# 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, 2019**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number 1-6402-1**

# SERVICE CORPORATION INTERNATIONAL

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Texas** | **74-1488375** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. employer identification no.)* |
| **1929 Allen Parkway** | |
| **Houston** | |
| **Texas** | **77019** |
| *(Address of principal executive offices)* | *(Zip code)* |

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

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

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

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

| | | | | |
|---|---|---|---|---|
| Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. | Yes | ☑ | No | ☐ |
| Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. | Yes | ☐ | No | ☑ |
| Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. | Yes | ☑ | No | ☐ |
| Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). | Yes | ☑ | No | ☐ |

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

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Large accelerated filer | ☑ | Accelerated filer | ☐ | Non-accelerated filer | ☐ | Smaller reporting company | ☐ | Emerging growth company | ☐ |

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

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

The 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 $8,302,629,479 based upon a closing market price of $46.78 on June 30, 2019 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 14, 2020 was 180,778,030 (net of treasury shares).

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement in connection with its 2020 Annual Meeting of Stockholders (Part III).

# SERVICE CORPORATION INTERNATIONAL
# INDEX

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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. Management published a white paper on the corporate website for further understanding of accounting for preneed sales. You can view the white paper at http://investors.sci-corp.com under Featured Documents.

# 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 unequaled in geographic scale. At December 31, 2019, we operated 1,471 funeral service locations and 482 cemeteries (including 290 funeral service/cemetery combination locations), which are geographically diversified across 44 states, eight Canadian provinces, the District of Columbia, and Puerto Rico.

We are well known for our Dignity Memorial® brand, North America's first transcontinental brand of deathcare products and services. Our other brands include Dignity Planning™, National Cremation Society®, Advantage® Funeral and Cremation Services, Funeraria del Angel™, Making Everlasting Memories®, Neptune Society™ and Trident Society™. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and other related businesses, which enable us to serve a wide array of customer needs. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis.

### History

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

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

In late 2006, having arrived at a position of financial stability 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. We continue to pursue strategic acquisitions, some of which can be meaningful, such as the fifteen funeral homes and seven cemeteries we acquired in June of 2018.

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

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

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

We also sell cemetery property interment rights and funeral and cemetery merchandise and services whereby a customer contractually agrees to the terms of certain products and services to be delivered and performed in the future. We define these sales as preneed sales. As a result of such preneed sales, our preneed backlog of unfulfilled funeral and cemetery contracts was $12.0 billion and $11.1 billion at December 31, 2019 and 2018, respectively.

The following table at December 31, 2019 provides the number of our funeral service locations and cemeteries by country, and by state, territory, or province:

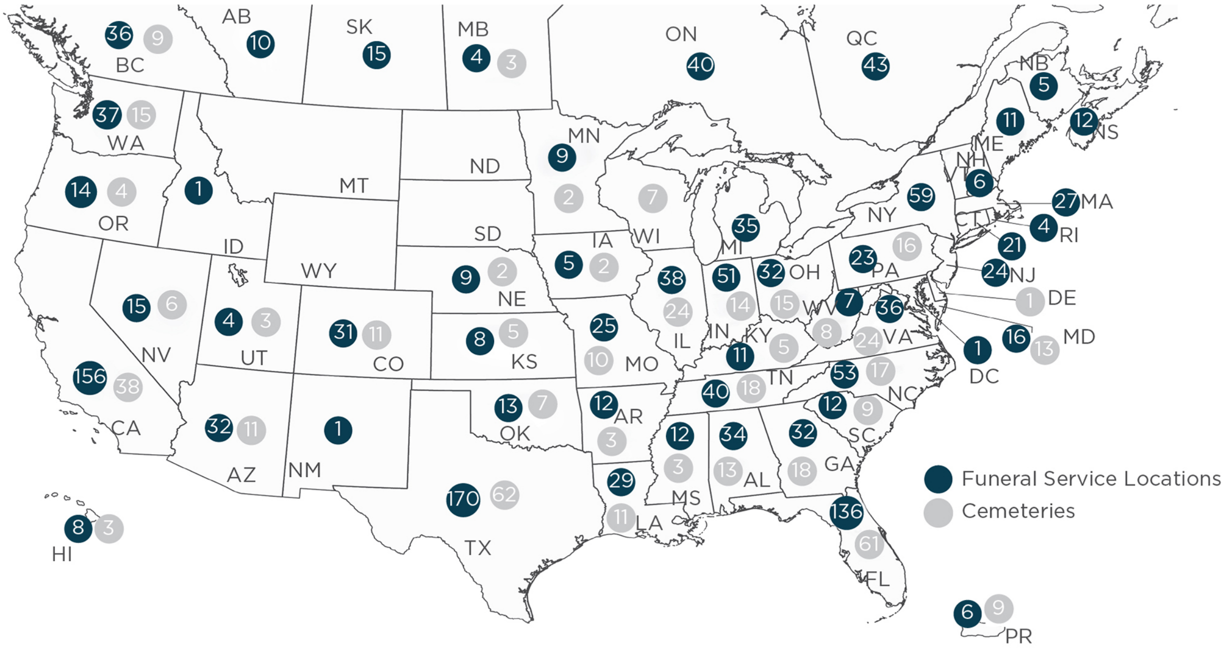
| Country, State/Territory/Province | Number of Funeral Service Locations | Number of Cemeteries | Total |
|---|---|---|---|
| United States | | | |
| Alabama | 34 | 13 | 47 |
| Arizona | 32 | 11 | 43 |
| Arkansas | 12 | 3 | 15 |
| California | 156 | 38 | 194 |
| Colorado | 31 | 11 | 42 |
| Connecticut | 21 | — | 21 |
| Delaware | — | 1 | 1 |
| District of Columbia | 1 | — | 1 |
| Florida | 136 | 61 | 197 |
| Georgia | 32 | 18 | 50 |
| Hawaii | 8 | 3 | 11 |
| Idaho | 1 | — | 1 |
| Illinois | 38 | 24 | 62 |
| Indiana | 51 | 14 | 65 |
| Iowa | 5 | 2 | 7 |
| Kansas | 8 | 5 | 13 |
| Kentucky | 11 | 5 | 16 |

| Country, State/Territory/Province | Number of Funeral Service Locations | Number of Cemeteries | Total |
|---|---|---|---|
| Louisiana | 29 | 11 | 40 |
| Maine | 11 | — | 11 |
| Maryland | 16 | 13 | 29 |
| Massachusetts | 27 | — | 27 |
| Michigan | 35 | — | 35 |
| Minnesota | 9 | 2 | 11 |
| Mississippi | 12 | 3 | 15 |
| Missouri | 25 | 10 | 35 |
| Nebraska | 9 | 2 | 11 |
| Nevada | 15 | 6 | 21 |
| New Hampshire | 6 | — | 6 |
| New Jersey | 24 | — | 24 |
| New Mexico | 1 | — | 1 |
| New York | 59 | — | 59 |
| North Carolina | 53 | 17 | 70 |
| Ohio | 32 | 15 | 47 |
| Oklahoma | 13 | 7 | 20 |
| Oregon | 14 | 4 | 18 |
| Pennsylvania | 23 | 16 | 39 |
| Puerto Rico | 6 | 9 | 15 |
| Rhode Island | 4 | — | 4 |
| South Carolina | 12 | 9 | 21 |
| Tennessee | 40 | 18 | 58 |
| Texas | 170 | 62 | 232 |
| Utah | 4 | 3 | 7 |
| Virginia | 36 | 24 | 60 |
| Washington | 37 | 15 | 52 |
| West Virginia | 7 | 8 | 15 |
| Wisconsin | — | 7 | 7 |
| Canada | | | |
| Alberta | 10 | — | 10 |
| British Columbia | 36 | 9 | 45 |
| Manitoba | 4 | 3 | 7 |
| New Brunswick | 5 | — | 5 |
| Nova Scotia | 12 | — | 12 |
| Ontario | 40 | — | 40 |
| Quebec | 43 | — | 43 |
| Saskatchewan | 15 | — | 15 |
| Total | 1,471 | 482 | 1,953 |

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, 2019, we owned approximately 87% of the real estate and buildings used at our facilities, and the remainder of the facilities were leased under both finance and operating leases. At December 31, 2019, our 482 cemeteries contained a total of approximately 35,500 acres, of which approximately 66% was developed.

