% of the sales price has been collected and the property has been constructed and is available for interment.

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, and catering.

Funeral Recognized Preneed Revenue — Funeral merchandise and travel protection 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 — An underground outer burial receptacle constructed of concrete and reinforced steel, which is usually pre-installed in predetermined designated areas.

Marker — A method of identifying a deceased person in a particular burial space, crypt, 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 or atneed cemetery contracts. These sales are recorded in *Deferred revenue* until the merchandise is delivered, the service is performed, or when a minimum of 10% of the property sales price has been collected 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* 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.

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, 2017, we operated 1,488 funeral service locations and 473 cemeteries (including 281 funeral service/cemetery combination locations), which are geographically diversified across 45 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 are 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 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, accounting, 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, and increase efficiency. 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. 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 backlog of unfulfilled preneed funeral and cemetery contracts was \$10.7 billion and \$10.0 billion at December 31, 2017 and 2016, respectively.

The following table at December 31, 2017 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	37	14	51
Arizona	33	11	44
Arkansas	12	3	15
California	163	38	201
Colorado	32	11	43
Connecticut	20	—	20
Delaware	—	1	1
District of Columbia	1	—	1
Florida	135	60	195
Georgia	34	18	52
Hawaii	2	2	4
Idaho	6	1	7
Illinois	43	24	67
Indiana	49	10	59
Iowa	5	2	7
Kansas	8	5	13
Kentucky	12	5	17
Louisiana	25	10	35
Maine	11	—	11
Maryland	16	13	29
Massachusetts	26	—	26
Michigan	35	—	35
Minnesota	11	2	13
Mississippi	12	3	15
Missouri	25	10	35
Nebraska	8	2	10
Nevada	15	6	21
New Hampshire	6	—	6
New Jersey	21	—	21
New Mexico	1	—	1
New York	66	—	66
North Carolina	55	17	72
Ohio	35	14	49
Oklahoma	13	7	20
Oregon	16	4	20
Pennsylvania	19	16	35
Puerto Rico	7	8	15
Rhode Island	4	—	4
South Carolina	12	9	21
Tennessee	39	18	57
Texas	172	63	235
Utah	4	3	7
Vermont	3	—	3
Virginia	37	23	60
Washington	35	13	48

West Virginia	8	10	18
Wisconsin	—	7	7
Canada			
Alberta	9	—	9
British Columbia	37	7	44
Manitoba	4	3	7
New Brunswick	5	—	5
Nova Scotia	12	—	12
Ontario	39	—	39
Quebec	40	—	40
Saskatchewan	13	—	13
Total ⁽¹⁾	<u>1,488</u>	<u>473</u>	<u>1,961</u>

(1) Includes businesses held for sale at December 31, 2017.

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, 2017, we owned approximately 84% 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, 2017, our 473 cemeteries contained a total of approximately 34,863 acres, of which approximately 66% was developed.

Our corporate headquarters are located at 1929 Allen Parkway, Houston, Texas 77019. The property consists of approximately 120,000 square feet of office space and 185,000 square feet of parking space. We own and utilize an additional building located in Houston, Texas for corporate activities containing a total of approximately 38,000 square feet of office space. We also lease approximately 29,000 square feet of office space in Houston, Texas, which we utilize for corporate activities. We own a building in Jefferson, Louisiana with approximately 98,200 square feet of office space that we use, in part, for corporate activities.

Map of the United States showing the number of funeral homes (blue circles) and cemeteries (white squares) in each state. The map includes state boundaries and a legend in the bottom right corner.

State	Funeral Homes	Cemeteries
Alaska	37	7
Arizona	33	11
Arkansas	1	
California	163	38
Colorado	32	11
Connecticut	26	4
Delaware	21	1
District of Columbia	1	
Florida	135	60
Georgia	34	18
Hawaii	2	2
Idaho	15	6
Illinois	43	10
Indiana	35	14
Iowa	5	2
Kansas	8	5
Kentucky	12	3
Louisiana	25	10
Maine	12	
Maryland	37	23
Massachusetts	20	4
Michigan	35	10
Minnesota	11	2
Mississippi	12	3
Missouri	8	2
Montana	4	3
Nebraska	8	2
Nevada	16	4
New Hampshire	5	
New Jersey	19	16
New Mexico	32	11
New York	66	3
North Carolina	39	18
North Dakota	4	3
Ohio	49	10
Oklahoma	13	7
Oregon	35	13
Pennsylvania	21	1
Rhode Island	4	
South Carolina	12	9
South Dakota	13	7
Tennessee	39	18
Texas	172	63
Utah	6	1
Vermont	5	
Virginia	55	17
Washington	16	4
West Virginia	12	5
Wisconsin	7	
Wyoming	9	

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.

Strategies for Growth

8

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 are incorporating 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 also 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. We have also simplified the decision-making process incorporating technology to enable visualization of our product 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 cultural, regional, or religious 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 with 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 are continuing to develop our sales counselors through the use of technology. 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.

Using Our Scale with Our Preneed Backlog. With our \$10.7 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 new atneed customer 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 customer 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 in a disciplined and balanced manner to the highest and best use. 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) repurchasing debt.

Investing in Acquisitions and Building New Funeral Homes. 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 homes in areas that provide us with the potential for scale 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 \$0.15 per common share at the end of 2017. In February 2018, our Board of Directors approved a cash dividend increase to \$0.17 per common share. 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 velocity 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 23%. In February 2018, our Board of Directors increased our repurchase authorization for up to \$400.0 million.

Repurchasing Debt. With a focus on maintaining liquidity and financial flexibility, we may seek to 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, 2017, we employed 15,508 individuals on a full-time basis and 7,920 individuals on a part-time basis. Of the full-time associates, 13,403 were employed in the funeral and cemetery operations and 2,105 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, 2017 and 2016, there were 8,154 and 9,491 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 2.4% 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. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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 funeral and cemetery 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, 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 for the years ended December 31:

	2017	2016	2015
Preneed funeral merchandise and service trust funds	16.1%	7.1%	(1.5)%
Preneed cemetery merchandise and service trust funds	16.8%	7.2%	(1.0)%
Cemetery perpetual care trust funds	9.5%	9.1%	(0.3)%

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 2018 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, 2017, no such charge was required. 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.

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, 2017, we had unrealized losses of \$15.0 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 funeral and cemetery 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 \$166.0 million into state-mandated trust accounts as of December 31, 2017. 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 decline, our cash flows and revenue may decrease.

If the number of deaths in our markets decline, 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.

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 2017, 53.5% of the comparable services we performed were cremation cases compared to 52.6% and 51.7% performed in 2016 and 2015, respectively. Our average revenue for cremations with service is lower than that for traditional burials. If we are unable to continue to expand our cremation memorialization products and services, and cremations remain 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 healthcare 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 healthcare. 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. We settled the tax years 1999-2005 with the IRS during the first quarter of 2017. The subsequent tax years remain open to review and adjustment by the IRS. Various state jurisdictions are auditing years 2000 through 2016. 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.

The Budget Reconciliation Act, commonly referred to as the Tax Cuts and Jobs Act (hereinafter, "the Tax Act"), was signed into law on December 22, 2017 and is expected to have a favorable impact on our effective tax rate and net income as reported under generally accepted accounting principles both in the first fiscal quarter of 2018 and subsequent reporting periods to which the Tax Act is effective. However, we are still assessing the impact of the Tax Act and there can be no assurances that it will have a favorable impact. Investors should consult with their tax advisors with respect to the effect of the Tax Act and any other regulatory or administrative developments and proposals and their potential effect on their investments.

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 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 \$306.2 million as of December 31, 2017, 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 will 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 our 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.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth as of February 14, 2018, 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	52	Chairman of the Board and Chief Executive Officer	1999
Michael R. Webb	59	President and Chief Operating Officer	1998
Eric D. Tanzberger	49	Senior Vice President, Chief Financial Officer	2000
Gregory T. Sangalis	62	Senior Vice President, General Counsel and Secretary	2007
		Senior Vice President, Operations Services	
Elisabeth G. Nash	56		2004
Sumner J. Waring, III	49	Senior Vice President, Operations	2002
Steven A. Tidwell	56	Senior Vice President, Sales and Merchandising	2010
Tammy R. Moore	50	Vice President and Corporate Controller	2010
R. L. Waltrip	87	Founder and Chairman Emeritus	1962

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 Board of Trustees of the United Way of Greater Houston. Mr. Ryan also serves on the Board of Directors of the Greater Houston Partnership, the Greater Houston Community Foundation Governing Council, the Board of Directors of Genesys Works, and 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. 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 Executive Committee of the Business Council of New Orleans and also serves on the Board of Directors of New Orleans Medical Mission Services. Additionally, he is a member 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 Corp. She holds a bachelor's degree in business administration in accounting from Texas A&M University.

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 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.

Mr. Waltrip was appointed the Founder and Chairman Emeritus of SCI effective in January 2016. Prior thereto, he was Chairman of the Board and provided invaluable leadership to the Company for over 50 years. A licensed funeral director, Mr. Waltrip grew up in his family's funeral business and assumed management of the firm in the 1950s. He began buying additional funeral service locations in the 1960s and achieved significant cost efficiencies through the "cluster" strategy of sharing pooled resources among numerous locations. At the end of 2017, the network he began had grown to include almost 2,000 funeral service locations and cemeteries. Mr. Waltrip took SCI public in 1969. Mr. Waltrip holds a bachelor's degree in business administration from the University of Houston.

Item 4. *Mine Safety Disclosures.*

Not applicable.

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, 2017, there were 4,010 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, 2017, we had 186,614,747 shares outstanding, net of 5,320,900 treasury shares.

In 2017 and 2016 we paid quarterly cash dividends totaling \$108.8 million and \$98.4 million, respectively. While we intend to pay regular quarterly cash dividends for the foreseeable future, all subsequent dividends are subject to limitations in our debt covenants and final determination by our Board of Directors each quarter after its review of our financial performance.

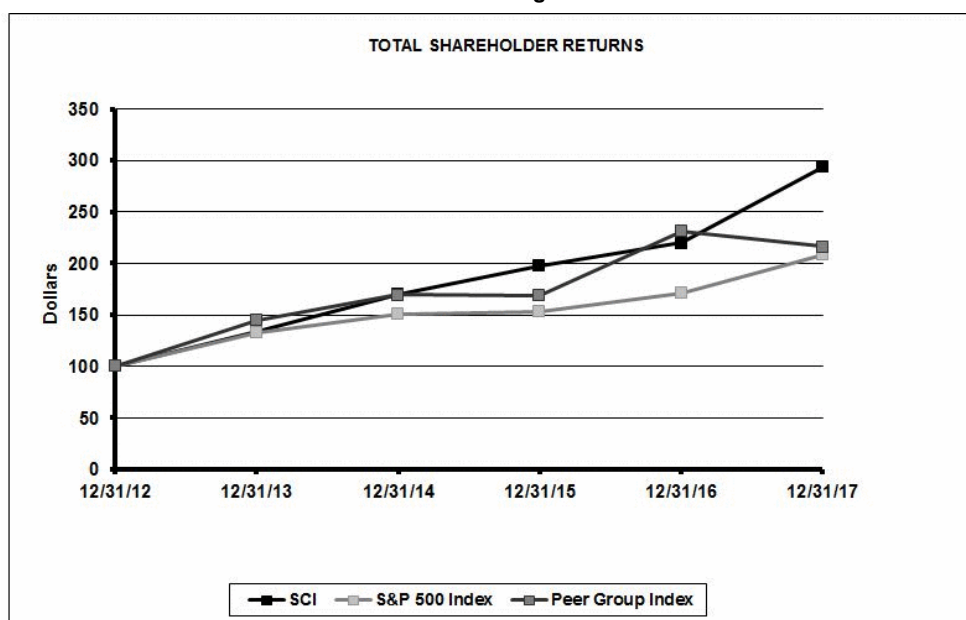
The table below shows our quarterly high and low closing common stock prices for the two years ended December 31:

	2017		2016	
	High	Low	High	Low
First quarter	\$ 31.75	\$ 28.81	\$ 25.66	\$ 21.65
Second quarter	\$ 33.45	\$ 30.25	\$ 28.01	\$ 24.49
Third quarter	\$ 35.80	\$ 32.99	\$ 28.67	\$ 25.99
Fourth quarter	\$ 38.00	\$ 33.29	\$ 28.62	\$ 24.90

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, 2012, 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. Stewart Enterprises, Inc. was included in the Peer Group until December 31, 2013 when it was acquired by us. 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, 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. During the year ended December 31, 2016, we repurchased 8,811,847 shares at an aggregate cost of \$227.9 million, which is an average cost per share of \$25.87.

In November 2016, our Board of Directors increased our share repurchase authorization to \$400.0 million. The remaining dollar value of shares authorized to be purchased under the share repurchase program was \$168.6 million at December 31, 2017. As discussed in Item 1A, our Bank Credit Facility contains covenants that may restrict our ability to repurchase our common stock.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Dollar Value of Shares That May Yet be Purchased Under the Program
October 1, 2017 — October 31, 2017	476,613	\$ 34.41	476,613	\$ 202,998,778
November 1, 2017 — November 30, 2017	399,783	\$ 35.54	399,783	188,792,046
December 1, 2017 — December 31, 2017	540,575	\$ 37.39	540,575	168,578,718
	<u>1,416,971</u>		<u>1,416,971</u>	

Subsequent to December 31, 2017, we repurchased 429,859 shares for \$16.7 million at an average cost per share of \$38.83. In February 2018, our Board of Directors increased our repurchase authorization for up to \$400.0 million.

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, 2013 through December 31, 2017.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
(Dollars in millions, except per share amounts)					
Selected Consolidated Statements of Operations Data:					
Revenue	\$ 3,095.0	\$ 3,031.1	\$ 2,986.0	\$ 2,994.0	\$ 2,550.5
Income from continuing operations	\$ 546.8	\$ 177.3	\$ 235.3	\$ 176.6	\$ 155.2
Net income	\$ 546.8	\$ 177.3	\$ 234.9	\$ 178.8	\$ 152.6
Net income attributable to noncontrolling interests	(0.2)	(0.3)	(1.2)	(6.3)	(5.3)
Net income attributable to common stockholders	\$ 546.7	\$ 177.0	\$ 233.8	\$ 172.5	\$ 147.3
Earnings per share:					
Income from continuing operations attributable to common stockholders					
Basic	\$ 2.91	\$ 0.92	\$ 1.17	\$ 0.81	\$ 0.70
Diluted	\$ 2.84	\$ 0.90	\$ 1.14	\$ 0.80	\$ 0.68
Net income attributable to common stockholders					
Basic	\$ 2.91	\$ 0.92	\$ 1.17	\$ 0.82	\$ 0.70
Diluted	\$ 2.84	\$ 0.90	\$ 1.14	\$ 0.81	\$ 0.68
Cash dividends declared per share	\$ 0.58	\$ 0.51	\$ 0.44	\$ 0.34	\$ 0.27
Selected Consolidated Balance Sheet Data (at December 31):					
Total assets	\$ 12,864.5	\$ 12,038.1	\$ 11,676.4	\$ 11,923.6	\$ 12,833.6
Long-term debt (less current maturities), including capital leases	\$ 3,135.3	\$ 3,196.6	\$ 3,037.6	\$ 2,963.8	\$ 3,125.5
Equity	\$ 1,409.4	\$ 1,095.2	\$ 1,189.4	\$ 1,377.4	\$ 1,480.2
Selected Consolidated Statement of Cash Flows Data:					
Net cash provided by operating activities	\$ 502.3	\$ 463.6	\$ 472.2	\$ 317.4	\$ 384.7

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The Company

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries unequalled in geographic scale and reach. At December 31, 2017, we operated 1,488 funeral service locations and 473 cemeteries (including 281 funeral service/cemetery combination locations), which are geographically diversified across 45 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and various other related businesses. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis.

Our financial position is enhanced by our \$10.7 billion backlog of future revenue from both trust and insurance-funded preneed funeral and cemetery sales at December 31, 2017. Preneed selling provides us with a current opportunity to lock-in future market share while deterring the customer from going to a competitor in the future. We also believe it adds to the stability and predictability of our revenue and cash flows. While revenue on the majority of preneed merchandise and service sales is deferred until the time of need, sales of preneed cemetery property provide opportunities for full current revenue recognition (to the extent we collect 10% from the customer and the property is developed and available for interment).

We have adequate liquidity and a favorable debt maturity profile, which allows us to return capital to shareholders through share repurchases and dividends.

Factors affecting our operating results include: demographic trends in terms of population growth and average age, which impact death rates and number of deaths; establishing and maintaining leading market share positions supported by strong local heritage and relationships; effectively responding to increasing cremation trends by selling complementary services and merchandise; controlling salary and merchandise costs; and exercising pricing leverage related to our at-need revenue. The average revenue per funeral contract is influenced by the mix of traditional and cremation services because our average cremation service revenue is approximately half of the average revenue earned from a traditional burial service. To further enhance revenue opportunities, we have developed memorialization merchandise and services that specifically appeal to

cremation customers. We believe that these additional merchandise and services will help drive increases in the average revenue for a cremation in future periods.

For further discussion of our key operating metrics, see our Results of Operations and Cash Flow sections below.

Financial Condition, Liquidity, and Capital Resources

Capital Allocation Considerations

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided \$502.3 million in 2017. In addition, as of December 31, 2017, we have \$966.7 million in excess borrowing capacity under our Bank Credit Facility. As of December 31, 2017, we have \$337.3 million in long-term debt current maturities, which primarily consist of current amounts due on the publicly traded notes, term loan, and capital leases. Our publicly traded note for \$250.0 million, due in October 2018, was redeemed on January 12, 2018.

Our Bank Credit Facility requires us to maintain certain leverage and interest coverage ratios. As of December 31, 2017, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of December 31, 2017 are as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.50 (Max)	3.72
Interest coverage ratio	3.00 (Min)	5.22

We believe our sources of liquidity can be supplemented by our ability to access the capital markets for additional debt or equity securities. In December 2017, we entered into a new \$1.7 billion bank credit agreement due December 2022 with a syndicate of banks. The credit agreement consists of a \$1.0 billion Bank Credit Facility and a \$675.0 million Term Loan. We used \$675.0 million of the Term Loan due December 2022 and \$442.5 million of the Bank Credit Facility due December 2022 to repay \$647.5 million outstanding borrowings on the Term Loan due March 2021 and \$470 million outstanding borrowings on the Bank Credit Facility due March 2021. In December 2017, we issued \$550.0 million unsecured 4.625% Senior Notes Due December 2027. We used the net proceeds from this offering to pay off the \$442.5 million outstanding borrowings of the Bank Credit Facility due December 2022.

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

We believe that our unencumbered cash on hand, future operating cash flows, and the available capacity under our bank credit agreement will give us adequate liquidity to meet our short-term needs as well as our long-term financial obligations. Due to cash balances residing in Canada and expected minimum operating cash in transit, a portion of our cash on hand is encumbered.

We consistently evaluate the best uses of our cash flow that will yield the highest value and return on capital. Our capital deployment strategy is prioritized as follows:

Invest in Acquisitions and New Builds. We intend to make acquisitions of funeral service locations and cemeteries when pricing and terms are favorable. We expect an acquisition investment to earn an after-tax cash return that is in excess of our weighted average cost of capital with room for execution risk. We will also invest in the construction of additional funeral service locations. We target businesses with favorable customer categories and/or where we can achieve additional economies of scale.

Pay a Dividend. Our quarterly dividend rate has steadily grown from \$0.025 per common share in 2005 to \$0.15 per common share at the end of 2017, a 15% increase over the \$0.13 per common share at the end of 2016. 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.

Repurchase Shares. Absent a strategic acquisition opportunity, we believe share repurchases are attractive at the appropriate price. During the year ended December 31, 2017, we repurchased 6,210,606 shares of common stock at an aggregate cost of \$199.6 million, which is an average cost per share of \$32.14. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was \$168.6 million at December 31, 2017. We intend to make purchases from time to time in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. Our Bank Credit Facility contains covenants that limit our ability to repurchase our common stock. There can be no assurance that we will buy our common stock under our repurchase program in the future.

Repurchase Debt. We will seek to 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. We have a relatively consistent annual cash flow stream that is generally resistant to down economic cycles. This cash flow stream and our significant liquidity is available to substantially reduce our long-term debt maturities should we choose to do so. Furthermore, our capital expenditures are generally discretionary in nature and can be managed based on the availability of operating cash flow.

Cash Flow

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

Operating Activities

Net cash provided by operating activities was \$502.3 million, \$463.6 million, and \$472.2 million for the years ended December 31, 2017, 2016, and 2015 respectively.

Included in operating cash flows are the following:

	Years Ended December 31,		
	2017	2016	2015
	(In millions)		
Excess tax benefits from share-based awards ⁽¹⁾	\$ —	\$ (12.7)	\$ (18.1)
Payments related to tax structure changes	\$ —	\$ —	\$ (10.5)
Premiums paid on early extinguishment of debt	\$ —	\$ (20.5)	\$ (6.5)
Acquisition, integration, and system transition costs	\$ —	\$ (11.7)	\$ (6.6)
IRS tax settlement ⁽²⁾	\$ (34.2)	\$ —	\$ —
Pension settlement payment	\$ (6.3)	\$ —	\$ —
Legal settlement, net of insurance recoveries	\$ (11.5)	\$ —	\$ —

⁽¹⁾ See discussion regarding the change in accounting treatment for excess tax benefits from share-based awards in Part II, Item 8. Financial Statements, Note 2.

⁽²⁾ See discussion regarding the IRS tax settlement in Part II, Item 8. Financial Statements, Note 5.

Excluding the above items, cash flow from operations increased \$45.8 million for 2017 versus 2016 and decreased \$5.4 million for 2016 versus 2015. The 2017 increase comprises:

- a \$74.4 million increase in cash receipts from customers, and
- a \$19.2 million increase in net trust withdrawals, and
- a \$6.3 million increase in insurance proceeds; partially offset by
 - a \$5.3 million decrease in General Agency (GA) and other receipts,
 - a \$23.4 million increase in employee compensation,
 - a \$20.0 million increase in cash tax payments primarily due to deferral from the previous quarter as part of hurricane relief (excluding the IRS tax settlement noted above),
 - a \$3.9 million increase in cash interest paid, and
 - a \$1.5 million increase in vendor and other payments.

The 2016 decrease comprises:

- a \$19.7 million increase in cash tax payments,
- a \$15.9 million increase in employee compensation, and
- a \$21.9 million increase in net trust deposits; partially offset by
 - a \$29.9 million decrease in vendor and other payments,
 - a \$7.8 million decrease in cash interest paid, and
 - a \$14.4 million increase in cash receipts from customers.

Investing Activities

Cash flows from investing activities used \$235.9 million, \$216.1 million, and \$166.4 million in 2017, 2016, and 2015, respectively. The \$19.8 million increase from 2017 over 2016 is primarily due to the following:

- a \$21.1 million increase in capital expenditures, primarily due to improvements at existing funeral homes,
- a \$19.2 million decrease in cash spent on acquisitions, and
- a \$5.0 million decrease in net withdrawals of restricted funds, partially offset by
 - a \$12.9 million decrease in cash receipts from divestitures and asset sales.

The \$49.7 million increase from 2016 over 2015 is primarily due to the following:

- a \$42.5 million increase in capital expenditures, primarily related to the development of contemporary cemetery property and the construction of new funeral homes,
- a \$27.9 million increase in cash spent on acquisitions; partially offset by
 - a \$24.5 million increase in proceeds from divestitures and asset sales.

Financing Activities

Financing activities used \$136.4 million in 2017 compared to using \$188.9 million in 2016 and \$338.5 million in 2015. The \$52.5 million decrease from 2017 over 2016 is primarily due to:

- a \$28.3 million decrease in purchase of Company common stock,
- a \$26.8 million increase in proceeds from the issuance of debt, net of payments, and
- a \$15.9 million increase in proceeds from exercises of stock options; partially offset by
 - a \$12.7 million decrease in excess tax benefits from share-based awards (Part II, Item 8. Financial Statements, Note 2),
 - a \$10.3 million increase in payments of dividends, and
 - a \$2.6 million increase in purchases of noncontrolling interests to acquire the remaining 11% of the common stock of our consolidated subsidiary, Wilson Financial Group, Inc.

The \$149.6 million decrease from 2016 over 2015 is primarily due to:

- a \$117.3 million decrease in purchase of Company common stock, and
- a \$56.1 million increase in proceeds from the issuance of debt, net of payments; partially offset by
 - a \$14.1 million decrease in proceeds from exercises of stock options
 - a \$10.8 million increase in payments of dividends, and
 - a \$5.4 million decrease in excess tax benefits from share-based awards.

Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial and Contingent Commitments

We have assumed various financial obligations and commitments in the ordinary course of conducting our business. We have contractual obligations requiring future cash payments under existing contractual arrangements, such as debt maturities, interest on long-term debt, operating lease agreements, and employment, consulting, and non-competition agreements. We also have commercial and contingent obligations that result in cash payments only if certain events occur requiring our performance pursuant to a funding commitment.

The following table details our known future cash payments (on an undiscounted basis) related to various contractual obligations as of December 31, 2017.

Contractual Obligations	Payments Due by Period				
	2018	2019-2020	2021-2022	Thereafter	Total
	(In millions)				
Debt maturities (including capital leases) ^{(1) (2) (3)}	\$ 342.8	\$ 335.1	\$ 1,193.1	\$ 1,632.3	\$ 3,503.3
Interest obligation on long-term debt ⁽⁴⁾	160.1	288.8	226.2	264.4	939.5
Operating lease agreements ⁽⁵⁾	13.7	20.3	16.1	59.5	109.6
Employment and management, consulting, and non-competition agreements ⁽⁶⁾	7.4	10.9	5.3	4.2	27.8
Benefit cost obligation ⁽⁷⁾	3.3	5.9	4.8	9.4	23.4
Total contractual obligations	\$ 527.3	\$ 661.0	\$ 1,445.5	\$ 1,969.8	\$ 4,603.6

- (1) Our outstanding indebtedness contains standard provisions, such as payment delinquency default clauses and change of control clauses. In addition, our Bank Credit Facility contains a maximum leverage ratio and a minimum interest coverage ratio. See “Capital Allocation Considerations” and Note 6 in Part II, Item 8. Financial Statements and Supplementary Data, for additional details related to our long-term debt.
- (2) Excludes non-cash net premiums and original issuance discounts recorded on the debt. The unamortized balance of the net premiums and original issuance discounts at December 31, 2017 is \$7.5 million.
- (3) Excludes non-cash debt issuance costs on the debt. The unamortized balance of debt issuance costs at December 31, 2017 is \$38.1 million.
- (4) Approximately 75% of our total debt is fixed rate debt for which the interest obligation was calculated at the stated rate. Future interest obligations on our floating rate debt are based on the current forward rate curve of the underlying index. See Note 6 in Part II, Item 8. Financial Statements and Supplementary Data, for additional information related to our future interest obligations.
- (5) 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 leases, or iii) renew for the fair rental value at the end of the primary lease term. Our operating leases primarily relate to funeral and cemetery operating and maintenance equipment. See Note 8 in Part II, Item 8. Financial Statements and Supplementary Data, for additional details related to our leases.
- (6) We have entered into employment and management, consulting, and non-competition agreements that require us to make cash payments over the contractual period. The agreements have been primarily entered into with certain officers and employees and former owners of businesses acquired. Agreements with contractual periods less than one year are excluded. See Note 8 in Part II, Item 8. Financial Statements and Supplementary Data, for additional details related to these agreements.
- (7) See Note 11 in Part II, Item 8. Financial Statements and Supplementary Data, for discussion of our pension plans.

The following table details our known potential or possible future cash payments (on an undiscounted basis) related to various commercial and contingent obligations as of December 31, 2017.

Commercial and Contingent Obligations	Expiration by Period				
	2018	2019-2020	2021-2022	Thereafter	Total
	(In millions)				
Surety obligations ⁽¹⁾	\$ 166.0	\$ —	\$ —	\$ —	\$ 166.0
Long-term obligations related to uncertain tax positions ⁽²⁾	90.6	—	—	—	90.6
Letters of credit ⁽³⁾	33.5	—	—	—	33.5
Total commercial and contingent obligations	\$ 290.1	\$ —	\$ —	\$ —	\$ 290.1

- (1) Represents the aggregate funding obligation associated with our surety bond arrangements assuming our surety partners did not renew any of our surety obligations and we could not find replacement surety assurance. See the section titled “Financial Assurances” following this table in this Form 10-K for more information related to our surety bonds.
- (2) We have recorded a liability for unrecognized tax benefits and related interest and penalties of \$90.6 million as of December 31, 2017. See Note 5 in Part II, Item 8. Financial Statements and Supplementary Data, for additional information related to our uncertain tax positions.
- (3) We are occasionally required to post letters of credit, issued by a financial institution, to secure certain insurance programs or other obligations. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are

obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe it is unlikely we will be required to fund a claim under our outstanding letters of credit. As of December 31, 2017, \$33.3 million of our letters of credit were supported by our Bank Credit Facility, which expires in December 2022.

Not included in the above table are potential funding obligations related to our merchandise and service trusts. 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 when trust fund values drop below certain prescribed amounts. In the event that our trust investments do not recover from market declines, we may be required to deposit portions or all of these amounts into the respective trusts in some future period. As of December 31, 2017, we had unrealized losses of \$15.0 million in the various trusts within these states.

Financial Assurances

In support of our operations, we have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance and/or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been used to support our preneed sales activities. The obligations underlying these surety bonds are recorded on our Consolidated Balance Sheet as *Deferred revenue*. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.

	December 31, 2017	December 31, 2016
	(In millions)	
Preneed funeral	\$ 109.8	\$ 118.6
Preneed cemetery:		
Merchandise and services	132.2	141.6
Pre-construction	11.9	7.8
Bonds supporting preneed funeral and cemetery obligations	253.9	268.0
Bonds supporting preneed business permits	4.5	4.5
Other bonds	18.0	18.4
Total surety bonds outstanding	\$ 276.4	\$ 290.9

When selling preneed contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The \$253.9 million in bonds supporting preneed funeral and cemetery obligations differs from the \$166.0 million potential funding obligation disclosed in our "Commercial and Contingent Obligations" table above because the amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law, at the time we enter into the contract. We would only be required to fund the trust for the portion of the preneed contract for which we have received payment from the customer, less any applicable retainage, in accordance with state law. For the years ended December 31, 2017, 2016, and 2015, we had \$22.6 million, \$20.9 million, and \$19.6 million of cash receipts from sales attributable to bonded contracts. These amounts do not consider reductions associated with taxes, obtaining costs, or other costs.

Surety bond premiums are paid annually and the bonds are automatically renewable until maturity of the underlying preneed contracts, unless we are given prior notice of cancellation. Except for cemetery pre-construction bonds (which are irrevocable), the surety companies generally have the right to cancel the surety bonds at any time with appropriate notice. In the event a surety company were to cancel the surety bond, we are required to obtain replacement surety assurance from another surety company or fund a trust for an amount generally less than the posted bond amount. Management does not expect that we will be required to fund material future amounts related to these surety bonds due to a lack of surety capacity or surety company non-performance.

Preneed Activities and Backlog of Contracts

In addition to selling our products and services to client families at the time of need, we sell price-guaranteed preneed contracts, which provide for future funeral or cemetery merchandise and services. Since preneed funeral and cemetery merchandise or services will generally not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed contracts be paid into merchandise and service trusts until the merchandise is delivered or the service is performed. In certain situations, as described above, where permitted by state or provincial laws, we post a surety bond as financial assurance for a certain amount of the preneed contract in lieu of placing

funds into trust accounts. 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.

Trust-funded Preneed Contracts: The funds collected from customers are deposited into trust and primarily invested by independent trustees in accordance with state and provincial laws. We retain any funds above the amounts required to be deposited into trust accounts and use them for working capital purposes, generally to offset the selling and administrative costs of our preneed programs.

Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery merchandise and services in the future for the prices that were guaranteed at the time of sale. Our preneed funeral and cemetery trust assets are consolidated and recorded in our Consolidated Balance Sheet at fair value. Investment earnings on trust assets are generally accumulated in the trust and distributed as the revenue associated with the preneed funeral or cemetery contract is recognized or canceled by the customer. In certain states and provinces, the trusts are allowed to distribute a portion of the investment earnings to us prior to that date.

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 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 trust fund income revenue in our Consolidated Statement of Operations. In certain jurisdictions, we may be obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust. Funds in trust assets exceeded customer deposits at December 31, 2017. See Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial and Contingent Commitments for additional information about potential funding obligations related to our merchandise and service trusts. Based on our historical experience, we have included a cancellation reserve for preneed contracts in our Consolidated Balance Sheet of \$118.1 million and \$116.9 million as of December 31, 2017 and 2016, respectively.

While the contract is outstanding, cash flow is provided by the amount retained from funds collected from the customer and any distributed investment earnings. At the time of death maturity, we receive the principal and undistributed investment earnings from the funeral trust and any remaining receivable due from the customer. At the time of delivery or storage of cemetery merchandise and service items for which we were required to deposit funds to trust, we receive the principal and undistributed investment earnings from the cemetery trust and any remaining receivable due from the customer. This cash flow at the time of service, delivery, or storage is generally less than the associated revenue recognized, thus reducing cash flow from operating activities.

The tables below detail our results of preneed production and maturities, excluding insurance contracts for the years ended December 31, 2017 and 2016.

	Years Ended December 31,	
	2017	2016
	(Dollars in millions)	
Funeral:		
Preneed trust-funded (including bonded):		
Sales production	\$ 319.3	\$ 285.5
Sales production (number of contracts)	94,603	89,529
Maturities	\$ 265.8	\$ 239.4
Maturities (number of contracts)	68,683	65,047
Cemetery:		
Sales production:		
Preneed	\$ 846.0	\$ 800.3
Atneed	316.6	305.7
Total sales production	\$ 1,162.6	\$ 1,106.0
Sales production deferred to backlog:		
Preneed	\$ 380.8	\$ 369.3
Atneed	230.8	227.7
Total sales production deferred to backlog	\$ 611.6	\$ 597.0
Revenue recognized from backlog:		
Preneed	\$ 305.1	\$ 294.6
Atneed	226.7	226.3
Total revenue recognized from backlog	\$ 531.8	\$ 520.9

Insurance-funded Preneed Contracts: 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 revenue when the insurance purchase transaction between the customer and third-party insurance provider is complete. 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. As the insurance contract is between the insurance company and the customer, we do not reflect the unfulfilled insurance-funded preneed contract amounts in our Consolidated Balance Sheet.

The table below details the results of insurance-funded preneed production and maturities and the number of contracts associated with those transactions.

	Years Ended December 31,	
	2017	2016
	(Dollars in millions)	
Preneed insurance-funded:		
Sales production ⁽¹⁾	\$ 510.0	\$ 552.0
Sales production (number of contracts)	84,962	90,395
General agency revenue	\$ 121.0	\$ 135.8
Maturities	\$ 335.3	\$ 323.2
Maturities (number of contracts)	56,535	55,085

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

Backlog of Preneed Contracts: The following table reflects our backlog of trust-funded deferred preneed contract revenue, including amounts related to *Deferred receipts held in trust* at December 31, 2017 and 2016. Additionally, the table reflects our

backlog of unfulfilled insurance-funded contracts (which are not included in our Consolidated Balance Sheet) at December 31, 2017 and 2016. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on historical experience. The table does not include the backlog associated with businesses that are held for sale.

The table also reflects our preneed funeral and cemetery receivables and trust investments (fair value and cost bases) associated with the backlog of deferred preneed funeral and cemetery contract revenue, net of the estimated cancellation allowance. We believe that the table below is meaningful because it sets forth the aggregate amount of future revenue we expect to recognize as a result of maturities of preneed sales in the future, as well as the amount of assets associated with that revenue. Because the future revenue exceeds the asset amounts, future revenue will exceed the cash distributions actually received from the associated trusts.

	December 31, 2017		December 31, 2016	
	Fair Value	Cost	Fair Value	Cost
(In billions)				
Deferred revenue	\$ 1.79	\$ 1.79	\$ 1.73	\$ 1.73
Deferred receipts held in trust	3.48	3.18	3.10	3.05
	5.27	4.97	4.83	4.78
Allowance for cancellation on trust investments	(0.27)	(0.25)	(0.25)	(0.25)
Backlog of trust-funded deferred revenue	5.00	4.72	4.58	4.53
Backlog of insurance-funded revenue ⁽¹⁾	5.66	5.66	5.37	5.37
Total backlog of deferred revenue	<u>\$ 10.66</u>	<u>\$ 10.38</u>	<u>\$ 9.95</u>	<u>\$ 9.90</u>
Preneed receivables, net and trust investments	\$ 4.78	\$ 4.48	\$ 4.31	\$ 4.26
Allowance for cancellation on trust investments	(0.27)	(0.25)	(0.25)	(0.25)
Assets associated with backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	4.51	4.23	4.06	4.01
Insurance policies associated with insurance-funded deferred revenue, net of estimated allowance for cancellation ⁽¹⁾	5.66	5.66	5.37	5.37
Total assets associated with backlog of preneed revenue, net of estimated allowance for cancellation	<u>\$ 10.17</u>	<u>\$ 9.89</u>	<u>\$ 9.43</u>	<u>\$ 9.38</u>

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

The fair value of our trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves, reported net asset values, and appraisals. As of December 31, 2017, the difference between the backlog and asset market amounts represents \$0.25 billion related to contracts for which we have posted surety bonds as financial assurance in lieu of trusting, \$0.03 billion collected from customers that were not required to be deposited into trusts, and \$0.21 billion in allowable cash distributions from trust assets. As of December 31, 2017, the fair value of the total backlog comprised \$2.81 billion related to cemetery contracts and \$7.85 billion related to funeral contracts. As of December 31, 2016, the fair value of the assets associated with the backlog of trust-funded deferred revenue comprised \$2.60 billion related to cemetery contracts and \$1.91 billion related to funeral contracts.

The table also reflects the amounts expected to be received from insurance companies through the assignment of policy proceeds related to insurance-funded contracts. We do not reflect the unfulfilled insurance-funded preneed amounts in our Consolidated Balance Sheet because they are not assets or liabilities as defined in Statement of Accounting Concepts No. 6 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.

Trust Investments

In addition to selling our products and services to client families at the time of need, we enter into price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery merchandise and services. Since preneed funeral and cemetery merchandise or services will generally not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into trusts and/or escrow accounts until the merchandise is delivered or the service is performed. Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery merchandise and services in the future at the prices that were guaranteed at the time of sale.

Also, we are required by state and provincial law to pay a portion of the proceeds from the preneed or atneed sale of cemetery property interment rights into perpetual care trusts. For these investments, the original corpus generally remains in the trust in perpetuity and the earnings or elected distributions are withdrawn as allowed to defray the expense to maintain the cemetery property. While many states require that net capital gains or losses be retained and added to the corpus, certain states allow the net realized capital gains and losses to be included in the earnings that are distributed. Additionally, some states allow a total return distribution that may contain elements of income, capital appreciation, and principal.