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

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




## Competition

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

We believe we have an unparalleled network of funeral service locations and cemeteries that offer high quality products and services at prices that are competitive with local competing funeral service locations, cemeteries, and retail locations. Within this network, the funeral service locations and cemeteries operate under various names as most operations were acquired as existing businesses. We have co-branded the majority of our operations under the name Dignity Memorial®. We believe our branding strategy gives us a strategic advantage and identity in the industry. While this branding process is intended to emphasize our seamless national network of funeral service locations and cemeteries, the original names associated with acquired operations, and their inherent goodwill and heritage, generally remain the same. For example, Geo. H. Lewis & Sons Funeral Directors is now Geo. H. Lewis & Sons Funeral Directors, a Dignity Memorial® provider.

## Strategies for Growth

We are the largest consolidated deathcare company in North America and believe we are well positioned for long-term profitable growth. Over the next several years, our industry will be largely shaped by the aging of the Baby Boomer generation in the deathcare space and we are poised to benefit from the aging of this North American population. In each stage of life, Baby Boomers have set new trends, transformed society and redefined norms, and we believe the impact will be the same for our industry. We have already begun to see the impact of the Baby Boomers through the growth in our preneed cemetery sales program. We anticipate seeing a similar impact on our preneed funeral results and ultimately our atneed results as these preneed contracts mature. In every aspect of our business, we are listening and responding to our customer's changing needs and leveraging our scale to deliver unparalled experiences - both digitally and in person - to meet those changing needs.

Our three core strategies continue to grow the Company and enhance shareholder value and while we see a changing consumer, we believe these strategies are still the core of our foundation: 1) grow revenue, 2) leverage our unparalled scale, and 3) deploy capital.

### Grow Revenue

We plan to grow revenue by remaining relevant to our customers as their preferences evolve through a combination of price, product, and service differentiation strategies. We also believe that growing our preneed sales will drive future revenue growth.

*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. Whether a customer chooses burial or cremation, a population of Baby Boomers are redefining the traditional funeral by transitioning away from mourning the death to a personalized celebration of life ceremony. In certain markets, we are responding to this trend by repurposing traditional casket selection rooms to event rooms designed for a celebration. We have replaced the casket selection process by offering a digital presentation of options that allows the customer to choose merchandise and services including unique celebration, catering, and celebrant services.

In our funeral business, we focus on memorialization merchandise and services that will be meaningful to both our burial and cremation customers. The trend towards cremation requires us to be much more flexible in providing products and services. We have developed cremation service packages, which may or may not include a celebratory memorialization.

In our cemetery business, we continue to grow revenue by responding to the customer's desire for personalized and unique options by expanding our tiered product and cemetery property options. Over the past several years, we have substantially increased our property options to offer many unique choices. From high-end family estates, which capture incredible views, to nicely landscaped hedge estates, we continue to develop property selections that resonate with our customers. For cemetery merchandise, we have developed innovative products such as recurring floral placements, customized cemetery property offerings, and specialized graveside service options. We continue to embrace cremation opportunities for customers in our cemetery segment by offering an increased variety of cremation property options, including niches and scattering gardens.

As we evolve to meet ever-changing customer preferences, we will continue to cater to the religious, ethnic, and cultural traditions important to many of our customers.

*Growing Preneed Sales.* Our preneed sales program drives current and future revenue growth. We believe Baby Boomers have been impacting our cemetery preneed sales for several years and are beginning to positively impact the growth of our preneed funeral sales programs. Our sales organization is supported by a highly trained sales force of approximately 4,000 counselors, who provide customers informed guidance about various service and merchandise options tailored to fit the needs of today's consumers. Utilizing our scale our counselors are reaching out to consumers through multiple lead channels, which drive future revenue growth. We sponsor community events and seminars to help educate and provide guidance around preplanning both funeral and cemetery services and merchandise. In 2019, we adopted a more sophisticated direct mail approach and we continue to increase our digital presence through search engine optimization and other marketing channels. We believe we have a unique competitive advantage to continue growing preneed sales benefiting from our size and scale. Our preneed program provides us with an opportunity to develop greater brand awareness, gives consumers peace of mind about their end of life arrangements, and secures future market share.

## Leverage Our Unparalleled Scale

As the largest deathcare company in North America, we are able to leverage our scale by developing our sales organization and optimizing the use of our network through the use of technology and for the benefit of our preneed backlog. Our large scale enables us to achieve cost efficiencies through the maximization of purchasing power and utilizing economies of scale through our supply chain channel.

*Developing Our Sales Organization.* Over the last several years, we have continued to invest significantly in the development of our sales organization with best in class tools and technologies. These investments include a customer relationship management system, Salesforce, which drives improvements in productivity and sales production by leveraging data analytics, rigorous lead tracking and effective follow up campaigns. We continue to diversify our sales force to understand and cater to the religious, ethnic, and cultural traditions important to our customers. Our premier combination locations and other large and recognizable cemeteries and funeral homes attract high-quality sales talent. Our scale allows us to operate and expand our sales organization in a manner that our competitors can not replicate.

*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. Our advancements in technology are changing the way we present our product and service offerings to customers. Our atneed point of sale system, HMIS+, uses a digital platform enabled with high resolution video and photographs to create a seamless presentation of our products and service offerings. Our newly implemented and mobile preneed sales system, Beacon, provides customers with a full digital presentation experience in their home or other place of their choosing.

In 2018, we completed a redesign of almost 2,000 Dignity Memorial® location websites. Featuring a modern and user-friendly design, these location-specific websites have been optimized for mobile use and updated with enhanced search engine optimization capability. In addition to the contemporary and sophisticated design, client families now enjoy new features such as a streamlined obituary completion process, social media sharing capabilities, and the ability to create and share personalized content in memory of their loved one. In 2019, our websites experienced significant growth in number of visits, which reached nearly 130 million visits.

During 2019, we took significant steps to improve the quality of customer feedback and elevate our online reputation. We engaged a third party to increase the response rate from customers for online reviews and we have seen a significant increase in the number of reviews over the past year. Online reviews provide visibility of customer engagement down to the location level and increase our response time to address customer concerns. We collaborated with a leading technology partner to deliver the J.D. Power surveys digitally, which has increased the quantity and quality of customer feedback and reduced the time it takes to receive customer feedback. In late 2019, we established a social media presence for a number of our funeral and cemetery businesses. These digital efforts have resulted in favorable customer satisfaction ratings and increased digital sales leads.

*Growing Our Preneed Backlog.* Our preneed backlog, which includes both insurance and trust-funded merchandise and service products, allows us the opportunity to grow future revenue in a more stable and efficient manner than selling at the time of need. The scale of our multi-billion dollar trust portfolios allows us to leverage access to preeminent money managers with favorable fee structures generating above average returns. Our blended funding approach between insurance and trust-funded merchandise and service products allows us to combine the positive cash flow and predictability of the insurance product with the potential upside of future returns from our trusted merchandise and service products. This blended approach results in our ability to grow our preneed backlog in a cash flow neutral manner. Additionally, we are experiencing contracts coming out of the backlog today to be serviced with growth rates that are superior to inflationary at-need pricing.

## Deploy Capital

We continue maximizing capital deployment opportunities in a disciplined and balanced manner to the highest relative return opportunity. Our strong liquidity, favorable debt maturity profile, and robust cash flow generation enables us to continue our long-standing commitment to use capital deployment to opportunistically grow our business and enhance shareholder value. Our priorities for capital deployment are: 1) investing in acquisitions and building new funeral service locations, 2) paying dividends, 3) repurchasing shares, and 4) managing debt.

*Investing in Acquisitions and Building New Funeral Service Locations.* We manage our footprint by focusing on strategic acquisitions and building new funeral service locations where the expected returns are attractive and exceed our weighted average cost of capital. We target businesses with favorable customer dynamics and/or where we can achieve additional economies of scale. In 2019, we increased our growth capital spend on new funeral service locations to grow our footprint into new communities as well as expansions of existing locations to remain relevant with our customers. For our cemetery businesses, we plan to pursue strategic acquisitions to create more opportunities to serve Baby Boomers through our tiered cemetery options. During 2019, we acquired land that will be developed for future cemetery use in some of our largest markets to remain relevant with our customer. This investment in our future will allow us to continue to create cemetery offerings that appeal to varying preferences in those markets for many years to come.

*Paying Dividends.* Our quarterly dividend rate has steadily grown from $0.025 per common share in 2005 to $0.18 per common share at the end of 2019. We target a payout ratio of 30% to 40% of after tax earnings excluding special items and intend to grow our cash dividend commensurate with the growth in our business.