Independent trustees manage and invest the majority of the funds deposited into the funeral and cemetery merchandise and services trusts as well as the cemetery perpetual care trusts. The majority of the trustees are selected based on their respective geographic footprint and qualifications per state and provincial regulations. Most of the trustees engage the same independent investment managers. These trustees, with input from SCI's wholly-owned registered investment advisor, establish an investment policy that serves as an operating document to guide the investment activities of the trusts including asset allocation and manager selection. The investments are also governed by state and provincial guidelines. All of the trusts seek to control risk and volatility through a combination of asset classes, investment styles, and a diverse mix of investment managers.

Asset allocation is based on the liability structure of each funeral, cemetery, and perpetual care trust. Based on the various criteria set forth in the investment policy, the investment advisor recommends investment managers to the trustees. The primary investment objectives for the funeral and cemetery merchandise and service trusts include 1) preserving capital within acceptable levels of volatility and risk and 2) achieving growth of principal over time sufficient to preserve and increase the purchasing power of the assets. Preneed funeral and cemetery contracts generally take several years to mature; therefore, the funds associated with these contracts are often invested through several market cycles.

Historically, the cemetery perpetual care trusts' investment objectives, in accordance with state and provincial regulations, have emphasized providing a steady stream of current investment income with some capital appreciation in order to provide for the maintenance and beautification of cemetery properties. However, during 2016, SCI worked with several state legislatures to adjust laws and regulations to allow for a fixed distribution rate from cemetery perpetual care trusts' assets regardless of the level of ordinary income, similar to university endowments. As a result, beginning in 2017, a significant portion of our cemetery perpetual care trust assets were liquidated and reinvested in a more growth-oriented asset allocation with investment objectives similar to the funeral and cemetery merchandise and service trusts. As of December 31, 2017, the asset allocation is split approximately evenly between income and growth orientations. We expect this asset allocation shift to enhance asset growth and provide further protection to our customers. Additionally, we expect more states to adopt total return distribution legislation in the coming years.

As of December 31, 2017 approximately 86% of our trusts were under the control and custody of three large financial institutions. The U.S. trustees primarily use four managed limited liability companies (LLCs), one for each merchandise and service trust type and two for the cemetery perpetual care trust type, each with an independent trustee as custodian. Each financial institution acting as trustee manages its allocation of trust assets in accordance with the investment policy through the purchase of the appropriate LLCs' units. For those accounts not eligible for participation in the LLCs or where a particular state's regulations contain other investment restrictions, the trustee utilizes institutional mutual funds that comply with our investment policy or with such state restrictions. The U.S. trusts include a modest allocation to alternative investments. These alternative investments are held in vehicles structured as LLCs and are managed by certain trustees. The trusts that are eligible to allocate a portion of their investments to alternative investments purchase units of the respective alternative investment LLCs.

Investment Structures

Each financial institution, acting as trustee, manages its allocation of trust assets in compliance with the investment policy primarily through the purchase one of four managed LLCs, matched to their trust type and each with a different, independent trustee acting as custodian. The managed LLCs use the following structures for investments:

Commingled Funds. These funds allow the trusts to access, at a reduced cost, some of the same investment managers and strategies used elsewhere in the portfolios.

Mutual Funds. The trust funds employ institutional share class mutual funds where operationally or economically efficient. These mutual funds are utilized to invest in various asset classes including U.S. equities, non-U.S. equities, corporate bonds, government bonds, high yield bonds, and commodities, all of which are governed by guidelines outlined in their individual prospectuses.

Separately Managed Accounts. To reduce the costs to the investment portfolios, the trusts utilize separately managed accounts where appropriate.

Asset Classes

Fixed income investments are intended to preserve principal, provide a source of current income, and reduce overall portfolio volatility. The majority of the fixed income allocation for the trusts is invested in institutional share class mutual

funds. Where the trusts have direct investments in individual fixed income securities, these are primarily in government and corporate instruments.

Canadian government fixed income securities are investments in Canadian federal and provincial government instruments. In many cases, regulatory restrictions mandate that the funds from the sales of preneed funeral and cemetery contracts sold in certain Canadian jurisdictions must be invested in these instruments.

Equity investments have historically provided long-term capital appreciation in excess of inflation. The trusts have direct investments in individual equity securities primarily in domestic equity portfolios that include large, mid, and small capitalization companies of different investment styles (i.e., growth and value). The majority of the equity allocation is managed by institutional investment managers that specialize in an objective-specific area of expertise. Our equity securities are exposed to market risk; however, we believe these securities are well-diversified. As of December 31, 2017, the largest single equity position represented less than 1% of the total securities portfolio.

The objective of private equity fund investments is to provide high rates of return with reduced volatility and lower correlation. These investments are typically long term in duration. These investments are diversified by strategy, sector, manager, and vintage year. The investments consist of numerous limited partnerships, including but not limited to private equity, real estate, energy, infrastructure, transportation, distressed debt, and mezzanine financing. The trustees that have oversight of their respective alternative LLCs work closely with the investment advisor in making all investment decisions.

Trust Performance

During the year ended December 31, 2017, the Standard and Poor's 500 Index increased 21.8% and the Barclay's Aggregate Index increased 3.5%, while the combined SCI trust increased 14.1%.

SCI, the trustees, and the investment advisor monitor the capital markets and the trusts on an on-going basis. The trustees, with input from the investment advisor, take prudent action as needed to achieve the investment goals and objectives of the trusts.

Results of Operations — Years Ended December 31, 2017, 2016, and 2015

Management Summary

In 2017, we reported consolidated net income attributable to common stockholders of \$546.7 million (\$2.84 per diluted share) compared to net income attributable to common stockholders in 2016 of \$177.0 million (\$0.90 per diluted share) and net income attributable to common stockholders in 2015 of \$233.8 million (\$1.14 per diluted share). These results were impacted by certain significant items including:

	2017	2016	2015
	(In millions)		
Pre-tax gains (losses) from divestitures and impairment, net ⁽¹⁾	\$ 7.0	\$ (26.8)	\$ 6.0
Pre-tax losses from the early extinguishment of debt	\$ (0.3)	\$ (22.5)	\$ (6.9)
Pre-tax acquisition, integration, and system transition costs	\$ —	\$ (17.5)	\$ (6.8)
Pre-tax pension termination settlement	\$ (12.8)	\$ (5.6)	\$ —
Pre-tax legal settlement, net of insurance recoveries	\$ (11.5)	\$ —	\$ —
Tax benefit from above items	\$ 5.7	\$ 17.2	\$ 2.3
Change in certain tax reserves and other	\$ 260.1	\$ (20.9)	\$ (3.0)

(1) Includes *Net (loss) income from discontinued operations* and the portion of noncontrolling interest related to divestitures.

In addition to the above items, growth in cemetery revenue, higher recognized preneed funeral revenue, higher funeral services performed, and effective management of our back office overhead were partially offset by increases in cemetery selling commissions from higher sales production and increased cemetery administrative and maintenance costs.

Funeral Results

	2017	2016	2015
	(Dollars in millions, except average revenue per service)		
Consolidated funeral revenue	\$ 1,868.2	\$ 1,869.1	\$ 1,889.1
Less: revenue associated with acquisitions/new construction	31.9	9.9	—
Less: revenue associated with divestitures	6.4	41.8	58.5
Comparable ⁽¹⁾ funeral revenue	1,829.9	1,817.4	1,830.6
Less: comparable recognized preneed revenue	117.3	111.2	97.7
Less: comparable general agency and other revenue	117.0	126.5	129.4
Adjusted comparable funeral revenue	\$ 1,595.6	\$ 1,579.7	\$ 1,603.5
Comparable services performed	303,106	300,477	307,336
Comparable average revenue per service ⁽²⁾	\$ 5,264	\$ 5,257	\$ 5,217
Consolidated funeral operating profit	\$ 371.9	\$ 361.0	\$ 390.1
Less: operating profit associated with acquisitions/new construction	5.8	2.4	—
Less: operating (loss) profit associated with divestitures	(4.5)	2.3	3.3
Comparable ⁽¹⁾ funeral operating profit	\$ 370.6	\$ 356.3	\$ 386.8

(1) We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2016 and ending December 31, 2017.

(2) We calculate comparable average revenue per service by dividing comparable funeral revenue, excluding general agency revenue, recognized preneed revenue, and other revenue to avoid distorting our average of normal funeral services revenue, by the comparable number of services performed during the period. Recognized preneed revenue is preneed sales of merchandise that is delivered at the time of sale, including memorial merchandise and travel protection, and excluded from our calculation of comparable average revenue per service because the associated service has not yet been performed.

Funeral Revenue

Consolidated revenue from funeral operations was \$1,868.2 million for the year ended December 31, 2017, compared to \$1,869.1 million for the same period in 2016. This decrease is primarily attributable to the loss of \$35.4 million in revenue contributed by properties that have been subsequently divested, partially offset by \$22.0 million in revenue contributed by acquired properties and a \$12.5 million increase in comparable revenue as described below.

Comparable revenue from funeral operations was \$1,829.9 million for the year ended December 31, 2017 compared to \$1,817.4 million for the same period in 2016. This increase was primarily due to a 0.9% increase in comparable services performed and a 0.1% increase in average revenue per service.

The increase in services performed comprises a 0.5% increase in services performed by our funeral homes and a 3.5% increase in cremation services performed by our non-funeral home channel.

Average revenue per funeral service increased 0.1% for the year ended December 31, 2017 compared to the same period in 2016. Organic growth at the customer level of 0.6% was largely offset by the increase in our cremation mix. Our total comparable cremation rate increased to 53.5% in 2017 from 52.6% in 2016 as a result of an increase in both direct cremations and cremations with service.

Consolidated revenue from funeral operations decreased \$20.0 million in 2016 compared to 2015. This decrease is primarily attributable to the loss of \$16.7 million in revenue contributed by properties that have been subsequently divested and a \$13.2 million decrease in comparable revenue, partially offset by \$9.9 million in revenue contributed by acquired properties. The decrease in comparable revenue was primarily due to a 2.2% decrease in comparable services performed, partially offset by a 0.8% increase in average revenue per service. Our comparable cremation rate increased to 52.6% in 2016 from 51.7% in 2015 as a result of an increase in cremations with service.

Funeral Operating Profit

Consolidated funeral operating profit increased \$10.9 million, or 3.0% in 2017 compared to 2016. This increase is primarily attributable to an increase in comparable funeral operating profit of \$14.3 million. Comparable funeral operating profit increased \$14.3 million to \$370.6 million and the operating margin percentage increased 70 basis points to 20.3%, which was primarily the result of increased comparable revenue described above and effective cost management.

Consolidated funeral operating profit decreased \$29.1 million, or 7.5%, in 2016 as compared to 2015. This decrease is primarily attributable to a decrease in comparable funeral operating profit of \$30.5 million, which was primarily the result of

decreased comparable revenue described above and inflationary increases in fixed costs, partially offset by increased gross profit from recognized preneed revenue.

Cemetery Results

	2017	2016	2015
	(In millions)		
Consolidated cemetery revenue	\$ 1,226.9	\$ 1,162.0	\$ 1,097.0
Less: revenue associated with acquisitions/new construction	6.2	0.3	—
Less: revenue associated with divestitures	0.7	0.9	2.0
Comparable ⁽¹⁾ cemetery revenue	<u>\$ 1,220.0</u>	<u>\$ 1,160.8</u>	<u>\$ 1,095.0</u>
Consolidated cemetery operating profit	\$ 350.3	\$ 315.4	\$ 284.5
Less: operating profit associated with acquisitions/new construction	1.1	—	—
Less: operating (loss) profit associated with divestitures	(0.2)	(0.8)	0.2
Comparable ⁽¹⁾ cemetery operating profit	<u>\$ 349.4</u>	<u>\$ 316.2</u>	<u>\$ 284.3</u>

(1) We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2016 and ending December 31, 2017.

Cemetery Revenue

Consolidated revenue from our cemetery operations increased \$64.9 million, or 5.6%, in 2017 compared to 2016 primarily attributable to the \$59.2 million increase in comparable revenue and \$5.9 million in revenue contributed by acquired properties. The increase in comparable revenue is primarily the result of a \$43.2 million increase in recognized preneed revenue from higher preneed sales production.

Consolidated revenue from our cemetery operations increased \$65.0 million, or 5.9%, in 2016 compared to 2015 primarily attributable to the increase in comparable revenue of \$65.8 million partially offset by the loss of \$1.1 million in properties that have been subsequently divested. Comparable cemetery revenue increased \$65.8 million, or 6.0%, primarily as a result of an increase in preneed sales production.

Cemetery Operating Profit

Consolidated cemetery operating profit increased \$34.9 million, or 11.1%, in 2017 compared to 2016 primarily attributable to the increase in comparable operating profit of \$33.2 million, or 10.5%. Comparable cemetery operating profit increased \$33.2 million to \$349.4 million and the operating margin percentage increased 140 basis points to 28.6% driven by the increase in revenue described above coupled with effective cost management.

Consolidated cemetery operating profit increased \$30.9 million, or 10.9% in 2016 compared to 2015 primarily attributable to the increase in comparable operating profit of \$31.9 million, or 11.2%. Comparable cemetery operating profit increased \$31.9 million to \$316.2 million and the operating margin percentage increased 120 basis points driven by the increase in revenue described above, partially offset by increased selling commissions from higher sales production and increases in cemetery maintenance costs.

Other Financial Statement Items

General and Administrative Expenses

General and administrative expenses were \$154.4 million in 2017 compared to \$137.7 million in 2016 and \$130.8 million in 2015. The 2017 amounts include \$11.5 million related to a legal settlement and \$12.8 million related to a pension termination settlement. The 2016 amounts include \$17.5 million of acquisition costs and implementation of a new general ledger system and \$5.6 million related to a pension termination settlement. The 2015 amounts include \$6.8 million in acquisition, integration, and system transition costs. Excluding these costs, general and administrative expenses increased \$15.5 million in 2017 compared to 2016 due to an increase in our self-insurance reserves and expenses related to updating our business location websites. The decrease in general and administrative expenses of \$9.5 million in 2016 compared to 2015 was primarily due to effective back office expense management.

Gains (Losses) on Divestitures and Impairment Charges, Net

In 2017, we recognized a \$7.0 million net pre-tax gain on asset divestitures and impairments primarily as the result of asset divestitures, partially offset by impairment losses associated with non-strategic funeral and cemetery locations in the United States and Canada.

In 2016, we recognized a \$26.8 million net pre-tax loss on asset divestitures and impairments. This loss includes \$31.2 million of impairment charges related to the divestiture of certain funeral homes in Los Angeles, California.

In 2015, we recognized a \$6.5 million net pre-tax gain on asset divestitures and impairments primarily as the result of asset divestitures, partially offset by impairment losses associated with non-strategic funeral and cemetery locations in the United States and Canada.

Hurricane Expense, Net

On August 26, 2017, Hurricane Harvey made landfall in Texas, causing significant damage across coastal Texas. In addition to damage caused directly by the storm itself, the region suffered massive damage from flooding as rainfall nearly exceeded the annual average. The main corporate headquarters sustained significant flood damage as did many of our Texas operations. On September 10, Irma made landfall in western Florida causing wind and flood damage to large parts of that state and the southeastern United States. On September 20, 2017, Maria made landfall in Puerto Rico causing significant wind and flood damage. During 2017, we began cleanup, repair and restoration of much of the damage in Texas, Florida, and in Puerto Rico related to Hurricanes Harvey, Irma, and Maria. We incurred \$11.9 million in repair and cleanup costs and received \$6.3 million of insurance proceeds related to these claims, which resulted in a \$5.6 million unfavorable impact in our Consolidated Statement of Operations. We anticipate an immaterial amount of hurricane related expense in 2018.

Interest Expense

Interest expense increased \$7.0 million to \$169.1 million in 2017 compared to \$162.1 million in 2016 as we were impacted by increased rates on our floating rate debt as we continued to maintain our leverage ratio.

Interest expense decreased \$10.8 million to \$162.1 million in 2016 compared to \$172.9 million in 2015, as we benefited from the debt refinancings over the past year by lowering interest on our Senior Notes and increasing our proportion of lower rate variable debt.

Losses on Early Extinguishment of Debt, Net

During 2016, we paid an aggregate of \$310.0 million on our Term Loan due July 2018, \$295.0 million on our 7.0% Senior Notes due 2017, \$280.0 million on our Bank Credit Facility due July 2018, \$26.3 million on our Term Loan due March 2021, and \$10.0 million on our Bank Credit Facility due March 2021. Certain of the above transactions resulted in the recognition of a loss of \$22.5 million recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations.

During 2015, we paid an aggregate of \$197.4 million on our 6.75% Senior Notes due April 2016, \$100.0 million on our Bank Credit Facility, and \$60.0 million on our Term Loan due July 2018. Certain of the above transactions resulted in the recognition of a loss of \$6.9 million recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations.

Provision for Income Taxes

The Tax Act as enacted on December 22, 2017, makes broad and complex changes to the U.S. tax code by, among other things, reducing the federal corporate income tax rate, requiring payment of a one-time transition tax on unrepatriated earnings of foreign subsidiaries, generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, creating a new limitation on deductible interest expense, creating a bonus depreciation that will allow for full expensing on qualified property, and imposing a limitation on deductibility of certain executive compensation. For further information on the impacts of the Tax Act, see Note 5 in Part II, Item 8. Financial Statements and Supplementary Data.

The 2017 consolidated effective tax rate was a tax benefit of 36.6%, compared to tax expense of 45.7% and 36.5% in 2016 and 2015, respectively. The lower effective tax rate was primarily due to the effects of the Tax Act discussed above, and the recent IRS audit settlement as well as the result of tax benefits recognized on the settlement of employee share-based awards. 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.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 192.2 million in 2017, compared to 196.0 million in 2016, and 204.5 million in 2015. The decrease in all years primarily reflects the impact of shares repurchased under our share repurchase program.

Critical Accounting Policies, Recent Accounting Pronouncements, and Accounting Changes

Our consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. See Note 2 in Part II, Item 8. Financial Statements and Supplementary Data, for more information. Estimates and assumptions affect the carrying values of assets and liabilities and disclosures of contingent

assets and liabilities at the balance sheet date. Actual results could differ from such estimates due to uncertainties associated with the methods and assumptions underlying our critical accounting measurements. The following is a discussion of our critical accounting policies pertaining to revenue recognition, valuation of goodwill, valuation of intangible assets, fair value measurements, loss contract analysis, and the use of estimates.

Revenue Recognition

Funeral revenue is recognized when funeral merchandise is delivered or funeral services are performed. Merchandise delivery and service performance generally take place shortly after the time of need. Delivery of some preneed items, primarily certain memorial merchandise and travel protection, are delivered prior to the time of need. We refer to these items as recognized preneed revenue. Our trade receivables primarily consist of amounts due for funeral services already performed.

Revenue associated with cemetery merchandise and services is recognized when merchandise is delivered or the service is performed. For non-personalized merchandise (such as outer burial containers) and services, we defer the revenue until the merchandise is delivered and the services are performed, generally immediately following the time of need. 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. Preneed sales of cemetery interment rights (cemetery property) are recognized when a minimum of 10% of the sales price has been collected and the property has been constructed and is available for interment.

Pursuant to state or provincial law, all or a portion of the proceeds from funeral and 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 service trusts until the associated merchandise is delivered or services are performed.

Valuation of Goodwill

We record the excess of purchase price over the fair value of identifiable net assets acquired in business combinations 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 certain 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 the 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 4.7% 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 long-term growth rates 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 impairments reviews were performed in 2017 or 2016. For more information on related to goodwill, see Note 4 in Part II, Item 8. Financial Statements and Supplementary Data.

Valuation of 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 asset 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 underperformance relative to historical or projected future operating results and significant negative industry or economic trends. No interim intangible impairment reviews were performed in 2017 or 2016. For more information on related to intangible assets, see Note 4 in Part II, Item 8. Financial Statements and Supplementary Data.

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:

- Where quoted prices are available in an active market, securities held by the trusts are classified as Level 1 investments.
- 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.
- 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.

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 Note 3 in Part II, Item 8. Financial Statements and Supplementary Data.

Loss Contract Analysis

We perform an analysis annually to determine whether our preneed contracts are in a loss position, which would necessitate a charge to earnings. For this analysis, we add the sales prices of the underlying contracts and net realized earnings, then subtract net unrealized losses to derive the net amount of estimated proceeds for contracts as of the balance sheet date. We consider unrealized gains and losses based on current market prices quoted for the investments, and we do not include future expected returns on the investments in our analysis. We compare our estimated proceeds to the estimated direct costs to deliver our contracts, which consist primarily of funeral and cemetery merchandise costs and salaries, supplies, and equipment related to the delivery of a preneed contract. If a deficiency were to exist, we would record a charge to earnings and a corresponding liability for the expected loss on delivery of those contracts from our backlog. As of December 31, 2017, no such charge was required. Due to the positive margins of our preneed contracts and the trust portfolio returns we have experienced in prior years, we believe there is currently capacity for additional market depreciation before a loss contract would result.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States (GAAP) requires management to make certain estimates and assumptions. These estimates and assumptions affect the carrying values of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date. Actual results could differ from such estimates due to uncertainties associated with the methods and assumptions underlying our critical accounting measurements. Key estimates used by management include:

Allowances. We provide various allowances and/or 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 and include, where applicable, collection and cancellation activity. We also record an estimate of general agency revenue that may be canceled in its first year and revenue would be charged back by the insurance company.

These estimates are impacted by a number of factors, including changes in economy, relocation, and demographic or competitive changes in our areas of operation.

Valuation of trust investments. The trust investments include marketable securities that are classified as available-for-sale. When available, we use quoted market prices for specific securities. When quoted market prices are not available for the specific security, fair values are estimated by using either quoted market prices for securities with similar characteristics or a fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment terms, rating, and tax exempt status. The valuation of certain investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets.

Legal liability reserves. Contingent liabilities, principally for legal matters, are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Liabilities accrued for legal matters require judgments regarding projected outcomes and a range of loss based on historical experience and recommendations of legal counsel. However, litigation is inherently unpredictable and excessive verdicts do occur. As disclosed in Note 8 in Part II, Item 8. Financial Statements and Supplementary Data, our legal exposures and the ultimate outcome of these legal proceedings could be material to operating results or cash flows in any given quarter or year.

Depreciation of long-lived assets. We depreciate our long-lived assets ratably over their estimated useful lives. These estimates of useful lives may be affected by such factors as changing market conditions or changes in regulatory requirements.

Amortization of certain intangible assets. We amortize certain intangible assets ratably over their estimated useful lives. These estimates of useful lives may be affected by such factors as contractual terms, changing market conditions, or changes in regulatory requirements.

Valuation of assets acquired and liabilities assumed. Tangible and intangible assets acquired and liabilities assumed are recorded at their fair value and goodwill is recognized for any difference between the price of acquisition and our fair value determination. We have customarily estimated our purchase costs and other related transactions known to us at closing of the acquisition. To the extent that information not available to us at the closing date subsequently became available during the measurement period, we have adjusted our goodwill, assets, or liabilities associated with the acquisition.

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.

As of December 31, 2017, foreign withholding taxes have not been provided on the estimated \$195 million of undistributed earnings and profits ("E&P") of our foreign subsidiaries as we intend to permanently reinvest these foreign E&P in those businesses outside the U.S. However, if we were to repatriate such foreign E&P, the foreign withholding tax liability is estimated to be \$10 million. We have calculated our best estimate of the impact of this provision in accordance with our understanding of the Tax Act and guidance available.

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.

Tax years subsequent to 2005 remain open to review and adjustment by the IRS. Moreover, various state jurisdictions are auditing years 2000 through 2016. It is reasonably possible that the amount of unrecognized tax benefits could significantly decrease over the next 12 months. However, since the years to which uncertain tax positions relate remain subject to review by the tax authorities, a current estimate of the range of decrease that may occur within the next 12 months cannot be made.

Retirement plans. Certain retirement plans are frozen with no benefits accruing to participants except interest. Benefit costs and liabilities are actuarially determined based on certain assumptions, including the discount rate used to compute future benefit obligations. Weighted-average discount rates used to determine net periodic benefit cost were 3.86% and 3.96% as of December 31, 2017 and 2016, respectively. We verify the reasonableness of the discount rate by comparing our rate to the rate earned on high-quality fixed income investments, such as the Moody's Aa index. See Note 11 in Part II, Item 8. Financial Statements and Supplementary Data for more information.

Insurance loss reserves. We purchase comprehensive general liability, morticians and cemetery professional liability, automobile liability, and workers' compensation insurance coverages structured with high deductibles. This high-deductible insurance program means we are primarily self-insured for claims and associated costs and losses covered by these policies. Historical insurance industry experience indicates a high degree of inherent variability in assessing the ultimate amount of losses associated with casualty insurance claims. This is especially true with respect to liability and workers' compensation exposures due to the extended period of time that transpires between when the claim might occur and the full settlement of such claim, which is often many years. We continually evaluate loss estimates associated with claims and losses related to these

insurance coverages falling within the deductible of each coverage. Assumptions based on factors such as claim settlement patterns, claim development trends, claim frequency and severity patterns, inflationary trends, and data reasonableness will generally affect the analysis and determination of the “best estimate” of the projected ultimate claim losses. The results of these evaluations are used to both analyze and adjust our insurance loss reserves.

As of December 31, 2017, reported losses for workers’ compensation, general liability, and auto liability incurred during the period May 1, 1991 through December 31, 2017 were approximately \$552.7 million over 26.7 years. The selected fully developed ultimate settlement value estimated was \$608.0 million for the same period. Paid losses were \$529.8 million indicating a reserve requirement of \$78.2 million.

Recent Accounting Pronouncements and Accounting Changes

For discussion of recent accounting pronouncements and accounting changes, see Note 2 in Part II, Item 8. Financial Statements and Supplementary Data.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

The market risk inherent in our financial instruments and positions includes the price risk associated with the marketable equity and debt securities included in our portfolio of trust investments, the interest rate risk associated with our floating rate debt, and the currency risk associated with our Canadian operations. Our market-sensitive instruments and positions are considered to be “other-than-trading”. Our exposure to market risk as discussed below includes forward-looking statements and represents an estimate of possible changes in fair value or future earnings that might occur, assuming hypothetical changes in equity markets, interest rates, and currencies. Our views on market risk are not necessarily indicative of actual results that may occur, and they do not represent the maximum possible gains or losses that may occur. Actual fair value movements related to changes in equity markets, interest rates, and currencies, along with the timing of such movements, may differ from those estimated.

Marketable Equity and Debt Securities — Price Risk

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices.

Cost and market values as of December 31, 2017 are presented in Note 3 in Part II, Item 8, Financial Statements and Supplementary Data. Also, see Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, *Financial Conditions, Liquidity, and Capital Resources*, for discussion of trust investments.

Market-Rate Sensitive Instruments — Interest Rate Risk

At December 31, 2017 and 2016, approximately 75% and 63%, respectively, of our total debt consisted of fixed rate debt at a weighted average rate of 4.73% and 4.68%, respectively. The fair value of our debt was \$164.6 million more than its carrying value at December 31, 2017. A hypothetical 10% increase in interest rates associated with our floating rate debt would increase our interest expense by \$1.5 million. See Notes 6 and 7 in Part II, Item 8. Financial Statements and Supplementary Data, for additional information.

Market-Rate Sensitive Instruments — Currency Risk

At December 31, 2017 and 2016, our foreign currency exposure was primarily associated with the Canadian dollar. A hypothetical 10% adverse change in the strength of the U.S. dollar relative to our foreign currency instruments would have negatively affected our income from our continuing operations, on an annual basis, by \$5.8 million and \$4.1 million for the years ended December 31, 2017 and 2016.

At December 31, 2017, approximately 4% of our stockholders’ equity and debt and 12% of our operating income was denominated in the Canadian dollar. Approximately 6% of our stockholders’ equity and debt and 10% of our operating income was denominated in foreign currencies, primarily the Canadian dollar, at December 31, 2016. We do not have an investment in foreign operations considered to be in highly inflationary economies.

Item 8. *Financial Statements and Supplementary Data.*

INDEX TO FINANCIAL STATEMENTS AND RELATED SCHEDULE

	<u>Page</u>
Financial Statements:	
Report of Independent Registered Public Accounting Firm	<u>40</u>
Consolidated Statement of Operations for the years ended December 31, 2017, 2016, and 2015	<u>42</u>
Consolidated Statement of Comprehensive Income for the years ended December 31, 2017, 2016, and 2015	<u>43</u>
Consolidated Balance Sheet as of December 31, 2017 and 2016	<u>44</u>
Consolidated Statement of Cash Flows for the years ended December 31, 2017, 2016, and 2015	<u>45</u>
Consolidated Statement of Equity for the years ended December 31, 2017, 2016, and 2015	<u>46</u>
Notes to Consolidated Financial Statements	<u>47</u>
1. Nature of Operations	<u>47</u>
2. Summary of Significant Accounting Policies	<u>47</u>
3. Preneed Activities	<u>54</u>
4. Goodwill and Intangible Assets	<u>59</u>
5. Income Taxes	<u>60</u>
6. Debt	<u>64</u>
7. Credit Risk and Fair Value of Financial Instruments	<u>66</u>
8. Commitments and Contingencies	<u>66</u>
9. Equity	<u>69</u>
10. Share-Based Compensation	<u>70</u>
11. Retirement Plans	<u>72</u>
12. Segment Reporting	<u>74</u>
13. Supplementary Information	<u>77</u>
14. Earnings Per Share	<u>79</u>
15. Acquisitions	<u>80</u>
16. Divestiture-Related Activities	<u>80</u>
17. Quarterly Financial Data (Unaudited)	<u>81</u>
Financial Statement Schedule:	
II — Valuation and Qualifying Accounts for the years ended December 31, 2017, 2016, and 2015	<u>82</u>

All other schedules have been omitted because the required information is not applicable or is not present in amounts sufficient to require submission or because the information required is included in the consolidated financial statements or the related notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Service Corporation International

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Service Corporation International and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
February 14, 2018

We have served as the Company's auditor since 1993.

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31,		
	2017	2016	2015
	(In thousands, except per share amounts)		
Revenue	\$ 3,095,031	\$ 3,031,137	\$ 2,986,041
Costs and expenses	(2,372,842)	(2,354,703)	(2,311,452)
Operating profit	722,189	676,434	674,589
General and administrative expenses	(154,423)	(137,730)	(130,813)
Gains (losses) on divestitures and impairment charges, net	7,015	(26,819)	6,522
Hurricane expense, net	(5,584)	—	—
Operating income	569,197	511,885	550,298
Interest expense	(169,125)	(162,093)	(172,897)
Losses on early extinguishment of debt, net	(274)	(22,503)	(6,918)
Other income (expense), net	460	(631)	(132)
Income from continuing operations before income taxes	400,258	326,658	370,351
Benefit from (provision for) income taxes	146,589	(149,353)	(135,027)
Income from continuing operations	546,847	177,305	235,324
Net loss from discontinued operations, net of tax	—	—	(390)
Net income	546,847	177,305	234,934
Net income attributable to noncontrolling interests	(184)	(267)	(1,162)
Net income attributable to common stockholders	\$ 546,663	\$ 177,038	\$ 233,772
Basic earnings per share:			
Net income attributable to common stockholders	\$ 2.91	\$ 0.92	\$ 1.17
Basic weighted average number of shares	187,630	193,086	200,356
Diluted earnings per share:			
Net income attributable to common stockholders	\$ 2.84	\$ 0.90	\$ 1.14
Diluted weighted average number of shares	192,246	196,042	204,450
Dividends declared per share	\$ 0.58	\$ 0.51	\$ 0.44

(See notes to consolidated financial statements)

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Net income	\$ 546,847	\$ 177,305	\$ 234,934
Other comprehensive income:			
Foreign currency translation adjustments	25,462	10,331	(53,283)
Total comprehensive income	572,309	187,636	181,651
Total comprehensive income attributable to noncontrolling interests	(195)	(270)	(1,129)
Total comprehensive income attributable to common stockholders	<u>\$ 572,114</u>	<u>\$ 187,366</u>	<u>\$ 180,522</u>

(See notes to consolidated financial statements)

SERVICE CORPORATION INTERNATIONAL

CONSOLIDATED BALANCE SHEET

	December 31,	
	2017	2016
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 330,039	\$ 194,986
Receivables, net	90,304	98,455
Inventories	25,378	26,431
Other	35,575	34,524
Total current assets	481,296	354,396
Preneed receivables, net and trust investments	4,778,842	4,305,165
Cemetery property	1,791,989	1,776,935
Property and equipment, net	1,873,044	1,827,587
Goodwill	1,805,981	1,799,081
Deferred charges and other assets	601,184	567,520
Cemetery perpetual care trust investments	1,532,167	1,407,465
Total assets	\$ 12,864,503	\$ 12,038,149
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 489,172	\$ 439,936
Current maturities of long-term debt	337,337	89,974
Income taxes payable	2,470	7,960
Total current liabilities	828,979	537,870
Long-term debt	3,135,316	3,196,616
Deferred revenue	1,789,776	1,731,417
Deferred tax liability	283,765	454,638
Other liabilities	410,982	510,322
Deferred receipts held in trust	3,475,430	3,103,796
Care trusts' corpus	1,530,818	1,408,243
Commitments and contingencies (Note 8)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 191,935,647 and 195,403,644 shares issued, respectively, and 186,614,747 and 189,405,244 shares outstanding, respectively	186,615	189,405
Capital in excess of par value	970,468	990,203
Retained earnings (accumulated deficit)	210,364	(103,387)
Accumulated other comprehensive income	41,943	16,492
Total common stockholders' equity	1,409,390	1,092,713
Noncontrolling interests	47	2,534
Total equity	1,409,437	1,095,247
Total liabilities and equity	\$ 12,864,503	\$ 12,038,149

(See notes to consolidated financial statements)

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 546,847	\$ 177,305	\$ 234,934
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations, net of tax	—	—	390
Losses on early extinguishment of debt, net	274	22,503	6,918
Premiums paid on early extinguishment of debt	—	(20,524)	(6,549)
Depreciation and amortization	153,141	147,233	141,456
Amortization of intangibles	27,650	30,956	31,459
Amortization of cemetery property	68,102	66,745	62,407
Amortization of loan costs	5,859	5,826	9,434
Provision for doubtful accounts	9,980	10,776	6,083
(Benefit) provision for deferred income taxes	(317,838)	7,490	18,048
(Gains) losses on divestitures and impairment charges, net	(7,015)	26,819	(6,522)
Share-based compensation	14,788	14,056	13,843
Excess tax benefits from share-based awards	—	(12,685)	(18,123)
Change in assets and liabilities, net of effects from acquisitions and dispositions:			
(Increase) decrease in receivables	(9,740)	(14,198)	464
(Increase) decrease in other assets	(15,385)	17,855	2,457
Increase in payables and other liabilities	81,763	47,888	20,567
Effect of preneed sales production and maturities:			
Increase in preneed receivables, net and trust investments	(63,994)	(73,394)	(48,120)
Increase in deferred revenue	31,182	34,775	67,159
Decrease in deferred receipts held in trust	(23,274)	(25,831)	(64,119)
Net cash provided by operating activities	502,340	463,595	472,186
Cash flows from investing activities:			
Capital expenditures	(214,501)	(193,446)	(150,986)
Acquisitions, net of cash acquired	(49,988)	(69,146)	(41,258)
Proceeds from divestitures and sales of property and equipment	28,429	41,310	16,772
Net withdrawals of restricted funds and other	175	5,150	8,066
Net cash used in investing activities from continuing operations	(235,885)	(216,132)	(167,406)
Net cash provided by investing activities from discontinued operations	—	—	987
Net cash used in investing activities	(235,885)	(216,132)	(166,419)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	1,787,500	1,060,000	446,250
Debt issuance costs	(12,939)	(5,232)	(6,025)
Scheduled payments of debt	(468,973)	(36,414)	(160,220)
Early payments of debt	(1,117,512)	(875,110)	(197,377)
Principal payments on capital leases	(51,106)	(33,119)	(28,601)
Proceeds from exercise of stock options	33,611	17,662	31,809
Excess tax benefits from share-based awards	—	12,685	18,123
Purchase of Company common stock	(199,637)	(227,928)	(345,261)
Payments of dividends	(108,750)	(98,418)	(87,570)
Purchase of noncontrolling interest	(4,580)	(1,961)	(2,075)
Bank overdrafts and other	5,959	(1,095)	(7,531)
Net cash used in financing activities	(136,427)	(188,930)	(338,478)
Effect of foreign currency	5,025	1,854	(10,025)
Net increase (decrease) in cash and cash equivalents	135,053	60,387	(42,736)
Cash and cash equivalents at beginning of period	194,986	134,599	177,335
Cash and cash equivalents at end of period	\$ 330,039	\$ 194,986	\$ 134,599

(See notes to consolidated financial statements)

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF EQUITY

	Common Stock	Treasury Stock, Par Value	Capital in Excess of Par Value	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
(In thousands, except per share amounts)							
Balance at December 31, 2014	\$ 205,458	\$ (591)	\$ 1,186,304	\$ (81,859)	\$ 59,414	\$ 8,652	\$ 1,377,378
Comprehensive income	—	—	—	233,772	(53,250)	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 award, net of forfeitures and other	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 of 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	<u>\$ 200,859</u>	<u>\$ (5,086)</u>	<u>\$ 1,092,106</u>	<u>\$ (109,351)</u>	<u>\$ 6,164</u>	<u>\$ 4,709</u>	<u>\$ 1,189,401</u>
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	<u>\$ 195,403</u>	<u>\$ (5,998)</u>	<u>\$ 990,203</u>	<u>\$ (103,387)</u>	<u>\$ 16,492</u>	<u>\$ 2,534</u>	<u>\$ 1,095,247</u>
Comprehensive income	—	—	—	546,663	25,451	195	572,309
Dividends declared on common stock (\$.58 per share)	—	—	(37,011)	(71,739)	—	—	(108,750)
Stock option exercises	2,759	—	30,852	—	—	—	33,611
Restricted stock awards, net of forfeitures	209	(2)	(207)	—	—	—	—
Employee share-based compensation earned	—	—	14,788	—	—	—	14,788
Purchase of Company common stock	—	(6,211)	(32,253)	(161,173)	—	—	(199,637)
Purchase of noncontrolling interest	—	—	(2,258)	—	—	(2,322)	(4,580)
Noncontrolling interest payments	—	—	—	—	—	(360)	(360)
Retirement of treasury shares	(6,890)	6,890	—	—	—	—	—
Other	455	—	6,354	—	—	—	6,809
Balance at December 31, 2017	<u>\$ 191,936</u>	<u>\$ (5,321)</u>	<u>\$ 970,468</u>	<u>\$ 210,364</u>	<u>\$ 41,943</u>	<u>\$ 47</u>	<u>\$ 1,409,437</u>

(See notes to consolidated financial statements)

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, travel protection, and catering. Funeral merchandise, including burial caskets and related accessories, urns and other cremation receptacles, outer burial containers, flowers, online and video tributes, stationery products, casket and cremation memorialization products, and other ancillary merchandise, is sold at funeral service locations.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

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

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

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. In 2017, we moved certain of our crematories from the cemetery segment to the funeral segment and recast prior period amounts to reflect this change in organization structure. 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 preneed and atneed receivables and the related 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, 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 net realizable value. Cemetery property is recorded at cost. Inventory costs and cemetery property are relieved using specific identification in performance of a contract. Cemetery property amortization was \$68.1 million, \$66.7 million, and \$62.4 million for the years ended December 31, 2017, 2016, and 2015, 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 \$153.1 million, \$147.2 million, and \$141.5 million for the years ended December 31, 2017, 2016, and 2015, 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, 2017. 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 8.