*Repurchasing Shares.* Absent opportunities for strategic acquisitions, we expect to continue to repurchase shares of our common stock in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. The volume and timing of our purchases is determined as we evaluate the opportunity to capture value for our shareholders. Since 2010, we have reduced the number of shares outstanding by 25%. In August 2019, our Board of Directors increased our repurchase authorization to $400.0 million. The remaining dollar value of shares authorized to be purchased under the share repurchase program was $312.0 million at December 31, 2019. Subsequent to December 31, 2019, we repurchased 475,476 shares for $22.2 million at an average cost per share of $46.69.

*Managing Debt. We continue to* focus on maintaining optimal levels of liquidity and financial flexibility. Our flexible capital strategy allows us to make open market debt repurchases when it is opportunistic to do so to manage our debt maturity profile. During 2019, we had an opportunity to reduce our debt by repurchasing $46.5 million of certain senior notes through open market repurchases. We viewed these transactions as strategic and attractive from a valuation perspective.

## Associates

At December 31, 2019, we employed 16,320 individuals on a full-time basis and 8,274 individuals on a part-time basis. Of the full-time associates, 14,029 were employed in the funeral and cemetery operations and 2,291 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 therefore do not participate in our health insurance plan. At December 31, 2019 and 2018, there were 9,528 and 9,362 associates, respectively, who had elected to participate in our group health insurance plans. Eligible associates in the United States are covered by retirement plans of SCI or various subsidiaries, while international associates are covered by other SCI (or SCI subsidiary) defined contribution or government-mandated benefit plans. Approximately 2.5% of our associates are represented by unions. Although labor disputes occur from time to time, relations with associates are generally considered favorable.

## Regulation

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

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

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

## Other

We make available free of charge, on or through our website, our annual, quarterly, and current reports and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission (SEC). Our website is http://www.sci-corp.com and our telephone number is (713) 522-5141. We also post announcements, updates, events and investor information and presentations on our website in addition to copies of all recent news releases. We may use the Investors section of our website to communicate with investors. It is possible that the financial and other information posted there could be deemed material information. 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. 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.

# 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.

### RISKS RELATED TO OUR BUSINESS

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

In connection with our preneed merchandise and service sales and our cemetery property sales, most affiliated trust funds own investments in equity securities, fixed income securities, commingled funds, money market funds, and mutual funds. The fair value of these investments and our earnings and investment gains and losses on these securities and funds are affected by financial market conditions that are beyond our control. Additionally, we may not choose the optimal mix of securities for any particular market condition.

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Preneed funeral merchandise and service trust funds | 20.0% | (4.9)% | 16.1% |
| Preneed cemetery merchandise and service trust funds | 20.5% | (5.2)% | 16.8% |
| Cemetery perpetual care trust funds | 17.0% | (3.0)% | 9.5% |

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 2020 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, 2019, no such charge was required in any reported period.

***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, 2019, we had unrealized losses of $12.0 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 successfully integrate acquired businesses and 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 we breach certain affirmative covenants or any negative covenants contained in our Bank Credit Facility, then, immediately upon notice from the administrative agent, an event of default will have occurred and the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, immediately due and payable. If we breach any of the other affirmative covenants contained in our Bank Credit Facility, and such breach continues unremedied for 30 days after receipt of notice thereof, then an event of default will have occurred and the lenders party thereto could elect to declare all amounts outstanding thereunder, together with accrued interest, immediately due and payable. Any such declaration would also result in an event of default under our Senior Indenture governing our various senior notes. For additional information, see Financial Condition, Liquidity and Capital Resources in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 6 in Part II, Item 8. Financial Statements and Supplementary Data.

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

We have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been issued to support our preneed funeral and cemetery activities. In the event all of the surety companies canceled or did not renew our surety bonds, which generally have twelve-month renewal periods, we would be required to either obtain replacement coverage or fund approximately $153.8 million into state-mandated trust accounts as of December 31, 2019. There can be no assurance that we would be able to obtain replacement coverage at a similar cost or at all.

***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 by state law, 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 9 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.

*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.

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

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

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

In addition to an annual review, we assess the impairment of goodwill and/or other intangible assets whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, a significant decline in our stock price, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. If any of these factors occur, we may have a triggering event, which could result in an impairment of our goodwill and/or other intangible assets. If economic conditions worsen causing deterioration in our operating revenue, operating margins, and cash flows, we may have a triggering event that could result in an impairment of our goodwill and/or other intangible assets. Our cemetery segment, which has a goodwill balance of $328.9 million as of December 31, 2019, 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 and our vendors receive and retain certain personal information, in both physical and electronic formats, about our customers, their loved ones, our associates, and our vendors, and there is an expectation that we will adequately protect that information. In addition, our online operations at our websites depend upon the secure transmission of confidential information over public networks, including information permitting electronic payments. The U.S. regulatory environment surrounding information security and privacy is increasingly demanding. New laws and regulations governing data privacy, security, cybersecurity and the unauthorized disclosure of confidential information, including recent California legislation, pose increasingly complex compliance challenges and potentially elevate our costs. Any failure by us to comply with these laws and regulations, including as a result of a security or privacy breach, could result in significant penalties and liabilities for us. A significant theft, loss or fraudulent use of the personally identifiable information we maintain or failure of our vendors to use or maintain such data in accordance with contractual provisions could result in significant costs, fines, litigation. Additionally, if we acquire a company that has violated or is not in compliance with applicable data protection laws, we may incur significant liabilities and penalties as a result.

We maintain substantial security measures and data backup systems to protect, store, and prevent unauthorized access to such information. Nevertheless, it is possible that computer hackers and others (through cyberattacks, which are rapidly evolving and becoming increasingly sophisticated, or by other means) might defeat our security measures in the future and obtain the personal information of customers, their loved ones, our associates, and our vendors that we hold. Further, our associates, contractors, or third parties with whom we do business may attempt to circumvent our security measures to misappropriate such information and may purposefully or inadvertently cause a breach, corruption, or data loss involving such information. A breach of our security measures or failure in our backup systems could adversely affect our reputation with our customers and their loved ones, our associates, and our vendors; as well as our operations, results of operations, financial condition, and cash flows; and could result in litigation against us or the imposition of penalties. Moreover, a security breach could require that we expend significant additional resources to upgrade further the security measures that we employ to guard such important personal information against cyberattacks and other attempts to access such information and could result in a disruption of our operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely extensively on information technology systems, some of which are managed or provided by third-party service providers, to analyze, process, store, manage, and protect transactions and data. In managing our business, we also rely heavily on the integrity of, security of, and consistent access to this data for information such as sales, merchandise ordering, inventory replenishment, and order fulfillment. For these information technology systems and processes to operate effectively, we or our service providers must periodically maintain and update them. Our systems and the third-party systems on which we rely are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches; cyber-attacks, including the use of ransomware; catastrophic events such as fires, floods, earthquakes, tornadoes, or hurricanes; acts of war or terrorism; and design or usage errors by our associates, contractors, or third-party service providers. Although we and our third-party service providers seek to maintain our respective systems effectively and to successfully address the risk of compromise of the integrity, security, and consistent operations of these systems, such efforts may not be successful. As a result, we or our service providers could experience errors, interruptions, delays, or cessations of service in key portions of our information technology infrastructure, which could significantly disrupt our operations and be costly, time consuming, and resource-intensive to remedy.

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

The accuracy of our financial reporting depends on the effectiveness of our internal control over financial reporting. Internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements and may not prevent or detect misstatements because of its inherent limitations. If we do not maintain effective internal control over financial reporting or implement controls sufficient to provide reasonable assurance with respect to the preparation and fair presentation of our financial statements, we could be unable to file accurate financial reports on a timely basis, and our results of operations, investor confidence, and stock price could be materially adversely affected.

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

In the ordinary course, our businesses have sold preneed funeral and cemetery contracts for decades. To the extent these contracts will not be funded with the assignment of the proceeds of life insurance policies, depending on applicable state laws, we could be responsible for escheatment of the portion of the funds paid that relate to contracts which we are unlikely to fulfill. For additional information, see Unclaimed Property Audit in Note 9 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.

## RISKS RELATED TO OUR INDUSTRY

*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.

*If the number of deaths in our markets declines, our cash flows and revenue may decrease. Changes in the number of deaths are not predictable from market to market or over the short term.*

If the number of deaths in our markets declines, the number of funeral services and interments performed by us could decrease and our financial condition, results of operations, and cash flows could be materially adversely affected. Changes in the number of deaths may vary from quarter to quarter and across local markets, and those variations are not predictable. 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 2019, 56.8% of the comparable services we performed were cremation cases compared to 55.1% and 53.5% performed in 2018 and 2017, respectively. Our average revenue for cremations is lower than that for traditional burials. If we are unable to continue to expand our cremation memorialization products and services, and cremations remain or increase as a significant percentage of our services, our financial condition, results of operations, and cash flows could be materially adversely affected.