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 order to perform 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 4.7% 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 2017 or 2016. For more information related to goodwill, see Note 4.

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 asset 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 underperformance relative to historical or projected future operating results and significant negative industry or economic trends. No interim intangible impairment reviews were required in 2017 or 2016.

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 4.

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:

- Where quoted prices are available in an active market, securities held by the trusts are classified as Level 1 investments.
- 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.
- 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.

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.

Fixed income commingled funds, money market funds, and private equity investments are measured at net asset value. Fixed income commingled funds and money market funds are redeemable for net asset value with two weeks' notice and immediately, respectively. 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.

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.

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*. These investment losses, if any, are offset by the corresponding reclassification in *Other income/(expense)*, related to *Deferred receipts held in trust, net*. For the years ended December 31, 2017, 2016, and 2015, we recorded a \$28.9 million, a \$11.9 million, and a \$9.6 million, respectively, impairment charge for other-than-temporary declines in fair value related to certain investments.

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. We canceled 6.9 million, 7.9 million, and 8.0 million shares of common stock held in our treasury in 2017, 2016, and 2015, respectively. These retired treasury shares were changed to authorized but unissued status.

Foreign Currency Translation

All assets and liabilities of Canadian 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 income/(expense), net* in the Consolidated Statement of Operations. We do not have any investments in foreign operations considered to be in highly inflationary economies.

Funeral and Cemetery Operations

Revenue is recognized when merchandise is delivered or services are 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. Sales taxes collected are recognized on a net basis in our consolidated financial statements.

We sell price-guaranteed preneed contracts through various programs providing for future merchandise and services at prices prevailing when the agreements are signed. Revenue associated with sales of preneed contracts is deferred until merchandise is delivered or the services are performed, generally at the time of need. Travel protection and certain memorialization merchandise sold on a preneed basis are delivered to the customer at the time of sale and are recognized at the time delivery occurs. For personalized marker merchandise, with the customer's direction generally obtained at the time of sale, we may 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 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 merchandise or services sold on a preneed basis may be required to be deposited into trust funds. When we receive payments from the customer, we deposit the amount required by law into the merchandise and service trusts and reclassify the corresponding amount from *Deferred revenue* into *Deferred receipts held in trust*. Amounts are withdrawn from the merchandise and service trusts when the contract obligations are performed. We defer investment earnings related to these merchandise and service trusts until the associated merchandise is delivered or services are performed. Fees charged by our wholly-owned registered investment advisor are also included in 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 revenue.

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 sales of merchandise and services are charged to expense when merchandise is delivered or services are performed. 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.

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 2017, 2016, and 2015 was \$121.0 million, \$135.8 million, and \$137.0 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.

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 for 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. 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.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Act. The Tax Act makes broad and complex changes to the U.S. tax code by, among other things, reducing the federal corporate income tax rate, requiring payment of a one-time transition tax on unrepatriated earnings of foreign subsidiaries, generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, creating a new limitation on deductible interest expense, creating bonus depreciation that will allow for full expensing on qualified property, and imposing limitations on deductibility of certain executive compensation.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting for the income tax effects of certain elements of the Tax Act. In accordance with SAB 118, we have recognized the provisional tax impacts related to deemed repatriated earnings and the remeasurement of deferred tax assets and liabilities and included these amounts in our consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act. For further information on the impacts of the Tax Act, see Note 5 in Part II, Item 8. Financial Statements and Supplementary Data.

Accounting Standards Adopted in 2017

Stock Compensation

In March 2016, the FASB amended "*Stock Compensation*", modifying certain aspects of the accounting for share-based payment transactions, which requires the tax effects related to share-based payments to be recorded through the statement of operations, simplifies the accounting requirements for forfeitures and employers' tax withholding requirements, and modifies the presentation of certain items on the statement of cash flows. The guidance requires the tax effect related to the settlement of share-based awards be included in income tax benefit or expense in the statement of operations rather than in additional paid-in-capital. This guidance also eliminates the requirement to reclassify excess tax benefits from operating activities to financing activities within the statement of cash flows. We adopted the new guidance in the first quarter of 2017, as required, and the impact of the restricted stock deliveries and option exercises for the year ended December 31, 2017 was a reduction to our provision for income taxes of \$18.6 million. Prior periods have not been retrospectively adjusted for adoption of this guidance. The remaining amendments to this standard, as noted above, are either not applicable or do not change our current accounting practices and thus do not impact our consolidated financial statements, including our consolidated statement of cash flows.

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 price 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 our adoption did not materially impact our consolidated results of operations, consolidated financial position, or cash flows.

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.

We established a cross-functional implementation team and analyzed the impact on our contract portfolio by reviewing our revenue streams and our current policies and procedures to identify potential differences that would result from applying the requirements of the new standard to our contracts. The implementation team reported findings and progress of the project to management on a frequent basis. Through this process, we have identified and made appropriate changes to our processes, systems, and controls to support recognition and disclosure under the new standard.

During 2017, we evaluated the potential changes from adopting the new standard on our future reporting and disclosures. We also reviewed our contracts and developed a process for the systematic application of the standard to existing undelivered performance obligations at adoption. Additionally, we made programming changes to our point-of-sale system to accommodate recognition and disclosure requirements under the new standard. Finally, we identified and designed additional controls around new processes that were implemented upon adoption of the new standard.

The standard primarily impacts the manner in which we recognize a) certain nonrefundable up-front fees and b) 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. Additionally, the amounts due from customers for undelivered performance obligations on cancelable preneed contracts represent contract assets, which are required to be netted with *Deferred revenue*, instead of *Preneed receivables, net and trust investments* on our Consolidated Balance Sheet.

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.

We adopted the standard as of January 1, 2018 using the modified retrospective approach, which recognizes the cumulative effect of adoption on that date.

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. These changes in fair value will be offset by a corresponding change in the fair value of *Deferred receipts held in trust or Care trusts' corpus*. The new guidance was effective for us on January 1, 2018 and our adoption did not materially impact our consolidated results of operations, consolidated financial position, or cash flows.

Stock Compensation

In May 2017, the FASB amended "*Stock Compensation*" to clarify which changes in terms and conditions of share-based awards require accounting for as modifications. Under the new guidance, modification accounting is required only if the fair value, vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The new guidance was effective for us on January 1, 2018, and our adoption did not materially impact our consolidated results of operations, consolidated financial position, or cash flows.

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. As a result of the amended guidance, we will reclassify premiums paid on early extinguishment of debt from cash flows from operating activities to cash flows from financing activities and both proceeds from insurance claims and premium payments on company-owned life insurance from cash flows from operating activities to cash flows from investing activities. The guidance requires these presentation changes to be made retrospectively and is effective for us beginning in 2018.

Retirement Plans

In March 2017, the FASB amended "*Retirement Plans*" to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by requiring the classification of interest costs and actuarial gains and losses separately from operating income on the consolidated statement of operations. We intend to apply the practical expedient of reclassifying the amounts disclosed as "total net periodic benefit cost" in Note 11 from operating income to other income in future filings as the guidance requires these presentation changes to be made retrospectively and is effective for us beginning in 2018.

Financial Instruments

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.

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 Activities

Preneed receivables, net and trust investments

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

	2017	2016
	(In thousands)	
Preneed funeral receivables	\$ 336,925	\$ 312,556
Preneed cemetery receivables	1,118,146	1,038,592
Preneed receivables from customers	1,455,071	1,351,148
Unearned finance charge	(45,515)	(45,989)
Allowance for cancellation	(107,749)	(104,740)
Preneed receivables, net	1,301,807	1,200,419
Trust investments, at market	4,749,548	4,240,963
Assets associated with business held for sale	(5,660)	—
Insurance-backed fixed income securities and other	265,314	271,248
Trust investments	5,009,202	4,512,211
Less: Cemetery perpetual care trust investments	(1,532,167)	(1,407,465)
Preneed trust investments	3,477,035	3,104,746
Preneed receivables, net and trust investments	\$ 4,778,842	\$ 4,305,165

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

	2017	2016	2015
	(In thousands)		
Deposits	\$ 371,234	\$ 321,232	\$ 313,244
Withdrawals	\$ 415,283	\$ 350,379	\$ 364,314
Purchases of available-for-sale securities	\$ 2,057,348	\$ 1,462,900	\$ 1,326,398
Sales of available-for-sale securities	\$ 1,999,918	\$ 1,393,728	\$ 1,261,777
Realized gains from sales of available-for-sale securities ⁽¹⁾⁽²⁾	\$ 256,413	\$ 100,284	\$ 100,477
Realized losses from sales of available-for-sale securities ⁽¹⁾	\$ (76,963)	\$ (113,806)	\$ (79,203)

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

(2) Given the positive performance of the financial markets in 2017 and a significant realignment of certain portions of our trust portfolio, we experienced a substantial increase in our realized gains during the year.

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

	2017	2016	2015
	(In thousands)		
Beginning balance — Preneed receivables, net and trust investments	\$ 4,305,165	\$ 4,078,464	\$ 4,149,692
Net preneed contract sales	1,257,288	1,159,194	1,083,424
Cash receipts from customers, net of refunds	(1,109,380)	(1,030,703)	(951,099)
Deposits to trust	328,241	279,782	274,361
Acquisitions of businesses, net	8,153	1,477	5,804
Net undistributed investment earnings (losses) ⁽¹⁾	384,512	145,511	(80,699)
Maturities and distributed earnings	(411,452)	(337,912)	(364,367)
Change in cancellation allowance	(528)	3,329	741
Effect of foreign currency and other	16,843	6,023	(39,393)
Ending balance — Preneed receivables net, and trust investments	<u>\$ 4,778,842</u>	<u>\$ 4,305,165</u>	<u>\$ 4,078,464</u>

(1) Includes both realized and unrealized investment earnings.

The cost and market values associated with trust investments recorded at market value at December 31, 2017 and 2016 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Market value represents the value of the underlying securities held by the trusts.

	December 31, 2017				
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 48,805	\$ 14	\$ (117)	\$ 48,702
Canadian government	2	81,500	160	(1,089)	80,571
Corporate	2	13,540	327	(170)	13,697
Residential mortgage-backed	2	3,279	16	(14)	3,281
Asset-backed	2	320	15	(10)	325
Equity securities:					
Preferred stock	2	7,834	385	(139)	8,080
Common stock:					
United States	1	1,161,015	266,822	(24,739)	1,403,098
Canada	1	30,762	12,545	(522)	42,785
Other international	1	63,510	13,174	(2,834)	73,850
Mutual funds:					
Equity	1	613,934	59,100	(4,312)	668,722
Fixed income	1	1,230,196	11,897	(23,943)	1,218,150
Other	3	5,953	3,114	—	9,067
Trust investments, at fair value		3,260,648	367,569	(57,889)	3,570,328
Commingled funds					
Fixed income		454,242	235	(5,860)	448,617
Equity		214,000	12,826	—	226,826
Money market funds		287,435	—	—	287,435
Private equity		166,860	51,631	(2,149)	216,342
Trust investments, at net asset value		1,122,537	64,692	(8,009)	1,179,220
Trust investments, at market		\$ 4,383,185	\$ 432,261	\$ (65,898)	\$ 4,749,548

December 31, 2016					
	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 145,315	\$ 884	\$ (838)	\$ 145,361
Canadian government	2	79,141	409	(222)	79,328
Corporate	2	18,934	295	(227)	19,002
Residential mortgage-backed	2	333	1	(1)	333
Asset-backed	2	448	16	(31)	433
Equity securities:					
Preferred stock	2	2,907	83	(156)	2,834
Common stock:					
United States	1	1,107,942	151,146	(35,542)	1,223,546
Canada	1	25,708	10,030	(455)	35,283
Other international	1	83,238	4,995	(10,632)	77,601
Mutual funds:					
Equity	1	688,120	19,962	(56,857)	651,225
Fixed income	1	875,615	6,203	(46,219)	835,599
Other	3	4,712	2,468	(17)	7,163
Trust investments, at fair value		3,032,413	196,492	(151,197)	3,077,708
Fixed income commingled funds		692,434	8,524	(12,234)	688,724
Money market funds		304,055	—	—	304,055
Private equity		175,881	9,812	(15,217)	170,476
Trust investments, at net asset value		1,172,370	18,336	(27,451)	1,163,255
Trust investments, at market		\$ 4,204,783	\$ 214,828	\$ (178,648)	\$ 4,240,963

As of December 31, 2017, our unfunded commitment for our private equity and other investments was \$129.4 million which, if called, would be funded by the assets of the trusts.

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

	2017	2016	2015
	(In thousands)		
Fair value, beginning balance at January 1	\$ 7,163	\$ 8,162	\$ 6,650
Net unrealized gains included in <i>Accumulated other comprehensive income</i> (1)	912	463	152
Net realized losses included in <i>Other income (expense), net</i> (2)	—	(212)	—
Purchases	1,945	89	1,360
Sales	(953)	(1,339)	—
Fair value, ending balance at December 31	\$ 9,067	\$ 7,163	\$ 8,162

- (1) All unrealized gains recognized in *Accumulated other comprehensive income* for our trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in *Accumulated other comprehensive income* to *Deferred receipts held in trust*.
- (2) All losses recognized in *Other income (expense), net* for our trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in *Other income (expense) income, net* to *Deferred receipts held in trust*.

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

	Fair Value (In thousands)
Due in one year or less	\$ 75,831
Due in one to five years	61,283
Due in five to ten years	9,101
Thereafter	361
Total estimated maturities of fixed income securities	\$ 146,576

Recognized trust fund income (realized and unrealized) related to our preneed trust investments was \$112.6 million, \$94.4 million, and \$98.4 million for the years ended December 31, 2017, 2016, and 2015, respectively. Recognized trust fund income (realized and unrealized) related to our cemetery perpetual care trust investments was \$62.9 million, \$67.6 million, and \$59.6 million for the years ended December 31, 2017, 2016, and 2015, respectively.

We have determined that the unrealized losses in our 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 trust investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2017 and 2016, are shown in the following tables:

	December 31, 2017					
	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	\$ 29,014	\$ (115)	\$ 106	\$ (2)	\$ 29,120	\$ (117)
Canadian government	20,947	(639)	6,370	(450)	27,317	(1,089)
Corporate	2,423	(31)	4,453	(139)	6,876	(170)
Residential mortgage-backed	2,880	(12)	151	(2)	3,031	(14)
Asset-backed	—	—	74	(10)	74	(10)
Equity securities:						
Preferred stock	1,106	(92)	248	(47)	1,354	(139)
Common stock:						
United States	184,973	(20,561)	18,542	(4,178)	203,515	(24,739)
Canada	1,307	(224)	1,314	(298)	2,621	(522)
Other international	19,070	(2,499)	2,327	(335)	21,397	(2,834)
Mutual funds:						
Equity	32,348	(1,193)	21,140	(3,119)	53,488	(4,312)
Fixed income	225,766	(1,402)	294,980	(22,541)	520,746	(23,943)
Trust investments, at fair value	519,834	(26,768)	349,705	(31,121)	869,539	(57,889)
Commingled funds						
Fixed income	215,295	(988)	181,358	(4,872)	396,653	(5,860)
Private equity	—	—	11,752	(2,149)	11,752	(2,149)
Trust investments, at net asset value	215,295	(988)	193,110	(7,021)	408,405	(8,009)
Total temporarily impaired securities	\$ 735,129	\$ (27,756)	\$ 542,815	\$ (38,142)	\$ 1,277,944	\$ (65,898)

	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	\$ 41,409	\$ (838)	\$ —	\$ —	\$ 41,409	\$ (838)
Canadian government	2,913	(31)	3,344	(191)	6,257	(222)
Corporate	2,107	(22)	6,162	(205)	8,269	(227)
Residential mortgage-backed	303	(1)	—	—	303	(1)
Asset backed	28	(22)	156	(9)	184	(31)
Equity securities:						
Preferred stock	971	(53)	515	(103)	1,486	(156)
Common stock:						
United States	271,433	(23,168)	50,923	(12,374)	322,356	(35,542)
Canada	3,318	(383)	1,078	(72)	4,396	(455)
Other international	19,274	(4,139)	24,525	(6,493)	43,799	(10,632)
Mutual funds:						
Equity	234,714	(9,825)	276,504	(47,032)	511,218	(56,857)
Fixed income	323,917	(5,941)	425,614	(40,278)	749,531	(46,219)
Other	26	(2)	1,160	(15)	1,186	(17)
Trust investments, at fair value	900,413	(44,425)	789,981	(106,772)	1,690,394	(151,197)
Fixed income commingled funds	473,550	(11,714)	20,587	(520)	494,137	(12,234)
Private equity	22,677	(750)	73,100	(14,467)	95,777	(15,217)
Trust investments, at net asset value	496,227	(12,464)	93,687	(14,987)	589,914	(27,451)
Total temporarily impaired securities	\$ 1,396,640	\$ (56,889)	\$ 883,668	\$ (121,759)	\$ 2,280,308	\$ (178,648)

Deferred revenue

At December 31, 2017 and 2016, *Deferred revenue*, net of allowance for cancellation, represents future revenue, including distributed trust investment earnings associated with unperformed trust-funded preneed contracts that are not held in trust accounts. Future revenue and net trust investment earnings that are held in trust accounts are included in *Deferred receipts held in trust*.

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

	2017	2016	2015
	(In thousands)		
Beginning balance — Deferred revenue	\$ 1,731,417	\$ 1,677,898	\$ 1,602,545
Net preneed contract sales	900,037	847,848	794,527
Acquisitions (divestitures) of businesses, net	10,488	193	(538)
Net investment earnings (losses) ⁽¹⁾	381,436	146,103	(80,014)
Recognized deferred revenue	(876,857)	(823,319)	(780,423)
Change in cancellation allowance	(165)	5,396	3,627
Change in deferred receipts held in trust	(361,499)	(124,923)	142,401
Effect of foreign currency and other	4,919	2,221	(4,227)
Ending balance — Deferred revenue	\$ 1,789,776	\$ 1,731,417	\$ 1,677,898

(1) Includes both realized and unrealized investment earnings.

4. Goodwill and Intangible Assets

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

	2017			2016		
	Funeral	Cemetery	Total	Funeral	Cemetery	Total
	(In thousands)					
Balance as of January 1	\$ 1,493,655	\$ 305,426	\$ 1,799,081	\$ 1,490,502	\$ 305,838	\$ 1,796,340
Increase (decrease) in goodwill related to acquisitions	8,013	1,215	9,228	26,809	(151)	26,658
Reduction of goodwill related to divestitures	(5,413)	(224)	(5,637)	(26,554)	(270)	(26,824)
Held for sale	(3,082)	(177)	(3,259)	—	—	—
Effect of foreign currency	6,568	—	6,568	2,898	9	2,907
Activity	6,086	814	6,900	3,153	(412)	2,741
Balance as of December 31	<u>\$ 1,499,741</u>	<u>\$ 306,240</u>	<u>\$ 1,805,981</u>	<u>\$ 1,493,655</u>	<u>\$ 305,426</u>	<u>\$ 1,799,081</u>

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

	Useful Life			2017	2016
	Minimum		Maximum		
	(Years)				
Amortizing intangibles:					
Covenants-not-to-compete	2	-	20	\$ 214,628	\$ 211,549
Customer relationships	10	-	20	129,516	146,876
Tradenames	5	-	5	9,150	9,150
Other	5	-	40	11,927	11,927
				365,221	379,502
Less: accumulated amortization:					
Covenants-not-to-compete				192,296	186,430
Customer relationships				61,321	71,903
Tradenames				7,320	5,490
Other				4,830	4,238
				265,767	268,061
Amortizing intangibles, net				99,454	111,441
Non-amortizing intangibles:					
Tradenames			Indefinite	263,880	245,984
Other			Indefinite	10,765	10,640
Non-amortizing intangibles				274,645	256,624
Intangible assets, net				\$ 374,099	\$ 368,065

As part of our annual recoverability testing process during 2017, we recognized \$0.6 million of impairment on tradenames. Amortization expense for intangible assets was \$27.7 million, \$31.0 million, and \$31.5 million for the years ended December 31, 2017, 2016, and 2015, 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, 2017 (in thousands):

2018	\$	11,718
2019		9,100
2020		7,371
2021		6,613
2022		5,554
Total estimated amortization expense	\$	<u>40,356</u>

5. 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.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code by, among other things, reducing the federal corporate income tax rate, requiring payment of a one-time transition tax on unrepatriated earnings of foreign subsidiaries, generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, creating a new limitation on deductible interest expense, creating a bonus depreciation that will allow for full expensing on qualified property, and imposing limitation on deductibility of certain executive compensation.

The Tax Act reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. As a result of the reduction in the U.S. corporate income tax rate, we re-measured our ending net deferred tax liabilities at December 31, 2017 at the rate at which they are expected to reverse in the future and recognized a provisional tax benefit of \$168.4 million. We are still analyzing certain aspects of the Tax Act, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

The Tax Act provided for a one-time deemed mandatory repatriation of post-1986 undistributed foreign E&P through the year ended December 31, 2017. We had an estimated \$195.1 million of undistributed foreign E&P subject to the deemed mandatory repatriation and recognized a provisional \$22.2 million of income tax expense, payable over eight years. As of December 31, 2017, foreign withholding taxes have not been provided on the undistributed E&P of our foreign subsidiaries as we intend to permanently reinvest these foreign earnings in those businesses outside the U.S. However, if we were to repatriate such foreign E&P, the foreign withholding tax liability is estimated to be \$10 million. We have calculated our best estimate of the impact of this provision in accordance with our understanding of the Tax Act and guidance available as of the date of this filing.

Beginning in 2018, the Tax Act includes a new U.S. tax base erosion provision designed to tax the global intangible low-taxed income ("GILTI"). The GILTI provisions require us to include in our U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. We do not expect GILTI to be material in the future. We have not yet adopted an accounting policy for GILTI pursuant to the recent guidance under SAB 118.

In accordance with SAB 118, we have recognized the provisional tax impacts related to deemed repatriated earnings and the remeasurement of deferred tax assets and liabilities and included these amounts in our consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act.

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

	2017	2016	2015
	(In thousands)		
United States	\$ 347,680	\$ 287,946	\$ 331,622
Foreign	52,578	38,712	38,729
	<u>\$ 400,258</u>	<u>\$ 326,658</u>	<u>\$ 370,351</u>

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

	2017	2016	2015
	(In thousands)		
Current:			
United States	\$ 154,128	\$ 113,629	\$ 94,502
Foreign	12,187	12,084	9,270
State	4,934	16,150	13,207
Total current income taxes	171,249	141,863	116,979
Deferred:			
United States	\$ (314,389)	\$ (19,496)	\$ 15,918
Foreign	618	22,708	(878)
State	(4,067)	4,278	3,008
Total deferred income taxes	(317,838)	7,490	18,048
Total income taxes	\$ (146,589)	\$ 149,353	\$ 135,027

We made income tax payments of \$170.2 million, \$115.0 million, and \$105.4 million in 2017, 2016, and 2015, respectively, and received refunds of \$3.4 million, \$2.4 million, and \$1.9 million, respectively. The income tax payments for 2017 include \$34.2 million settlement payments to the IRS.

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:

	2017	2016	2015
	(In thousands)		
Computed tax provision at the applicable federal statutory income tax rate	\$ 140,090	\$ 114,331	\$ 129,623
State and local taxes, net of federal income tax benefits	8,216	13,279	10,542
Foreign jurisdiction differences	(6,782)	(2,557)	(5,183)
Permanent differences associated with divestitures	1,925	9,267	2,909
Changes in uncertain tax positions and audit settlements	(105,821)	5,669	4,046
Foreign valuation allowance, net of federal income tax benefits	1,186	15,850	—
Enactment of US Tax Reform	(146,160)	—	—
Excess tax benefit from share-based compensation	(18,521)	—	—
Other	(20,722)	(6,486)	(6,910)
(Benefit from) Provision for income taxes	\$ (146,589)	\$ 149,353	\$ 135,027
Total consolidated effective tax rate	(36.6)%	45.7%	36.5%

The lower effective tax rate for the twelve months ended December 31, 2017 was primarily due to the effects of the Tax Act discussed above, and the recent IRS audit settlement as well as the result of tax benefits recognized on the settlement of employee share-based awards from the adoption of new accounting guidance in the first quarter of 2017 (See Note 2 for further information). 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.

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:

	2017	2016
	(In thousands)	
Inventories and cemetery property	\$ (222,431)	\$ (335,795)
Property and equipment	(109,631)	(149,450)
Intangibles	(194,159)	(294,251)
Other	(4,902)	(6,980)
Deferred tax liabilities	(531,123)	(786,476)
Loss and tax credit carryforwards	170,979	157,795
Deferred revenue on preneed funeral and cemetery contracts	155,679	223,174
Accrued liabilities	62,727	84,230
Deferred tax assets	389,385	465,199
Less: Valuation allowance	(141,154)	(132,500)
Net deferred income tax liability	<u>\$ (282,892)</u>	<u>\$ (453,777)</u>

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

	2017	2016
	(In thousands)	
Non-current deferred tax assets	\$ 873	\$ 861
Non-current deferred tax liabilities	(283,765)	(454,638)
Net deferred income tax liability	<u>\$ (282,892)</u>	<u>\$ (453,777)</u>

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2015 to December 31, 2017 (in thousands):

	Federal, State, and Foreign Tax
	(In thousands)
Balance at December 31, 2014	\$ 191,680
Additions to tax positions related to the current year	3,235
Reductions to tax positions related to prior years	(12,370)
Balance at December 31, 2015	\$ 182,545
Reduction to tax positions related to prior years	(4,219)
Balance at December 31, 2016	\$ 178,326
Reductions to tax positions as a result of audit settlement	(30,333)
Reductions to tax positions related to prior years	\$ (68,538)
Balance at December 31, 2017	<u>\$ 79,455</u>

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rates were \$79.5 million, \$161.8 million, and \$157.2 million as of December 31, 2017, 2016, and 2015, respectively.

We include potential accrued interest and penalties related to unrecognized tax benefits within our income tax provision account. We have accrued \$11.1 million, \$57.3 million, and \$51.6 million for the payment of interest, net of tax benefits, and penalties as of December 31, 2017, 2016, and 2015, respectively. We recorded a decrease of interest and penalties of \$46.2 million, and an increase of \$5.7 million, and \$4.0 million for the years ended December 31, 2017, 2016, and 2015, 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.

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. As a result of this resolution, we recognized a reduction in our unrecognized tax benefits of \$143.0 million, of which \$102.5 million was recognized as an income tax benefit for the matters that were effectively settled with an increase in our taxes payable of \$40.5 million. In June 2017, we made \$34.2 million in settlement payments and associated interest to the IRS. Tax years subsequent to 2005 remain open to review and adjustment by the IRS. Moreover, various state jurisdictions are auditing years 2000 through 2016. It is reasonably possible that the amount of unrecognized tax benefits could significantly decrease over the next 12 months. However, since the years to which uncertain tax positions relate remain subject to review by the tax authorities, 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)			
2018	\$ —	\$ 108,312	\$ —	\$ 108,312
2019	—	127,914	—	127,914
2020	—	176,591	—	176,591
2021	—	158,672	—	158,672
Thereafter	—	3,232,606	7,151	3,239,757
Total	\$ —	\$ 3,804,095	\$ 7,151	\$ 3,811,246

In addition to the above loss carryforwards, we have \$58.4 million of foreign losses that have an indefinite expiration.

In assessing the usefulness of deferred tax assets, we consider 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. During 2017, we recorded a net \$3.2 million increase in state valuation allowance, due primarily to the reduction of federal benefit related to the new lower federal tax rate, partially offset by state net operating loss expirations. We also recorded a \$4.8 million increase in foreign valuation allowance, due primarily to the effects of the federal tax rate reduction. The valuation allowances can be affected in future periods by changes to tax laws, changes to statutory tax rates, and changes in estimates of future taxable income.

At December 31, 2017, 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	\$ —	\$ 150,031	\$ 20,948	\$ 170,979
Valuation allowance	\$ —	\$ 104,637	\$ 36,517	\$ 141,154

6. Debt

Debt as of December 31 was as follows:

	2017	2016
	(In thousands)	
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
4.625% Senior Notes due December 2027	550,000	—
Term Loan due December 2022	675,000	—
Term Loan due March 2021	—	673,750
Bank Credit Facility due March 2021	—	350,000
Obligations under capital leases	197,232	208,758
Mortgage notes and other debt, maturities through 2050	6,036	3,753
Unamortized premiums (discounts) and other, net	7,456	8,313
Unamortized debt issuance costs	(38,071)	(32,984)
Total debt	3,472,653	3,286,590
Less: Current maturities of long-term debt	(337,337)	(89,974)
Total long-term debt	<u>\$ 3,135,316</u>	<u>\$ 3,196,616</u>

Current maturities of debt at December 31, 2017 include amounts due within one year on publicly traded notes, our term loan, and capital leases. The publicly traded notes are a \$250.0 million 7.625% Senior notes due October 2018, which were redeemed on January 12, 2018.

Our consolidated debt had a weighted average interest rate of 4.73% and 4.68% at December 31, 2017 and 2016, respectively. Approximately 75% and 63% of our total debt had a fixed interest rate at December 31, 2017 and 2016, respectively.

The following table summarizes the aggregate maturities of our debt for the five years subsequent to December 31, 2017 and thereafter, excluding unamortized premiums (discounts) and debt issuance costs (in thousands):

2018	\$ 342,786
2019	64,665
2020	270,423
2021	216,731
2022	976,331
2023 and thereafter	1,632,332
Total debt maturities	<u>\$ 3,503,268</u>

Bank Credit Facility

In December 2017, we entered into a new \$1.7 billion bank credit agreement due December 2022 with a syndicate of banks. The \$1.7 billion bank credit agreement comprises a \$1.0 billion Bank Credit Facility and a \$0.7 billion Term Loan, both due December 2022, including a sublimit of \$100 million for letters of credit.

As of December 31, 2017, we have no outstanding borrowings under our Bank Credit Facility and have issued \$33.3 million of letters of credit. The Bank Credit Facility provides us with flexibility, 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, 2017, we are in compliance with all covenants. We pay a quarterly fee on the unused commitment, which was 0.25% at December 31, 2017. As of December 31, 2017, we have \$966.7 million in borrowing capacity under the facility.

As of December 31, 2016, we had a \$673.8 million Term Loan and \$350 million Bank Credit Facility due March 2021 with a syndicate of financial institutions, including a sublimit of \$100 million for letters of credit; which were replaced by the new bank credit agreement in December 2017.

Debt Issuances and Additions

During the year ended December 31, 2017, we borrowed \$675.0 million on our Term Loan due December 2022, \$562.5 million on our Bank Credit Facilities, and issued \$550.0 million unsecured 4.625% Senior Notes Due December 2027 to make the 2017 debt payments described below, to fund acquisition activity, and for general corporate purposes. These transactions resulted in an additional \$12.9 million of debt issuance costs.

Debt Extinguishments and Reductions

During the year ended December 31, 2017, we made debt payments of \$1.6 billion for scheduled and early payments including:

- \$647.5 million in aggregate principal of our Term Loan due March 2021;
- \$470.0 million in aggregate principal of our Bank Credit Facility due March 2021;
- \$442.5 million in aggregate principal of our Bank Credit Facility due December 2022;
- \$26.3 million in aggregate principal of our Term Loan due March 2021 as a scheduled payment; and
- \$0.2 million in other debt.

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 for the year ended December 31, 2016.

Additional Debt Disclosures

At December 31, 2017 and 2016, we had deposits of \$3.7 million and \$4.7 million, respectively, in restricted, interest-bearing accounts that were pledged as collateral for various credit instruments and commercial commitments. These deposits are included in *Other current assets* and *Deferred charges and other assets* in our Consolidated Balance Sheet.

We had assets of approximately \$1.2 million and \$1.4 million pledged as collateral for the mortgage notes and other debt at December 31, 2017 and 2016, respectively.

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

Payments in 2017	\$	160,843
Payments in 2016	\$	156,950
Payments in 2015	\$	164,748

Expected cash interest payments for the five years subsequent to December 31, 2017 and thereafter are as follows (in thousands):

Payments in 2018	\$	160,076
Payments in 2019		144,948
Payments in 2020		143,879
Payments in 2021		133,972
Payments in 2022		92,235
Payments in 2023 and thereafter		264,398
Total expected cash interest payments	\$	939,508

Subsequent Events

In January 2018, we drew \$175.0 million on our Bank Credit Facility due December 2022 to repay our \$250.0 million 7.625% Senior notes due October 2018.

7. 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:

	2017	2016
	(In thousands)	
7.625% Senior Notes due October 2018	\$ 259,563	\$ 272,353
4.5% Senior Notes due November 2020	199,590	205,000
8.0% Senior Notes due November 2021	175,313	175,500
5.375% Senior Notes due January 2022	436,178	444,614
5.375% Senior Notes due May 2024	892,118	884,000
4.625% Senior Notes due December 2027	558,250	—
7.5% Senior Notes due April 2027	238,004	231,590
Term Loan due March 2021	—	673,750
Bank Credit Facility due March 2021	—	350,000
Term Loan due December 2022	675,000	—
Mortgage notes and other debt, maturities through 2050	6,036	3,753
Total fair value of debt instruments	<u>\$ 3,440,052</u>	<u>\$ 3,240,560</u>

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 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.

8. 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 \$30.5 million, \$31.9 million, and \$33.3 million for the years ended December 31,

2017, 2016, and 2015, respectively. As of December 31, 2017, future minimum lease payments for non-cancelable operating and capital leases exceeding one year were as follows:

	Operating	Capital
	(In thousands)	
2018	\$ 13,683	\$ 58,678
2019	10,889	30,528
2020	9,461	36,344
2021	8,404	32,690
2022	7,739	11,044
2023 and thereafter	59,473	27,948
Total	<u>\$ 109,649</u>	<u>\$ 197,232</u>
Less: Interest on capital leases		(30,694)
Total principal payable on capital leases		<u>\$ 166,538</u>

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, 2017, 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)			
2018	\$ 1,796	\$ 412	\$ 5,230	\$ 7,438
2019	1,257	367	4,822	6,446
2020	609	258	3,594	4,461
2021	307	217	2,554	3,078
2022	51	146	1,935	2,132
2023 and thereafter	—	255	3,977	4,232
Total	<u>\$ 4,020</u>	<u>\$ 1,655</u>	<u>\$ 22,112</u>	<u>\$ 27,787</u>

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, 2017 and 2016, we have self-insurance reserves of \$78.2 million and \$78.0 million, respectively.

Litigation and Regulatory Matters

We are a party to various litigation and regulatory matters, investigations, and proceedings. Some of the more frequent routine litigations incidental to our business are based on burial practices claims and employment-related matters, including discrimination, harassment, and wage and hour laws and regulations. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. We intend to vigorously defend ourselves in the matters described herein; however, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these matters. We accrue such insurance recoveries when they become probable of being paid and can be reasonably estimated.

Wage and Hour Claims. We are named a defendant in various lawsuits alleging violations of federal and state laws regulating wage and hour pay, including but not limited to the Samborsky, Vasquez, Romano, and Horton 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. In July 2017, the arbitrator entered an award rejecting the plaintiffs' claims, ruling that they did not sue the correct party. 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 and the arbitrator has determined that the claims will proceed as a bilateral proceeding. 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.

Nicole Romano, individually and on behalf of all others similarly situated v. SCI Direct, Inc., et al; Case No. BC656654; in the Superior Court of California for the County of Los Angeles. This lawsuit was filed in April 2017 against an SCI subsidiary and purports to have been brought on behalf of persons who worked as independent sales representatives in the U.S. during the four years preceding the filing of the complaint. The plaintiff alleges numerous causes of action for alleged wage and hour pay violations, including misclassifying the independent sales representatives as independent contractors instead of employees. The plaintiff seeks unpaid wages, compulsory and punitive damages, attorneys' fees and costs, interest, and injunctive relief. We cannot quantify our ultimate liability, if any, in the lawsuit.

Felicia Horton, an individual and on behalf of other aggrieved employees v. SCI Direct, Inc., et al; Case No. 37-2016-00039356-CU-OE-CTL; in the Superior Court of California for the County of San Diego. This lawsuit was filed in November 2016 on behalf of the plaintiff who worked as an independent sales representative of our subsidiary in California. In addition, this lawsuit asserts claims under California Private Attorney General Act ("PAGA") provisions on behalf of other similarly situated California persons. The lawsuit alleges causes of action and seeks damages and relief similar to those in the Romano case described above. The attorneys in the Horton case have also filed additional lawsuits alleging individual and PAGA claims similar to those alleged in the Horton case. The additional lawsuits are styled *Jandy Quismundo v. SCI Direct, Inc., et al*; Case No. 37-2017-00031825-CU-OE-CTL; in the Superior Court of California for the County of San Diego, and *Jaime Kallweit v. SCI Direct, Inc., et al*; Case No. 37-2017-00037186-CU-OE-CTL; in the Superior Court for the State of California for the County of San Diego. We cannot quantify our ultimate liability, if any, in the lawsuits.

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

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

Operational Claims. We are named a defendant in various lawsuits alleging operational claims, including but not limited to the Allard and Schaefer lawsuits described below.

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. The parties reached a settlement of the lawsuit as reported in our Form 8-K filed on August 30, 2017. The settlement agreement is subject to court approval and notice to the class. The financial terms of the settlement call for SCI Direct to pay \$15.0 million, of which \$3.5 million will be paid by its insurer. As of December 31, 2017, the Company has met all obligations under the settlement agreement.

Caroline Bernstein, on behalf of herself and Marla Urofsky on behalf of Rhea Schwartz, and both on behalf of all others similarly situated v. SCI Pennsylvania Funeral Services, Inc. and Service Corporation International, Case No. 2:17-cv-04960-GAM; in the United States District Court Eastern District of Pennsylvania. This case was filed in November 2017 as a purported national or alternatively as a Pennsylvania class action regarding our Forest Hills/Shalom Memorial Park in Huntingdon Valley, Pennsylvania and our Roosevelt Memorial Park Cemetery in Trevoze, Pennsylvania. Plaintiffs allege wrongful burial and sales practices. Plaintiffs seek compensatory, consequential and punitive damages, attorneys' fees and costs, interest, and injunctive relief. We cannot quantify our ultimate liability, if any, in this matter.

Unclaimed Property Audit. We are involved in the following matter.

We have received notices from third party auditors representing unclaimed property departments of certain states regarding preneed funeral and cemetery contracts that were not funded by the purchase and assignment of the proceeds of insurance policies. The auditor claims that we are subject to the laws of those states concerning escheatment of unclaimed funds. The auditor seeks escheatment of funds from the portion of such contracts for which it claims that we will probably not be required to provide services or merchandise in the future. No actual audits have commenced at this time. We cannot quantify our ultimate liability, if any, in this matter.

The ultimate outcome of the matters described above cannot be determined at this time. We intend to vigorously defend all of the above matters; however, an adverse decision in one or more of such matters could have a material effect on us, our financial condition, results of operations, and cash flows.

9. 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, 2017 or 2016. At December 31, 2017 and 2016, 500,000,000 common shares of \$1 par value were authorized. We had 191,935,647 and 195,403,644 shares issued and 186,614,747 and 189,405,244 outstanding at par at December 31, 2017 and 2016, 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, 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 <i>Deferred receipts held in trust and Care trusts' corpus</i> , 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 <i>Deferred receipts held in trust and Care trusts' corpus</i> , net of taxes	—	(120,573)	(120,573)
Balance at December 31, 2016	\$ 16,492	\$ —	\$ 16,492
Activity in 2017	25,451	—	25,451
Net unrealized gains associated with available-for-sale securities of the trusts, net of taxes	—	243,677	243,677
Reclassification of net unrealized gains activity attributable to the <i>Deferred receipts held in trust and Care trusts' corpus</i> , net of taxes	—	(243,677)	(243,677)
Balance at December 31, 2017	\$ 41,943	\$ —	\$ 41,943

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. In 2017, we repurchased 6,210,606 shares of common stock at an aggregate cost of \$199.6 million, which is an average cost per share of \$32.14. 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 November 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 \$168.6 million at December 31, 2017.

Subsequent to December 31, 2017, we repurchased 429,859 shares for \$16.7 million at an average cost per share of \$38.83. In February 2018, our Board of Directors increased our repurchase authorization for up to \$400.0 million.

Cash Dividends

On February 13, 2018 our Board of Directors approved a cash dividend of \$0.17 per common share payable on March 30, 2018 to stockholders of record as of March 15, 2018.

10. 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 share based awards to officers and key employees. In May 2017, our shareholders approved the amended 2016 Equity Incentive Plan that reserves 13,404,404 shares of common stock for outstanding and future awards of stock options, restricted stock, and other awards to officers and key employees. On August 25, 2017, we issued 340,510 deferred common stock equivalents, or units, pursuant to provisions regarding our 2016 Equity Incentive Plan. The 63,894 remaining shares left available under grant from the Director Fee Plan were merged into the 2016 Equity Incentive Plan.

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. Outstanding options will expire, if not exercised or forfeited, within ten years from the date of grant. Restricted shares are generally expensed ratably over the period during which the restrictions lapse, which is typically 33 1/3% each year. At December 31, 2017 and 2016, 10,125,235 and 12,171,075 shares, respectively, were reserved for future option and restricted share 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	2017	2016	2015
Dividend yield	2.0%	2.0%	1.8%
Expected volatility	19.0%	19.7%	23.3%
Risk-free interest rate	1.6%	1.0%	1.3%
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:

	2017	2016	2015
	(In thousands)		
Total pretax employee share-based compensation expense included in net income	\$ 14,788	\$ 14,056	\$ 13,843
Income tax benefit related to share-based compensation included in net income	\$ 5,416	\$ 6,427	\$ 5,068

Stock Options

The following table sets forth stock option activity for the year ended December 31, 2017:

(Shares reported in whole numbers)

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2016	10,775,136	\$ 16.49
Granted	1,524,860	\$ 29.25
Exercised	(2,759,309)	\$ 12.18
Canceled	(20,388)	\$ 24.59
Outstanding at December 31, 2017	9,520,299	\$ 19.77
Exercisable at December 31, 2017	6,190,827	\$ 16.64

The aggregate intrinsic value for stock options outstanding and exercisable was \$167.1 million and \$128.1 million, respectively, at December 31, 2017.

Set forth below is certain information related to stock options outstanding and exercisable at December 31, 2017:

(Shares reported in whole numbers)

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2017	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2017	Weighted-Average Exercise Price
\$ 5.00 — 10.00	725,074	1.1	\$ 9.09	725,074	\$ 9.09
\$10.01 — 15.00	938,630	2.1	\$ 11.18	938,630	\$ 11.18
\$15.01 — 20.00	2,757,306	3.7	\$ 16.56	2,757,306	\$ 16.56
\$20.01 — 25.00	3,580,379	5.6	\$ 22.63	1,769,817	\$ 22.75
\$25.01 — 30.00	1,518,910	7.1	\$ 29.25	—	\$ —
\$ 5.00 — 30.00	9,520,299	4.6	\$ 19.77	6,190,827	\$ 16.64

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

	2017	2016	2015
Weighted average grant-date fair value of stock options granted	\$ 3.90	\$ 4.01	\$ 3.79
Total fair value of stock options vested (in thousands)	\$ 7,425	\$ 7,690	\$ 7,973
Total intrinsic value of stock options exercised (in thousands)	\$ 56,946	\$ 37,284	\$ 52,513

For the years ended December 31, 2017, 2016, and 2015, cash received from the exercise of stock options was \$33.6 million, \$17.7 million, and \$31.8 million, respectively. We recognized compensation expense of \$6.9 million, \$7.6 million, and \$7.9 million related to stock options for the years ended December 31, 2017, 2016, and 2015, respectively. As of December 31, 2017, the unrecognized compensation expense related to stock options of \$7.1 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, 2016	500,744	\$ 21.48
Granted	208,933	\$ 29.28
Vested	(265,733)	\$ 20.56
Forfeited and other	(2,133)	\$ 25.04
Nonvested restricted share awards at December 31, 2017	441,811	\$ 25.70

The fair value of our restricted share awards, 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, 2017, unrecognized compensation expense of \$6.3 million related to restricted share awards is expected to be recognized over a weighted average period of 1.7 years. We recognized compensation expense of \$5.6 million, \$5.6 million, and \$5.9 million during the years ended December 31, 2017, 2016, and 2015, respectively, related to our restricted share awards. The weighted-average grant date fair value for nonvested restricted stock granted during the year 2017, 2016, and 2015 was \$29.28, \$22.28 and \$23.00, respectively. The total fair market value of restricted share awards that vested during the years ended December 31, 2017, 2016 and 2015 was \$5.5 million, \$5.7 million and \$6.3 million, respectively. During the years 2017, 2016, and 2015 the aggregate intrinsic value of restricted share awards vested was \$4.5 million, \$3.2 million and \$4.9 million, respectively.

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, 2016	123,510	\$ 25.72
Granted	95,780	\$ 27.94
Vested	(48,136)	\$ 25.86
Forfeited and other	(4,124)	\$ 27.01
Nonvested restricted share units at December 31, 2017	167,030	\$ 26.92

At December 31, 2017, the unrecognized compensation expense related to restricted share units of \$3.0 million to be recognized over a weighted average period of 1.7 years. We recognized compensation expense of \$2.0 million and \$0.8 million for the years ended December 31, 2017 and 2016 related to our restricted share units. The weighted-average grant date fair value for nonvested restricted share units granted during December 31, 2017 and 2016 was \$27.94 and \$25.72, respectively. The total fair market value of restricted share units that vested during the year ended December 31, 2017 and 2016 was \$1.2 million and \$50.2 thousand, respectively. During the years 2017 and 2016, the aggregate intrinsic value of restricted share units vested was \$0.6 million and \$5.2 thousand, respectively.

11. 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:

	2017	2016	2015
	(In thousands)		
Interest cost on projected benefit obligation	\$ 1,067	\$ 1,179	\$ 1,198
Recognized net actuarial losses (gains)	879	259	(1,327)
Total net periodic benefit cost	<u>\$ 1,946</u>	<u>\$ 1,438</u>	<u>\$ (129)</u>

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

	2017	2016
	(In thousands)	
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 30,078	\$ 32,305
Interest cost	1,067	1,179
Actuarial gain	879	259
Benefits paid	(3,343)	(3,665)
Benefit obligation at end of year	<u>\$ 28,681</u>	<u>\$ 30,078</u>
Change in Plan Assets:		
Fair value of plan assets at beginning of year	\$ —	\$ —
Employer contributions	3,343	3,665
Benefits paid, including expenses	(3,343)	(3,665)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>
Funded status of plan	<u>\$ (28,681)</u>	<u>\$ (30,078)</u>
Funding Summary:		
Projected benefit obligations	\$ 28,681	\$ 30,078
Accumulated benefit obligation	\$ 28,681	\$ 30,078
Amounts Recognized in the Consolidated Balance Sheet:		
Accounts payable and accrued liabilities	\$ (3,265)	\$ (3,448)
Accrued benefit costs - included in <i>Other liabilities</i>	(25,416)	(26,630)
Total accrued benefit liability	<u>\$ (28,681)</u>	<u>\$ (30,078)</u>

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, 2017 and 2016 was \$46.5 million and \$47.5 million, respectively, and the cash surrender value was \$36.4 million and \$37.0 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:

	2017	2016	2015
Weighted-average discount rate used to determine obligations	3.41%	3.76%	3.86%
Weighted-average discount rate used to determine net periodic pension cost	3.86%	3.96%	2.47%

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):

2018	\$	3,265
2019		3,192
2020		2,760
2021		2,447
2022		2,369
Years 2023 through 2027		9,379
Total expected benefit payments	\$	23,412

We also 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 2017, 2016, and 2015, 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 2017, 2016, and 2015 was \$33.2 million, \$32.5 million, and \$30.8 million, respectively.

12. 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				Consolidated
	Funeral	Cemetery	Corporate		
	(In thousands)				
2017					
Revenue from external customers	\$ 1,868,152	\$ 1,226,879	\$ —	\$ 3,095,031	
Interest expense	\$ 3,986	\$ 401	\$ 164,738	\$ 169,125	
Depreciation and amortization	\$ 109,965	\$ 32,815	\$ 10,361	\$ 153,141	
Amortization of intangibles	\$ 17,871	\$ 9,696	\$ 83	\$ 27,650	
Operating profit	\$ 371,853	\$ 350,336	\$ —	\$ 722,189	
Amortization of cemetery property	\$ —	\$ 68,102	\$ —	\$ 68,102	
Capital expenditures	\$ 83,241	\$ 118,699	\$ 12,561	\$ 214,501	
Total assets	\$ 5,393,205	\$ 6,946,351	\$ 524,947	\$ 12,864,503	
2016					
Revenue from external customers	\$ 1,869,111	\$ 1,162,026	\$ —	\$ 3,031,137	
Interest expense	\$ 3,906	\$ 105	\$ 158,082	\$ 162,093	
Depreciation and amortization	\$ 106,602	\$ 31,081	\$ 9,550	\$ 147,233	
Amortization of intangibles	\$ 20,444	\$ 10,438	\$ 74	\$ 30,956	
Operating profit	\$ 361,022	\$ 315,412	\$ —	\$ 676,434	
Amortization of cemetery property	\$ —	\$ 66,745	\$ —	\$ 66,745	
Capital expenditures	\$ 68,666	\$ 113,163	\$ 11,617	\$ 193,446	
Total assets	\$ 5,158,700	\$ 6,481,761	\$ 397,688	\$ 12,038,149	
2015					
Revenue from external customers	\$ 1,889,055	\$ 1,096,986	\$ —	\$ 2,986,041	
Interest expense	\$ 4,230	\$ 450	\$ 168,217	\$ 172,897	
Depreciation and amortization	\$ 103,272	\$ 29,448	\$ 8,736	\$ 141,456	
Amortization of intangibles	\$ 22,638	\$ 8,746	\$ 75	\$ 31,459	
Operating profit	\$ 390,101	\$ 284,488	\$ —	\$ 674,589	
Amortization of cemetery property	\$ —	\$ 62,407	\$ —	\$ 62,407	
Capital expenditures	\$ 53,422	\$ 83,803	\$ 13,761	\$ 150,986	

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

	2017	2016	2015
	(In thousands)		
Operating profit from reportable segments	\$ 722,189	\$ 676,434	\$ 674,589
General and administrative expenses	(154,423)	(137,730)	(130,813)
Gains (losses) on divestitures and impairment charges, net	7,015	(26,819)	6,522
Hurricane expense, net	(5,584)	—	—
Operating income	569,197	511,885	550,298
Interest expense	(169,125)	(162,093)	(172,897)
Losses on early extinguishment of debt, net	(274)	(22,503)	(6,918)
Other income (expense), net	460	(631)	(132)
Income from continuing operations before income taxes	\$ 400,258	\$ 326,658	\$ 370,351

Our geographic area information was as follows:

	United States	Canada	Total
	(In thousands)		
2017			
Revenue from external customers	\$ 2,889,463	\$ 205,568	\$ 3,095,031
Interest expense	\$ 168,956	\$ 169	\$ 169,125
Depreciation and amortization	\$ 143,932	\$ 9,209	\$ 153,141
Amortization of intangibles	\$ 27,092	\$ 558	\$ 27,650
Amortization of cemetery property	\$ 61,307	\$ 6,795	\$ 68,102
Operating income	\$ 500,919	\$ 68,278	\$ 569,197
Gains on divestitures and impairment charges, net	\$ 61	\$ 6,954	\$ 7,015
Long-lived assets	\$ 5,786,063	\$ 286,135	\$ 6,072,198
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 intangibles	\$ 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 intangibles	\$ 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

13. Supplementary Information

The detail of certain balance sheet accounts is as follows:

	December 31,	
	2017	2016
	(In thousands)	
Cash and cash equivalents:		
Cash	\$ 260,281	\$ 146,684
Commercial paper and temporary investments	69,758	48,302
	<u>\$ 330,039</u>	<u>\$ 194,986</u>
Receivables, net:		
Notes receivable	\$ 1,605	\$ 1,259
Atneed funeral receivables, net of allowances of \$1,845 and \$1,881, respectively	44,536	46,917
Atneed cemetery receivables, net of allowances of \$245 and \$1,514, respectively	16,556	17,765
Other	27,607	32,514
	<u>\$ 90,304</u>	<u>\$ 98,455</u>
Other current assets:		
Income tax receivable	\$ 8,576	\$ 3,609
Prepaid insurance	4,419	4,437
Restricted cash ⁽¹⁾	8,625	11,978
Other	13,955	14,500
	<u>\$ 35,575</u>	<u>\$ 34,524</u>
Cemetery property:		
Undeveloped land	\$ 1,181,920	\$ 1,184,710
Developed lots, lawn crypts, mausoleum spaces, cremation niches, and cremation memorialization property	610,069	592,225
	<u>\$ 1,791,989</u>	<u>\$ 1,776,935</u>
Property and equipment:		
Land	\$ 605,735	\$ 595,096
Buildings and improvements	1,996,123	1,879,553
Operating equipment	557,278	549,879
Leasehold improvements	34,607	33,900
Capital leases	254,260	234,411
	<u>3,448,003</u>	<u>3,292,839</u>
Less: Accumulated depreciation	(1,430,695)	(1,328,262)
Less: Accumulated amortization of capital leases	(144,264)	(136,990)
	<u>\$ 1,873,044</u>	<u>\$ 1,827,587</u>
Deferred charges and other assets:		
Intangible assets, net	\$ 374,099	\$ 368,065
Restricted cash ⁽¹⁾	1,937	4,542
Deferred tax assets	873	861
Notes receivable, net of allowances of \$10,946 and \$11,334, respectively	9,624	9,598
Cash surrender value of insurance policies	139,494	119,819
Other	75,157	64,635
	<u>\$ 601,184</u>	<u>\$ 567,520</u>

	December 31,	
	2017	2016
	(In thousands)	
Accounts payable and accrued liabilities:		
Accounts payable	\$ 173,685	\$ 155,802
Accrued benefits	95,233	88,392
Accrued interest	30,415	27,991
Accrued property taxes	10,541	12,883
Self-insurance reserves	78,227	77,993
Bank overdrafts	27,243	20,927
Other accrued liabilities	73,828	55,948
	<u>\$ 489,172</u>	<u>\$ 439,936</u>
Other liabilities:		
Accrued benefit costs	\$ 25,416	\$ 26,630
Deferred compensation	120,782	105,013
Customer refund obligation reserve	51,767	52,068
Tax liability	111,000	235,625
Payable to perpetual care fund	83,015	77,148
Other	19,002	13,838
	<u>\$ 410,982</u>	<u>\$ 510,322</u>

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

Revenue and Costs and Expenses

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

	2017	2016	2015
	(In thousands)		
Property and merchandise revenue:			
Funeral	\$ 619,804	\$ 611,440	\$ 608,266
Cemetery	968,828	912,778	849,250
Total property and merchandise revenue	<u>1,588,632</u>	<u>1,524,218</u>	<u>1,457,516</u>
Services revenue:			
Funeral	1,129,510	1,126,703	1,146,205
Cemetery	227,155	218,825	217,240
Total services revenue	<u>1,356,665</u>	<u>1,345,528</u>	<u>1,363,445</u>
Other revenue	<u>149,734</u>	<u>161,391</u>	<u>165,080</u>
Total revenue	<u>\$ 3,095,031</u>	<u>\$ 3,031,137</u>	<u>\$ 2,986,041</u>
Property and merchandise costs and expenses:			
Funeral	\$ 282,048	\$ 287,414	\$ 290,663
Cemetery	512,677	488,997	457,613
Total cost of property and merchandise	<u>794,725</u>	<u>776,411</u>	<u>748,276</u>
Services costs and expenses:			
Funeral	621,102	627,156	624,310
Cemetery	108,102	106,534	105,038
Total cost of services	<u>729,204</u>	<u>733,690</u>	<u>729,348</u>
Overhead and other expenses	<u>848,913</u>	<u>844,602</u>	<u>833,828</u>
Total cost and expenses	<u>\$ 2,372,842</u>	<u>\$ 2,354,703</u>	<u>\$ 2,311,452</u>

Certain Non-Cash Investing and Financing Transactions

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Net change in capital expenditure accrual	\$ 223	\$ (1,435)	\$ 5,571
Options exercised by attestation	\$ —	\$ —	\$ 122
Shares repurchased	\$ —	\$ —	\$ (122)
Non-cash acquisition of capital leases	\$ 54,087	\$ 41,609	\$ 55,941

14. 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:

	2017	2016	2015
	(In thousands, except per share amounts)		
Amounts attributable to common stockholders:			
Income from continuing operations — basic	\$ 546,663	\$ 177,038	\$ 234,162
After tax interest on convertible debt	52	43	50
Income from continuing operations — diluted	<u>\$ 546,715</u>	<u>\$ 177,081</u>	<u>\$ 234,212</u>
Loss from discontinued operations, net of tax	\$ —	\$ —	\$ (390)
Net income — basic	\$ 546,663	\$ 177,038	\$ 233,772
After tax interest on convertible debt	52	43	50
Net income — diluted	<u>\$ 546,715</u>	<u>\$ 177,081</u>	<u>\$ 233,822</u>
Weighted average shares:			
Weighted average shares — basic	187,630	193,086	200,356
Stock options	4,396	2,823	3,973
Restricted share units	99	12	—
Convertible debt	121	121	121
Weighted average shares — diluted	<u>192,246</u>	<u>196,042</u>	<u>204,450</u>
Amounts attributable to common stockholders:			
Income from continuing operations per share:			
Basic	\$ 2.91	\$ 0.92	\$ 1.17
Diluted	\$ 2.84	\$ 0.90	\$ 1.14
Net income per share:			
Basic	\$ 2.91	\$ 0.92	\$ 1.17
Diluted	\$ 2.84	\$ 0.90	\$ 1.14

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):

	2017	2016	2015
	(In thousands)		
Antidilutive options	911	982	3

15. Acquisitions

We spent \$76.2 million, \$72.9 million, and \$68.9 million for several smaller, tuck-in acquisitions for the three years ended December 31, 2017, 2016, and 2015, respectively. These amounts include the use of \$26.2 million, \$3.7 million, and \$27.7 million in 1031 exchange funds for the three years ended December 31, 2017, 2016, and 2015, respectively.

Wilson Financial Group

During the three years ended December 31, 2017, we spent a total of \$8.6 million (\$4.6 million in 2017, \$1.9 million in 2016, and \$2.1 million in 2015) to acquire the remaining 46% of common stock of our consolidated subsidiary, Wilson Financial Group, Inc.

16. 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 *Gains (losses) on divestitures and impairment charges, net*, which consist of the following for the years ended December 31:

	2017	2016	2015
	(In thousands)		
Gains on divestitures, net	\$ 29,053	\$ 7,829	\$ 13,363
Impairment losses	(22,038)	(34,648)	(6,841)
Gains (losses) on divestitures and impairment charges, net	\$ 7,015	\$ (26,819)	\$ 6,522

During 2016, we incurred \$31.2 million of impairment charges related to the divestiture of certain funeral homes in Los Angeles, California.

17. Quarterly Financial Data (Unaudited)

Quarterly financial data for 2017 and 2016 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share amounts)				
2017				
Revenue	\$ 777,710	\$ 773,242	\$ 731,346	\$ 812,733
Costs and expenses	\$ (600,545)	\$ (589,797)	\$ (581,644)	\$ (600,856)
Operating profit	\$ 177,165	\$ 183,445	\$ 149,702	\$ 211,877
Operating income	\$ 139,596	\$ 143,608	\$ 109,056	\$ 176,937
Income from continuing operations before income taxes ⁽¹⁾	\$ 98,526	\$ 101,518	\$ 66,578	\$ 133,636
Benefit from (provision for) income taxes	\$ 76,223	\$ (32,956)	\$ (10,437)	\$ 113,759
Net income	\$ 174,749	\$ 68,562	\$ 56,141	\$ 247,395
Net (income) loss attributable to noncontrolling interests	\$ (47)	\$ (81)	\$ 23	\$ (79)
Net income attributable to common stockholders	\$ 174,702	\$ 68,481	\$ 56,164	\$ 247,316
Net income attributable to common stockholders per share ⁽²⁾ :				
Basic — EPS	\$ 0.93	\$ 0.37	\$ 0.30	\$ 1.32
Diluted — EPS	\$ 0.91	\$ 0.36	\$ 0.29	\$ 1.29
2016				
Revenue	\$ 749,219	\$ 751,398	\$ 721,467	\$ 809,053
Costs and expenses	\$ (586,296)	\$ (589,409)	\$ (580,722)	\$ (598,276)
Operating 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
Benefit from (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

(1) Includes *Gains (losses) on divestitures and impairment charges, net*, as described in Note 16.

(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.

SERVICE CORPORATION INTERNATIONAL
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Three Years Ended December 31, 2017

Description	Balance at Beginning of Period	Charged (Credited) to Costs and Expenses	Charged (Credited) to Write-offs & Other Accounts	Balance at End of Period
Current Provision:				
Allowance For Doubtful Accounts:				
Year Ended December 31, 2017	\$ 3,395	\$ 9,980	\$ (11,285)	\$ 2,090
Year Ended December 31, 2016	\$ 5,496	\$ 10,776	\$ (12,877)	\$ 3,395
Year Ended December 31, 2015	\$ 8,546	\$ 6,083	\$ (9,133)	\$ 5,496
Due After One Year:				
Allowance For Doubtful Accounts:				
Year Ended December 31, 2017	\$ 11,334	\$ —	\$ (388)	\$ 10,946
Year Ended December 31, 2016	\$ 11,334	\$ —	\$ —	\$ 11,334
Year Ended December 31, 2015	\$ 11,259	\$ —	\$ 75	\$ 11,334
Preneed Receivables, Net				
Asset Allowance For Cancellation:				
Year Ended December 31, 2017	\$ 104,740	\$ 1,105	\$ 1,904	\$ 107,749
Year Ended December 31, 2016	\$ 105,773	\$ 1,411	\$ (2,444)	\$ 104,740
Year Ended December 31, 2015	\$ 107,040	\$ 5,016	\$ (6,283)	\$ 105,773
Deferred Revenue				
Revenue Allowance For Cancellation:				
Year Ended December 31, 2017	\$ (116,913)	\$ —	\$ (1,186)	\$ (118,099)
Year Ended December 31, 2016	\$ (121,548)	\$ —	\$ 4,635	\$ (116,913)
Year Ended December 31, 2015	\$ (125,030)	\$ —	\$ 3,482	\$ (121,548)
Deferred Tax Valuation Allowance:				
Year Ended December 31, 2017	\$ 132,500	\$ 8,035	\$ 619	\$ 141,154
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

Item 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures.*

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer (who are our Chief Executive Officer and Chief Financial Officer, respectively) as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met.

In connection with the preparation of this Annual Report on Form 10-K for the year ended December 31, 2017, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(c) and 15d-15(e) were effective as of December 31, 2017 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 using the criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and those criteria, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Effective as of February 14, 2018, the Company's Board approved and amended certain provisions of the Bylaws to, among other things, (1) permit the Lead Director to call a special meeting of the Board and preside over Board meetings in the absence of the Board Chair, (2) remove the power of the President to (a) call a special meeting of the shareholders, the Directors or the executive committee of the Board, and to (b) preside over either of the shareholders or Director meetings, and (3) permit the chair of the nominating and corporate governance committee of the Board to preside over Board meetings in the absence of the Board Chair, Lead Director and the Chief Executive Officer. The foregoing description of the amended terms of the Bylaws does not purport to be complete and is subject to, and qualified in its entirety by reference to, the amended Bylaws, which are filed herewith as Exhibit 3.4.

PART III**Item 10. Directors, Executive Officers, and Corporate Governance****Item 11. Executive Compensation****Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters****Item 13. Certain Relationships and Related Transactions and Director Independence****Item 14. Principal Accountant Fees and Services**

The information required by each of Items 10, 11, 12, 13 and 14, except as included below, is incorporated herein by reference to the Service Corporation International Proxy Statement for our 2018 Annual Meeting of shareholders.

The information regarding our executive officers called for by Item 401 of Regulation S-K and the information regarding our code of ethics called for by Item 406 of Regulation S-K has been included in PART I of this report. The information regarding our equity compensation plan information called for by Item 201(d) of Regulation S-K is set forth below.

Equity Compensation Plan Information at December 31, 2017:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	9,520,299	\$ 19.77	10,125,235

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 39 of this report.

(3) *Exhibits:*

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

Exhibit Number	Description
<u>3.1</u>	— <u>Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-10867 on Form S-3).</u>
<u>3.2</u>	— <u>Articles of Amendment to Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended September 30, 1996).</u>
<u>3.3</u>	— <u>Statement of Resolution Establishing Series of Shares of Series D Junior Participating Preferred Stock, dated July 27, 1998. (Incorporated by reference to Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 1998).</u>
<u>3.4</u>	— <u>Bylaws, as amended.</u>

- 4.1 — Senior Indenture dated as of February 1, 1993 by and between the Company and The Bank of New York, as trustee. (Incorporated by reference as Exhibit 4.1 to Form S-4 filed September 2, 2004 (File No. 333-118763)).
- 4.2 — Agreement of Resignation, Appointment of Acceptance, dated December 12, 2005, among the Company, The Bank of New York and The Bank of New York Trust Company, N.A., appointing a successor trustee for the Senior Indenture dated as of February 1, 1993. (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the fiscal quarter ended June 30, 2005).
- 10.1 — Retirement Plan For Non-Employee Directors.
- 10.2 — First Amendment to Retirement Plan For Non-Employee Directors. (Incorporated by reference to Exhibit 10.2 to Form 10-K for the fiscal year ended December 31, 2000).
- 10.3 — Second Amendment to Retirement Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10.3 to Form 10-K for the fiscal year ended December 31, 2010).
- 10.4 — Employment Agreement, dated December 7, 2016, between OFTC, Inc. and R.L. Waltrip (including Non-Competition Agreement and Amendment to Employment Agreement, dated November 11, 1991, among the Company, R. L. Waltrip and Claire Waltrip). (Incorporated by reference to Exhibit 10.4 to Form 10-K for the year ended December 31, 2016)
- 10.5 — Employment and Noncompetition Agreement, dated December 7, 2016, between OFTC, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 2016)
- 10.6 — Employment and Noncompetition Agreement, dated December 7, 2016, between OFTC, Inc. and Michael R. Webb. (Incorporated by reference to Exhibit 10.6 to Form 10-K for the year ended December 31, 2016)
- 10.7 — Employment and Noncompetition Agreement, dated December 7, 2016, between OFTC, Inc. and Eric D. Tanzberger. (Incorporated by reference to Exhibit 10.7 to Form 10-K for the year ended December 31, 2016)
- 10.8 — Employment and Noncompetition Agreement, dated December 7, 2016, between OFTC, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 2016)
- 10.9 — Form of Employment and Noncompetition Agreement pertaining to non-senior officers. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the year ended December 31, 2016)
- 10.10 — Amended 1996 Incentive Plan. (Incorporated by reference to Appendix A to Proxy Statement dated April 6, 2007).
- 10.11 — Amended and Restated Incentive Plan. (Incorporated by reference to Appendix B to Proxy Statement dated April 1, 2011).
- 10.12 — 2016 Equity Incentive Plan. (Incorporated by reference to Annex C to Proxy Statement dated March 31, 2016).
- 10.13 — Amended and Restated 2016 Equity Incentive Plan (Incorporated by reference to Annex C to Proxy Statement for the 2017 annual meeting of shareholders).
- 10.14 — Amendment No. 1 to Service Corporation International Amended and Restated 2016 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarterly period ended June 30, 2017).
- 10.15 — Supplemental Executive Retirement Plan for Senior Officers (as amended and restated effective as of January 1, 1998). (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 1998).
- 10.16 — First Amendment to Supplemental Executive Retirement Plan for Senior Officers. (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 2000).
- 10.17 — SCI 401 (k) Retirement Savings Plan, including Adopting Employer Agreement and Directed Employee Benefit Agreement. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended March 31, 2016).
- 10.18 — First Amendment to the SCI 401 (k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.16 to Form 10-K for the fiscal year ended December 31, 2016.)
- 10.19 — Second Amendment to the 401 (k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.17 to Form 10-K for the fiscal year ended December 31, 2016.)
- 10.20 — Third Amendment to the 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarterly period ended June 30, 2017).
- 10.21 — Fourth Amendment to the 401 (k) Retirement Savings Plan.
- 10.22 — Amended and Restated Director Fee Plan. (Incorporated by reference to Annex C to Proxy Statement dated April 1, 2011).
- 10.23 — Amendment One to the Service Corporation International Amended and Restated Director Fee Plan, dated May 12, 2015. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated May 18, 2015).
- 10.24 — Form of Indemnification Agreement for officers and directors. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended September 30, 2004).
- 10.25 — Deferred Compensation Plan 2017 as Amended and Restated Effective January 1, 2017.
- 10.26 — Form of Performance Unit Grant Award Agreement. (Incorporated by reference to Exhibit 10.37 to Form 10-K for the fiscal year ended December 31, 2015).

- 10.27 — Credit Agreement, dated December 6, 2017, between Service Corporation International and JPMorgan Chase Bank, N.A., as administrative agent, and certain other financial institutions, as lenders thereto (Incorporated by reference to Exhibit 1.2 to Form 8-K dated December 5, 2017.)
- 12.1 — Ratio of Earnings to Fixed Charges.
- 21.1 — Subsidiaries of the Company.
- 23.1 — Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).
- 24.1 — Powers of Attorney.
- 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.

In the above list, the management contracts or compensatory plans or arrangements are set forth in Exhibits 10.1 through 10.26.

Pursuant to Item 601(b)(4) of Regulation S-K, certain instruments on a consolidated basis are not filed as exhibits to this report 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. Registrant agrees to furnish a copy of any such instrument to the Commission upon request.

(b) *Included in (a) above.*

(c) *Included in (a) above.*

Item 16. *Form 10-K Summary*

None.

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 14, 2018

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
<u>/s/ THOMAS L. RYAN*</u> (Thomas L. Ryan)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 14, 2018
<u>/s/ ERIC D. TANZBERGER*</u> (Eric D. Tanzberger)	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	February 14, 2018
<u>/s/ TAMMY R. MOORE*</u> (Tammy R. Moore)	Vice President and Corporate Controller (Principal Accounting Officer)	February 14, 2018
<u>/s/ R. L. WALTRIP*</u> (R. L. Waltrip)	Founder and Chairman Emeritus, Director	February 14, 2018
<u>/s/ ANTHONY L. COELHO*</u> (Anthony L. Coelho)	Lead Director	February 14, 2018
<u>/s/ ALAN R. BUCKWALTER, III*</u> (Alan R. Buckwalter, III)	Director	February 14, 2018
<u>/s/ VICTOR L. LUND*</u> (Victor L. Lund)	Director	February 14, 2018
<u>/s/ JOHN W. MECOM, JR.*</u> (John W. Mecom, Jr.)	Director	February 14, 2018
<u>/s/ CLIFTON H. MORRIS, JR.*</u> (Clifton H. Morris, Jr.)	Director	February 14, 2018
<u>/s/ ELLEN OCHOA*</u> (Ellen Ochoa)	Director	February 14, 2018
<u>/s/ W. BLAIR WALTRIP*</u> (W. Blair Waltrip)	Director	February 14, 2018
<u>/s/ MARCUS A. WATTS*</u> (Marcus A. Watts)	Director	February 14, 2018
<u>/s/ EDWARD E. WILLIAMS*</u> (Edward E. Williams)	Director	February 14, 2018
*By <u>/s/ GREGORY T. SANGALIS</u> (Gregory T. Sangalis, as Attorney-In-Fact for each of the Persons indicated)		February 14, 2018

BYLAWS
OF
SERVICE CORPORATION INTERNATIONAL
(Adopted and Amended by the Board of Directors on February 14, 2018)

ARTICLE I
SHAREHOLDERS

Section 1. Annual Meeting. The annual meeting of shareholders shall be held on the date and at the time designated by the Board of Directors for the purpose of electing directors. Any business may be transacted at an annual meeting, except as otherwise provided by law or by these bylaws. The Board of Directors may alter or postpone the time of holding the annual meeting of shareholders as they shall deem advisable.

Section 2. Special Meeting. A special meeting of shareholders may be called at any time by the holders of at least ten percent (10%) of the outstanding stock entitled to be voted at such meeting, by the Board of Directors, by the Chair of the Board or by the Chief Executive Officer. Only such business shall be transacted at a special meeting as may be stated or indicated in the notice of such meeting.

Section 3. Place. The annual meeting of shareholders may be held at any place within or without the State of Texas designated by the Board of Directors. Special meetings of shareholders may be held at any place within or without the State of Texas designated by the Chair of the Board, if he or she shall call the meeting; by the Chief Executive Officer, if he or she shall call the meeting; or the Board of Directors, if they shall call the meeting. Meetings of shareholders shall be held at the principal office of the corporation unless another place is designated for meetings in the manner provided herein.

Section 4. Notice. Written or printed notice stating the place, day and hour of each meeting of shareholders and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than fifty (50) days before the date of the meeting, either personally or by mail, to each shareholder of record entitled to vote at such meeting.

Section 5. Quorum. The holders of a majority of the outstanding stock entitled to vote thereat, and present in person or by proxy, shall constitute a quorum. Once a quorum is constituted, the shareholders present or represented by proxy at any meeting may continue to transact business until adjournment, notwithstanding the subsequent withdrawal therefrom of such number of shareholders as to leave less than a quorum. The Chair of the meeting or the holders of a majority of stock present at any meeting, though less than a quorum, may adjourn the meeting and any business may be transacted at the adjournment that could be transacted at the original meeting. No notice of adjournment, other than the announcement at the meeting, need be given.

Section 6. Proxies. At all meetings of shareholders, a shareholder may vote either in person or by proxy executed in writing by the shareholder or by his or her duly authorized attorney in fact. Such proxies shall be filed with the Secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution unless otherwise provided in the proxy. Each proxy shall be revocable unless expressly provided therein to be irrevocable or unless otherwise made irrevocable by law.

Section 7. Votes Required for Action. Each outstanding share entitled to vote upon a matter submitted to a vote at a meeting of shareholders shall be entitled to one vote on such matter, unless otherwise provided in the articles of incorporation. Except as otherwise required by law, the articles of incorporation or these bylaws, the act of a majority of the stock at any meeting at which a quorum is present shall be the act of the shareholders' meeting.

Section 8. Officers. The Chair of the Board shall preside at each meeting of shareholders, and in the absence of the Chair, the Chief Executive Officer shall preside. In the event that all of the foregoing officers shall be absent, some person appointed by the meeting shall preside. The Secretary shall keep records of each meeting of shareholders, and in the absence of the Secretary, his or her duties shall be performed by some person appointed by the meeting.

Section 9. List of Shareholders. A complete list of shareholders entitled to vote at each shareholders' meeting, arranged in alphabetical order, with the address of and number of shares held by each, shall be prepared by the Secretary and filed at the registered office of the corporation and subject to inspection by any shareholder during usual business hours for a period of ten (10) days prior to such meeting and shall be produced at such meeting and at all times during such meeting be subject to inspection by any shareholder.

Section 10. Notice of Shareholder Business. Only such business shall be conducted at shareholder meetings and only such persons shall be eligible to serve on the Board of Directors as shall have been brought before the meeting or nominated, as applicable, (a) by or at the direction of the Board of Directors or (b) by any shareholder of the corporation who shall be entitled to vote at such meeting who complies with the notice procedures set forth in this Section 10 and who complies with all other requirements imposed by these Bylaws. For business to be properly brought before a shareholder meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice for nominations or other matters to be considered at an annual meeting must be delivered to, or mailed and received at, the principal executive offices of the corporation not more than 120 days and not less than 100 days prior to the first anniversary of the previous year's annual meeting; provided, however, that if no annual meeting of shareholders was held in the previous year or if the date of the annual meeting is advanced by more than 30 days prior to, or delayed by more than 60 days after, such anniversary date, notice by the shareholder to be timely must be so delivered, or mailed and received, not later than the close of business

on the 10th day following the day on which the date of such meeting has been first publicly disclosed. To be timely, a shareholder's notice of the nomination of persons for election to the Board of Directors at a special shareholder meeting at which one or more directors is to be elected must be delivered to, or mailed and received at, the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which the date of such meeting has been first publicly disclosed. Notwithstanding anything in this Article I, Section 10 of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public disclosure naming all of the nominees for election or reelection to the Board of Directors or specifying the size of the increased Board of Directors made by the corporation at least 130 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice of nomination shall be timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to, or mailed and received at, the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which public disclosure of such increase in the number of directors to be elected to the Board of Directors is first made by the corporation. In no event shall the public announcement of an adjournment of a shareholder meeting commence a new time period for the giving of timely notice as described above. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the shareholder, (d) any material interest of the shareholder in such business, and (e) any such further information as shall be reasonably requested by the corporation. Additionally, a shareholder's notice of the nomination of persons for election to the Board of Directors shall set forth as to each person whom the shareholder proposes to nominate for election or reelection to the Board of Directors (a) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required in each case pursuant to Regulation 14A under the Securities

Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 14a-11 thereunder (including such person’s written consent to being named as a nominee and to serving as a director if elected) and (b) any such further information as shall be reasonably requested by the corporation. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at a shareholder meeting except in accordance with the procedures set forth in this Section 10. The Chair of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of these Bylaws, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 10, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section. Nothing in the Section shall be deemed to affect any rights of (a) shareholders to request inclusion of proposals in the corporation’s proxy statement pursuant to Rule 14a-8 under the Exchange Act or (b) the holders of any series of Preferred Stock to elect directors under specified circumstances. For purposes of these Bylaws, “publicly disclosed” or “public disclosure” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission.