*Our funeral and cemetery businesses are high fixed-cost businesses.*

The majority of our operations are managed in groups called “markets”. Markets are geographical groups of funeral service locations and cemeteries that share common resources such as operating personnel, preparation services, clerical staff, motor vehicles, and preneed sales personnel. 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.

## REGULATORY AND LEGAL RISKS

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

Our operations are subject to regulation, supervision, and licensing requirements 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. State law regulates preneed sales and imposes licensing requirements. Accordingly, we are subject to audits of preneed sales practices and state trust funds. Our facilities are also subject to stringent health, safety and environmental regulations. In particular, cremation and embalming facilities are subject to stringent health and environmental regulations, compliance with which is burdensome, and there are associated risks of costly and burdensome investigations from regulatory authorities or incidental non-compliance with such 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.

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. Similarly, more stringent permitting or other environmental regulations, if adopted, could increase our costs. 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. 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.*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.

## 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 9 of Part II, Item 8. Financial Statements and Supplementary Data.

## Item 4. Mine Safety Disclosures

Not applicable.

# Executive Officers of the Company

The following table sets forth as of February 18, 2020, 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 | 54 | Chairman of the Board, Chief Executive Officer and President | 1999 |
| Sumner J. Waring, III | 51 | Senior Vice President, Chief Operating Officer | 2002 |
| Eric D. Tanzberger | 51 | Senior Vice President, Chief Financial Officer | 2000 |
| Gregory T. Sangalis | 64 | Senior Vice President, General Counsel and Secretary | 2007 |
| Elisabeth G. Nash | 58 | Senior Vice President, Operations Services | 2004 |
| John H. Faulk | 44 | Senior Vice President, Revenue and Business Development | 2010 |
| Steven A. Tidwell | 58 | Senior Vice President, Sales and Marketing | 2010 |
| Tammy R. Moore | 52 | Vice President and Corporate Controller | 2010 |

Mr. Ryan was elected Chairman of the Board of SCI effective in January 2016 and, previously, he had been appointed Chief Executive Officer in February 2005 and President in 2019. He joined the Company in 1996 and served in a variety of financial management roles until November 2000, when he was asked to serve as Chief Executive Officer of European Operations based in Paris, France. In July 2002, Mr. Ryan returned to the United States where he was appointed President and Chief Operating Officer of SCI. Before joining SCI, Mr. Ryan was a certified public accountant with Coopers & Lybrand LLP for eight years. He holds a bachelor's degree in business administration from the University of Texas at Austin. Mr. Ryan serves as a member of the University of Texas McCombs Business School Advisory Council. Mr. Ryan is a member of the Board of Trust Managers of Weingarten Realty Investors (NYSE: WRI) and the Board of Directors of Chesapeake Energy (NYSE: CHK).

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. He is also a member of the Executive Leadership Team for the Houston chapter of the American Heart Association.

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 serves on the Board of Directors for Junior Achievement of Southeast Texas. Additionally, he is a member of the Board of Trustees for the United Way of Greater Houston and 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., the 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, 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. Ms. Nash serves on the Board of Directors of Genesys Works.

Mr. Faulk was named Senior Vice President of Revenue and Business Development in 2018. He joined SCI in March 2010 as Vice President, Business Development, to oversee the Company's strategic growth, including mergers and acquisitions, real estate and construction. His promotion in 2018 expanded his role to include setting direction for the company’s pricing and cemetery development functions. Prior to joining the Company, Mr. Faulk worked for Bain & Company, Inc. where he helped Fortune 500 Companies and specialty retailers identify profit growth opportunities and achieve strong operating results. He holds a master's degree in business administration from the Darden Graduate School of Business at the University of Virginia and a bachelor's degree in electrical engineering from the University of Virginia.

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

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

# PART II

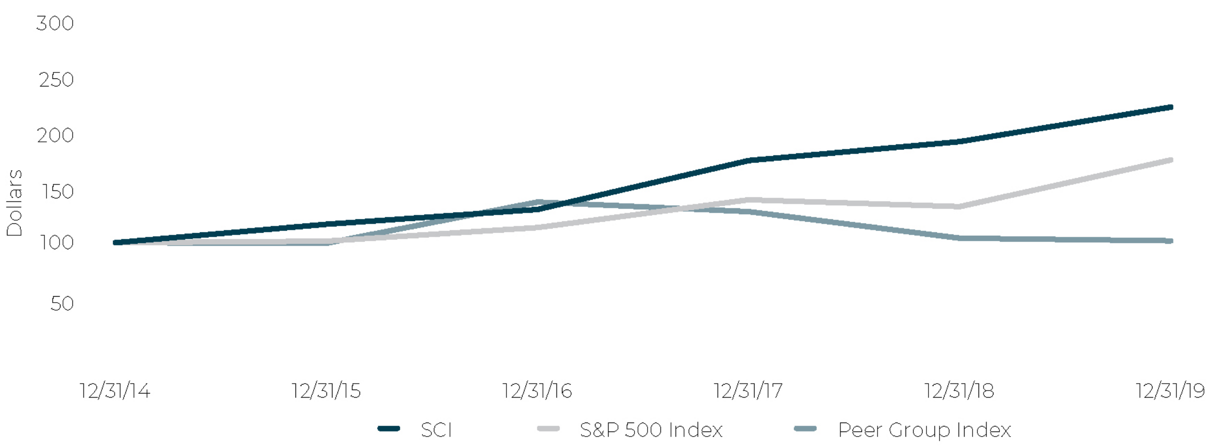
## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock has been traded on the New York Stock Exchange since May 14, 1974. On December 31, 2019, there were 3,552 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, 2019, we had 181,184,963 shares outstanding, net of 3,915,826 treasury shares.

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, 2014, in SCI Common Stock, the S&P 500 Index, and a peer group selected by the Company (the "Peer Group").The Peer Group comprises Carriage Services, Inc., Hillenbrand Inc., and Matthews International Corp. Total return data assumes reinvestment of dividends.

TOTAL STOCKHOLDER RETURNS
INDEXED RETURNS
Years Ending




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

Under our share repurchase program, during the year ended December 31, 2019, we repurchased 2,908,850 shares at an aggregate cost of $129.6 million, which is an average cost per share of $44.55. During the year ended December 31, 2018, we repurchased 7,347,838 shares at an aggregate cost of $277.6 million, which is an average cost per share of $37.78.

In August 2019, our Board of Directors increased our repurchase authorization for up to $400.0 million. The remaining dollar value of shares authorized to be purchased under the share repurchase program was $312.0 million at December 31, 2019. As discussed in Item 1A, our Bank Credit Facility contains covenants that may restrict our ability to repurchase our common stock.

The following table summarizes our share repurchases during the three months ended December 31, 2019:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares That May Yet be Purchased Under the Program |
|---|---|---|---|---|
| October 1, 2019 — October 31, 2019 (1) | 127,462 | $ 45.81 | 117,984 | $ 383,596,893 |
| November 1, 2019 — November 30, 2019 | 450,332 | $ 43.86 | 450,332 | 363,847,346 |
| December 1, 2019 — December 31, 2019 | 1,154,917 | $ 44.85 | 1,154,917 | 312,044,361 |
| | 1,732,711 | | 1,723,233 | |

(1) 9,478 shares purchased in October 2019 in connection with the surrender of shares by an associate to satisfy certain tax withholding obligations under compensation plans. These repurchases were not part of our publicly announced program and do not affect our share repurchase program.

Subsequent to December 31, 2019, we repurchased 475,476 shares for $22.2 million at an average cost per share of $46.69.