ARTICLE II

BOARD OF DIRECTORS

Section 1. Number and Term of Office. The business and property of the corporation shall be managed and controlled by the Board of Directors, and subject to restrictions imposed by law, by the articles of incorporation, or by these bylaws, they may exercise all the powers of the corporation.

(a) Number. The Board of Directors shall consist of not less than nine (9) nor more than fifteen (15) Directors, as so determined from time to time by resolution of the Board of Directors. Within

the above limits, the number of directors may be increased or decreased (provided that such decrease does not shorten the term of any incumbent director) from time to time by resolution of the Board of Directors. Directors need not be shareholders nor residents of Texas.

(b) Election and Terms. At the 1982 Annual Meeting of Shareholders, the directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of the first class to expire at the 1983 Annual Meeting of Shareholders, the term of office of the second class to expire at the 1984 Annual Meeting of Shareholders and the term of office of the third class to expire at the 1985 Annual Meeting of Shareholders; in each case, the term shall continue until the respective successors are elected and qualified. At each Annual Meeting of Shareholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders and until their successors have been elected and qualified.

(c) Vacancies and Increases of Directors. Any vacancy (other than by an increases in number) in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. Any directors so elected by the Board of Directors to fill a vacancy shall hold office for the unexpired term of the director whose place he or she has been elected to fill, even though that term may extend beyond the next annual meeting of shareholders. In case of any increase in the number of directors (within the above limits), the additional directors shall be elected at an annual meeting or at a special meeting of shareholders called for that purpose.

(d) Removal. Any director, or the entire Board of Directors, may be removed from office at any time, with or without cause, but only by the affirmative vote of the holders of at least four-fifths of all of the outstanding shares of capital stock of the corporation entitled to vote on election of directors at a meeting of shareholders called for that purpose, except that if the Board of Directors, by an affirmative vote

of at least four-fifths of the entire Board of Directors, recommends removal of a director to the shareholders, such removal may be effected by the affirmative vote of the holders of at least a majority of the outstanding shares of capital stock of the corporation entitled to vote on the election of directors at a meeting of shareholders called for that purpose.

Section 2. Meeting of Directors. The directors may hold their meetings and may have an office and keep the books of the corporation, except as otherwise provided by statute, in such place or places in the State of Texas, or outside the State of Texas, as the Board of Directors may from time to time determine.

Section 3. First Meeting. Each newly elected Board of Directors may hold its first meeting for the purpose of organization and the transaction of business, if a quorum is present, immediately after and at the same place as the annual meeting of the shareholders, and no notice of such meeting shall be necessary.

Section 4. Election of Officers. The Board of Directors, at its first quarterly meeting of each year or such other time as may be determined by the Board of Directors, shall elect the officers of the corporation. The Board of Directors may elect such officers, including assistant officers and agents, as required by these bylaws and such other officers as may be deemed necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by these bylaws and the Board of Directors.

Section 5. Regular Meeting. Regular meetings of the Board of Directors shall be held at such times and places as shall be designated, from time to time, by resolution of the Board of Directors. Notice of such regular meetings shall not be required.

Section 6. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by the Chair of the Board, the Lead Director of the Board, the Chief Executive Officer or a majority of the directors.

Section 7. Notice. The Secretary shall give notice of each special meeting in person, or by mail or by telegraph at least two (2) days before the meeting to each director. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called or convened. Neither the business to be transacted at nor the purpose of any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting, except as otherwise required by law, the articles of incorporation or these bylaws.

At any meeting at which every director shall be present, even though without any notice, any business may be transacted.

Section 8. Quorum. A majority of the directors fixed by these bylaws shall constitute a quorum for the transaction of business, but if at any meeting of the Board of Directors there be less than a quorum present, a majority of those present or any director solely present may adjourn the meeting from time to time without further notice. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by the articles of incorporation or by these bylaws.

Section 9. Order of Business. At meetings of the Board of Directors, business shall be transacted in such order as from time to time the Board may determine.

At all meetings of the Board of Directors, the (1) Chair of the Board shall preside, and in the absence of the Chair, the (2) Lead Director of the Board shall preside, and in the absence of the Lead Director, the (3) Chief Executive Officer shall preside, and in the absence of the Chief Executive Officer, the (4) chair of

the Nominating and Corporate Governance Committee shall preside. In the event that all of the foregoing persons shall be absent, a chair shall be chosen by the Board from among the directors present.

The Secretary of the corporation shall act as secretary of the meetings of the Board of Directors, but in the absence of the Secretary, the presiding officer may appoint any person to act as secretary of the meeting.

Section 10. Compensation. Directors and members of any committee of the Board of Directors shall be entitled to such reasonable compensation for their services as directors and members of any such committee as shall be fixed from time to time by resolution of the Board of Directors, and shall also be entitled to reimbursement for any reasonable expenses incurred in attending such meetings. The compensation of directors may be on such basis as is determined in the resolution of the Board of Directors. Any director receiving compensation under these provisions shall not be barred from serving the corporation in any other capacity and receiving reasonable compensation for such other services.

Section 11. Presumption of Assent. A director of the corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his or her dissent shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 12. Executive Committee and other Committees.

(a) Designation of Executive Committee. The Board of Directors, by resolution adopted by a majority of the entire number of directors, from time to time may designate two or more directors to constitute an Executive Committee. The designation of such Executive Committee, and the delegation of authority

thereto, shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him or her by law. No member of the Executive Committee shall continue to be a member thereof after he or she ceases to be a director of the corporation. The Board of Directors shall have the power at any time to increase or decrease the number of members of the Executive Committee, to fill vacancies thereon, to change any member thereof, and to change the function or terminate the existence thereof.

(b) Powers of the Executive Committee. During intervals between meetings of the Board of Directors, and subject to such limitations as may be imposed by resolutions of the Board of Directors, the Executive Committee shall have any and may exercise all of the powers and authority of the Board of Directors, including, but without limitation, the power to authorize the corporate seal to be affixed to any instruments executed on behalf of the corporation, and the power to authorize the issuance of shares of the corporation's capital stock, except that no such committee shall have the authority of the Board of Directors in reference to amending the articles of incorporation, approving a plan of merger or consolidation, recommending to the shareholders the sale, lease, or exchange of all or substantially all of the property and assets of the corporation otherwise than in the usual and regular course of its business. Furthermore, in such circumstances, the Executive Committee may not recommend to shareholders a voluntary dissolution of the corporation or a revocation thereof, amend, alter, or repeal the bylaws of the corporation, or adopt new bylaws for the corporation, fill vacancies in or remove members of the Board of Directors or any such committee, elect or remove officers or members of any such committee, fix the compensation of any member of such committee, or alter or repeal any resolution of the Board of Directors which by its terms provides that it shall not be so amendable or repealable. All minutes of the meetings of the Executive Committee shall be submitted to the next succeeding meeting of Board of Directors; but failure to submit the same or to receive the approval thereof shall not invalidate any completed or incomplete action taken by the corporation upon authorization by the Executive Committee prior to the time at which the same has been, or was, submitted to the Board of Directors.

(c) Procedure; Meetings; Quorum. Unless designated by the Board of Directors, the chair of the Executive Committee shall be chosen by the Executive Committee, and the Secretary of the corporation, if present, shall act as Secretary of the meetings. In the absence of either, the Executive Committee shall appoint a chair or secretary, as the case may be, of the meeting. The Executive Committee shall keep a record of its acts and proceedings. The Executive Committee shall fix its own rules of procedure (which need not be written) and shall meet from time to time on call of the Chair of the Board, the Chief Executive Officer or any two or more members of the Executive Committee. Notice of each such meeting, stating the place, day and hour thereof, shall be mailed, telegraphed or telephoned to each member's business or residential address at least twenty-four hours before the meeting, but need not state the purpose of the meeting. Meetings may be held at any place within or without the State of Texas, specified in the notice of such meeting. Notice of any meeting may be waived in writing, signed by the member or members entitled to such notice, whether before or after the time stated therein, and shall be equivalent to the giving of such notice. Attendance of any members at a meeting shall constitute a waiver of notice of such meeting. A majority of the Executive Committee shall be necessary to constitute a quorum for the transaction of any business, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the Executive Committee. The members of the Executive Committee shall act only as a Committee, and the individual members shall have no power as such, but the Executive Committee may vote the members of the Executive Committee a reasonable fee as compensation and also provide for reimbursement of expenses for attendance at meetings of such Committee.

(d) Other Committees. The Board of Directors may by resolution provide for such other standing or special committees as it from time to time deems desirable, and discontinue the same at its pleasure. Each such committee shall have such powers and perform such duties, not inconsistent with law, as may be assigned to it by the Board of Directors. If provision be made for any such committee, the members thereof shall be appointed by the Board of Directors and shall serve at the pleasure of the Board. Vacancies in such committees shall be filled by the Board of Directors.

Section 13. Action Without A Meeting.

(a) Written Consent. Any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all the members of the Board of Directors or Committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any document or instrument filed with the Secretary of State.

(b) Telephonic Meetings. Members of the Board of Directors, or members of any committee designated by such board, may participate in and hold a meeting of such board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE III

OFFICERS

Section 1. Number, Titles and Term of Office. The officers of the corporation shall be a Chair of the Board, a Chief Executive Officer, a President, one or more Vice Presidents (including one or more Executive Vice Presidents and one or more Senior Vice Presidents if deemed appropriate by the Board of Directors), a Secretary, a Treasurer and such other officers as the Board of Directors may from time to time elect or appoint. Each officer shall hold office until his or her successor shall have been duly elected and qualified or until

his or her death or until he or she shall resign or shall have been removed in the manner hereinafter provided. One person may hold more than one office, except that the President shall not hold the office of Secretary. None of the officers need be a director.

Section 2. Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 3. Vacancies. A vacancy in the office of any officer may be filled by vote of a majority of the directors for the unexpired portion of the term.

Section 4. Powers and Duties of the Chair of the Board. The Chair of the Board shall preside at all meetings of the Board of Directors and shall have such other powers and duties as designated in these bylaws and as from time to time may be assigned to him or her by the Board of Directors.

Section 5. Powers and Duties of the Chief Executive Officer. The Chief Executive Officer shall be the primary executive officer of the corporation and, subject to the Board of Directors and the Chair of the Board, he or she shall have general executive charge, management and control of the properties and operations of the corporation in the ordinary course of its business with all such powers with respect to such properties and operations as may be reasonably incident to such responsibilities; in the absence of the Chair of the Board and the Lead Director of the Board, he or she may preside at all meetings of the Board of Directors; he or she may agree upon and execute all bonds, contracts and all other obligations in the name of the corporation; and he or she may sign all certificates for shares of capital stock of the corporation.

Section 6. Powers and Duties of the President. The President shall be the chief administrative officer of the corporation and, subject to the Board of Directors, the Chair of the Board and the Chief Executive Officer, he or she shall have general administrative charge, management and control of the properties and operations of the corporation in the ordinary course of its business with all such powers with respect to such properties and operations as may be reasonably incident to such responsibilities; he or she may agree upon and execute all bonds, contracts and all other obligations in the name of the corporation; and he or she may sign all certificates for shares of capital stock of the corporation.

Section 7. Vice Presidents. Each Vice President shall have such powers and duties as may be assigned to him or her by the Board of Directors and shall exercise the powers of the President during that officer's absence or inability to act. Any action taken by a Vice President in the performance of the duties of the President shall be conclusive evidence of the absence or inability to act of the President at the time such action was taken.

Section 8. Treasurer. The Treasurer shall have custody of all the funds and securities of the corporation which come into his or her hands. When necessary or proper, for collection he or she may, on behalf of the corporation, endorse checks, notes and other obligations and shall deposit the same to the credit of the corporation in such bank or banks or depositories as shall be designated in the manner prescribed by the Board of Directors, and he or she may sign all receipts and vouchers for payments made to the corporation, either alone or jointly with such other officer as is designated by the Board of Directors. Whenever required by the Board of Directors, he or she shall render a statement of his or her cash account; he or she shall enter or cause to be entered regularly in the books of the corporation to be kept by him or her for the purpose full and accurate accounts of all moneys received and paid out on account of the corporation; he or she shall perform all acts incident to the position of Treasurer subject to the control of the Board of Directors; and he or she shall, if required by the Board of Directors, give such bond for the faithful discharge of his or her duties in such form as the Board of Directors may require.

Section 9. Assistant Treasurer. Each Assistant Treasurer shall have the usual powers and duties pertaining to his or her office, together with such other powers and duties as may be assigned to him or her by the Board of Directors. The Assistant Treasurers shall exercise the powers of the Treasurer during that officer's absence or inability to act.

Section 10. Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors and committees thereof and the minutes of all meetings of the shareholder, in books provided for that purpose. He or she shall attend to the giving and serving of all notices; he or she shall keep in safe custody the seal of the corporation, and, when authorized by the Board of Directors, affix the same to any instrument requiring it (when so affixed, such seal shall be attested by his or her signature or by the signature of the Treasurer or an Assistant Secretary); he or she shall have charge of the certificate books, transfer books and stock ledgers, and such other books and papers as the Board of Directors may direct, all of which shall at all reasonable times be open to inspection of any director upon application at the office of the corporation during business hours; and he or she shall in general perform all duties incident to the office of Secretary, subject to the control of the Board of Directors.

Section 11. Assistant Secretaries. Each Assistant Secretary shall have the usual powers and duties pertaining to his or her office, together with such other powers and duties as may be assigned to him or her by the Board of Directors or the Secretary. The Assistant Secretaries shall exercise the powers of the Secretary during that officer's absence or inability to act.

ARTICLE IV

INDEMNIFICATION

Section 1. Indemnification by the Corporation. Each director and officer of the corporation and any person who may have served at the request of the corporation as a director or officer of another corporation in which it owns shares or of which it is a creditor shall be indemnified by the corporation against any costs and expenses, including counsel fees, actually and necessarily incurred in connection with the defense of any civil, criminal, administrative, or other claim, action, suit, or proceeding, whether by or in the right of the corporation or otherwise, in which he or she may become involved or with which he or she may be threatened by reason of his or her being or having been a director or officer of the corporation or by reason of his or her serving or having served at the request of the corporation as a director or officer of another corporation as aforesaid, provided that, in connection with such matter, the said director or officer acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceedings, had no reasonable cause to believe his or her conduct was unlawful. Costs and expenses indemnified shall include payments in settlement or in satisfaction of any judgment, fine or penalty.

The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or equivalent shall not, of itself, create a presumption that the director, officer, or representative did not act in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, or with respect to any criminal action or proceeding that he or she had reasonable cause to believe his or her conduct was unlawful.

Section 2. Procedure. A determination of whether or not indemnification is proper under this Article IV shall be made (a) by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; (b) by a majority vote of a committee of the board of directors, if: (i) the committee is designated by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; and (ii) the committee consists solely of one or more of the directors not named as

defendants or respondents in the proceeding; (c) by special legal counsel selected by the board of directors or a committee thereof by a vote as set forth in subsection (a) or (b) of this Section 2, or if a vote as set forth in subsection (a) or (b) cannot be obtained, then by special legal counsel selected by the board of directors; or (d) by the shareholders in a vote that excludes the shares held by directors who are named defendants or respondents in the proceeding.

Section 3. Scope of Indemnification. It is specifically intended to provide indemnification with regard to acts or omissions on the part of directors or officers which may be or are adjudged to constitute negligence, misrepresentations, slander, libel, misconduct, or other breach of duty, but only to the extent that such indemnification may be provided for under law, and only upon a determination under Section 2 hereof that such conduct was in good faith and reasonably believed to be in or not opposed to the best interest of the corporation and, with respect to any criminal action or proceeding, that there was not reasonable cause for belief that the conduct was unlawful.

Section 4. Insurance. The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the corporation itself would have the power to indemnify him or her against such liability under law.

Section 5. Expenses. To the extent permitted by law, expenses incurred in connection with a civil, criminal, administrative or investigative action, suit or proceeding, or threat thereof, may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided in Section 2 of this Article IV, upon receipt of a written affirmation by the director or officer of his

or her good faith belief that he or she has met the applicable standard of conduct set forth in this Article IV and a written undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified by the corporation as authorized in this Article IV.

Section 6. Severability. Should any of the indemnification rights provided for herein be declared invalid, such declaration shall not invalidate the indemnification provisions generally, and such of the indemnification rights provided for herein as are permissible under law shall remain effective.

Section 7. Additional Indemnification. In furtherance of the provisions of this Article IV, it is the intent of the corporation that it indemnify any person entitled to indemnification under this Article IV, the Texas Business Corporation Act or other applicable law to the fullest extent that the corporation is permitted to grant indemnification to such person under the Texas Business Corporation Act or other applicable law, as the same exists or may hereafter be amended. The indemnification provided by this Article IV shall be in addition to, and should not be deemed exclusive of, any other rights to which any person seeking indemnification may be entitled under any law, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 8. Employee Benefit Plans.

(a) In addition, and not in lieu of, any indemnity provided under the preceding sections of this Article IV, the corporation shall indemnify each director, officer or employee and each former director, officer or employee of the corporation against any costs and expenses, including counsel fees, actually and necessarily incurred in connection with the defense of any civil, criminal, administrative or other claim, action, suit or

proceeding, whether by or in the right of the corporation or otherwise, in which he or she may become involved or with which he or she may be threatened with regard to any error or omission or breach of duty committed or alleged to have been committed in the discharge of his or her fiduciary duties, obligations or responsibilities with respect to any employee pension, deferred compensation, welfare benefit or other benefit plan, including specifically, but without limitation, plans covered under the Employee Retirement Income Security Act of 1974 (which plans are herein collectively called "employee benefit plan"), of the corporation or any other corporation in which it owns shares of capital stock, or of which it is a creditor (which entities are herein collectively called the "Company") provided, that in connection with such matter, the said director, officer or employee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

The corporation shall be deemed to have requested a director, officer or employee of the corporation to serve an employee benefit plan where the performance by such person of his or her duties to the Company also imposes duties on or otherwise involves services by such person to such employee benefit plan or participants or beneficiaries thereof; excise taxes or taxes assessed on a person with respect to an employee benefit plan pursuant to said Act of Congress or the Internal Revenue Code of 1986 shall be deemed "fines"; and action taken or omitted by such a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the employee benefit plan shall be deemed to be for a purpose which is not opposed to the best interest of the Company.

Costs and expenses indemnified shall include payments in settlements or in satisfaction of any judgment, fine, penalty, excise tax or tax. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the director, officer, or employee did not act in good faith.

(b) Any indemnification provided for herein, unless ordered by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer or employee is proper in the circumstances because he or she had met the applicable standard of conduct set forth in Section 8 (a) hereof. Such determination shall be made (a) by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; (b) by a majority vote of a committee of the board of directors, if: (i) the committee is designated by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; and (ii) the committee consists solely of one or more of the directors not named as defendants or respondents in the proceeding; (c) by special legal counsel selected by the board of directors or a committee thereof by a vote as set forth in subsection (a) or (b) of this Section 8(b), or if a vote as set forth in subsection (a) or (b) cannot be obtained, then by special legal counsel selected by the board of directors; or (d) by the shareholders in a vote that excludes the shares held by directors who are named defendants or respondents in the proceeding.

(c) It is specifically intended to provide indemnification with regard to acts or omissions on the part of directors, officers or employees which may be or are adjudged to constitute negligence, misrepresentations, slander, libel, misconduct, or other breach of duty, but only to the extent that such indemnification may be provided for under law, and only upon a determination under Section 8 (b) hereof that such conduct was in good faith.

(d) The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Company, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise (and "other enterprise" shall in this Section 8 be deemed to include an employee benefit plan), against any liability asserted against him or her and incurred by him or her in any such capacity

or arising out of his or her status as such, whether or not the corporation itself would have the power to indemnify him or her against such liability under law.

(e) To the extent permitted by law, expenses incurred in connection with a civil, criminal, administrative or investigative action, suit or proceeding, or threat thereof, may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided in Section 8(b) of this Article IV, upon receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the applicable standard of conduct set forth in this Article IV and a written undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified by the corporation as authorized in this Article IV.

(f) Should any of the indemnification rights provided for herein be declared invalid, such declaration shall not invalidate the indemnification provisions generally, and such of the indemnification rights provided for herein as are permissible under law shall remain effective.

(g) The foregoing right of indemnification shall not be deemed exclusive of any other rights to which any director, officer, employee or representative may be entitled under any other bylaw, agreement, or vote of shareholders or disinterested directors, as a matter of law or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office or performing such of his or her duties and shall continue as to a person who has ceased to be a director, officer, employee or representative and shall inure to the benefit of the heirs, executors, and administrators of such a person.

ARTICLE V

CAPITAL STOCK

Section 1. Certificates of Shares. The shares of the capital stock of the corporation may be certificated or uncertificated, as provided under Texas law, and shall be entered in the books of the corporation and registered as they are issued. Any certificates representing shares of stock shall be in such form as the Board of Directors shall prescribe, certifying the number and class of shares of the stock of the corporation owned by the shareholder. The certificates shall be signed by the Chief Executive Officer, President or a Vice President, and also by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer and may be sealed with the seal of this corporation or a facsimile thereof. Where any such certificate is countersigned by a transfer agent, or registered by a registrar, either of which is other than the corporation itself or an employee of the corporation, the signatures of any such Chief Executive Officer, President or Vice President and Secretary or Assistant Secretary or Treasurer or Assistant Treasurer may be facsimiles.

Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice that shall set forth the name of the corporation, that the corporation is organized under the laws of the State of Texas, the name of the shareholder, the number and class (and the designation of the series, if any) of the shares represented, and any restrictions on the transfer or registration of such shares of stock imposed by the corporation's articles of incorporation, these Bylaws, any agreement among shareholders or any agreement between shareholders and the corporation.

Section 2. Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate or evidence of the issuance of uncertificated shares to the shareholder entitled thereto, cancel the old certificate and record the transaction upon the corporation's books

Upon the receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be cancelled, issuance of new equivalent uncertificated shares or certificated shares shall be made to the shareholder entitled thereto and the transaction shall be recorded upon the books

of the corporation. If the corporation has a transfer agent or registrar acting on its behalf, the signature of any officer or representative thereof may be in facsimile.

The Board of Directors may appoint a transfer agent and one or more co-transfer agents and registrar and one or more co-registrars and may make or authorize such agent to make all such rules and regulations deemed expedient concerning the issue, transfer and registration of shares of stock.

Section 3. Closing of Transfer Books. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, sixty (60) days. If stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the stock transfer books the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than sixty (60) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which the notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders.

Section 4. Regulations. The Board of Directors shall have power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificated or uncertificated shares of the capital stock of the corporation.

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ARTICLE VI
MISCELLANEOUS PROVISIONS

Section 1. Offices. Until the Board of Directors otherwise determines, the registered office of the corporation required by the Texas Business Corporation Act to be maintained in the State of Texas shall be the principal place of business of the corporation, but such registered office may be changed from time to time by the Board of Directors in the manner provided by law and need not be identical to the principal place of business of the corporation.

Section 2. Fiscal Year. The fiscal year of the corporation shall be such as the Board of Directors shall, by resolution, establish.

Section 3. Seal. The seal of the corporation shall be such as from time to time may be approved by the Board of Directors.

Section 4. Notice and Waiver of Notice. Whenever any notice whatever is required to be given under the provisions of these bylaws, said notice shall be deemed to be sufficient if given (a) by depositing the same in a post office box in a sealed postpaid wrapper addressed to the person thereto at his or her post office address, as it appears on the books of the corporation, (b) by transmitting to a facsimile number provided by the shareholder for the purpose of receiving notice, (c) by transmitting to an electronic mail address provided by the shareholder for the purpose of receiving notice, or (d) by posting on an electronic network and sending a message to the shareholder at the address provided by the shareholder for the purpose of alerting the shareholder of a posting; and such notice shall be deemed to have been given on the day of such mailing,

transmission or posting. A waiver of notice, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Section 5. Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the Chief Executive Officer, President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 6. Securities of Other Corporation. The Chair of the Board, the Chief Executive Officer, the President or any Vice President of the corporation shall have power and authority to transfer, endorse for transfer, vote, consent or take any other action with respect to any securities of another issuer which may be held or owned by the corporation and to make, execute and deliver any waiver, proxy or consent with respect to any such securities.

Section 7. Interested Directors and Officers. An otherwise valid contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation or other entity in which one or more of its directors or officers are directors or officers or have a financial interest, shall be valid notwithstanding whether the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof that authorizes the contract or transaction, and notwithstanding whether his or her or their votes are counted for such purpose, if:

(a) The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or

(c) The contract or transaction is fair as to the corporation as of the time it is authorized, approved, or ratified by the Board of Directors, a committee thereof, or the shareholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract or transaction.

ARTICLE VII

AMENDMENTS

Except as set forth below, bylaws may be altered, amended or repealed, or new bylaws may be adopted, by the affirmative vote of the holders of a majority of the outstanding shares of capital stock entitled to vote thereon at any annual meeting, or at any special meeting if notice of the proposed amendment is contained in the notice of said special meeting, or by the affirmative vote of a majority of the full Board of Directors at any regular or special meeting, provided notice of said proposed amendment is contained in the notice of the meeting.

Notwithstanding the provisions of the preceding paragraph, the affirmative vote of the holders of at least four-fifths of the outstanding shares of capital stock of the corporation entitled to vote thereon at a meeting called for that purpose shall be required to amend or repeal, or to adopt any provisions inconsistent with, Article VII or Section 1, Article II of the corporation's Bylaws.

SERVICE CORPORATION INTERNATIONAL
RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS

PREAMBLE

For the purposes of encouraging persons who are not employees of Service Corporation International (the "Corporation" or "Company") or any subsidiary thereof, to serve, or continue to serve, as a member of the Board of Directors of the Corporation and thus benefit the Corporation with their knowledge, judgment, experience and contacts, the Corporation hereby establishes a Retirement Plan For Non-Employee Directors selected to be participants therein.

ARTICLE I

Effective Date of Plan

and Selection of Participants Therein

The effective date of this Plan is January 1, 1992. Any current or future director of the Corporation, including without limitation any former director who has been designated and is serving in the capacity of an honorary director or director emeritus, who is not an employee of the Corporation is eligible for selection as a participant of this Plan. Any such director shall become a participant in this Plan at such time as the Corporation's Board of Directors, or its Executive Committee, by action containing the affirmative approval of a majority of Corporation directors who are employees of the Corporation and who are not participants of the Plan, adopts a resolution naming such director as a participant in this Plan. Each such participant is herein called a "Director".

ARTICLE II

Payments Under Plan

Establishment of Mandatory Retirement Age

2.1 Upon ceasing to be a member of the Board of Directors of the Corporation for any reason, other than removal therefrom as provided in the By-laws of the Corporation and other than death (which is covered by Article IV), a Director shall be entitled to the retirement payments hereinafter provided, subject to the vesting schedule hereinafter stated. Except only as to presently serving Directors who are older, upon the later of a Director attaining the age of seventy-five years or the expiration of such Director's term as director following the attainment of such age, the term of said Director on the Board shall terminate, such age (subject to expiration of the Director's term as director) being herein established as mandatory retirement age for each Director.

2.2 Commencing with the next month following a Director ceasing to be a member of the Board of Directors, as provided in section 2.1, the Corporation will pay said Director certain retirement payments. The annual amount of such retirement payments (the "Annual Retirement Benefit") shall be \$42,500, multiplied by said Director's vested Percentage as set forth in Article III below. The Annual Retirement Benefit shall be paid to said Director in equal monthly installments, payable upon the first business day of each month. Such retirement payments shall be payable for a total period of one hundred twenty (120) consecutive months; provided that if the Director dies prior to the expiration of such period, then for the balance thereof, such payments shall be paid to the beneficiary previously designated by the Director in writing and on file with the Corporation's Secretary, which beneficiary is referred to herein as the

"Beneficiary", and if no Beneficiary has been designated by Director, or if designated but does not survive Director, of if surviving, dies before a total of one hundred twenty consecutive payments have been paid, the remainder of said payments shall be paid to the Director's spouse, if any and if living, but to Director's estate if Director is not survived by a spouse, or if survived by a spouse, the latter should die before a total of one hundred twenty monthly payments have been made.

ARTICLE III

Vesting

3.1 The Director's vested percentage shall be determined based upon full years of service as a director, including without limitation service prior to the date of this Plan and including without limitation any period of time in which the Director was both a director and an employee of the Corporation. The years of service and the vested percentages are as follows:

Full Years of Service Vested Percentage

0 - 5 0%
6 - 8 25%
9 - 11 50%
12 - 14 75%
15 or more 100%

3.2 If a Change of Control occurs, then the Director shall immediately be 100% vested, irrespective of the number of years of service. For purposes of this agreement, "Change of Control" shall mean:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended [the "Exchange Act"]) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of Common Stock of the Company (the "Outstanding Company Common

Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of Directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege), (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (A), (B) and (C) of subsection (iii) of this definition of "Change of Control" are satisfied; or

(ii) Individuals who, as of the effective date hereof, constitute the Board of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of the Company; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nominating for election by the Company's shareholders, was approved by (A) a vote of at least a majority of the directors then comprising the Incumbent Board of the Company, or (B) a vote of at least a majority of the directors then comprising the Executive Committee of the Board at a time when such committee was comprised of at least five members and all members of such committee were either members of the Incumbent Board or considered as being members of the Incumbent Board pursuant to clause (A) of this subsection (ii), shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of the Company; or

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (A) more than 60% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such organization, merger or consolidation in substantially the same proportions as

their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding the Company, any employee benefit plan [or related trust] or the Company or such corporation resulting from such reorganization, merger or consolidation and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (C) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(iv) Approval by the shareholders of the Company of (A) a complete liquidation or dissolution of the Company or (B) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, (A) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding the Company and any employee benefit plan [or related trust] of the Company or such corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (C) at least a majority of the members of the Board of Directors of such corporation where members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board of the Company providing for such sale or other disposition of assets of the Company.

ARTICLE IV

Payment Upon Director's Death

4.1 If the Director dies prior to retirement, the Corporation will pay to the Beneficiary the annual sum of \$42,500 per year. The death benefit shall be paid to the Beneficiary in equal monthly installments, payable upon the first business day of each month beginning with the month immediately following the Director's death. Such payments shall be payable to the Beneficiary until a total of 120 monthly payments have been made.

4.2 If at the time a payment is due no Beneficiary designated by the Director is in existence, such payment shall be made to the Director's surviving spouse, if any and if living, but to Director's estate if Director is not survived by a spouse, or if survived by a spouse, and the latter should die before a total of one hundred twenty monthly payments have been made.

ARTICLE V Nonassignability

This Plan and the rights, interest and benefits hereunder shall not be assigned, transferred, pledged, sold, conveyed or encumbered in any way by the Director and shall not be subject to execution, attachment or similar process. Any attempted sale, conveyance, transfer, assignment, pledge or encumbrance of this Plan or of such rights, interest and benefits contrary to the foregoing provisions or the levy of any attachment or similar process thereupon shall be null and void and without effect. This Plan shall be binding on the Corporation, its successors and assigns.

ARTICLE VI
Miscellaneous

6.1 This instrument contains the entire Plan and constitutes a complete integration of the representation, covenants and promises of Director and the Corporation. No amendment or variation of the terms of this Plan shall be valid, unless made in writing and adopted by the Board of Directors of the Corporation or the Executive Committee in an action containing the affirmative approval of a majority of Corporation directors who are not eligible persons or participants of the Plan; provided however, that no such amendment or variation of the terms of this Plan which reduces or otherwise has adverse consequences to the benefits of a Director shall be effective as to such Director unless such Director consents thereto in writing.

6.2 The Corporation may make any payments required by this Plan, when the recipient is incapacitated in the judgment of the Corporation by reason of physical or mental illness or infirmity: (a) to the recipient directly; (b) to the guardian of the recipient's person or estate; (c) to the custodian of a minor recipient serving under the Uniform Gifts to Minors Act of Texas or any other state; or (d) in the event an inter vivos or testamentary trust is then in existence for the benefit of any such recipient, to the trustee or trustees of any such trust.

6.3 The Corporation may make the payments specified by this Plan without liability to anyone other than the specified payee. The Director will, on behalf of the Director, or the Director's heirs and assigns, hold the Corporation harmless from any liability for making payments as specified by this Plan unless and until the Corporation is served with citation or other process issuing out of a court of competent jurisdiction in connection with a suit instituted by someone for the purpose of

recovering or establishing an interest in such payments. In the event the Corporation becomes uncertain as to the person or persons entitled to receive payments under this Plan, the Corporation may withhold any payments until such time as the Corporation receives a written agreement from the Director, his heirs and assigns, acknowledging that he and they will be and are obligated to provide the indemnity set forth in the preceding sentence.

**FOURTH AMENDMENT TO THE
SCI 401(k) RETIREMENT SAVINGS PLAN**

WHEREAS, **Service Corporation International** (the “Employer”) adopted a restatement of the **SCI 401(k) Retirement Savings Plan** (the “Plan”) effective as of January 1, 2016, which was subsequently amended by the First Amendment, Second Amendment, and Third Amendment;

WHEREAS, the Employer desires to clarify the Plan’s definition of compensation with respect to certain items of compensation that are excluded from the definition of “Compensation” for elective deferrals, non-safe harbor matching contributions, and non-safe-harbor non-elective contributions;

WHEREAS, the Employer desires to amend the Plan to add a new source for corrective matching contributions; and

WHEREAS, the Employer has the ability to amend the Plan pursuant to Article 11.1.

NOW, THEREFORE, the Employer hereby amends the Plan in the following respects, effective as of January 1, 2017:

1. Section 1.33(b) of the Plan is amended, to be and to read as follows:

“(b) **Compensation Used for Elective Deferral Purposes.** In determining Elective Deferrals, the term *Compensation* means the Code §415 Safe Harbor Compensation paid or made available to the Participant during the Plan Year, including Elective Contributions, and excluding (1) Code §414(s) Safe Harbor Exclusions (including, but not limited to, fringe benefit payments such as car allowances, benefit premium credits, house allowances, and nontaxable earnings); (2) amounts received prior to the date the Employee becomes a Participant in the Elective Deferral Component of the Plan; (3) Differential Wage Payments; (4) short-term disability payments paid by a third party administrator; (5) pay advances; (6) long-term bonuses (including payments under the LTIP (PUPs payments)); and (7) gross-up payments.”

2. Section 1.33(c) of the Plan is amended, to be and to read as follows:

“(c) **Compensation Used for Non-Safe Harbor Matching Contribution Purposes.** In determining Non-Safe Harbor Matching Contributions, the term *Compensation* means the Code §415 Safe Harbor Compensation paid or made available to the Participant during the Plan Year, including Elective Contributions, and excluding (1) Code §414(s) Safe Harbor Exclusions (including, but not limited to, fringe benefit payments such as car allowances, benefit premium credits, house allowances, and nontaxable earnings); (2) amounts received prior to the date the Employee becomes a Participant in the Non-Safe Harbor Matching Contribution Component of the Plan; (3) Differential Wage Payments; (4) short-term disability payments paid by a third party administrator; (5) pay advances; (6) long-term bonuses (including payments under the LTIP (PUPs payments)); and (7) gross-up payments.”

3. Section 1.33(d) of the Plan is amended, to be and to read as follows:

“(d) **Compensation Used for Non-Safe Harbor Non-Elective Contribution Purposes.** In determining Non-Safe Harbor Non-Elective Contributions, the term *Compensation* means the Code §415 Safe Harbor Compensation paid or made available to the Participant during the Plan Year, including Elective Contributions, and excluding (1) Code §414(s) Safe Harbor Exclusions (including, but not limited to, fringe benefit payments such as car allowances, benefit premium credits, house allowances, and nontaxable earnings); (2) amounts received prior to the date the Employee becomes a Participant in the Non-Safe Harbor Non-Elective Contribution Component of the Plan; (3) Differential Wage Payments; (4) short-term disability payments paid by a third party administrator;

(5) pay advances; (6) long-term bonuses (including payments under the LTIP (PUPs payments)); **and (7) gross-up payments.**”

4. Section 1.92 of the Plan is amended to add Corrective Matching Non-Elective Contributions to the definition of Non-Elective Contribution, to be and to read as follows:

“1.92 Non-Elective Contribution. The term Non-Elective Contribution means any ADP Safe Harbor Non-Elective Contribution, Non-Safe Harbor Non-Elective Contribution, Prevailing Wage Contribution or QACA Non-Elective Contribution, **Corrective Matching Non-Elective Contribution**, Top Heavy Minimum Allocation or Gateway Allocation that is not used to offset any Matching Contribution or is not treated as a Qualified Non-Elective Contribution or a Qualified Matching Contribution, depending on the context in which the term is used in the Plan.”

5. Section 1.182(c) of the Plan is amended, to be and to read as follows:

(c) **Prior Service Credit.** If the Employer maintains (or has ever maintained) any plan of a predecessor employer, then Service during the existence of the predecessor plan with the predecessor employer will be credited as Years of Vesting Service with the Employer. In addition, an Employee will receive credit for all Years of Vesting Service with (1) Wilson Financial Group (excluding the Kelly Funeral Home, Inc. division); and (2) Keystone Group in determining the Vested Interest in the Participant’s Non-Safe Harbor Matching Contribution Account, **Corrective Matching Non-Elective Contribution Account** and Non-Safe Harbor Non-Elective Contribution Account. Additionally, an Employee shall be credited with all Years of Vesting Service completed prior to a Break in Service if such Employee had a non-forfeitable accrued benefit under the SCI Cash balance Plan or SCI Pension Plan at the time he or she first incurred a 1-year Break in Service. If the Employer does not maintain (and has never maintained) any plan of a predecessor employer and Service with the employers described in the preceding sentence exceeds five Years of Vesting Service, then the crediting of such Service must comply with the requirements of Regulation §1.401(a)(4)-11(d).”

6. Article 1 of the Plan is amended to add new definitions to the end thereof related to corrective matching contributions, to be and to read as follows:

“Corrective Matching Non-Elective Contribution. The term Corrective Matching Non-Elective Contribution means a corrective Employer contribution made to this Plan on behalf of a Participant on account of a missed Non-Safe Harbor Matching Contribution. A Corrective Matching Non-Elective Contribution is subject to the same vesting and allocation requirements as the corresponding missed Non-Safe Harbor Matching Contribution.

Corrective Matching Non-Elective Contribution Account. The term Corrective Matching Non-Elective Contribution Account means the account to which a Participant’s Corrective Matching Non-Elective Contributions are allocated.”

7. Article 3 of the Plan is amended to add a new Section 3.15, to be and to read as follows:

“3.15 Corrective Matching Non-Elective Contributions. Corrective Matching Non-Elective Contributions which are made to the Plan will be made and allocated to each Benefiting Participant’s Corrective Matching Non-Elective Contribution Account in accordance with, and subject to, the provisions that apply to the corresponding Non-Safe Harbor Matching Contributions described in Section 3.3.”

8. Section 4.5 of the Plan is amended to add a new subsection (i), to be and to read as follows:

“(i) Vesting of Corrective Matching Non-Elective Contributions. A Participant’s Vested Interest in his or her Corrective Matching Non-Elective Contribution Account will be determined by the Vesting schedule that

applies to the Participant's Vested Interest in his or her corresponding Non-Safe Harbor Matching Contribution Account as described in Section 4.5(e)."

9. Section 5.3 of the Plan is amended to add a new subsection (j), to be and to read as follows:

"(j) **Corrective Matching Non-Elective Contribution Account.** A Participant may request an in-service distribution of up to 100% of the Vested Interest in his or her Corrective Matching Non-Elective Contribution Account at any time on or after the date the Participant reaches Normal Retirement Age, or at any time on or after the date the Participant has reached age 59½."

10. In all other respects, the terms of this Plan are hereby ratified and confirmed.

IN WITNESS WHEREOF, the Employer has caused this Fourth Amendment to be executed as of the date indicated below.

SERVICE CORPORATION INTERNATIONAL

By: /s/ GREGORY T. SANGALIS

Title: SVP GEN COUNSEL/SECRETARY

Date: 11/19/2017

Service Corporation International

Deferred Compensation Plan

Amended and Restated Effective January 1, 2017

DEFERRED COMPENSATION PLAN
HOU:0015773/00176:1910737v1

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE 1	DEFINITIONS..... 1
ARTICLE 2	SELECTION, ENROLLMENT, ELIGIBILITY 10
	2.1 Selection by Committee..... 10
	2.2 Enrollment and Eligibility Requirements; Commencement of Participation..... 10
ARTICLE 3	DEFERRAL COMMITMENTS/COMPANY CONTRIBUTION AMOUNTS/COMPANY RESTORATION MATCHING AMOUNTS/ VESTING/CREDITING/TAXES..... 10
	3.1 Annual Deferral Amount..... 10
	3.2 Timing of Deferral Elections; Effect of Election Form..... 11
	3.3 Withholding and Crediting of Annual Deferral Amounts..... 13
	3.4 Company Contribution Amount..... 13
	3.5 Company Restoration Matching Amount..... 13
	3.6 Vesting..... 14
	3.7 Crediting/Debiting of Account Balances..... 15
	3.8 FICA and Other Taxes..... 16
ARTICLE 4	SCHEDULED DISTRIBUTION; UNFORESEEABLE EMERGENCIES..... 17
	4.1 Scheduled Distributions..... 17
	4.2 Postponing Scheduled Distributions..... 18
	4.3 Other Benefits Take Precedence Over Scheduled Distributions..... 18
	4.4 Unforeseeable Emergencies..... 18
ARTICLE 5	CHANGE IN CONTROL BENEFIT..... 19
	5.1 Change in Control Benefit..... 19
	5.2 Payment of Change in Control Benefit..... 19
ARTICLE 6	RETIREMENT BENEFIT..... 19
	6.1 Retirement Benefit..... 19
	6.2 Payment of Retirement Benefit..... 20
ARTICLE 7	TERMINATION BENEFIT..... 21
	7.1 Termination Benefit..... 21
	7.2 Payment of Termination Benefit..... 21
ARTICLE 8	DISABILITY BENEFIT..... 22
	8.1 Disability Benefit..... 22
	8.2 Payment of Disability Benefit..... 22
ARTICLE 9	DEATH BENEFIT..... 23
	9.1 Death Benefit..... 23
	9.2 Payment of Death Benefit..... 23

ARTICLE 10	BENEFICIARY DESIGNATION.....	23
10.1	Beneficiary.....	23
10.2	Beneficiary Designation; Change; Spousal Consent.....	23
10.3	Acknowledgment.....	23
10.4	No Beneficiary Designation.....	23
10.5	Doubt as to Beneficiary.....	24
10.6	Discharge of Obligations.....	24
ARTICLE 11	LEAVE OF ABSENCE.....	24
11.1	Paid Leave of Absence.....	24
11.2	Unpaid Leave of Absence.....	24
ARTICLE 12	TERMINATION OF PLAN, AMENDMENT OR MODIFICATION.....	24
12.1	Termination of Plan.....	24
12.2	Amendment.....	25
12.3	Plan Agreement.....	25
12.4	Effect of Payment.....	25
ARTICLE 13	ADMINISTRATION.....	25
13.1	Committee Duties.....	25
13.2	Administration Upon Change In Control.....	26
13.3	Agents.....	26
13.4	Binding Effect of Decisions.....	26
13.5	Indemnity of Committee.....	26
13.6	Employer Information.....	26
ARTICLE 14	OTHER BENEFITS AND AGREEMENTS.....	26
14.1	Coordination with Other Benefits.....	26
ARTICLE 15	CLAIMS PROCEDURES.....	27
15.1	Presentation of Claim.....	27
15.2	Notification of Decision.....	27
15.3	Review of a Denied Claim.....	28
15.4	Decision on Review.....	28
15.5	Legal Action.....	28
ARTICLE 16	TRUST.....	29
16.1	Establishment of the Trust.....	29
16.2	Interrelationship of the Plan and the Trust.....	29
16.3	Distributions From the Trust.....	29
ARTICLE 17	MISCELLANEOUS.....	29
17.1	Status of Plan.....	29
17.2	Unsecured General Creditor.....	29
17.3	Employer's Liability.....	29
17.4	Nonassignability.....	29
17.5	Not a Contract of Employment.....	30

17.6	Furnishing Information.....	30
17.7	Terms.....	30
17.8	Captions.....	30
17.9	Governing Law.....	30
17.10	Notice.....	30
17.11	Successors.....	31
17.12	Spouse's Interest.....	31
17.13	Validity.....	31
17.14	Incompetent.....	31
17.15	Domestic Relations Orders.....	31
17.16	Distribution in the Event of Income Inclusion Under Code Section 409A.....	31
17.17	Deduction Limitation on Benefit Payments	31
ARTICLE 18	STOCK DEFERRALS.....	32
18.1	Deferral of Share Awards.....	32
18.2	Automatic Changes in Investment.....	35
ARTICLE 19	DIRECTOR DEFERRED UNITS.....	35
19.1	General.....	35
19.2	Deferral of Unit Awards.....	35
19.3	Automatic Changes in Investment.....	37

SERVICE CORPORATION INTERNATIONAL
Deferred Compensation Plan
Amended and Restated January 1, 2017

Purpose

The Plan was originally adopted effective as of January 1, 2005. The purpose of this Plan is to provide specified benefits to Directors and a select group of management or highly compensated Employees who contribute materially to the continued growth, development and future business success of Service Corporation International, a Texas corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

The Plan has been previously amended and restated in its entirety to comply with all applicable laws, including Code Section 409A and related Treasury guidance and Regulations, and shall be operated and interpreted in accordance with this intention. Thereafter the Plan has been amended to make certain additional changes to its terms. In connection with the combination of the Service Corporation International Amended and Restated Director Fee Plan with and into the Service Corporation International Amended and Restated 2016 Equity Incentive Plan, the Company has elected to amend and restate this Plan to (i) permit deferrals of director fees under this Plan's terms, (ii) to allow this Plan to administer the payment of director fees deferred under the Director Plan, (iii) to make certain additional changes to the Plan's terms, and (iv) change the Plan's name to the "Service Corporation International Deferred Compensation Plan." The provisions of this Plan, as amended and restated, shall apply to any Participant with at least one hour of service on or after January 1, 2017.

ARTICLE 1
Definitions

For the purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 **"Account Balance"** shall mean, with respect to a Participant, an entry on the records of the Employer equal to the sum of the Participant's Annual Accounts. The Account Balance shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

If a Participant is both an Employee and a Director and participates in the Plan in each capacity, then separate Account Balances (and separate Annual Accounts, if applicable) shall be established for such Participant as a device for the measurement and determination of the (i) amounts deferred under the Plan that are attributable to the Participant's status as an Employee, and (ii) amounts deferred under the Plan that are attributable to the Participant's status as a Director.

- 1.2 **"Annual Account"** shall mean, with respect to a Participant, an entry on the records of the Employer equal to (i) the sum of the Participant's Annual Deferral Amount, Company Contribution Amount and Company Restoration Matching Amount for any one Plan Year, plus (ii) amounts credited or debited to such amounts pursuant to this Plan, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Annual Account for such Plan Year. The Annual Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan. The distribution elections made for a Participant's Annual Account

for each Plan Year shall apply until such elections are changed pursuant to Sections 4.2, 6.2(b), 7.2(b) or 8.2, as applicable.

- 1.3 **“Annual Deferral Amount”** shall mean that portion of a Participant’s Base Salary, Bonus, Director Fees and LTIP Amounts that a Participant defers in accordance with Article 3 for any one Plan Year, without regard to whether such amounts are withheld and credited during such Plan Year.
- 1.4 **“Annual Installment Method”** shall mean the method used to determine the amount of each payment due to a Participant who has elected to receive a benefit over a period of years in accordance with the applicable provisions of the Plan. The amount of each annual payment due to the Participant shall be calculated by multiplying the balance of the Participant’s benefit by a fraction, the numerator of which is one and the denominator of which is the remaining number of annual payments due to the Participant. The amount of the first annual payment shall be calculated as of the close of business on or around the Participant’s Benefit Distribution Date, and the amount of each subsequent annual payment shall be calculated on or around each anniversary of such Benefit Distribution Date. For purposes of this Plan, the right to receive a benefit payment in annual installments shall be treated as the entitlement to a single payment.
- 1.5 **“Base Salary”** shall mean the annual cash compensation relating to services performed during any calendar year, excluding distributions from nonqualified deferred compensation plans, bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, director fees and other fees, and automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee’s gross income). Base Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or nonqualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant’s gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; *provided, however*, that all such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.6 **“Beneficiary”** shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 10, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.7 **“Beneficiary Designation Form”** shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.8 **“Benefit Distribution Date”** shall mean the date upon which all or an objectively determinable portion of a Participant’s vested benefits will become eligible for distribution. Except as otherwise provided in the Plan, a Participant’s Benefit Distribution Date shall be determined based on the earliest to occur of an event or scheduled date set forth in Articles 4 through 9, as applicable.
- 1.9 **“Board”** shall mean the board of directors of the Company.
- 1.10 **“Bonus”** shall mean any compensation, in addition to Base Salary, and LTIP Amounts, earned by a Participant under any Employer’s annual bonus and cash incentive plans.
- 1.11 **“Change in Control”** shall mean the occurrence of a “change in the ownership,” a “change in the effective control” or a “change in the ownership of a substantial portion of the assets” of a corporation,

as determined in accordance with this Section. In order for an event described below to constitute a Change in Control with respect to a Participant, except as otherwise provided in Subsection (b)(ii), the applicable event must relate to the corporation for which the Participant is providing services, the corporation that is liable for payment of the Participant's Account Balance (or all corporations liable for payment if more than one), as identified by the Committee in accordance with Treas. Reg. § 1.409A-3(i)(5)(ii)(A)(2), or such other corporation identified by the Committee in accordance with Treas. Reg. § 1.409A-3(i)(5)(ii)(A)(3).

In determining whether an event shall be considered a "change in the ownership," a "change in the effective control" or a "change in the ownership of a substantial portion of the assets" of a corporation, the following provisions shall apply:

- (a) A "change in the ownership" of the applicable corporation shall occur on the date on which any one person, or more than one person acting as a group, acquires ownership of stock of such corporation that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of such corporation, as determined in accordance with Treas. Reg. § 1.409A-3(i)(5)(v). If a person or group is considered either to own more than 50% of the total fair market value or total voting power of the stock of such corporation, or to have effective control of such corporation within the meaning of Subsection (b), and such person or group acquires additional stock of such corporation, the acquisition of additional stock by such person or group shall not be considered to cause a "change in the ownership" of such corporation.
- (b) A "change in the effective control" of the applicable corporation shall occur on either of the following dates:
 - (i) The date on which any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of such corporation possessing 30% or more of the total voting power of the stock of such corporation, as determined in accordance with Treas. Reg. § 1.409A-3(i)(5)(vi). If a person or group is considered to possess 30% or more of the total voting power of the stock of a corporation, and such person or group acquires additional stock of such corporation, the acquisition of additional stock by such person or group shall not be considered to cause a "change in the effective control" of such corporation; or
 - (ii) The date on which a majority of the members of the applicable corporation's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of such corporation's board of directors before the date of the appointment or election, as determined in accordance with Treas. Reg. § 1.409A-3(i)(5)(vi). In determining whether the event described in the preceding sentence has occurred, the applicable corporation to which the event must relate shall only include a corporation identified in accordance with Treas. Reg. § 1.409A-3(i)(5)(ii) for which no other corporation is a majority shareholder.
- (c) A "change in the ownership of a substantial portion of the assets" of the applicable corporation shall occur on the date on which any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets

of the corporation immediately before such acquisition or acquisitions, as determined in accordance with Treas. Reg. §1.409A-3(i)(5)(vii). A transfer of assets shall not be treated as a “change in the ownership of a substantial portion of the assets” when such transfer is made to an entity that is controlled by the shareholders of the transferor corporation, as determined in accordance with Treas. Reg. §1.409A-3(i)(5)(vii)(B).

- 1.12 “**Code**” shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.
- 1.13 “**Committee**” shall mean the committee described in Article 13.
- 1.14 “**Company**” shall mean Service Corporation International, a Texas corporation, and any successor to all or substantially all of the Company’s assets or business.
- 1.15 “**Company Contribution Amount**” shall mean, for any one Plan Year, the amount determined in accordance with Section 3.4.
- 1.16 “**Company Restoration Matching Amount**” shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.
- 1.17 “**Death Benefit**” shall have the meaning provided in Section 9.1.
- 1.18 “**Director**” shall mean any member of the board of directors of any Employer.
- 1.19 “**Director Deferred Units**” means such portion of a Unit Award to a Director that is timely elected to be deferred into a Director Unit Account under the Incentive Plan.
- 1.20 “**Director Fees**” shall mean the annual fees earned by a Director from any Employer, including retainer fees and meetings fees, as compensation for serving on the board of directors.
- 1.21 “**Director Plan**” shall mean the Service Corporation International Amended and Restated Director Fee Plan, which was combined with and into the Equity Plan effective August 1, 2017.
- 1.22 “**Director Unit Account**” means an account established with the Company in the name of such Director that will be credited with (i) the hypothetical number of Director Deferred Units deferred by the Director under Section 15.2 of the Incentive Plan, (ii) the hypothetical number of Director Deferred Units credited to the Director under Section 15.3 of the Incentive Plan, and (iii) dividend equivalent payments with respect to such Director Deferred Units.
- 1.23 “**Disability**” or “**Disabled**” shall mean that a Participant is either (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Participant’s Employer. For purposes of this Plan, a Participant shall be deemed Disabled if determined to be totally disabled by the Social Security Administration. A Participant shall also be deemed Disabled if determined to be disabled in accordance with the applicable disability insurance program of such Participant’s Employer, provided that the definition of “disability” applied under such disability insurance program complies with the requirements of this Section.

- 1.24 **“Dividend Equivalents”** means the amount credited to a Participant’s Dividend Equivalent Account as provided in Sections 18.1(e) or 19.2(d).
- 1.25 **“Election Form”** shall mean the form, which may be in paper or electronic format, established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.
- 1.26 **“Employee”** shall mean a person who is an employee of an Employer.
- 1.27 **“Employer(s)”** shall be defined as follows:
- (a) Except as otherwise provided in Subsection (b), the term “Employer” shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor.
 - (b) For the purpose of determining whether a Participant has experienced a Separation from Service, the term “Employer” shall mean:
 - (i) The entity for which the Participant performs services and with respect to which the legally binding right to compensation deferred or contributed under this Plan arises; and
 - (ii) All other entities with which the entity described above would be aggregated and treated as a single employer under Code Section 414(b) (controlled group of corporations) and Code Section 414(c) (a group of trades or businesses, whether or not incorporated, under common control), as applicable. In order to identify the group of entities described in the preceding sentence, the Committee shall use an ownership threshold of at least 50% as a substitute for the 80% minimum ownership threshold that appears in, and otherwise must be used when applying, the applicable provisions of (A) Code Section 1563 for determining a controlled group of corporations under Code Section 414(b), and (B) Treas. Reg. §1.414(c)-2 for determining the trades or businesses that are under common control under Code Section 414(c).
- 1.28 **“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.29 **“401(k) Plan”** shall mean the SCI Retirement Savings Plan, as it may be amended from time to time, or any successor thereto.
- 1.30 **“Incentive Plan”** shall mean the Service Corporation International Amended and Restated 2016 Equity Incentive Plan, as such plan may be amended from time to time, and any successor equity incentive plan adopted by the Company at a future date.
- 1.31 **“Investment Selection Committee”** shall mean the Committee, the Investment Committee of Service Corporation International, and the Investment Operating Committee of Service Corporation International, which shall collectively be designated as the Investment Selection Committee for the Plan, and each such committee is empowered and authorized to act alone as the Investment Selection Committee.

- 1.32 **“LTIP Amounts”** shall mean any portion of the compensation attributable to a Plan Year that is earned by a Participant under the Company’s Performance Unit Plan or any other “performance-based compensation plan within the meaning of Code Section 409A and so designated by the Committee.
- 1.33 **“Participant”** shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) whose executed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, and (iii) whose Plan Agreement has not terminated.
- 1.34 **“Performance-Based Compensation”** shall mean compensation the entitlement to or amount of which is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months, as determined by the Committee in accordance with Treas. Reg. §1.409A-1(e).
- 1.35 **“Plan”** shall mean the Service Corporation International Deferred Compensation Plan, Amended and Restated effective January 1, 2017, which shall be evidenced by this instrument, as it may be amended from time to time, and by any other documents that together with this instrument define a Participant’s rights to amounts credited to his or her Account Balance.
- 1.36 **“Plan Agreement”** shall mean a written agreement in the form prescribed by or acceptable to the Committee that evidences a Participant’s agreement to the terms of the Plan and which may establish additional terms or conditions of Plan participation for a Participant. Unless otherwise determined by the Committee, the most recent Plan Agreement accepted with respect to a Participant shall supersede any prior Plan Agreements for such Participant. Plan Agreements may vary among Participants and may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan.
- 1.37 **“Plan Year”** shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.
- 1.38 **“RSU Award”** shall mean any grant of Restricted Stock Units as defined in and pursuant to the Incentive Plan.
- 1.39 **“RSU Award Unit”** shall mean a nominal unit of the Company’s common stock that is credited to a Participant’s Stock Award Unit Account pursuant to Section 18.1(b) below.
- 1.40 **“Retirement,” “Retire(s)” or “Retired”** shall mean with respect to a Participant who is an Employee, a Separation from Service on or after the attainment of age sixty (60) with five (5) Years of Service, and shall mean with respect to a Participant who is a Director, a Separation from Service. If a Participant is both an Employee and a Director and participates in the Plan in each capacity, (i) the determination of whether the Participant qualifies for Retirement as an Employee shall be made when the Participant experiences a Separation from Service as an Employee and such determination shall only apply to the applicable Account Balance established in accordance with Section 1.1 for amounts deferred under the Plan as an Employee, and (ii) the determination of whether the Participant qualifies for Retirement as a Director shall be made at the time the Participant experiences a Separation from Service as a Director and such determination shall only apply to the applicable Account Balance established in accordance with Section 1.1 for amounts deferred under the Plan as a Director.
- 1.41 **“Separation from Service”** shall mean a termination of services provided by a Participant to his or her Employer, whether voluntarily or involuntarily, other than by reason of death or Disability, as

determined by the Committee in accordance with Treas. Reg. §1.409A-1(h). In determining whether a Participant has experienced a Separation from Service, the following provisions shall apply:

- (a) For a Participant who provides services to an Employer as an Employee, except as otherwise provided in Subsection (c) below, a Separation from Service shall occur when such Participant has experienced a termination of employment with such Employer. A Participant shall be considered to have experienced a termination of employment when the facts and circumstances indicate that the Participant and his or her Employer reasonably anticipate that either (i) no further services will be performed for the Employer after a certain date, or (ii) that the level of bona fide services the Participant will perform for the Employer after such date (whether as an Employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of bona fide services performed by such Participant (whether as an Employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Employer if the Participant has been providing services to the Employer less than 36 months).

If a Participant is on military leave, sick leave, or other bona fide leave of absence, the employment relationship between the Participant and the Employer shall be treated as continuing intact, provided that the period of such leave does not exceed six months, or if longer, so long as the Participant retains a right to reemployment with the Employer under an applicable statute or by contract. If the period of a military leave, sick leave, or other bona fide leave of absence exceeds six months and the Participant does not retain a right to reemployment under an applicable statute or by contract, the employment relationship shall be considered to be terminated for purposes of this Plan as of the first day immediately following the end of such six month period. In applying the provisions of this paragraph, a leave of absence shall be considered a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for the Employer.

- (b) For a Participant who provides services to an Employer as a Director, a Separation from Service shall occur on the date the Participant ceases to serve on the Board of Directors of the Employer and each of its subsidiaries and affiliates.
- (c) For a Participant who provides services to an Employer as both an Employee and a Director, a Separation from Service generally shall not occur until the Participant has ceased providing services for such Employer as both as an Employee and as a Director, as determined in accordance with the provisions set forth in Subsections (a) and (b) above, respectively. Notwithstanding the foregoing provisions in this Subsection (c), if a Participant provides services for an Employer as both an Employee and as a Director, to the extent permitted by Treas. Reg. §1.409A-1(h)(5) the services provided by such Participant as a Director shall not be taken into account in determining whether the Participant has experienced a Separation from Service as an Employee, and the services provided by such Participant as an Employee shall not be taken into account in determining whether the Participant has experienced a Separation from Service as a Director.

1.42 “**Specified Employee**” shall mean any Participant who is determined to be a “key employee” (as defined under Code Section 416(i) without regard to paragraph (5) thereof) for the applicable period, as determined annually by the Committee in accordance with Treas. Reg. §1.409A-1(i). In determining whether a Participant is a Specified Employee, the following provisions shall apply:

- (a) The Committee's identification of the individuals who fall within the definition of "key employee" under Code Section 416(i) (without regard to paragraph (5) thereof) shall be based upon the 12-month period ending on each December 31st (referred to below as the "identification date"). In applying the applicable provisions of Code Section 416(i) to identify such individuals, "compensation" shall be determined in accordance with Treas. Reg. §1.415(c)-2(a) without regard to (i) any safe harbor provided in Treas. Reg. §1.415(c)-2(d), (ii) any of the special timing rules provided in Treas. Reg. §1.415(c)-2(e), and (iii) any of the special rules provided in Treas. Reg. §1.415(c)-2(g); and
 - (b) Each Participant who is among the individuals identified as a "key employee" in accordance with Subsection (a) shall be treated as a Specified Employee for purposes of this Plan if such Participant experiences a Separation from Service during the 12-month period that begins on the April 1st following the applicable identification date.
- 1.43 **"Stock Award"** shall mean any grant of Restricted Stock as defined in and pursuant to the Incentive Plan.
- 1.44 **"Stock Award Unit"** shall mean a nominal unit of the Company's common stock that is credited to a Participant's Stock Award Unit Account pursuant to Section 18.1(b) below.
- 1.45 **"Termination Benefit"** shall have the meaning provided in Section 7.1.
- 1.46 **"Trust"** shall mean one or more trusts established by the Company in accordance with Article 16.
- 1.47 **"Unforeseeable Emergency"** shall mean a severe financial hardship of the Participant resulting from (i) an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary or the Participant's dependent (as defined in Code Section 152 without regard to paragraphs (b)(1), (b)(2) and (d)(1)(b) thereof), (ii) a loss of the Participant's property due to casualty, or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined by the Committee based on the relevant facts and circumstances.
- 1.48 **"Unit Award"** means that portion of Director Fees awarded in shares of Company's common stock.
- 1.49 **"Years of Service"** shall mean the total number of full years in which a Participant has been employed by one or more Employers. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. A partial year of employment shall not be treated as a Year of Service.

ARTICLE 2

Selection, Enrollment, Eligibility

- 2.1 **Selection by Committee**. Participation in the Plan shall be limited to Directors and, as determined by the Committee in its sole discretion, a select group of management or highly compensated Employees. From that group, the Committee shall select, in its sole discretion, those individuals who may actually participate in this Plan.
- 2.2 **Enrollment and Eligibility Requirements; Commencement of Participation**.
- (a) As a condition to participation, each Director or selected Employee shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary

Designation Form by the deadline(s) established by the Committee in accordance with the applicable provisions of this Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines, in its sole discretion, are necessary.

- (b) Each Director or selected Employee who is eligible to participate in the Plan shall commence participation in the Plan on the date that the Committee determines that the Director or Employee has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period.
- (c) If a Director or an Employee fails to meet all requirements established by the Committee within the period required, that Director or Employee shall not be eligible to participate in the Plan during such Plan Year.

ARTICLE 3

Deferral Commitments/Company Contribution Amounts/Company Restoration Matching Amounts/Vesting/Crediting/Taxes

- 3.1 **Annual Deferral Amount.** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Salary, Bonus, LTIP Amounts and/or Director Fees up to the following maximum percentages for each deferral elected:

Deferral	Maximum Percentage
Base Salary	80%
Bonus	90%
LTIP Amounts	90%
Director Fees	100%

Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, then to the extent required by Section 3.2 and Code Section 409A and related Treasury Regulations, the maximum amount of the Participant's Base Salary, Bonus, LTIP Amounts or Director Fees that may be deferred by the Participant for the Plan Year shall be determined by applying the percentages set forth above to the portion of such compensation attributable to services performed after the date that the Participant's deferral election is made.

3.2 **Timing of Deferral Elections; Effect of Election Form.**

- (a) **General Timing Rule for Deferral Elections.** Except as otherwise provided in this Section 3.2, in order for a Participant to make a valid election to defer Base Salary, Bonus, Director Fees and/or LTIP Amounts, the Participant must submit an Election Form on or before the deadline established by the Committee, which in no event shall be later than the December 31st preceding the Plan Year in which such compensation will be earned.

Any deferral election made in accordance with this Section 3.2(a) shall be irrevocable; *provided, however*, that if the Committee permits or requires Participants to make a deferral election by the deadline described above for an amount that qualifies as Performance-Based Compensation, the Committee may permit a Participant to subsequently change his or her

deferral election for such compensation by submitting a new Election Form in accordance with Section 3.2(d) below.

- (b) **Timing of Deferral Elections for Newly Eligible Plan Participants.** A Director or selected Employee who first becomes eligible to participate in the Plan on or after the beginning of a Plan Year, as determined in accordance with Treas. Reg. §1.409A-2(a)(7)(ii) and the “plan aggregation” rules provided in Treas. Reg. §1.409A-1(c)(2), may be permitted to make an election to defer the portion of Base Salary, Bonus, Director Fees and/or LTIP Amounts attributable to services to be performed after such election, provided that the Participant submits an Election Form on or before the deadline established by the Committee, which in no event shall be later than 30 days after the Participant first becomes eligible to participate in the Plan.

If a deferral election made in accordance with this Section 3.2(b) relates to compensation earned based upon a specified performance period, the amount eligible for deferral shall be equal to (i) the total amount of compensation for the performance period, multiplied by (ii) a fraction, the numerator of which is the number of days remaining in the service period after the Participant’s deferral election is made, and the denominator of which is the total number of days in the performance period.

Any deferral election made in accordance with this Section 3.2(b) shall become irrevocable no later than the 30th day after the date the Director or selected Employee becomes eligible to participate in the Plan.

- (c) **Timing of Deferral Elections for Fiscal Year Compensation.** In the event that the fiscal year of an Employer is different than the taxable year of a Participant, the Committee may determine that a deferral election may be made for “fiscal year compensation” (as defined below), by submitting an Election Form on or before the deadline established by the Committee, which in no event shall be later than the last day of the Employer’s fiscal year immediately preceding the fiscal year in which the services related to such compensation will begin to be performed. For purposes of this Section, the term “fiscal year compensation” shall only include Bonus and LTIP Amounts relating to a service period coextensive with one or more consecutive fiscal years of the Employer, of which no amount is paid or payable during the Employer’s fiscal year(s) that constitute the service period.

A deferral election made in accordance with this Section 3.2(c) shall be irrevocable; *provided, however,* that if the Committee permits or requires Participants to make a deferral election by the deadline described in this Section 3.2(c) for an amount that qualifies as Performance-Based Compensation, the Committee may permit a Participant to subsequently change his or her deferral election for such compensation by submitting a new Election Form in accordance with Section 3.2(d) below.

- (d) **Timing of Deferral Elections for Performance-Based Compensation.** Subject to the limitations described below, the Committee may determine that an irrevocable deferral election for an amount that qualifies as Performance-Based Compensation may be made by submitting an Election Form on or before the deadline established by the Committee, which in no event shall be later than 6 months before the end of the performance period.

In order for a Participant to be eligible to make a deferral election for Performance-Based Compensation in accordance with the deadline established pursuant to this Section 3.2(d),

the Participant must have performed services continuously from the later of (i) the beginning of the performance period for such compensation, or (ii) the date upon which the performance criteria for such compensation are established, through the date upon which the Participant makes the deferral election for such compensation. In no event shall a deferral election submitted under this Section 3.2(d) be permitted to apply to any amount of Performance-Based Compensation that has become readily ascertainable.

- (e) **Timing Rule for Deferral of Compensation Subject to Risk of Forfeiture.** With respect to compensation (i) to which a Participant has a legally binding right to payment in a subsequent year, and (ii) that is subject to a forfeiture condition requiring the Participant's continued services for a period of at least 12 months from the date the Participant obtains the legally binding right, the Committee may determine that an irrevocable deferral election for such compensation may be made by timely delivering an Election Form to the Committee in accordance with its rules and procedures, no later than the 30th day after the Participant obtains the legally binding right to the compensation, provided that the election is made at least 12 months in advance of the earliest date at which the forfeiture condition could lapse, as determined in accordance with Treas. Reg. §1.409A-2(a)(5).

Any deferral election(s) made in accordance with this Section 3.2(e) shall become irrevocable no later than the 30th day after the Participant obtains the legally binding right to the compensation subject to such deferral election(s).

- 3.3 **Withholding and Crediting of Annual Deferral Amounts.** For each Plan Year, the Base Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Salary. The Bonus, LTIP Amounts and/or Director Fees portion of the Annual Deferral Amount shall be withheld at the time the Bonus, LTIP Amounts or Director Fees are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself. Annual Deferral Amounts shall be credited to the Participant's Annual Account for such Plan Year at the time such amounts would otherwise have been paid to the Participant.

3.4 **Company Contribution Amount.**

- (a) For each Plan Year, an Employer may be required to credit amounts to a Participant's Annual Account in accordance with employment or other agreements entered into between the Participant and the Employer, which amounts shall be part of the Participant's Company Contribution Amount for that Plan Year. Such amounts shall be credited to the Participant's Annual Account for the applicable Plan Year on the date or dates prescribed by such agreements.
- (b) For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Annual Account under this Plan, which amount shall be part of the Participant's Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive a Company Contribution Amount for that Plan Year. The Company Contribution Amount described in this Section 3.4(b), if any, shall be credited to the Participant's Annual Account for the applicable Plan Year on a date or dates to be determined by the Committee.

- (c) If not otherwise specified in the Participant's employment or other agreement entered into between the Participant and the Employer, the amount (or the method or formula for determining the amount) of a Participant's Company Contribution Amount shall be set forth in writing in one or more documents, which shall be deemed to be incorporated into this Plan in accordance with Section 1.35, no later than the date on which such Company Contribution Amount is credited to the applicable Annual Account of the Participant.

3.5 **Company Restoration Matching Amount.** A Participant's Company Restoration Matching Amount for any Plan Year shall be an amount determined by the Committee to make up for certain limits applicable to the 401(k) Plan or other qualified plan for such Plan Year, as identified by the Committee, or for such other purposes as determined by the Committee in its sole discretion. The amount so credited to a Participant under this Plan for any Plan Year (i) may be smaller or larger than the amount credited to any other Participant, and (ii) may differ from the amount credited to such Participant in the preceding Plan Year. The Participant's Company Restoration Matching Amount, if any, shall be credited to the Participant's Annual Account for the applicable Plan Year on a date or dates to be determined by the Committee. The amount (or the method or formula for determining the amount) of a Participant's Company Restoration Matching Amount shall be set forth in writing in one or more documents, which shall be deemed to be incorporated into this Plan in accordance with Section 1.35, no later than the date on which such Company Restoration Matching Amount is credited to the applicable Annual Account of the Participant.

3.6 **Vesting.**

- (a) A Participant shall at all times be 100% vested in the portion of his or her Account Balance attributable to Annual Deferral Amounts, plus amounts credited or debited on such amounts pursuant to Section 3.7.
- (b) A Participant shall be vested in the portion of his or her Account Balance attributable to any Company Contribution Amounts, plus amounts credited or debited on such amounts pursuant to Section 3.7, in accordance with the vesting schedule(s) set forth in his or her Plan Agreement, employment agreement or any other agreement entered into between the Participant and his or her Employer. If not addressed in such agreements, a Participant shall vest in the portion of his or her Account Balance attributable to any Company Contribution Amounts as provided in Subsection (c) below.
- (c) A Participant shall be vested in the portion of his or her Account Balance attributable to any Company Restoration Matching Amounts, plus amounts credited or debited on such amounts pursuant to Section 3.7, only to the extent that the Participant would be vested in such amounts under the provisions of the 401(k) Plan, as determined by the Committee in its sole discretion.
- (d) Notwithstanding anything to the contrary contained in this Section 3.6, in the event of (i) a Change in Control, (ii) a Participant's Disability, (iii) a Participant's Separation from Service resulting from involuntary termination by the Company for any reason other than cause, or (iv) a Participant's death prior to Separation from Service, any amounts that are not vested in accordance with Sections 3.6(b) or 3.6(c) above, shall immediately become 100% vested.
- (e) Notwithstanding Section 3.6(d) above, the vesting schedules described in Sections 3.6(b) or 3.6(c) above shall not be accelerated upon a Change in Control to the extent that the Committee determines that such acceleration would cause the deduction limitations of Section 280G of the Code to become effective. In the event of such a determination, the Participant may request

independent verification of the Committee's calculations with respect to the application of Section 280G. In such case, the Committee must provide to the Participant within 90 days of such a request an opinion from a nationally recognized accounting firm selected by the Participant (the "Accounting Firm"). The opinion shall state the Accounting Firm's opinion that any limitation in the vested percentage hereunder is necessary to avoid the limits of Section 280G and contain supporting calculations. The cost of such opinion shall be paid for by the Company.

- (f) Section 3.6(e) shall not prevent the acceleration of the vesting schedules described in Sections 3.6(b) and (c) if such Participant is entitled to a "gross-up" payment, to eliminate the effect of the Code section 4999 excise tax, pursuant to his or her employment agreement or other agreement entered into between such Participant and the Employer.
- (g) Notwithstanding anything to the contrary contained in this Section 3.6, in the event of a Participant's Separation from Service resulting from (i) voluntary resignation on or after attainment of age 60 with 10 years of service or (ii) voluntary resignation on or after attainment of age 55 with 20 years of service, any amounts that are not vested in accordance with Sections 3.6(b), 3.6(c) or 3.6(d) above, shall immediately become 100% vested if the Committee, in its sole discretion exercised during a meeting or by unanimous written consent prior to the date of retirement, causes such amounts to vest.

3.7 **Crediting/Debiting of Account Balances.** In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

- (a) **Measurement Funds.** The Participant may elect one or more of the measurement funds selected by the Investment Selection Committee, in its sole discretion, which are based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting or debiting additional amounts to his or her Account Balance. As necessary, the Investment Selection Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund.
- (b) **Election of Measurement Funds.** A Participant, in connection with his or her initial deferral election in accordance with Section 3.2 above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.7(a) above) to be used to determine the amounts to be credited or debited to his or her Account Balance. If a Participant does not elect any of the Measurement Funds as described in the previous sentence, the Participant's Account Balance shall automatically be allocated into the lowest-risk Measurement Fund, as determined by the Investment Selection Committee, in its sole discretion. The Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Committee, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence. Notwithstanding the foregoing, the Investment Selection Committee may, in its sole discretion, may impose limitations on the frequency with which one or more of the Measurement Funds elected in accordance with this Section 3.7(b) may be added or deleted by such Participant; furthermore, the Investment Selection Committee, in its sole discretion, may impose

limitations on the frequency with which the Participant may change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund.

- (c) **Proportionate Allocation.** In making any election described in Section 3.7(b) above, the Participant shall specify on the Election Form, in increments of one percent (1%), the percentage of his or her Account Balance or Measurement Fund, as applicable, to be allocated/reallocated.
- (d) **Crediting or Debiting Method.** The performance of each Measurement Fund (either positive or negative) will be determined on a daily basis based on the manner in which such Participant's Account Balance has been hypothetically allocated among the Measurement Funds by the Participant.
- (e) **No Actual Investment.** Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation of his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the investments on which the Measurement Funds are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

3.8 **FICA and Other Taxes.**

- (a) **Annual Deferral Amounts.** For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Salary, Bonus, and/or LTIP Amounts that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with applicable withholding requirements.
- (b) **Company Restoration Matching Amounts and Company Contribution Amounts.** When a Participant becomes vested in a portion of his or her Account Balance attributable to any Company Restoration Matching Amounts and/or Company Contribution Amounts, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Salary, Bonus, and/or LTIP Amounts that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such amounts. If necessary, the Committee may reduce the vested portion of the Participant's Company Restoration Matching Amount or Company Contribution Amount, as applicable, in order to comply with applicable withholding amounts.
- (c) **Distributions.** The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the

Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

- (d) **Right to Offset Against Account Balance.** To the extent determined necessary by the Committee in its sole discretion, the Company reserves the right to direct that the Participant's Account Balance be reduced to satisfy any and all federal, state and local income, employment and other taxes required to be paid in connection with earnings of the Measurement Funds hypothetically allocated to the Participant's Account Balance.

ARTICLE 4

Scheduled Distribution; Unforeseeable Emergencies

- 4.1 **Scheduled Distributions.** In connection with each election to defer an Annual Deferral Amount, a Participant may elect to receive all or a portion of such Annual Deferral Amount, plus amounts credited or debited on that amount pursuant to Section 3.7, in the form of a lump sum payment, calculated as of the close of business on or around the Benefit Distribution Date designated by the Participant in accordance with this Section (a "Scheduled Distribution"). The Benefit Distribution Date for the amount subject to a Scheduled Distribution election shall be the first day of any Plan Year designated by the Participant, which may be no sooner than three Plan Years after the end of the Plan Year to which the Participant's deferral election relates, unless otherwise provided on an Election Form approved by the Committee.