# 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, 2015 through December 31, 2019.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | (Dollars in millions, except per share amounts) | | | | |
| **Selected Consolidated Statements of Operations Data:** | | | | | |
| Revenue | $ 3,230.8 | $ 3,190.2 | $ 3,095.0 | $ 3,031.1 | $ 2,986.0 |
| Income from continuing operations | $ 369.8 | $ 447.6 | $ 546.8 | $ 177.3 | $ 235.3 |
| Net income | $ 369.8 | $ 447.6 | $ 546.8 | $ 177.3 | $ 234.9 |
| Net income attributable to noncontrolling interests | (0.2) | (0.4) | (0.2) | (0.3) | (1.2) |
| Net income attributable to common stockholders | $ 369.6 | $ 447.2 | $ 546.7 | $ 177.0 | $ 233.8 |
| Earnings per share: | | | | | |
| Income from continuing operations attributable to common stockholders | | | | | |
| Basic | $ 2.03 | $ 2.45 | $ 2.91 | $ 0.92 | $ 1.17 |
| Diluted | $ 1.99 | $ 2.39 | $ 2.84 | $ 0.90 | $ 1.14 |
| Net income attributable to common stockholders | | | | | |
| Basic | $ 2.03 | $ 2.45 | $ 2.91 | $ 0.92 | $ 1.17 |
| Diluted | $ 1.99 | $ 2.39 | $ 2.84 | $ 0.90 | $ 1.14 |
| Cash dividends declared per share | $ 0.72 | $ 0.68 | $ 0.58 | $ 0.51 | $ 0.44 |
| **Selected Consolidated Balance Sheet Data (at December 31):** | | | | | |
| Total assets | $ 13,677.4 | $ 12,693.2 | $ 12,864.5 | $ 12,038.1 | $ 11,676.4 |
| Long-term debt (less current maturities), including finance leases | $ 3,513.5 | $ 3,532.2 | $ 3,135.3 | $ 3,196.6 | $ 3,037.6 |
| Equity | $ 1,823.3 | $ 1,641.8 | $ 1,409.4 | $ 1,095.2 | $ 1,189.4 |
| **Selected Consolidated Statement of Cash Flows Data:** | | | | | |
| Net cash provided by operating activities | $ 628.8 | $ 615.8 | $ 503.4 | $ 489.0 | $ 472.2 |

# 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 unequaled in geographic scale and reach. At December 31, 2019, we operated 1,471 funeral service locations and 482 cemeteries (including 290 funeral service/cemetery combination locations), which are geographically diversified across 44 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and other related businesses, which enable us to serve a wide array of customer needs. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis.

Our financial position is enhanced by our $12.0 billion backlog of future revenue from both trust and insurance-funded preneed sales at December 31, 2019. Preneed selling provides us with a strategic opportunity to gain future market share. We also believe it adds to the stability and predictability of our revenue and cash flows. While revenue on the majority of preneed merchandise and service sales is deferred until the time of need, sales of preneed cemetery property provide opportunities for full current revenue recognition to the extent that the property is developed and available for use.

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

Factors affecting our operating results include: demographic trends in terms of population growth and average age, which impact death rates and number of deaths; establishing and maintaining leading market share positions supported by strong local heritage and relationships; effectively responding to increasing cremation trends by selling complementary services and merchandise; controlling salary and merchandise costs; and exercising pricing leverage related to our atneed revenue. The average revenue per funeral contract is influenced by the mix of traditional and cremation services because our average revenue for cremations is lower than that for traditional burials. To further enhance revenue opportunities, we continue to focus on our cremation customer's preferences and remaining relevant by developing additional memorialization merchandise and services that specifically appeal to cremation customers. We believe the presentation of these additional merchandise and services through our customer-facing technology enhances our customer's experience by reducing administrative burdens and allowing them to visualize the product offerings and services, which will help drive increases in the average revenue for a cremation in future periods.

For further discussion of our key operating metrics, see our "Cash Flow" and "Results of Operations" sections below. For a discussion of our results of operations and liquidity and capital resources for the fiscal year ended December 31, 2017, see Management's Discussion and Analysis of Financial Condition, Liquidity and Capital Resources and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the Securities and Exchange Commission on February 20, 2019.

## 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 $628.8 million in 2019. In addition, as of December 31, 2019, we have $671.0 million in excess borrowing capacity under our Bank Credit Facility. As of December 31, 2019, we have $69.8 million in long-term debt current maturities, which primarily consist of current amounts due on the term loan and finance leases.

Our Bank Credit Facility requires us to maintain certain leverage and interest coverage ratios. As of December 31, 2019, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of December 31, 2019 are as follows:

| | Per Credit Agreement | Actual |
|---|---|---|
| Leverage ratio | 4.75 (Max) | 3.78 |
| Interest coverage ratio | 3.00 (Min) | 5.03 |

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

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

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

*Investing in Acquisitions and Building New Funeral Service Locations.* We manage our footprint by focusing on strategic acquisitions and building new funeral service locations where the expected returns are attractive and exceed our weighted average cost of capital by a meaningful margin. We target businesses with favorable customer dynamics and/or where we can achieve additional economies of scale. We continue to pursue strategic acquisitions and build new funeral service locations in areas that provide us with the potential for scale. In 2019, we increased our growth capital spend on new funeral service locations and expansions of existing locations to expand our footprint into desirable markets and to remain relevant with our customers. For our cemetery businesses, we plan to pursue strategic acquisitions to create more opportunities to serve Baby Boomers through our tiered cemetery options. During 2019, we acquired land that will be developed for future cemetery use in some of our largest markets to remain relevant with our customer. This investment in our future will allow us to continue to create cemetery offerings that appeal to varying preferences in those markets for many years to come.

*Paying Dividends.* Our quarterly dividend rate has steadily grown from $0.025 per common share in 2005 to $0.18 per common share at the end of 2019. We target a payout ratio of 30% to 40% of after tax earnings excluding special items and intend to grow our cash dividend commensurate with the growth in our business. While we intend to pay regular quarterly cash dividends for the foreseeable future, all future dividends are subject to limitations in our debt covenants and final determination by our Board of Directors each quarter upon review of our financial performance.

*Repurchasing Shares.* Absent opportunities for strategic acquisitions, we expect to continue to repurchase shares of our common stock in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. The volume and timing of our purchases is determined as we evaluate the opportunity to capture value for our shareholders. Since 2010, we have reduced the number of shares outstanding by 25%. In August 2019, our Board of Directors increased our repurchase authorization to $400.0 million. The remaining dollar value of shares authorized to be purchased under the share repurchase program was $312.0 million at December 31, 2019. Subsequent to December 31, 2019, we repurchased 475,476 shares for $22.2 million at an average cost per share of $46.69.

*Managing Debt. We continue to* focus on maintaining optimal levels of liquidity and financial flexibility. Our flexible capital strategy allows us to make open market debt repurchases when it is opportunistic to do so to manage our debt maturity profile. During 2019, we had an opportunity to reduce our debt by repurchasing $46.5 million of certain senior notes through open market repurchases. We viewed these transactions as strategic and attractive from a valuation perspective.

## 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 $628.8 million, and $615.8 million for the years ended December 31, 2019, and 2018, respectively.

Included in operating cash flows are the following:

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Legal settlement, net of insurance recoveries | $ (6.4) | $ — |
| IRS tax settlement (1) | $ — | $ 5.6 |

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

Excluding the above items, cash flow from operations increased $25.0 million for 2019 versus 2018. The 2019 increase over 2018 comprises:

- a $96.0 million increase in cash receipts from customers, and
- a $15.4 million increase in General Agency (GA) and other receipts; partially offset by

- a $26.7 million increase in net trust deposits,
- a $22.7 million increase in employee compensation,
- a $17.7 million increase in vendor and other payments.
- a $10.8 million increase in cash interest payments, and
- a $8.5 million increase in cash tax payments,

### Investing Activities

Cash flows from investing activities used $278.5 million, and $414.6 million, in 2019, and 2018, respectively. The $136.1 million decrease from 2019 over 2018 is primarily due to the following:

- a $120.6 million decrease in cash spent on business acquisitions,
- a $39.8 million increase in cash receipts from divestitures and asset sales
- a $14.9 million decrease primarily for the purchase of corporate land, and
- a $0.9 million decrease in payments for Company-owned life insurance policies, net of proceeds, partially offset by
  - a $32.8 million increase in cash spent on real estate acquisitions for cemetery development,
  - a $4.4 million increase in capital expenditures, primarily due to construction of new funeral homes, and
  - a $2.9 million decrease in proceeds from sale of other investments.

### Financing Activities

Financing activities used $319.1 million in 2019 compared to using $329.2 million in 2018. The $10.1 million decrease from 2019 over 2018 is primarily due to:

- a $162.3 million increase in debt payments, net of proceeds, and
- a $7.6 million increase in payments of dividends; partially offset by
  - a $148.0 million decrease in purchase of Company common stock,
  - a $16.4 million increase in proceeds from exercises of stock options, and
  - a $15.6 million change in bank overdrafts and acquisition related financing.

## 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, 2019.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | 2020 | 2021-2022 | 2023-2024 | Thereafter | Total |
| | (In millions) | | | | |
| Debt maturities (including finance leases)(1) (2) (3) | $ 73.9 | $ 305.3 | $ 1,729.0 | $ 1,504.4 | $ 3,612.6 |
| Interest obligation on long-term debt(4) | 169.5 | 320.9 | 262.4 | 274.8 | 1,027.6 |
| Operating lease agreements(5) | 11.1 | 19.0 | 11.8 | 40.3 | 82.2 |
| Employment and management, consulting, and non-competition agreements(6) | 8.2 | 10.4 | 4.8 | 4.8 | 28.2 |
| Benefit cost obligation(7) | 2.7 | 4.7 | 4.0 | 8.4 | 19.8 |
| Firm purchase agreement(8) | 7.0 | 1.2 | — | — | 8.2 |
| Total contractual obligations | $ 272.4 | $ 661.5 | $ 2,012.0 | $ 1,832.7 | $ 4,778.6 |

(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, 2019 is $5.6 million.

(3) Excludes non-cash debt issuance costs on the debt. The unamortized balance of debt issuance costs at December 31, 2019 is $34.9 million.

(4) Approximately 69% 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) Our operating leases primarily include funeral service real estate and office equipment for funeral service locations, cemetery locations, and administrative offices. 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 associates and former owners of businesses acquired. Agreements with contractual periods less than one year are excluded. See Note 9 in Part II, Item 8. Financial Statements and Supplementary Data for additional details related to these agreements.

(7) See Note 12 in Part II, Item 8. Financial Statements and Supplementary Data for discussion of our pension plans.

(8) We have entered into a purchase commitment for certain merchandise for resale. The agreement is through 2021 and includes annual minimum volume purchase commitments.

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, 2019.

| | Expiration by Period | | | | |
|---|---|---|---|---|---|
| Commercial and Contingent Obligations | 2020 | 2021-2022 | 2023-2024 | Thereafter | Total |
| | (In millions) | | | | |
| Surety obligations(1) | $ 153.8 | $ — | $ — | $ — | $ 153.8 |
| Long-term obligations related to uncertain tax positions(2) | 2.0 | — | — | — | 2.0 |
| Letters of credit(3) | 34.0 | — | — | — | 34.0 |
| Total commercial and contingent obligations | $ 189.8 | $ — | $ — | $ — | $ 189.8 |

(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 $2.0 million as of December 31, 2019. 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, 2019, $34.0 million of our letters of credit were supported by our Bank Credit Facility, which expires in May 2024.

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, 2019, we had unrealized losses of $12.0 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, net. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In millions) | |
| Preneed funeral | $ 94.6 | $ 106.9 |
| Preneed cemetery: | | |
| Merchandise and services | 147.6 | 137.9 |
| Pre-construction | 20.3 | 15.4 |
| Bonds supporting preneed funeral and cemetery obligations | 262.5 | 260.2 |
| Bonds supporting preneed business permits | 5.5 | 4.2 |
| Other bonds | 19.7 | 18.9 |
| Total surety bonds outstanding | $ 287.7 | $ 283.3 |

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 $262.5 million in bonds supporting preneed funeral and cemetery obligations differs from the $153.8 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, 2019, 2018, and 2017, we had $24.2 million, $23.4 million, and $22.6 million, respectively, 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 enter into price-guaranteed preneed contracts, which provide for future funeral or cemetery merchandise and services. Because preneed funeral and cemetery merchandise or services will generally not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed contracts be deposited into merchandise and service trusts until the merchandise is delivered or the service is performed. In certain situations, as described above, where permitted by state or provincial laws, we may post a surety bond as financial assurance for a certain amount of the preneed contract in lieu of placing funds into trust accounts. Alternatively, we may sell a life insurance or annuity policy from third-party insurance companies.

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

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

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (Dollars in millions) | |
| Preneed insurance-funded: | | |
| Sales production[1] | $ 568.8 | $ 538.9 |
| Sales production (number of contracts) [1] | 99,310 | 92,858 |
| General agency revenue | $ 139.7 | $ 134.1 |
| Maturities | $ 347.5 | $ 342.5 |
| Maturities (number of contracts) | 58,773 | 58,232 |

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

*Trust-Funded Preneed Contracts:* The funds collected from customers and required by state or provincial law are deposited into trusts. We retain any funds above the amounts required to be deposited into trust accounts and use them for working capital purposes, generally to offset the selling and administrative costs of our preneed programs. Although this represents cash flow to us, the associated revenues are deferred until the merchandise is delivered or services are performed (typically at maturity). The funds in trust are then invested by professional money managers with oversight by independent trustees in accordance with state and provincial laws.

The tables below detail our results of preneed production and maturities, excluding insurance contracts, for years ended December 31, 2019 and 2018.

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (Dollars in millions) | |
| **Funeral:** | | |
| Preneed trust-funded (including bonded): | | |
| Sales production | $ 379.7 | $ 354.6 |
| Sales production (number of contracts) | 102,176 | 95,768 |
| Maturities | $ 289.2 | $ 288.4 |
| Maturities (number of contracts) | 72,523 | 71,617 |
| **Cemetery:** | | |
| Sales production: | | |
| Preneed | $ 908.9 | $ 892.0 |
| Atneed | 327.0 | 322.0 |
| Total sales production | $ 1,235.9 | $ 1,214.0 |
| Sales production deferred to backlog: | | |
| Preneed | $ 397.8 | $ 421.1 |
| Atneed | 241.4 | 238.1 |
| Total sales production deferred to backlog | $ 639.2 | $ 659.2 |
| Revenue recognized from backlog: | | |
| Preneed | $ 310.2 | $ 338.8 |
| Atneed | 237.6 | 236.7 |
| Total revenue recognized from backlog | $ 547.8 | $ 575.5 |

*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, 2019 and 2018. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our Consolidated Balance Sheet) at December 31, 2019 and 2018. The backlog amounts presented include amounts due from customers for undelivered performance obligations on cancelable preneed contracts to arrive at our total backlog of deferred revenue. The table does not include the backlog associated with businesses that are held for sale.

The table also reflects our preneed receivables and trust investments associated with the backlog of deferred preneed contract revenue including the amounts due from customers for undelivered performance obligations on cancelable preneed contracts. We believe that the table below is meaningful because it sets forth the aggregate amount of future revenue we expect to recognize as a result of preneed sales, as well as the amount of funds associated with this revenue. Because the future revenue exceeds the assets, future revenue will exceed the cash distributions actually received from the associated trusts and future collections from the customer.

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| | (In billions) | | | |
| Deferred revenue, net | $ 1.47 | $ 1.47 | $ 1.42 | $ 1.42 |
| Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts [1] | 0.58 | 0.58 | 0.57 | 0.57 |
| Deferred receipts held in trust | 3.84 | 3.54 | 3.37 | 3.47 |
| Allowance for cancellation on trust investments | (0.27) | (0.25) | (0.24) | (0.25) |
| Backlog of trust-funded deferred revenue, net of estimated allowance for cancellation | 5.62 | 5.34 | 5.12 | 5.21 |
| Backlog of insurance-funded revenue [1] | 6.37 | 6.37 | 5.97 | 5.97 |
| Total backlog of deferred revenue | $ 11.99 | $ 11.71 | $ 11.09 | $ 11.18 |
| | | | | |
| Preneed receivables, net and trust investments | $ 4.79 | $ 4.49 | $ 4.27 | $ 4.37 |
| Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts [1] | 0.58 | 0.58 | 0.57 | 0.57 |
| Allowance for cancellation on trust investments | (0.27) | (0.25) | (0.24) | (0.25) |
| Assets associated with backlog of trust-funded deferred revenue, net of estimated allowance for cancellation | 5.10 | 4.82 | 4.60 | 4.69 |
| Insurance policies associated with insurance-funded deferred revenue [2] | 6.37 | 6.37 | 5.97 | 5.97 |
| Total assets associated with backlog of preneed revenue | $ 11.47 | $ 11.19 | $ 10.57 | $ 10.66 |

(1) Prior to adoption of "Revenue from Contracts with Customers" on January 1, 2018, amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts were included in Preneed receivables, net and trust investments.

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

The fair value of our trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves and appraisals. As of December 31, 2019, the difference between the backlog and asset market amounts represents $0.23 billion related to contracts for which we have posted surety bonds as financial assurance in lieu of trusting, $0.07 billion collected from customers that were not required to be deposited into trusts, and $0.22 billion in allowable cash distributions from trust assets. As of December 31, 2019, the fair value of the total backlog comprised $3.17 billion related to cemetery contracts and $8.82 billion related to funeral contracts. As of December 31, 2019, the fair value of the assets associated with the backlog of trust-funded deferred revenue comprised $2.93 billion related to cemetery contracts and $2.17 billion related to funeral contracts.