Subject to the other terms and conditions of this Plan, each Scheduled Distribution elected shall be paid out during a 60 day period commencing immediately after the Benefit Distribution Date. By way of example, if a Scheduled Distribution is elected for Annual Deferral Amounts that relate to services performed in the Plan Year commencing January 1, 2017, the earliest Benefit Distribution Date that may be designated by a Participant would be January 1, 2021, and the Scheduled Distribution would be paid out during the 60 day period commencing immediately after such Benefit Distribution Date.

- 4.2 **Postponing Scheduled Distributions.** A Participant may elect to postpone a Scheduled Distribution described in Section 4.1 above, and have such amount paid out during a 60 day period commencing immediately after an allowable alternative Benefit Distribution Date designated in accordance with this Section 4.2. In order to make such an election, the Participant must submit an Election Form to the Committee in accordance with the following criteria:

- (a) The election of the new Benefit Distribution Date shall have no effect until at least 12 months after the date on which the election is made;
- (b) The new Benefit Distribution Date selected by the Participant for such Scheduled Distribution must be the first day of a Plan Year that is no sooner than 5 years after the previously designated Benefit Distribution Date; and
- (c) The election must be made at least 12 months prior to the Participant's previously designated Benefit Distribution Date for such Scheduled Distribution.

For purposes of applying the provisions of this Section 4.2, a Participant's election to postpone a Scheduled Distribution shall not be considered to be made until the date on which the election becomes irrevocable. Such an election shall become irrevocable no later than the date that

is 12 months prior to the Participant's previously designated Benefit Distribution Date for such Scheduled Distribution.

- 4.3 **Other Benefits Take Precedence Over Scheduled Distributions.** Should an event occur prior to any Benefit Distribution Date designated for a Scheduled Distribution that would trigger a benefit under Articles 5 through 9, as applicable, all amounts subject to a Scheduled Distribution election shall be paid in accordance with the other applicable provisions of the Plan and not in accordance with this Article 4.

4.4 **Unforeseeable Emergencies.**

- (a) If a Participant experiences an Unforeseeable Emergency prior to the occurrence of a distribution event described in Articles 5 through 9, as applicable, the Participant may petition the Committee to receive a partial or full payout from the Plan. The payout, if any, from the Plan shall not exceed the lesser of (i) the Participant's vested Account Balance, calculated as of the close of business on or around the Benefit Distribution Date for such payout, as determined by the Committee in accordance with provisions set forth below, or (ii) the amount necessary to satisfy the Unforeseeable Emergency, plus amounts necessary to pay Federal, state, or local income taxes or penalties reasonably anticipated as a result of the distribution. A Participant shall not be eligible to receive a payout from the Plan to the extent that the Unforeseeable Emergency is or may be relieved (A) through reimbursement or compensation by insurance or otherwise, (B) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship or (C) by cessation of deferrals under this Plan.

If the Committee, in its sole discretion, approves a Participant's petition for payout from the Plan, the Participant's Benefit Distribution Date for such payout shall be the date on which such Committee approval occurs and such payout shall be distributed to the Participant in a lump sum no later than 60 days after such Benefit Distribution Date. In addition, in the event of such approval the Participant's outstanding deferral elections under the Plan shall be cancelled.

- (b) A Participant's deferral elections under this Plan shall also be cancelled to the extent the Committee determines that such action is required for the Participant to obtain a hardship distribution from an Employer's 401(k) Plan pursuant to Treas. Reg. §1.401(k)-1(d)(3).

ARTICLE 5
Change in Control Benefit

- 5.1 **Change in Control Benefit.** A Participant, in connection with his or her commencement of participation in the Plan, shall have an opportunity to irrevocably elect to receive his or her vested Account Balance in the form of a lump sum payment in the event that a Change in Control occurs prior to the Participant's Separation from Service, Disability or death (the "Change in Control Benefit"). The Benefit Distribution Date for the Change in Control Benefit, if any, shall be the date on which the Change in Control occurs.

If a Participant elects not to receive a Change in Control Benefit, or fails to make an election in connection with his or her commencement of participation in the Plan, the Participant's Account Balance shall be paid in accordance with the other applicable provisions of the Plan.

- 5.2 **Payment of Change in Control Benefit.** The Change in Control Benefit, if any, shall be calculated as of the close of business on or around the Participant's Benefit Distribution Date, as determined by the Committee, and paid to the Participant no later than 60 days after the Participant's Benefit Distribution Date.

ARTICLE 6

Retirement Benefit

- 6.1 **Retirement Benefit.** If a Participant experiences a Separation from Service that qualifies as a Retirement, the Participant shall be eligible to receive his or her vested Account Balance in either a lump sum or annual installment payments, as elected by the Participant in accordance with Section 6.2 (the "Retirement Benefit"). A Participant's Retirement Benefit shall be calculated as of the close of business on or around the applicable Benefit Distribution Date for such benefit, which shall be (i) the first day after the end of the six-month period immediately following the date on which the Participant experiences such Separation from Service if the Participant is a Specified Employee, and (ii) for all other Participants, the date on which the Participant experiences a Separation from Service; *provided, however*, if a Participant changes the form of distribution for the Retirement Benefit in accordance with Section 6.2(b), the Benefit Distribution Date for the Retirement Benefit shall be determined in accordance with such Section 6.2(b).

6.2 **Payment of Retirement Benefit.**

- (a) In connection with a Participant's election to defer an Annual Deferral Amount, the Participant shall elect the form in which the Retirement Benefit from his or her Annual Account for such Plan Year will be paid. The Participant may elect to receive the Retirement Benefit paid from each Annual Account in the form of a lump sum or pursuant to an Annual Installment Method up to 15 years. If a Participant does not make any election with respect to the payment of an Annual Account, then the Participant shall be deemed to have elected to receive the Retirement Benefit paid from such Annual Account as a lump sum.
- (b) A Participant may change the form of payment for the Retirement Benefit by submitting an Election Form to the Committee in accordance with the following criteria:
 - (i) The election shall not take effect until at least 12 months after the date on which the election is made;
 - (ii) The new Benefit Distribution Date for the Participant's Retirement Benefit shall be 5 years after the Benefit Distribution Date that would otherwise have been applicable to such benefit; and
 - (iii) The election must be made at least 12 months prior to the Benefit Distribution Date that would otherwise have been applicable to the Participant's Retirement Benefit.

For purposes of applying the provisions of this Section 6.2(b), a Participant's election to change the form of payment for the Retirement Benefit shall not be considered to be made until the date on which the election becomes irrevocable. Such an election shall become irrevocable no later than the date that is 12 months prior to the Benefit Distribution Date that

would otherwise have been applicable to the Participant's Retirement Benefit. Subject to the requirements of this Section 6.2(b), the Election Form most recently accepted by the Committee that has become effective shall govern the form of payout of the Participant's Retirement Benefit.

- (c) The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the Participant's Benefit Distribution Date. Remaining installments, if any, shall be paid no later than 60 days after each anniversary of the Participant's Benefit Distribution Date.

ARTICLE 7

Termination Benefit

7.1 **Termination Benefit.** If a Participant experiences a Separation from Service that does not qualify as a Retirement, the Participant shall receive his or her vested Account Balance in the form of a lump sum payment or pursuant to an Annual Installment Method of up to five years (the "**Termination Benefit**"). A Participant's Termination Benefit shall be calculated as of the close of business on or around the Benefit Distribution Date for such benefit, which shall be (i) the first day after the end of the six-month period immediately following the date on which the Participant experiences such Separation from Service if the Participant is a Specified Employee, and (ii) for all other Participants, the date on which the Participant experiences a Separation from Service; *provided, however*, if a Participant changes the form of distribution for the Termination Benefit in accordance with Section 7.2(b), the Benefit Distribution Date for the Termination Benefit shall be determined in accordance with such Section 7.2(b).

7.2 **Payment of Termination Benefit.**

- (a) In connection with a Participant's election to defer an Annual Deferral Amount, the Participant shall elect the form in which the Termination Benefit from his or her Annual Account for such Plan Year will be paid. The Participant may elect to receive the Termination Benefit paid from each Annual Account in the form of a lump sum or pursuant to an Annual Installment Method up to five years. If a Participant does not make any election with respect to the payment of the Termination Benefit, then such Participant shall be deemed to have elected to receive the Termination Benefit as a lump sum.
- (b) A Participant may change the form of payment for the Termination Benefit by submitting an Election Form to the Committee in accordance with the following criteria:
 - (i) The election shall not take effect until at least 12 months after the date on which the election is made;
 - (ii) The new Benefit Distribution Date for the Participant's Termination Benefit shall be five years after the Benefit Distribution Date that would otherwise have been applicable to such benefit; and
 - (iii) The election must be made at least 12 months prior to the Benefit Distribution Date that would otherwise have been applicable to the Participant's Termination Benefit.

For purposes of applying the provisions of this Section 7.2(b), a Participant's election to change the form of payment for the Termination Benefit shall not be considered to be made until the date on which the election becomes irrevocable. Such an election shall become

irrevocable no later than the date that is 12 months prior to the Benefit Distribution Date that would otherwise have been applicable to the Participant's Termination Benefit. Subject to the requirements of this Section 7.2(b), the Election Form most recently accepted by the Committee that has become effective shall govern the form of payout of the Participant's Termination Benefit.

- (c) The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the Participant's Benefit Distribution Date. Remaining installments, if any, shall be paid no later than 60 days after each anniversary of the Participant's Benefit Distribution Date.

ARTICLE 8

Disability Benefit

- 8.1 **Disability Benefit.** If a Participant becomes Disabled prior to the occurrence of a distribution event described in Articles 5 through 7, as applicable, the Participant shall receive his or her vested Account Balance in the form of a lump sum or installment payment as provided in Section 8.2 below (the "Disability Benefit"). The Disability Benefit shall be calculated as of the close of business on or around the Participant's Benefit Distribution Date for such benefit, which shall be the date on which the Participant becomes Disabled.
- 8.2 **Payment of Disability Benefit.** The Disability Benefit shall be paid to the Participant no later than 60 days after the Participant's Benefit Distribution Date.
 - (a) In connection with a Participant's election to defer an Annual Deferral Amount, the Participant shall elect the form in which the Disability Benefit from his or her Annual Account for such Plan Year will be paid. The Participant may elect to receive the Disability Benefit paid from each Annual Account in the form of a lump sum or pursuant to an Annual Installment Method up to five years. If a Participant does not make any election with respect to the payment of the Disability Benefit, then such Participant shall be deemed to have elected to receive the Disability Benefit as a lump sum.
 - (b) A Participant may change the form of payment for the Disability Benefit by submitting an Election Form to the Committee in accordance with the following criteria:
 - (i) The election shall not take effect until at least 12 months after the date on which the election is made; and
 - (ii) The election must be made at least 12 months prior to the Benefit Distribution Date that would otherwise have been applicable to the Participant's Disability Benefit.

For purposes of applying the provisions of this Section 8.2(b), a Participant's election to change the form of payment for the Disability Benefit shall not be considered to be made until the date on which the election becomes irrevocable. Such an election shall become irrevocable no later than the date that is 12 months prior to the Benefit Distribution Date that would otherwise have been applicable to the Participant's Disability Benefit. Subject to the requirements of this Section 8.2(b), the Election Form most recently accepted by the Committee that has become effective shall govern the form of payout of the Participant's Disability Benefit.

ARTICLE 9
Death Benefit

- 9.1 **Death Benefit.** In the event of a Participant's death prior to the complete distribution of his or her vested Account Balance, the Participant's Beneficiary(ies) shall receive the Participant's unpaid vested Account Balance in a lump sum payment (the "**Death Benefit**"). The Death Benefit shall be calculated as of the close of business on or around the Benefit Distribution Date for such benefit, which shall be the date of the Participant's death.
- 9.2 **Payment of Death Benefit.** The Death Benefit shall be paid to the Participant's Beneficiary(ies) no later than 60 days after the Participant's Benefit Distribution Date.

ARTICLE 10
Beneficiary Designation

- 10.1 **Beneficiary.** Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.
- 10.2 **Beneficiary Designation; Change; Spousal Consent.** A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary, the Committee may, in its sole discretion, determine that spousal consent is required to be provided in a form designated by the Committee, executed by such Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.
- 10.3 **Acknowledgment.** No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.
- 10.4 **No Beneficiary Designation.** If a Participant fails to designate a Beneficiary as provided in Sections 10.1, 10.2 and 10.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.
- 10.5 **Doubt as to Beneficiary.** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.
- 10.6 **Discharge of Obligations.** The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan

with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 11

Leave of Absence

- 11.1 **Paid Leave of Absence.** If a Participant is authorized by the Participant's Employer to take a paid leave of absence from the employment of the Employer, and such leave of absence does not constitute a Separation from Service, (i) the Participant shall continue to be considered eligible for the benefits provided under the Plan, and (ii) the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.2.
- 11.2 **Unpaid Leave of Absence.** If a Participant is authorized by the Participant's Employer to take an unpaid leave of absence from the employment of the Employer for any reason, and such leave of absence does not constitute a Separation from Service, such Participant shall continue to be eligible for the benefits provided under the Plan. During the unpaid leave of absence, the Participant shall not be allowed to make any additional deferral elections. However, if the Participant returns to employment, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment and for every Plan Year thereafter while a Participant in the Plan, provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.2 above.

ARTICLE 12

Termination of Plan, Amendment or Modification

- 12.1 **Termination of Plan.** Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to terminate the Plan with respect to all of its Participants. In the event of a Plan termination no new deferral elections shall be permitted for the affected Participants and such Participants shall no longer be eligible to receive new company contributions. However, after the Plan termination the Account Balances of such Participants shall continue to be credited with Annual Deferral Amounts attributable to a deferral election that was in effect prior to the Plan termination to the extent deemed necessary to comply with Code Section 409A and related Treasury Regulations, and additional amounts shall continue to be credited or debited to such Participants' Account Balances pursuant to Section 3.7. The Measurement Funds available to Participants following the termination of the Plan shall be comparable in number and type to those Measurement Funds available to Participants in the Plan Year preceding the Plan Year in which the Plan termination is effective. In addition, following a Plan termination, Participant Account Balances shall remain in the Plan and shall not be distributed until such amounts become eligible for distribution in accordance with the other applicable provisions of the Plan. Notwithstanding the preceding sentence, to the extent permitted by Treas. Reg. §1.409A-3(j)(4)(ix), the Employer may provide that upon termination of the Plan, all Account Balances of the Participants shall be distributed, subject to and in accordance with any rules established by such Employer deemed necessary to comply with the applicable requirements and limitations of Treas. Reg. §1.409A-3(j)(4)(ix).
- 12.2 **Amendment.** Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer. Notwithstanding the foregoing, (i) no amendment or modification shall be effective to decrease the value of a Participant's vested Account Balance in existence at the time the

amendment or modification is made, and (ii) no amendment or modification of this Section 12.2 or Section 13.2 of the Plan shall be effective.

- 12.3 **Plan Agreement.** Despite the provisions of Sections 12.1 and 12.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the written consent of the Participant.
- 12.4 **Effect of Payment.** The full payment of the Participant's vested Account Balance in accordance with the applicable provisions of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan, and the Participant's Plan Agreement shall terminate.

ARTICLE 13 **Administration**

- 13.1 **Committee Duties.** Except as otherwise provided in this Article 13, this Plan shall be administered by a Committee, which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan, (ii) decide or resolve any and all questions, including benefit entitlement determinations and interpretations of this Plan, as may arise in connection with the Plan, and (iii) to delegate any or all of its authority to one or more individuals or committees from time to time. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.
- 13.2 **Administration Upon Change In Control.** Within 120 days following a Change in Control, the individuals who comprised the Committee immediately prior to the Change in Control (whether or not such individuals are members of the Committee following the Change in Control) may, by written consent of the majority of such individuals, appoint an independent third party administrator (the "Administrator") to perform any or all of the Committee's duties described in Section 13.1 above, including without limitation, the power to determine any questions arising in connection with the administration or interpretation of the Plan, and the power to make benefit entitlement determinations. Upon and after the effective date of such appointment, (i) the Company must pay all reasonable administrative expenses and fees of the Administrator, and (ii) the Administrator may only be terminated with the written consent of the majority of Participants with an Account Balance in the Plan as of the date of such proposed termination.
- 13.3 **Agents.** In the administration of this Plan, the Committee or the Administrator, as applicable, may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel.
- 13.4 **Binding Effect of Decisions.** The decision or action of the Committee or Administrator, as applicable, with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.
- 13.5 **Indemnity of Committee.** All Employers shall indemnify and hold harmless the members of the Committee, the Investment Selection Committee, any Employee to whom the duties of the Committee

may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, the Investment Selection Committee, any of its members, any such Employee or the Administrator.

- 13.6 **Employer Information.** To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the Plan, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the compensation of its Participants, the date and circumstances of the Separation from Service, Disability or death of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 14

Other Benefits and Agreements

- 14.1 **Coordination with Other Benefits.** The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 15

Claims Procedures

- 15.1 **Presentation of Claim.** Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.
- 15.2 **Notification of Decision.** The Committee shall consider a Claimant's claim within a reasonable time, but no later than 90 days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 90 day period. In no event shall such extension exceed a period of 90 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:
- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
 - (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
 - (i) the specific reason(s) for the denial of the claim, or any part of it;

- (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
- (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;
- (iv) an explanation of the claim review procedure set forth in Section 15.3 below; and
- (v) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

15.3 **Review of a Denied Claim.** On or before 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. The Claimant (or the Claimant's duly authorized representative):

- (a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claim for benefits;
- (b) may submit written comments or other documents; and/or
- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

15.4 **Decision on Review.** The Committee shall render its decision on review promptly, and no later than 60 days after the Committee receives the Claimant's written request for a review of the denial of the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 60 day period. In no event shall such extension exceed a period of 60 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. In rendering its decision, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (a) specific reasons for the decision;
- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based;
- (c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
- (d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

15.5 **Legal Action.** A Claimant's compliance with the foregoing provisions of this Article 15 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 16

Trust

- 16.1 **Establishment of the Trust.** In order to provide assets from which to fulfill its obligations to the Participants and their Beneficiaries under the Plan, the Company may establish a trust by a trust agreement with a third party, the trustee, to which each Employer may, in its discretion, contribute cash or other property, including securities issued by the Company, to provide for the benefit payments under the Plan (the “Trust”).
- 16.2 **Interrelationship of the Plan and the Trust.** The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.
- 16.3 **Distributions From the Trust.** Each Employer’s obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer’s obligations under this Plan.

ARTICLE 17

Miscellaneous

- 17.1 **Status of Plan.** The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that “is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted (i) to the extent possible in a manner consistent with the intent described in the preceding sentence, and (ii) in accordance with Code Section 409A and related Treasury guidance and Regulations.
- 17.2 **Unsecured General Creditor.** Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer’s assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer’s obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.
- 17.3 **Employer’s Liability.** An Employer’s liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.
- 17.4 **Nonassignability.** Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant’s or any other person’s bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

- 17.5 **Not a Contract of Employment.** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an “at will” employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer, either as an Employee or a Director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 17.6 **Furnishing Information.** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 17.7 **Terms.** Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 17.8 **Captions.** The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 17.9 **Governing Law.** Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Texas without regard to its conflicts of laws principles.
- 17.10 **Notice.** Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Service Corporation International
Attn: Managing Director, Compensation and Benefits
1929 Allen Parkway
Houston, Texas 77019

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

- 17.11 **Successors.** The provisions of this Plan shall bind and inure to the benefit of the Participant’s Employer and its successors and assigns and the Participant and the Participant’s designated Beneficiaries.
- 17.12 **Spouse’s Interest.** The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse’s will, nor shall such interest pass under the laws of intestate succession.
- 17.13 **Validity.** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

- 17.14 **Incompetent.** If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.
- 17.15 **Domestic Relations Orders.** If necessary to comply with a domestic relations order, as defined in Code Section 414(p)(1)(B), pursuant to which a court has determined that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan, the Committee shall have the right to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to such spouse or former spouse.
- 17.16 **Distribution in the Event of Income Inclusion Under Code Section 409A.** If any portion of a Participant's Account Balance under this Plan is required to be included in income by the Participant prior to receipt due to a failure of this Plan to comply with the requirements of Code Section 409A and related Treasury Regulations, the Committee may determine that such Participant shall receive a distribution from the Plan in an amount equal to the lesser of (i) the portion of his or her Account Balance required to be included in income as a result of the failure of the Plan to comply with the requirements of Code Section 409A and related Treasury Regulations, or (ii) the unpaid vested Account Balance.
- 17.17 **Deduction Limitation on Benefit Payments.** If an Employer reasonably anticipates that the Employer's deduction with respect to any distribution from this Plan would be limited or eliminated by application of Code Section 162(m), then to the extent permitted by Treas. Reg. §1.409A-2(b)(7)(i), payment shall be delayed as deemed necessary to ensure that the entire amount of any distribution from this Plan is deductible. Any amounts for which distribution is delayed pursuant to this Section shall continue to be credited/debited with additional amounts in accordance with Section 3.7. The delayed amounts (and any amounts credited thereon) shall be distributed to the Participant (or his or her Beneficiary in the event of the Participant's death) at the earliest date the Employer reasonably anticipates that the deduction of the payment of the amount will not be limited or eliminated by application of Code Section 162(m). In the event that such date is determined to be after a Participant's Separation from Service and the Participant to whom the payment relates is determined to be a Specified Employee, then to the extent deemed necessary to comply with Treas. Reg. §1.409A-3(i)(2), the delayed payment shall not be made before the end of the six-month period following such Participant's Separation from Service.

ARTICLE 18

Stock Deferrals

18.1 Deferral of Share Awards.

- (a) **Annual Accounting.** For each Participant who elects to defer a portion of a Stock Award and/or RSU Award, a separate Stock Award Unit Account shall be established for each Plan Year to hold such Participant's Stock Award Units and/or RSU Award Units, as applicable. In addition, a separate Dividend Equivalent Account shall be established for each Plan Year for each Participant who has elected to defer a portion of a Stock Award and/or RSU Award under this Plan's terms. Earnings with respect to any Stock Award Unit Account which are

paid during a calendar year shall be allocated to the Dividend Equivalent Account established for such Plan Year.

- (b) **Stock Award/RSU Award Deferral Elections**. Subject to the limitations below, a Participant may elect to defer all or a portion of a Stock Award and/or RSU Award on such terms as the Committee (or its delegate) may permit by completing an Election Form and submitting it to the Committee (or its delegate) prior to the calendar year in which the Stock Award and/or RSU Award, as applicable, is made. The Participant's deferral election shall be made pursuant to Section 3.1 hereof, in accordance with the provisions thereof, and shall be submitted within the time period provided under Section 3.2(a) hereof. The Election Form shall designate the time and form of distribution for the Participant's Stock Award Units and/or RSU Award Units, as applicable, in a manner consistent with the provisions of (i) Article 4, regarding Scheduled Distributions and Unforeseeable Emergencies, (ii) Article 5, regarding Change in Control Benefit distributions, (iii) Article 6, regarding Retirement Benefits distributions, (iv) Article 7, regarding Termination Benefit distributions and (v) Article 8, regarding Disability Benefits. The Committee (or its delegate) shall credit a Stock Award Unit and/or RSU Award Unit, as applicable, to a bookkeeping account (to be known as a "Stock Award Unit Account") for the benefit of such Participant. Any Stock Awards or RSU Awards deferred pursuant to this Section 18.1 shall be accounted for by the Employer on its books and records and the Employer may, in its discretion, transfer shares of the Company's common stock to the Trustee at such times as the Employer shall, in its discretion, determine.
- (c) **Dividend Equivalent Deferral Elections**. Subject to the limitations below, a Participant may elect to defer all or a portion of the Dividend Equivalent payments made with respect to a Stock Award deferred pursuant to Section 18.1(b) on such terms as the Committee (or its delegate) may permit by completing an Election Form and submitting it to the Committee (or its delegate) prior to the calendar year in which the Dividend Equivalents are paid by the Company. The Participant's deferral election shall be made pursuant to Section 3.1 hereof, in accordance with the provisions thereof, and shall be submitted within the time period provided under Section 3.2(a) hereof. The Election Form shall designate the time and form of distribution for the Participant's Dividend Equivalents in a manner consistent with the provisions of (i) Article 4, regarding Scheduled Distributions and Unforeseeable Emergencies, (ii) Article 5, regarding Change in Control Benefit distributions, (iii) Article 6, regarding Retirement Benefits distributions, (iv) Article 7, regarding Termination Benefit distributions and (v) Article 8, regarding Disability Benefit distributions. The Committee (or its delegate) shall credit the Dividend Equivalents for the calendar year to a bookkeeping account (to be known as a "Dividend Equivalent Account") for the benefit of such Participant. Any Dividend Equivalents deferred pursuant to this Section 18.1(c) shall be accounted for by the Employer on its books and records and if the dividend is paid as a stock dividend with respect to shares of the Company's common stock, the Employer may, in its discretion, transfer shares of the Company's common stock to the Trustee at such times as the Employer shall, in its discretion, determine. A Participant who has elected to defer an RSU Award may not make a separate deferral election or distribution election for Dividend Equivalents on RSU Awards. Any Dividend Equivalents paid with respect to RSU Awards shall be automatically deferred under the Plan's terms and distributed based on the distribution election submitted for the corresponding RSU Awards. If a Participant does not make an election to defer some or all of the Dividend Equivalents on Stock Awards paid with respect to a calendar year, such amounts shall be paid to the Participant in a lump sum cash payment no later than 60 days following the Participant's termination of employment. Further, following a Participant's

termination of employment, any future Dividend Equivalents on Stock Awards shall be paid to the Participant in cash as soon as administratively feasible after the payment date occurs.

- (d) **Stock Award Unit Accounts.** A Participant's Stock Award Units and/or RSU Award Units shall be subject to vesting and forfeiture at the same time and in the same manner as applicable to such Participant's Stock Award and/or RSU Award, as applicable.
- (i) In addition to the applicable limitations of Article 4, no portion of a Stock Award Unit and/or RSU Award Unit may be distributed in a Scheduled Distribution until an annual distribution date which occurs following the date the Participant's Stock Award and/or RSU Award, as applicable, would have been fully vested. By way of example, if a Stock Award Unit becomes fully vested on March 1, 2017, then such Stock Award Unit shall be eligible for distribution as part of a Scheduled Distribution during January 2018.
 - (ii) Distributions from a Participant's Stock Award Unit Account shall be made in the form of shares of the Company's common stock for each Stock Award Unit or RSU Award Unit, as applicable, which shares shall be issued pursuant to the Incentive Plan's terms.
 - (iii) If the Company pays a stock dividend with respect to its shares of common stock, then the Committee (or its delegate) shall:
 - (A) with respect to Stock Award Units, credit additional Stock Award Units to the Participant's Stock Award Unit Account in an amount equal to the number of shares of common stock that would have been issued to the Participant if he or she had directly held one unit of the Company's common stock for each Stock Award Unit credited to his Stock Award Unit Account; and
 - (B) with respect to vested RSU Award Units only, credit additional vested RSU Award Units to the Participant's Stock Award Unit Account in an amount equal to the number of shares of common stock that would have been issued to the Participant if he or she had directly held one unit of the Company's common stock for each vested RSU Award Unit credited to his Stock Award Unit Account.
- (e) **Dividend Equivalent Accounts.** If a Participant has made an election pursuant to Section 18.1(b), the Committee (or its delegate) shall credit to the Dividend Equivalent Account established for the Participant for each calendar year an amount equal to the dividend that the Participant would have received if he or she had directly owned one share of the Company's common stock for each Stock Award Unit and/or vested RSU Award Unit, as applicable, credited to any of the Participant's Stock Award Unit Accounts.
- (i) Amounts credited to a Participant's Dividend Equivalent Account shall be fully vested at all times.
 - (ii) If any amount is earned on a Participant's Dividend Equivalent Account for a Plan Year, such amount shall be credited to the Participant's Dividend Equivalent Account for that Plan Year.
 - (iii) Amounts credited to a Participant's Dividend Equivalent Account shall initially be invested in the same manner as directed for the Participant's Company Contributions.

If no such election is provided, then such amounts shall be invested in a default investment fund as determined by the Committee.

18.2 Automatic Changes in Investment.

- (a) If a Participant has elected to defer a portion of any Stock Award and/or RSU Award and to have his or her Stock Award Unit Account credited with Stock Award Units and/or RSU Award Units, as applicable, and such individual is required to divest himself or herself of any and all equity ownership in the Company to satisfy the requirements of a written agreement between the Company and the Federal Trade Commission, then any Stock Award Units and/or vested RSU Award Units credited to such Participant's Account shall be automatically converted to cash as soon as administratively feasible following the Participant's termination of employment. For purposes of such conversion, the price per Stock Award Unit or vested RSU Award Unit shall be the closing price of a share of the Company's common stock on the date the Participant's employment with the Company ceases.
- (b) Following the conversion of a Participant's Stock Award Units and/or vested RSU Award Units, as applicable, to cash, the Participant shall be permitted to direct the investment of amounts credited to his Stock Award Unit Account among any investment options which are otherwise available under the Plan's terms.
- (c) If this Section 18.2 applies to a Participant's Stock Award Unit Account, then any distributions from such account shall be made in the form of cash and shall not be paid as shares of the Company's common stock.
- (d) Nothing in this Section 18.2 shall be interpreted as changing the payment timing for any amounts credited to a Participant's Stock Award Unit Account.

ARTICLE 19

Director Deferred Units

19.1 **General.** As provided in Section 14.2 of the Incentive Plan, the provisions of this Article 19 shall govern the deferral and payment of Director Deferred Units pursuant to Article XIV of the Incentive Plan including, but not limited to, the administration of amounts deferred under the Director Plan for periods prior to August 1, 2017. The provisions of this Article 19 shall apply to Directors only and shall be effective as of the date of adoption of this restatement.

19.2 Deferral of Unit Awards.

- (a) **Annual Accounting.** For each Director who elects to defer a portion of a Unit Award, a separate Director Unit Account shall be established for each Plan Year to hold the Participant's Director Deferred Units. In addition, a separate Dividend Equivalent Account shall be established for each Plan Year for each Director who has elected to defer a portion of a Unit Award under this Plan's terms or, for periods prior to August 1, 2017, the terms of the Director Plan. Earnings with respect to any Director Unit Account which are paid during a calendar year shall be allocated the Dividend Equivalent Account established for such Plan Year.
- (b) **Unit Award Deferral Elections.** Subject to the limitations below, a Participant may elect to defer all or a portion of a Unit Award on such terms as the Committee (or its delegate) may permit by completing an Election Form and submitting it to the Committee (or its delegate) prior to the calendar year in which the Unit Award is made. The Participant's deferral election

shall be made pursuant to Section 3.1 hereof, in accordance with the provisions thereof, and shall be submitted within the time period provided under Section 3.2(a) hereof. The Election Form shall designate the time and form of distribution for the Participant's Director Deferred Units and Dividend Equivalents in a manner consistent with the provisions of Article 7, regarding Termination Benefit distributions. The Committee (or its delegate) shall credit a Director Deferred Unit to a bookkeeping account (to be known as a "Director Unit Account") for the benefit of such Participant. Any Unit Awards deferred pursuant to this Section 19.2(b) shall be accounted for by the Employer on its books and records and the Employer may, in its discretion, transfer shares of the Company's common stock to the Trustee at such times as the Employer shall, in its discretion, determine.

- (c) **Director Unit Accounts.** A Participant's Director Deferred Units shall be fully vested at all times. Distributions from a Participant's Director Unit Account shall be made in the form of shares of the Company's common stock for each Director Deferred Unit, which shares shall be issued pursuant to the Incentive Plan's terms.
- (d) **Dividend Equivalent Accounts.** The Committee shall establish a Dividend Equivalent Account for each calendar year that a Participant has elected to defer shares pursuant to the Director Plan or Section 19.2(b). The Committee (or its delegate) shall credit the Dividend Equivalent Account established for the Participant for each calendar year a cash equivalent amount equal to any dividend that the Participant would have received if he or she had directly owned one share of the Company's common stock for each Director Deferred Unit credited to any of the Participant's Director Unit Accounts.
 - (i) Dividend Equivalents credited to a Participant's Director Unit Account shall be fully vested at all times.
 - (ii) Amounts credited to a Participant's Director Unit Account shall be invested in the manner directed by the Participant. If no such election is provided, then such amounts shall be invested in a default investment fund as determined by the Committee.
- (e) **Merged Accounts.** Any Unit Awards issued under the Director Plan for periods on or before August 1, 2017, including dividend equivalent payments credited as additional Director Deferred Units, have been incorporated into the Incentive Plan and shall be administered by the Company as provided in Incentive Plan. Each Unit Award incorporated into the Incentive Plan shall be separately accounted for in a Director Unit Account established under this Plan for each Participant for each applicable Plan Year. Any previously filed deferral elections made pursuant to the Director Plan's terms shall be honored by the Incentive Plan and this Plan, and administered in accordance with their terms.

19.3 **Automatic Changes in Investment.**

- (a) If a Participant has elected to defer a portion of any Unit Award and to have his or her Director Unit Account credited with Director Deferred Units and such individual is required to divest himself or herself of any and all equity ownership in the Company to satisfy the requirements of a written agreement between the Company and the Federal Trade Commission, then any Director Deferred Units credited to such Participant's Account shall be automatically converted to cash as soon as administratively feasible following the Participant's termination of services on the Board. For purposes of such conversion, the price per Director Deferred

Unit shall be the closing price of a share of the Company's common stock on the date the Participant's service on the Board ceases.

- (b) Following the conversion of a Participant's Director Deferred Units to cash, the Participant shall be permitted to direct the investment of amounts credited to his Director Unit Account among any investment options which are otherwise available under the Plan's terms.
- (c) If this Section 19.3 applies to a Participant's Director Unit Account, then any distributions from such account shall be made in the form of cash and shall not be paid as shares of the Company's common stock.
- (d) Nothing in this Section 19.3 shall be interpreted as changing the payment timing for any amounts credited to a Participant's Director Unit Account.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company has signed this Plan document as of November 2, 2017.