## 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, 2019, the asset allocation is almost evenly split 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, 2019 approximately 88% of our trusts were under the control and custody of three large financial institutions. The U.S. trustees primarily use four managed limited liability companies (LLCs), one for each merchandise and service trust type and two for the cemetery perpetual care trust type, each with an independent trustee as custodian. Each financial institution acting as trustee manages its allocation of trust assets in accordance with the investment policy through the purchase of the appropriate LLCs' units. For those accounts not eligible for participation in the LLCs or where a particular state's regulations contain other investment restrictions, the trustee utilizes institutional mutual funds that comply with our investment policy or with such state restrictions. The U.S. trusts include a modest allocation to alternative investments. These alternative investments are held in vehicles structured as LLCs and are managed by certain trustees. The trusts that are eligible to allocate a portion of their investments to alternative investments purchase units of the respective alternative investment LLCs.

## Investment Structures

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

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

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

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

## Asset Classes

*Fixed income investments* are intended to preserve principal, provide a source of current income, and reduce overall portfolio volatility. The majority of the fixed income allocation for the trusts is invested in institutional share class mutual funds. Where the trusts have direct investments in individual fixed income securities, these are primarily in government and corporate instruments.

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

*Equity investments* have historically provided long-term capital appreciation in excess of inflation. The trusts have direct investments in individual equity securities primarily in domestic equity portfolios that include large, mid, and small capitalization companies of different investment styles (i.e., growth and value). The majority of the equity allocation is managed by institutional investment managers that specialize in an objective-specific area of expertise. Our equity securities are exposed to market risk; however, we believe these securities are well-diversified. As of December 31, 2019, the largest single equity position represented less than 1% of the total securities portfolio.

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

### Trust Performance

During the year ended December 31, 2019, the Standard and Poor's 500 Index increased 31.5% and the Barclay's Aggregate Index increased 8.7%. This compares to the SCI trusts that increased 19.2% during the same year-end period, which have a diversified allocation of approximately 55% equities, 30% fixed income securities, 10% alternative and other investments with remaining 5% available in cash.

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, 2019 and 2018

### Management Summary

In 2019, we reported consolidated net income attributable to common stockholders of $369.6 million ($1.99 per diluted share) compared to net income attributable to common stockholders in 2018 of $447.2 million ($2.39 per diluted share). These results were impacted by certain significant items including:

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In millions) | |
| Pre-tax gains on divestitures and impairment charges, net | $ 32.9 | $ 15.9 |
| Pre-tax losses on early extinguishment of debt, net | $ (16.6) | $ (10.1) |
| Pre-tax legal settlements | $ (6.4) | $ — |
| Tax effect from special items | $ (4.1) | $ (1.6) |
| Change in uncertain tax reserves and other (1) | $ 10.9 | $ 107.8 |

(1) See Note 5 in Part II, Item 8. Financial Statements and Supplementary Data, for additional information related to change in uncertain tax reserves and other.

In addition to the above items, the 2019 growth can be attributed to higher expenses in the prior year for our long-term incentive compensation plan that is tied to increases in total shareholder return. Increased interest expense related to refinancing activities were offset by the favorable impact from a lower share count in 2019. We also had a favorable tax rate compared to the prior year.

## Funeral Results

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (Dollars in millions, except average revenue per service) | |
| Consolidated funeral revenue | $ 1,923.9 | $ 1,898.0 |
| Less: revenue associated with acquisitions/new construction | 42.1 | 16.3 |
| Less: revenue associated with divestitures | 4.6 | 12.1 |
| Comparable[(1)] funeral revenue | 1,877.2 | 1,869.6 |
| Less: comparable recognized preneed revenue | 137.0 | 124.3 |
| Less: comparable general agency and other revenue | 128.1 | 123.6 |
| Adjusted comparable funeral revenue | $ 1,612.1 | $ 1,621.7 |
| Comparable services performed | 307,702 | 307,865 |
| Comparable average revenue per service[(2)] | $ 5,239 | $ 5,268 |
| | | |
| Consolidated funeral gross profit | $ 372.6 | $ 369.6 |
| Less: gross profit associated with acquisitions/new construction | 3.3 | — |
| Less: gross losses associated with divestitures | (1.9) | (3.4) |
| Comparable[(1)] funeral gross profit | $ 371.2 | $ 373.0 |

(1) We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2018 and ending December 31, 2019.

(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 are delivered at the time of sale, including memorial merchandise and travel protection, net, and excluded from our calculation of comparable average revenue per service because the associated service has not yet been performed.

### Funeral Revenue

Consolidated revenue from funeral operations was $1,923.9 million for the year ended December 31, 2019, compared to $1,898.0 million for the same period in 2018. This increase is primarily attributable to the $25.8 million increase in revenue contributed by acquired and newly constructed properties and the $7.6 million increase in comparable revenue as described below, partially offset by the loss of $7.5 million in revenue contributed by properties that have been subsequently divested.

Comparable revenue from funeral operations was $1,877.2 million for the year ended December 31, 2019 compared to $1,869.6 million for the same period in 2018. This increase was primarily attributable to the $12.7 million increase in recognized preneed revenue and a $4.8 million increase in comparable general agency revenue. These increases helped mitigate against flat comparable services performed and a slight decline in the average revenue per funeral service compared to the prior year.

Average revenue per funeral service decreased 0.6% for the year ended December 31, 2019 compared to the same period in 2018. Organic growth at the customer level of 1.6% was largely offset by the increase in our cremation mix. Our total comparable cremation rate increased to 56.8% in 2019 from 55.1% in 2018 as a result of an increase in both direct cremations and cremations with service.

### Funeral Gross Profit

Consolidated funeral gross profit increased $3.0 million, or 0.8%, in 2019 compared to 2018. This increase is primarily attributable to a $3.3 million increase in gross profit contributed by acquired and newly constructed properties and a $1.5 million increase in gross profit contributed by properties that have been subsequently divested, partially offset by a decrease in comparable funeral gross profit of $1.8 million. Comparable funeral gross profit decreased $1.8 million to $371.2 million and the gross profit percentage decreased 20 basis points to 19.8% primarily as a result of the revenue increases described above that were more than offset by investments in our preneed sales program in support of growing our backlog to secure future revenue.

## Cemetery Results

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In millions) | |
| Consolidated cemetery revenue | $ 1,306.9 | $ 1,292.2 |
| Less: revenue associated with acquisitions | 20.5 | 11.2 |
| Less: revenue associated with divestitures | 1.4 | 2.3 |
| Comparable[1] cemetery revenue | $ 1,285.0 | $ 1,278.7 |
| | | |
| Consolidated cemetery gross profit | $ 387.9 | $ 390.7 |
| Less: gross profit associated with acquisitions | 1.8 | 2.5 |
| Less: gross profit associated with divestitures | 0.3 | 0.2 |
| Comparable[1] cemetery gross profit | $ 385.8 | $ 388.0 |

(1) We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2018 and ending December 31, 2019.

### Cemetery Revenue

Consolidated revenue from our cemetery operations increased $14.7 million, or 1.1%, in 2019 compared to 2018 primarily attributable to the $9.3 million in revenue contributed by acquired properties and $6.3 million increase in comparable revenue. The comparable revenue growth over the prior year is due to increased recognized preneed property revenue from sales into existing developed cemetery property projects and higher other revenue (primarily endowment care trust fund income) partially offset by lower recognized preneed merchandise revenue.

### Cemetery Gross Profit

Consolidated cemetery gross profit decreased $2.8 million, or 0.7%, in 2019 compared to 2018 which is primarily attributable to the decrease in comparable gross profit of $2.2 million, or 0.6%. Comparable cemetery gross profit decreased $2.2 million to $385.8 million and the gross profit percentage decreased 30 basis points to 30.0% driven by the increase in revenue described above more than offset by expected increases in our maintenance and field administrative expenses.

## Other Financial Statement Items

### Corporate General and Administrative Expenses

*Corporate General and administrative expenses* were $126.9 million in 2019 compared to $145.6 million in 2018. Excluding a $6.4 million legal settlement in 2019, corporate general and administrative expenses, decreased $25.1 million in 2019 compared to 2018 due to lower pension termination costs, long-term incentive compensation, and self-insurance reserves.

### Gains (Losses) on Divestitures and Impairment Charges, Net

We recognized a $32.9 million and a $15.9 million net pre-tax gain on asset divestitures and impairments in 2019 and 2018, respectively, primarily as the result of asset divestitures associated with non-strategic funeral and cemetery locations in the United States and Canada, partially offset by impairment losses.