SERVICE CORPORATION INTERNATIONAL,
a Texas corporation

By: /s/ GREGORY T. SANGALIS

Name: GREGORY T. SANGALIS

Title: SVP GEN COUNSEL/SECRETARY

DEFERRED COMPENSATION PLAN SIGNATURE PAGE
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SERVICE CORPORATION INTERNATIONAL
RATIO OF EARNINGS TO FIXED CHARGES

(In thousands, except ratio amounts)

	Twelve months ended December 31,				
	2017	2016	2015	2014	2013
Earnings:					
Pretax income	\$ 400,258	\$ 326,658	\$ 370,351	402,600	245,206
Add fixed charges as adjusted (from below)	177,984	171,291	182,484	188,362	150,410
	<u>\$ 578,242</u>	<u>\$ 497,949</u>	<u>\$ 552,835</u>	<u>\$ 590,962</u>	<u>\$ 395,616</u>
Fixed charges:					
Interest expense:					
Corporate	163,266	156,267	163,463	168,746	136,917
Amortization of deferred financing costs	5,859	5,826	9,434	8,825	5,443
1/3 of rental expense	8,859	9,198	9,587	10,791	8,050
Fixed charges	<u>\$ 177,984</u>	<u>\$ 171,291</u>	<u>\$ 182,484</u>	<u>\$ 188,362</u>	<u>\$ 150,410</u>
Ratio (earnings divided by fixed charges)	3.25	2.91	3.03	3.14	2.63

Exhibit 21.1**SUBSIDIARIES OF THE COMPANY**

January 31, 2018

Ownership

<u>ALABAMA</u>		
SCI Funeral Services, LLC (Iowa LLC) Alabama subsidiary		
SCI Alabama Funeral Services, LLC		100%
Alderwoods Group, LLC (DE LLC) Alabama subsidiary		
Advanced Planning (Alabama), Inc.		100%
Stewart Enterprises, Inc. (LA Corp)		
S.E. South-Central, LLC (LA LLC) Alabama subsidiary		
S.E. Cemeteries of Alabama, LLC		100%
S.E. Combined Services of Alabama, LLC		100%
S.E. Funeral Homes of Alabama, LLC		100%
<u>ALASKA</u>		
SCI Funeral Services, LLC (Iowa LLC) Alaska subsidiary		
SCI Alaska Funeral Services, Inc.		100%
Alderwoods Group, LLC (DE LLC) Alaska subsidiary		
Alderwoods (Alaska), LLC		100%
<u>ARIZONA</u>		
SCI Funeral Services, LLC (Iowa LLC) Arizona subsidiary		
SCI Arizona Funeral Services, LLC		100%
<u>ARKANSAS</u>		
SCI Funeral Services, LLC (Iowa LLC) Arkansas subsidiary		
SCI Arkansas Funeral Services, Inc.		100%
Alderwoods Group, LLC (DE LLC) Arkansas subsidiary		
Alderwoods (Arkansas), Inc.		100%
Stewart Enterprises, Inc. (LA Corp) Arkansas subsidiary		
Griffin-Leggett, LLC		100%
Forest Hills Cemetery, LLC		100%
Griffin-Leggett Insurance Agency, LLC		100%
Rest Hills Memorial Park, Inc.		99.5%
S.E. Funeral Homes of Arkansas, LLC		100%
<u>CALIFORNIA</u>		
SCI Funeral Services, LLC (Iowa LLC) California subsidiary		
SCI California Funeral Services, LLC		100%
Mount Vernon Memorial Park		100%
SCI Special, LLC (DE LLC)		
SCI Administrative Services, LLC (DE LLC)		
SCI Management L.P. - (DE LP) California subsidiary		
SCI Western Market Support Center, LLC		100%

SCI Capital Corporation (DE Corp)	
SCI Capital Holdings, Inc. (DE Corp)	
SCI Direct, Inc. (FL Corp) California subsidiaries	
Neptune Society of America, Inc.	100%
Neptune Management Corp.	100%
Trident Society, Inc.	100%
Wilson Financial Group, Inc. (DE Corp)	
Wilson Holdings, Inc. (TX Corp) California subsidiaries	
Cooley & Riolo Mortuary, Inc.	100%
Thompson Funeral Home, Inc.	100%
WFG-Fuller Funerals, Inc.	100%
Wilson-Bannon Mortuary, Inc.	100%
Camellia Memorial Lawn, Inc.	100%
Alderwoods Group, LLC (DE LLC) California subsidiaries	
Alderwoods Group (California), Inc.	100%
Alderwoods (Texas), LLC.	100%
Rose Hills Holdings Corp. (DE Corp)	
Rose Hills Company (DE Corp) California subsidiary	
RH Mortuary Corporation	100%
RH Cemetery Corp. (DE Corp) California subsidiary	
Workman Mill Investment Company	100%
DSP General Partner II, Inc.	100%
S & H Properties and Enterprises, Inc. (WA Corp) California subsidiaries	
Universal Memorial Centers V, Inc.	100%
Stewart Enterprises, Inc. (LA Corp) California Subsidiary	
S.E. Acquisition of California, Inc.	100%
S.E. Combined Services of California, Inc.	100%
S.E. Funeral Homes of California, Inc.	100%
Simplicity Plan of California, Inc.	100%
Stewart Pre-Need Services, Inc.	100%

COLORADO

SCI Funeral Services, LLC (Iowa LLC) Colorado subsidiary	
SCI Colorado Funeral Services, LLC	100%
Allnut Funeral Homes, Inc.	100%
Allnut Funeral Service, Inc.	100%
Resthaven Colorado, LLC	100%
Alderwoods Group, LLC (DE LLC) Colorado subsidiary	
Alderwoods (Colorado), Inc.	100%

CONNECTICUT

SCI Funeral Services, LLC (Iowa LLC) Connecticut subsidiary	
SCI Connecticut Funeral Services, LLC	100%
Alderwoods Group, LLC (DE LLC) Connecticut subsidiary	
Alderwoods (Connecticut), Inc.	51.8%
Alderwoods (New York), LLC (NY LLC) Connecticut subsidiary	

Alderwoods (Connecticut), Inc.	48.2%
DELAWARE	
Christian Funeral Services, Inc.	100%
SCI Funeral Services, LLC (Iowa LLC)	
ECI Services of Maine, Inc.	100%
ECI Services of New Hampshire, Inc.	100%
Gracelawn Memorial Park, Inc	
	100%
LHT Consulting Group, LLC	100%
Maine Cremation Care, LLC	
	100%
MCH Wilson, Inc.	
	100%
Memorial Guardian Plans, Inc.	100%
New England Cremation Services, LLC	100%
SCI California Funeral Services, LLC (CA LLC) Delaware subsidiaries	
California Cemetery and Funeral Services, LLC	5%
ECI Capital, LLC	
	100%
California Cemetery and Funeral Services, LLC	95%
SCI Georgia Funeral Services, LLC	100%
SCI Services (Alabama), LLC	100%
SCI Indiana Funeral Services, Inc.	100%
SCI Iowa Funeral Services, Inc. (IA Corp) Delaware subsidiary	
SCI Iowa Finance Company	100%
SCI Maryland Funeral Services, Inc. (MD Corp) Delaware subsidiary	
ECI Cemetery Services of Maryland, LLC	100%
SCI Pennsylvania Funeral Services, Inc. (PA Corp) Delaware subsidiary	
Saul-Gabauer Funeral Home, Inc.	100%
SCI Texas Funeral Services, LLC	100%
CemCare, Inc.	100%
PSI Funding, Inc.	100%
SCI Virginia Funeral Services, Inc. (VA Corp) Delaware subsidiary	
SCI Loan Services, LLC	100%
Trust Advisors, Inc.	100%
Salvatore Air Transportation Corp.	100%
OFTC, Inc.	100%
SCI Financial Services, Inc.	100%
Making Everlasting Memories, L.L.C.	100%
SCI Investment Services, Inc.	100%
SCI International, LLC	100%
SCI Cerberus, Inc.	99.3%
SCI Parkway, LLC	100%
Keystone America, Inc.	100%
Keystone Indiana, Inc.	100%
Keystone Kentucky, Inc.	99%
Keystone Michigan, Inc.	100%
Healy-Hahn Funeral Properties, Inc.	100%
SCI Cerberus, Inc.	.07%

Keystone Advance Planning, Inc.	100%
SCI Shared Resources, LLC	100%
SCI Shared Services, Inc.	100%
SCI Special, LLC	100%
SCI Administrative Services, LLC - <i>General Partner of</i>	100%
SCI Management L.P.	1%
Remembrance Memorial Traditions, LLC - <i>Limited Partner of</i>	100%
SCI Management L.P.	99%
Dignity Memorial Network, Inc.	100%
SCI Capital Corporation	100%
CMSD, LLC	100%
FMSD, LLC	100%
SCI Capital Holdings, Inc.	100%
Wilson Financial Group, Inc.	100%
Wilson-Amistad Corporation	100%
Wilson Holdings, Inc. (TX Corp) Delaware subsidiary	100%
M.J. Edwards Hillside Chapel, Inc.	100%
SCI Direct, Inc. (FL Corp) Delaware subsidiary	100%
Neptune Reef Services, LLC	100%
Neptune Society of America, Inc. (CA Corp)	
Neptune Management Corp. (CA Corp)	
Neptune Management (KY), LLC	99%
Alderwoods Group, LLC	100%
American Burial and Cremation Centers, Inc.	100%
H. P. Brandt Funeral Home, Inc.	100%
Osiris Holding, LLC	100%
Rose Hills Holdings Corp.	100%
Rose Hills Company	100%
RH Cemetery Corp.	100%
Stewart Enterprises, Inc. (LA Corp) Delaware subsidiaries	
Alderwoods (Mississippi), LLC	100%
Stewart International (Netherlands) LLC	100%
Stewart Cementerios Puerto Rico Holding II, LLC	100%
Stewart Cementerios Puerto Rico Holding I, LLC	100%
Stewart Funerarias Puerto Rico Holding II, LLC	100%
Stewart Funerarias Puerto Rico Holding I, LLC	100%
Stewart Simplicity Plan of Puerto Rico Holding II, LLC	100%
Stewart Simplicity Plan of Puerto Rico Holding I, LLC	100%
<u>DISTRICT OF COLUMBIA</u>	
SCI Funeral Services, LLC (Iowa LLC) DC subsidiaries	
Joseph Gawler's Sons, LLC	99%
Witzke Funeral Homes, Inc.	100%
<u>FLORIDA</u>	
SCI Funeral Services, LLC (Iowa LLC) Florida subsidiary	

SCI Funeral Services of Florida, LLC	99%
Florida Marker, LLC	100%
Oaklawn Cemetery Association	100%
WPALM, Inc.	100%
Alderwoods Group, LLC (DE LLC)	
Alderwoods (Minnesota), LLC (MN LLC) Florida subsidiary	
SCI Funeral Services of Florida, LLC	1%
Osiris Holding LLC (DE LLC) Florida subsidiary	
Osiris Holding of Florida, Inc.	100%
SCI Special, LLC (DE LLC)	
SCI Capital Corporation (DE Corp)	
SCI Capital Holdings, Inc. (DE Corp) Florida subsidiary	
SCI Direct, Inc.	100%
Neptune Insurance Agency, Inc.	100%
Neptune Society of America, Inc. (CA Corp)	
Neptune Management Corp. (CA Corp)	
NCS Marketing Services, LLC	100%
Wilson Financial Group, Inc. (DE Corp)	
Wilson Holdings, Inc. (TX Corp) Florida subsidiaries	
Holmes Funeral Directors, Inc.	100%
Stewart Enterprises, Inc. (LA Corp) Florida subsidiary	
Cemetery Management, Inc.	100%
S.E. Cemeteries of Florida, LLC	100%
S.E. Combined Services of Florida, LLC	100%
S.E. Funeral Homes of Florida, LLC	100%
The Simplicity Plan, Inc.	100%

GEORGIA

Alderwoods Group, LLC (DE LLC) Georgia subsidiary	
Alderwoods (Georgia), LLC	100%
Stewart Enterprises, Inc. (LA Corp) Georgia subsidiary	
Eastlawn Corporation	100%
Holly Hill Memorial Park, Inc.	100%
Cemetery Management, Inc. (FL Corp) Georgia subsidiary	
Cheatham Hill Memorial Park, Inc.	100%
S.E. Mid-Atlantic, Inc. (Maryland LLC) Georgia subsidiary	
Haisten Funeral Home of Henry County, Inc.	100%
S.E. South-Central, LLC (LA LLC) Georgia subsidiary	
Rose Haven Funeral Home & Cemetery, Inc.	100%

HAWAII

SCI Funeral Services, LLC (Iowa LLC) Hawaii subsidiaries	
Hawaiian Memorial Life Plan, Ltd.	100%

IDAHO

Alderwoods Group, LLC (DE LLC) Idaho subsidiary	
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Alderwoods (Idaho), Inc.	100%
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ILLINOIS

SCI Funeral Services, LLC (Iowa LLC) Illinois subsidiary	
SCI Illinois Services, LLC	100%
Lake View Memorial Gardens, Inc.	100%
SCI Funeral Services of Florida, LLC (FL LLC), Illinois subsidiary	
Alderwoods (Chicago North), Inc.	56%
Alderwoods Group, LLC (DE LLC) Illinois subsidiaries	
Alderwoods (Illinois), LLC	100%
Alderwoods (Chicago Central), Inc.	71%
Woodlawn Memorial Park, Inc.	100%
Chicago Cemetery Corporation	100%
Mount Auburn Memorial Park, Inc.	100%
Alderwoods (Chicago North), Inc.	1%
Alderwoods (Chicago North), Inc.	43%
Osiris Holding, LLC (DE LLC) Illinois subsidiary	
Alderwoods (Chicago Central), Inc.	29%
Elmwood Acquisition Corporation	100%
Oak Woods Cemetery Association	100%
Pineview Memorial Park, Inc.	100%
Ridgewood Cemetery Company, Inc.	100%
Ruzich Funeral Home, Inc.	100%
Woodlawn Cemetery of Chicago, Inc.	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. South-Central, LLC (LA LLC)	
S.E. Funeral Homes of Illinois, Inc.	100%

INDIANA

Alderwoods Group, LLC (DE LLC) Indiana subsidiaries	
Advance Planning of America, Inc.	100%
Alderwoods (Indiana), Inc.	88.5%
Alderwoods (Tennessee), LLC (TN LLC) Indiana subsidiary	
Alderwoods (Indiana), Inc.	11.5%
SCI Special, LLC (DE LLC)	
SCI Capital Corporation (DE Corp)	
SCI Capital Holdings, Inc. (DE Corp)	
Wilson Financial Group, Inc. (DE Corp)	
Wilson Holdings, Inc. (TX Corp) Indiana subsidiary	
WFG-Williams & Bluitt Funeral Home, Inc.	100%

IOWA

SCI Funeral Services, LLC	100%
SCI Iowa Funeral Services, Inc.	100%

KANSAS

SCI Funeral Services, LLC (Iowa LLC) Kansas subsidiary	
SCI Kansas Funeral Services, Inc.	100%
Alderwoods Group, LLC (DE LLC) Kansas subsidiary	
Alderwoods (Kansas), Inc.	100%
<u>KENTUCKY</u>	
SCI Funeral Services, LLC (Iowa LLC) Kentucky subsidiary	
SCI Kentucky Funeral Services, Inc.	99%
Alderwoods Group, LLC (DE LLC) Kentucky subsidiaries	
Alderwoods (Partner), Inc.	100%
<u>LOUISIANA</u>	
SCI Funeral Services, LLC (Iowa LLC) Louisiana subsidiary	
SCI Louisiana Funeral Services, Inc.	100%
Stewart Enterprises, Inc.	100%
Ballyhoo Innovations, Inc.	100%
Empresas Stewart-Funerarias, Inc.	100%
Enduring Memories, Inc.	100%
Lake Lawn Metairie Funeral Home (joint venture)	51%
Lake Lawn Park, LLC	98.4%
S.E. South-Central, LLC	100%
Stewart Resource Center, LLC	100%
Acme Mausoleum, LLC	100%
S.E. Cemeteries of Louisiana, LLC	100%
Heaven's Pets at Lakelawn Metairie, LLC	60%
S.E. Funeral Homes of Louisiana, LLC	100%
Lake Lawn Metairie Funeral Home - (joint venture)	49%
Stewart Services, LLC	100%
Sympathyshop.com, LLC	100%
Stewart Enterprises (Europe) Inc.	100%
<u>MARYLAND</u>	
SCI Funeral Services, LLC (Iowa LLC) Maryland subsidiaries	
SCI Maryland Funeral Services, Inc.	100%
Burgee-Henss-Seitz Funeral Home, Inc.	100%
Charles S. Zeiler & Son, Inc.	100%
Gary L. Kaufman Funeral Home at	
Meadowridge Memorial Park, Inc.	100%
Gary L. Kaufman Funeral Home Southwest, Inc.	100%
George Washington Cemetery Company, LLC	100%
Lemmon Funeral Home of Dulaney Valley, Inc.	100%
Loring Byers Funeral Directors, Inc.	100%
Miller-Dippel Funeral Home, Inc.	100%
National Cremation Service, Inc.	100%
Sterling-Ashton-Schwab Funeral Home, Inc.	100%
Sterling-Ashton-Schwab-Witzke Funeral Home	

of Catonsville, Inc.	100%
Alderwoods Group, LLC (DE LLC) Maryland subsidiary	
Alderwoods (Maryland), Inc.	100%
SCI International, LLC (DE LLC)	
Keystone America, Inc. (DE Corp) Maryland subsidiaries	
Schimunek Funeral Home, Inc.	100%
The Schimunek Funeral Home of Bel Air, Inc.	100%
Stewart Enterprises, Inc. (LA Corp) Maryland subsidiary	
S.E. Mid-Atlantic, LLC	100%
Bounds Funeral Home, Inc.	100%
Cedar Hill Cemetery Company, Inc.	100%
Crest Lawn Memorial Gardens, LLC	100%
Fort Lincoln Cemetery, LLC	100%
Fort Lincoln Funeral Home, Inc.	100%
Hillcrest Memorial Cemetery, Inc.	100%
Hines-Rinaldi Funeral Home, Inc.	100%
John M. Taylor Funeral Home, Inc.	100%
Parklawn, Inc.	100%
S.E. Cemeteries of Maryland, Inc.	100%
Nailknot ,LLC	100%
Simple Tribute of Maryland, Inc.	100%
The Parkwood Cemetery Company	100%
The Parkwood Management Company	100%
William W. Chambers, Inc.	100%

MASSACHUSETTS

SCI Funeral Services, LLC (Iowa LLC) Massachusetts subsidiaries	
Affiliated Family Funeral Service, Inc.	100%
AFFS Boston, Inc.	0.6%
AFFS Brookline, Inc	2.5%
AFFS North, Inc.	10%
AFFS Norwood, Inc.	6.675%
AFFS Quincy, Inc.	5%
AFFS Salem, Inc	10%
AFFS Southcoast East, Inc.	.06%
AFFS Southcoast West, Inc.	.06%
AFFS West, Inc.	10%
Stanetsky Memorial Chapels, Inc.	10%
Sullivan Funeral Homes, Inc.	10%
Alderwoods Group, LLC (DE LLC) Massachusetts subsidiaries	
Cuffe-McGinn Funeral Home, Inc.	10%
Doane Beal & Ames, Inc.	10%
Ernest A. Richardson Funeral Home, Inc.	10%
Alderwoods (Massachusetts), LLC	100%
SCI International, LLC (DE LLC)	
Keystone America, Inc. (DE Corp) Mass. subsidiary	

Nickerson-Bourne Funeral Homes, Inc.	10%
<u>MICHIGAN</u>	
SCI Funeral Services, LLC (Iowa LLC) Michigan subsidiary	
SCI Michigan Funeral Services, Inc.	100%
SCI Virginia Funeral Services, Inc. (VA Corp) Michigan subsidiaries	
AMG, Inc.	100%
WMP, Inc.	100%
Alderwoods Group, LLC (DE LLC) Michigan subsidiary	
Alderwoods (Michigan), LLC	100%
<u>MINNESOTA</u>	
SCI Funeral Services, LLC (Iowa LLC) Minnesota subsidiaries	
SCI Minnesota Funeral Services, Inc.	100%
Alderwoods Group, LLC (DE LLC) Minnesota subsidiary	
Alderwoods (Minnesota), Inc.	100%
<u>MISSISSIPPI</u>	
Stewart Enterprises, Inc. (LA Corp) Mississippi subsidiaries	
Lakewood Memorial Park, LLC	100%
SCI Mississippi Funeral Services, LLC	100%
<u>MISSOURI</u>	
SCI Funeral Services, LLC (Iowa LLC) Missouri subsidiaries	
SCI Missouri Funeral Services, Inc.	100%
Memorial Guardian Plans, Inc.	100%
Mt. Hope Cemetery and Missouri subsidiary	100%
Alderwoods Group, LLC (DE LLC) Missouri subsidiary	
Alderwoods (Missouri), Inc.	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. South-Central, LLC (LA LLC) Missouri subsidiaries	
D.W. Newcomer's Sons, Inc.	100%
DWN Properties, Inc.	100%
Funeral Security Plans, Inc.	100%
<u>MONTANA</u>	
Alderwoods Group, LLC (DE LLC) Montana subsidiary	
Alderwoods (Montana), Inc.	100%
<u>NEBRASKA</u>	
SCI Funeral Services, LLC (Iowa LLC) Nebraska subsidiary	
SCI Nebraska Funeral Services, Inc.	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. South-Central, LLC (LA LLC) Nebraska subsidiaries	
The Lincoln Memorial Park Cemetery Association	100%
West Lawn Cemetery	100%

NEVADA

Alderwoods Group, LLC (DE LLC) Nevada subsidiary	
Alderwoods (Nevada), Inc.	100%
Knauss Enterprises Limited Liability Company	100%
Palm Mortuary, Inc.	100%

NEW HAMPSHIRE

Alderwoods Group, LLC (DE LLC) New Hampshire subsidiaries	
McHugh Funeral Home, Inc.	100%
St. Laurent Funeral Home, Inc.	100%
Alderwoods (Massachusetts), Inc. – New Hampshire subsidiary	
ZS Acquisition, Inc.	100%

NEW JERSEY

SCI Funeral Services, LLC (Iowa LLC) New Jersey subsidiaries	
SCI New Jersey Funeral Services, LLC	100%
Garden State Crematory, Inc.	100%
Wien & Wien, Inc.	100%
SCI International, LLC (DE Corp)	
Keystone America, Inc. (DE Corp) New Jersey subsidiary	
Zarro Funeral Home	100%
SCI Special, LLC (DE LLC)	
SCI Capital Corporation (DE Corp)	
SCI Capital Holdings, Inc. (DE Corp)	
SCI Direct, Inc. (FL Corp) California Subsidiaries	
Neptune Society of America, Inc.	
Neptune Management Corp. (CA Corp) NJ sub	
Neptune Management (NJ), LLC	100%

NEW MEXICO

Alderwoods Group, LLC (DE LLC) New Mexico subsidiary	
Alderwoods (New Mexico), Inc.	100%

NEW YORK

SCI Funeral Services, LLC (Iowa LLC) New York subsidiaries	
SCI Funeral Services of New York, Inc.	100%
Alderwoods (New York), LLC	100%
Chas. Peter Nagel, LLC	100%
I. J. Morris, LLC	100%
New York Funeral Chapels, LLC	100%
New York Marker, LLC	100%
Thomas M. Quinn & Sons, LLC	100%

NORTH CAROLINA

SCI Special, LLC (DE LLC)	
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SCI Capital Corporation (DE Corp)	
SCI Capital Holdings, Inc. (DE Corp)	
Wilson Financial Group, Inc. (DE Corp)	
Wilson Holdings, Inc. (TX Corp) N. Carolina subsidiary	
Hamilton Funeral Chapel, Inc.	100%
Alderwoods Group, LLC (DE LLC) North Carolina subsidiaries	
Alderwoods (Georgia), Inc. (GA Corp) North Carolina subsidiary	
Reeves, Inc.	100%
Stewart Enterprises, Inc. (LA Corp) North Carolina subsidiary	
Alderwoods (North Carolina), LLC	100%
Westminster Gardens, LLC	100%
Carothers Holding Company, LLC	100%
MFH, L.L.C.	100%
Lineberry Group, LLC	100%
Montlawn Memorial Park, Inc.	100%
SCI North Carolina Funeral Service, LLC	100%
S.E. Mid-Atlantic, Inc. (MD LLC) North Carolina subsidiaries	
Catawba Memorial Park, LLC	100%
Garrett-Hillcrest, LLC	100%
McLaurin's Funeral Home, LLC	100%
S.E. Cemeteries of North Carolina, LLC	100%
S.E. Funeral Homes of North Carolina, Inc.	100%

OHIO

SCI Funeral Services, LLC (Iowa LLC) Ohio subsidiaries	
SCI Ohio Funeral Services, Inc.	100%
The Knollwood Cemetery Company	100%
SCI Special, LLC (DE LLC)	
SCI Capital Corporation (DE Corp)	
SCI Capital Holdings, Inc. (DE Corp)	
Wilson Financial Group, Inc. (DE Corp)	
Wilson Holdings, Inc. (TX Corp) Ohio subsidiary	
Dale Funeral Home, Inc.	90%
WFG-Cummings and Davis, Inc.	100%
Alderwoods Group, LLC (DE LLC) Ohio subsidiaries	
Alderwoods (Ohio) Cemetery Management, Inc.	100%
Alderwoods (Ohio) Funeral Home, Inc.	100%
Bennett-Emmert-Szakovits Funeral Home, Inc.	100%

OKLAHOMA

SCI Funeral Services, LLC (Iowa LLC) Oklahoma subsidiaries	
SCI Oklahoma Funeral Services, Inc.	100%
Alderwoods Group, LLC (DE LLC) Oklahoma subsidiary	
Alderwoods (Oklahoma), Inc.	100%

OREGON

SCI Funeral Services, LLC (Iowa LLC) Oregon subsidiaries		
SCI Oregon Funeral Services, Inc.		100%
Uniservice Corporation		100%
Alderwoods Group, LLC (DE LLC) Oregon subsidiary		
Alderwoods (Oregon), Inc.		100%
SCI Special, LLC (DE LLC)		
SCI Capital Corporation (DE Corp)		
SCI Capital Holdings, Inc. (DE Corp)		
SCI Direct, Inc. (FL Corp)		
Neptune Society of America, Inc. (CA Corp)		
Neptune Management Corp. (CA Corp) Oregon sub		
Wilhelm Mortuary, Inc.		100%
Stewart Enterprises, Inc. (LA Corp) Oregon subsidiary		
S.E. Acquisition of Oregon, Inc.		100%
Chapel of the Roses, Inc.		100%
Chapel of the Valley Funeral Home, Inc.		100%
J.P. Finley and Son Mortuary, Inc.		100%
Sunset Hills Memorial Park		100%

PENNSYLVANIA

SCI Funeral Services, LLC (Iowa LLC) Pennsylvania subsidiaries		
SCI Pennsylvania Funeral Services, Inc.		100%
Auman Funeral Home, Inc.		100%
Ed Melenzyer Co.		100%
Funeral Service Pennsylvania, LLC		100%
Laughlin Funeral Home, Ltd.		100%
Robert L. Hendricks Funeral Home, Inc.		100%
Rohland Funeral Home		100%
Harold B. Mulligan Co., Inc.		100%
Theo. C. Auman, Inc.		100%
Auman's, Inc.		100%
Francis F. Seidel, Inc.		100%
Memorial Guardian Plans, Inc. (DE Corp) Pennsylvania subsidiary		
Ensure Agency of Pennsylvania, Inc.		100%
Alderwoods Group, LLC (DE LLC) Pennsylvania subsidiaries		
Bright Undertaking Company		100%
H. Samson, Inc.		100%
Knee Funeral Home of Wilkinsburg, Inc.		100%
Nineteen Thirty-Five Holdings, Inc.		100%
Osiris Holding, LLC (DE LLC) Pennsylvania subsidiary		
Oak Woods Management Company		100%
Stewart Enterprises, Inc. (LA Corp)		
S.E. Mid-Atlantic, LLC (MD LLC) Pennsylvania subsidiaries		
George Washington Memorial Park, Inc.		100%
S.E. Acquisition of Pennsylvania, Inc.		100%
Sunset Memorial Park Company, LLC		100%

RHODE ISLAND

SCI Funeral Services, LLC (Iowa LLC) Rhode Island subsidiary	
SCI Rhode Island Funeral Services, LLC	100%

SOUTH CAROLINA

SCI Funeral Services, LLC (Iowa LLC) South Carolina subsidiary	
SCI South Carolina Funeral Services, Inc.	100%
Alderwoods Group, LLC (DE LLC)	
Alderwoods (Georgia), Inc. (GA Corp) South Carolina subsidiary	
Graceland Cemetery Development Co.	100%
Stewart Enterprises, Inc. (LA Corp)	
Alderwoods (South Carolina), Inc.	100%
S.E. Mid-Atlantic, LLC (MD LLC) South Carolina subsidiaries	
Dunbar Funeral Home	100%
S.E. Cemeteries of South Carolina, Inc.	100%
S.E. Combined Services of South Carolina, Inc.	100%
S.E. Funeral Homes of South Carolina, Inc.	100%

TENNESSEE

SCI Funeral Services, LLC (Iowa LLC) Tennessee subsidiaries	
SCI Tennessee Funeral Services, LLC	100%
SCI Special, LLC (DE LLC)	
SCI Capital Corporation (DE Corp)	
SCI Capital Holdings, Inc. (DE Corp)	
Wilson Financial Group, Inc. (DE Corp) Tennessee subsidiary	
Southern Funeral Home, Inc.	100%
Amistad Corporation (DE Corp) Tennessee subsidiary	
Franklin-Strickland Funeral Home, Inc.	100%
Wilson Holdings, Inc. (TX Corp) Tennessee subsidiaries	
M. J. Edwards & Sons Funeral Home, Inc.	100%
M. J. Edwards-Whitehaven Funeral Chapel, Inc.	100%
Alderwoods Group, LLC (DE LLC) Tennessee subsidiaries	
Alderwoods (Tennessee), LLC	100%
Eagle Financial Associates, Inc.	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. Mid-Atlantic, LLC (MD LLC) Tennessee subsidiaries	
Monte Vista Burial Park, LLC	100%
S.E. Combined Services of Tennessee, LLC	100%
S.E. South-Central, LLC (LA LLC) Tennessee subsidiary	
S.E. Funeral Homes of Tennessee, Inc.	100%
The Nashville Historic Cemetery Association, LLC	100%

TEXAS

Big Bend Insurance Company, Inc.	100%
SCI Funeral Services, LLC (Iowa LLC) Texas subsidiaries	

TMJ Land, Inc.	100%
SCI Texas Funeral Services, LLC (DE LLC) Texas subsidiaries	
Dial Dunkin Enterprises, Inc.	100%
Eubank Funeral Home, Inc.	100%
FHC Realty, Inc.	100%
Pioneer Funeral Plans, Inc.	100%
WFG Liquidation Corporation	100%
Van Zandt County Haven of Memories, Inc.	100%
SCI Special, LLC (DE LLC)	
SCI Capital Corporation (DE Corp) Texas subsidiary	
SCI Capital Holdings, Inc. (DE Corp)	
Wilson Financial Group, Inc. (DE Corp) Texas subsidiary	
Wilson Holdings, Inc.	100%
Carl Barnes Funeral Home, Inc.	100%
Cedar Crest Funeral Home, Inc.	100%
Fuller-Sheffield Funeral Services, Inc.	100%
Lincoln Funeral Home, Inc.	100%
Mainland Funeral Home, Inc.	100%
Morris-Bates Funeral Home, Inc.	100%
Paradise Funeral Home, Inc.	100%
Paradise Investment Corporation	100%
Paradise Cemetery South, Inc.	100%
Warford-Walker Mortuary, Inc.	100%
WFG-Cristo Rey Funeral Home, Inc.	100%
WFG-Lockwood Funeral Home, Inc.	100%
WFG-Nat Clark, Inc.	100%
WFG-Gregory Spencer Funeral Home, Inc.	100%
Wilson-Lincoln Cemetery, Inc.	100%
Carver Memorial Park, Inc.	100%
Lincoln Memorial Park	100%
SCI Administrative Services, LLC (DE LLC)	
SCI Management L.P. (DE LP) - <i>Limited Partner of</i>	
SCI Eastern Market Support Center, L.P.	99%
SCI Houston Market Support Center, L.P.	99%
SCI Management L.P. (DE LP)	
SCI Western Market Support Center, LLC (CA LLC) – <i>General Partner of</i>	
SCI Eastern Market Support Center, L.P.	1%
SCI Houston Market Support Center, L.P.	1%
Alderwoods Group, LLC (DE LLC) Texas subsidiaries	
Dunwood Cemetery Service Company	80%
Earthman Holdings, Inc.	100%
Alderwoods (Texas), LLC (CA LLC) Texas subsidiary	
Funeral Service, Inc.	100%
Alderwoods (Georgia), Inc. (GA Corp) Texas subsidiary	
Waco Memorial Park, Inc.	100%
Stewart Enterprises, Inc. (LA Corp) Texas subsidiary	

Investors Trust, Inc.	100%
S.E. South-Central, LLC (LA LLC) Texas subsidiaries	
Pasadena Funeral Home, Inc.	100%
S.E. Cemeteries of Texas, Inc.	100%
S.E. Funeral Homes of Texas, Inc.	100%
Abbey Plan of Texas, Inc.	100%
Emerald Hills Funeral Corporation	100%
Guardian Cremation Society, Inc.	100%
S.E. Combined Services of Texas, Inc.	100%
S.E. Funeral Home of Coppell, Texas, Inc.	100%
Simplicity Plan of Texas, Inc.	100%

UTAH

SCI Funeral Services, LLC (Iowa LLC) Utah subsidiaries	
SCI Utah Funeral Services, Inc.	100%
Evans & Early Mortuary, LLC	100%
Wasatch Land and Improvement Company	100%

VERMONT

SCI International, LLC (DE LLC)	
Keystone America, Inc. (DE Corp) Vermont subsidiary	
Ker-Westerlund Funeral Home, Inc.	100%

VIRGINIA

SCI Funeral Services, LLC (Iowa LLC) Virginia subsidiary	
SCI Virginia Funeral Services, Inc.	100%
Memorial Guardian Plans, Inc. (DE Corp) Virginia subsidiary	
Sentinel Security Plans, Inc.	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. Mid-Atlantic, LLC (MD LLC) Virginia subsidiaries	
Clinch Valley Memorial Cemetery, Inc.	100%
Everly PFP, Inc.	100%
S.E. Cemeteries of Virginia, LLC	100%
S.E. Funeral Homes of Virginia, LLC	100%

WASHINGTON

SCI Funeral Services, LLC (Iowa LLC) Washington subsidiary	
SCI Washington Funeral Services, LLC	100%
Alderwoods Group, LLC (DE LLC) Washington subsidiaries	
Alderwoods (Washington), LLC	100%
S & H Properties and Enterprises, Inc.	100%
Vancouver Funeral Chapel, Inc.	100%
Evergreen Funeral Home and Cemetery, Inc.	100%
Green Service Corporation	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. Acquisition of California, Inc. (CA Corp) Washington subsidiaries	

Cremation Society Northwest, Inc.	100%
E.R. Butterworth & Sons	100%

WEST VIRGINIA

SCI Funeral Services, LLC (Iowa LLC) West Virginia subsidiaries	
SCI West Virginia Funeral Services, Inc.	100%
Rosedale Cemetery Company	100%
Rosedale Funeral Chapel, Inc.	100%
Alderwoods Group, LLC (DE LLC) West Virginia subsidiary	
Alderwoods (West Virginia), Inc.	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. Mid-Atlantic, LLC. (MD LLC) WV subsidiaries - <i>partner of</i>	
Kanawha Plaza Partnership	60%
Bartlett-Burdette-Cox Funeral Home, Inc.	100%
Casdorph & Curry Funeral Home, Inc.	100%
Eastern Cemetery Associates, Inc.	100%
JCKC, Inc.	100%
LOI Charleston, Inc.	100%
National Exchange Trust, Ltd.	100%
National Funeral Services, Incorporated	100%
S.E. Acquisition of Malden, West Virginia, Inc.	100%
S.E. Cemeteries of West Virginia, LLC (VA LLC) - <i>partner of</i>	
Kanawha Plaza Partnership	30%
S.E. Cemeteries of West Virginia, Inc. - <i>partner of</i>	100%
	10%
Kanawha Plaza Partnership	
S.E. Funeral Homes of West Virginia, Inc.	100%
Wilson Funeral Home, Inc.	100%

WISCONSIN

SCI Funeral Services, LLC (Iowa LLC) Wisconsin subsidiary	
SCI Wisconsin Funeral Services, Inc.	100%
Alderwoods Group, LLC (DE LLC) Wisconsin subsidiaries	
Alderwoods (Wisconsin), Inc.	99%
Osiris Holding, LLC (DE LLC) Wisconsin subsidiary	
Alderwoods (Wisconsin), Inc.	1%
Northern Land Company, Inc.	100%
Stewart Enterprises, Inc. (LA Corp)	
S.E. South-Central, LLC (LA LLC) Wisconsin subsidiary	
S.E. Cemeteries of Wisconsin, Inc.	100%

International

BARBADOS

Service Corporation International (Canada) ULC (BC ULC)--Barbados subsidiary	
Loewen Financial Corporation	100%

BELGIUM

SCI International, LLC (DE Corp) Belgium subsidiaries	
Diana Belgium N.V.	100%
<u>BRAZIL</u>	
SCI International, LLC (DE Corp)	
SCI Latin America Ltd. (Cayman Co) Brazil subsidiary	
Service Corporation International Brazil Limitada --- (dormant)	100%
<u>CANADA</u>	
SCI Alliance Acquisition Corporation--(Ontario Corp)	100%
SCI International, LLC (DE LLC)	
SCI Cerberus, Inc. (DE Corp) - <i>limited partner of</i>	
SCI Parkway Limited Partnership--(Ontario partnership)	99.99%
SCI Parkway, LLC (DE Corp) - <i>general partner of</i>	
SCI Parkway Limited Partnership--(Ontario partnership)	.01%
Service Corporation International Netherlands Cooperatief U.A.--(Netherlands Corp)	
Roverber Holding & Finance BV--(Netherlands)-Nova Scotia subsidiary	
SCI NS71 Company--(Nova Scotia Corp)	100%
Service Corporation International (Canada) ULC--(BC ULC)	100%
Advance Funeral Planning Ltd.-(Sask Corp)	100%
Burnaby Funeral Directors Limited - (BC Corp)	100%
Community Crematorium Services Limited-(Sask Corp)	50%
Salons Funeraires T. Sansregret, LTEE-(QC Corp)	100%
SSPI (Canada), Inc. - (Canada Federal)	100%
<u>CAYMAN ISLANDS</u>	
SCI International, LLC (DE LLC) Cayman Islands subsidiaries	
SCI Latin America Ltd	100%
SCI Cayman II Ltd.	100%
<u>LUXEMBOURG</u>	
SCI International, LLC (DE LLC) Luxembourg subsidiary	
SCI Luxembourg SARL	100%
<u>MALAYSIA</u>	
SCI International, LLC (DE LLC) Malaysia subsidiaries	
Enlightened Transition Sdn Bhd---(dormant)	100%
<u>NETHERLANDS</u>	
SCI International, LLC (DE LLC)	
Service Corporation International (BVI) Ltd. - (VI Corp) - Netherlands subsidiary	
Service Corporation International Netherlands Cooperatief U.A.	.01%
Roverber Holding & Finance BV	100%
SCI Cerberus, Inc. (DE Corp)	
SCI Parkway Limited Partnership-(ONT Partnership)-Netherlands subsidiary	

Service Corporation International Netherlands Cooperatief U.A.	99.99%
<u>PUERTO RICO</u>	
Stewart Enterprises, Inc. (LA Corp)	
Stewart International (Netherlands) LLC (DE LLC)	
Stewart Cementerios Puerto Rico Holding II, LLC (DE LLC)	
<i>managing partner of</i>	
Empresas Stewart-Cementerios	99.77%
Stewart Cementerios Puerto Rico Holding I, LLC (DE LLC)	
<i>co-partner of</i>	
Empresas Stewart-Cementerios	.23%
Stewart Funerarias Puerto Rico Holding II, LLC (DE LLC)	
<i>managing partner of</i>	
Empresas Stewart-Funerarias	99.42%
Stewart Funerarias Puerto Rico Holding I, LLC (DE LLC)	
<i>co-partner of</i>	
Empresas Stewart-Funerarias	.58%
Stewart Simplicity Plan of Puerto Rico Holding II, LLC (DE LLC)	
<i>managing partner of</i>	
The Simplicity Plan of Puerto Rico	99.64%
Stewart Simplicity Plan of Puerto Rico Holding I, LLC (DE LLC)	
<i>co-partner of</i>	
The Simplicity Plan of Puerto Rico	.36%
<u>VIRGIN ISLANDS</u>	
SCI International, LLC (DE LLC) BVI subsidiaries	
Service Corporation International (BVI) Ltd.	100%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-142843, 333-174619, 333-197159, 333-211296 and 333-219503) and Form S-3 (No. 333-221904) of Service Corporation International of our report dated February 14, 2018 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
February 14, 2018

Exhibit 24.1

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

RYAN

/s/ Thomas L. Ryan

THOMAS L.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Eric D. Tanzberger
ERIC D. TANZBERGER

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Tammy R. Moore
TAMMY R. MOORE

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ R. L. Waltrip
R. L. WALTRIP

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Alan R. Buckwalter, III
ALAN R. BUCKWALTER, III

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Anthony L. Coelho
ANTHONY L. COELHO

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Victor L. Lund
VICTOR L. LUND

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/John W. Mecom, Jr.
JOHN W. MECOM, JR.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Clifton H. Morris, Jr.
CLIFTON H. MORRIS, JR.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Ellen Ochoa
ELLEN OCHOA

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ W. Blair Waltrip

W. BLAIR WALTRIP

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Marcus A. Watts

MARCUS A. WATTS

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer or director, or both, of Service Corporation International, a Texas corporation (the "Company"), does hereby constitute and appoint Eric D. Tanzberger and Gregory T. Sangalis his true and lawful attorneys and agents (each with authority to act alone), with power and authority to sign for and on behalf of the undersigned the name of the undersigned as officer or director, or both, of the Company to the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year of the Company ending December 31, 2017 and to any amendments thereto filed with the Securities and Exchange Commission, and to any instrument or document filed as a part of, as an exhibit to or in connection with said Report or amendments; and the undersigned does hereby ratify and confirm as his own act and deed all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 14th day of February, 2018.

/s/ Edward E. Williams

EDWARD E. WILLIAMS

Service Corporation International
a Texas corporation
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, Thomas L. Ryan, certify that:

1. I have reviewed this annual report on Form 10-K of Service Corporation International, a Texas corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Thomas L. Ryan

Thomas L. Ryan
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2018

Service Corporation International
a Texas corporation
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Section 302 Certification

I, Eric D. Tanzberger, certify that:

1. I have reviewed this annual report on Form 10-K of Service Corporation International, a Texas corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Eric D. Tanzberger

Eric D. Tanzberger
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)

Date: February 14, 2018

Certification of Chief Executive Officer

I, Thomas L. Ryan, of Service Corporation International, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Annual Report on Form 10-K for the annual period ended December 31, 2017 (the “Periodic Report”) which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Service Corporation International.

/s/ Thomas L. Ryan

Thomas L. Ryan
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Dated: February 14, 2018

Certification of Principal Financial Officer

I, Eric D. Tanzberger, of Service Corporation International, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Annual Report on Form 10-K for the annual period ended December 31, 2017 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Service Corporation International.

/s/ Eric D. Tanzberger

Eric D. Tanzberger
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)

Dated: February 14, 2018