### Interest Expense

*Interest expense* increased $4.2 million to $185.8 million in 2019 compared to $181.6 million in 2018 due to interest on the new 2029 notes partially offset by the payoff of 2020 and 2022, purchases of our 2027 senior notes, and lower balances on the credit facility.

### Losses on Early Extinguishment of Debt, Net

During 2019, we made aggregate debt payments of $1.2 billion for scheduled and early extinguishment payments. During 2018, we made aggregate debt payments of $293.7 million for scheduled and early extinguishment payments. Certain of these transactions resulted in the recognition of losses of $16,6 million and $10.1 million in 2019 and 2018, respectively, recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations.

### Provision for Income Taxes

The 2019 consolidated effective tax rate was a tax expense of 20.4%, compared to a tax benefit of 1.3% in 2018. The effective tax rate for the twelve months ended December 31, 2019 was lower than the federal statutory tax rate of 21% primarily due to the reduction in tax liability as a result of the expiration of statute of limitations and higher excess tax benefits on the increased exercises of stock options, The effective tax rate for the twelve months ended December 31, 2018 was lower than the federal statutory tax rate of 21% primarily due to the reduction in uncertain tax positions as a result of the expiration of statutes of limitations. For further information on the impacts of the Tax Act, see Note 5 in Part II, Item 8. Financial Statements and Supplementary Data.

### Weighted Average Shares

The diluted weighted average number of shares outstanding was 185.5 million in 2019, compared to 187.0 million in 2018, 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, and the use of estimates.

### Revenue Recognition

Revenue is recognized when control of the merchandise or services is transferred to the customer. Our performance obligations include the delivery of funeral and cemetery merchandise and services and cemetery property interment rights. Control transfers when merchandise is delivered or services are performed. For cemetery property interment rights, control transfers to the customer when the property is developed and the interment right has been sold and can no longer be marketed or sold to another customer.

On our atneed contracts, we generally deliver the merchandise and perform the services at the time of need. Personalized marker merchandise and marker installation services sold on atneed contracts are recognized when control is transferred to the customer, generally when the marker is delivered and installed in the cemetery.

We also 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 control of the merchandise or the services is transferred to the customer, which is upon delivery of the merchandise or as services are performed, generally at the time of need. On certain preneed contracts, we sell memorialization merchandise, which consists of urns and urn-related products, that we deliver to the customer at the time of sale. Revenue is recognized at the time of delivery when control of the memorialization merchandise is transferred.

For personalized marker merchandise sold on a preneed contract, we will:

- purchase the merchandise from vendors,
- personalize such merchandise in accordance with the customer's specific written instructions,

- either store the merchandise at a third-party bonded storage facility or install the merchandise, based on the customer's instructions, and
- transfer title to the customer.

We recognize revenue and record the cost of sales when control is transferred for the merchandise, which occurs upon delivery to the third-party storage facility or installation of the merchandise at the cemetery.

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. Fees charged by our wholly-owned registered investment advisor are also included in revenue in the period in which they are earned.

A portion of the proceeds from the sale of cemetery property interment rights is required by state or provincial law to be paid by us into perpetual care trust funds to maintain the cemetery. This portion of the proceeds is not recognized as revenue. Investment earnings from these trusts are distributed to us regularly and recognized in current cemetery revenue.

For more information related to revenue, see Notes 2, 3, and 12 in Part II, Item 8. Financial Statements and Supplementary Data.

## 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 fair value of each reporting unit using both a market and income approach. The income approach, which is a discounted cash flow method, 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 more information related to goodwill, see Notes 2 and 4 in Part II, Item 8. Financial Statements and Supplementary Data.

## Valuation of Intangible Assets

Our intangible assets include covenants-not-to-compete, customer relationships, trademarks and tradenames, and other intangible assets primarily resulting from acquisitions. Certain of our trademark and tradenames and 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 more information related to intangible assets, see Notes 2 and 4 in Part II, Item 8. Financial Statements and Supplementary Data.

## Fair Value Measurements

We measure the 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 as 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 more information related to our fair value measurements, see Notes 2, 3, and 7 in Part II, Item 8. Financial Statements and Supplementary Data.

## 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 receivables. 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, changes in our expected use, 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, 2019, foreign withholding taxes have not been provided on the estimated $259.8 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 $13.4 million.

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. The federal statutes of limitations have expired for all tax years prior to 2016 and we are not currently under audit by the IRS. Various state jurisdictions are auditing years 2013 through 2017. There are currently no federal or provincial audits in Canada; however years subsequent to 2014 remain open and could be subject to examination. It is reasonably possible that the amount of unrecognized tax benefits may change within the next twelve months. However, given the number of years that remain subject to examination and the number of matters being examined, an estimate of the range of the possible increase or decrease 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 4.15% and 3.26% as of December 31, 2019 and 2018, 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 12 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, 2019 reported losses for workers' compensation, general liability, and auto liability incurred during the period May 1, 1991 through December 31, 2019 were approximately $609.8 million over 28.7 years. The selected fully developed ultimate settlement value estimated was $674.3 million for the same period. Paid losses were $590.0 million indicating a reserve requirement of $84.3 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, 2019 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, 2019 and 2018, approximately 69% and 66%, respectively, of our total debt consisted of fixed rate debt at a weighted average rate of 4.72% and 4.99%, respectively. A hypothetical 10% increase in interest rates associated with our floating rate debt would increase our interest expense by $3.5 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, 2019 and 2018, 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 $3.3 million and $5.0 million for the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019, approximately 5% of our stockholders’ equity and debt and 6% of our operating income was denominated in the Canadian dollar. Approximately 4% of our stockholders’ equity and debt and 10% of our operating income was denominated in foreign currencies, primarily the Canadian dollar, at December 31, 2018. 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



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 sheet of Service Corporation International and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, 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, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 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, 2019, 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.

***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Goodwill Impairment Assessment - Funeral Reporting Unit*

As described in Notes 2 and 4 to the consolidated financial statements, the Company's consolidated goodwill balance was $1.86 billion as of December 31, 2019, and the goodwill associated with the funeral reporting unit was $1.54 billion. Goodwill is tested annually during the fourth quarter, or whenever certain events or changes in circumstances indicate that the carrying value of goodwill may be greater than fair value. In order to perform the goodwill impairment test, management compares the fair value of a reporting unit to its carrying amount, including goodwill. Management determines fair value of a reporting unit using both a market and income approach. The income approach, which is a discounted cash flow method, uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions, such as revenue and other growth rates and a discount rate, that may differ from actual future cash flows.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the funeral reporting unit is a critical audit matter are there was significant judgment by management when developing the fair value measurement of the reporting unit under the income approach. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and in evaluating management's cash flow projections and significant assumptions, including revenue growth rates (over a seven year period ("discrete years") and terminal year) and ratio of expenses to revenue. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment of the funeral reporting unit, including controls over the valuation assertion. These procedures also included, among others, testing management's process for developing the fair value estimate; evaluating the appropriateness of the discounted cash flow model; testing the completeness, accuracy, and relevance of underlying data used in the model; and evaluating the reasonableness of significant assumptions used by management, including the revenue growth rates (discrete years and terminal year) and ratio of expenses to revenue. Evaluating management's assumptions related to the revenue growth rates (discrete years and terminal year) and the ratio of expenses to revenue involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with forecasts per industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in evaluating the Company's discounted cash flow model and significant assumptions, including the terminal year revenue growth rate.

/s/ PricewaterhouseCoopers LLP

Houston, Texas
February 18, 2020

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

# Service Corporation International
# Consolidated Statement of Operations

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | |
| Revenue | | | |
| Property and merchandise revenue | $ 1,610,158 | $ 1,584,242 | $ 1,525,747 |
| Service revenue | 1,379,001 | 1,374,380 | 1,356,665 |
| Other revenue | 241,626 | 231,552 | 212,619 |
| Total revenue | 3,230,785 | 3,190,174 | 3,095,031 |
| Costs of revenue | | | |
| Cost of property and merchandise | (829,158) | (811,574) | (794,725) |
| Cost of service | (769,119) | (752,488) | (729,204) |
| Overhead and other expenses | (871,928) | (865,790) | (848,323) |
| Costs of revenue | (2,470,205) | (2,429,852) | (2,372,252) |
| Gross profit | 760,580 | 760,322 | 722,779 |
| Corporate general and administrative expenses | (126,886) | (145,596) | (158,651) |
| Gains on divestitures and impairment charges, net | 32,919 | 15,933 | 7,015 |
| Operating income | 666,613 | 630,659 | 571,143 |
| Interest expense | (185,843) | (181,556) | (169,125) |
| Losses on early extinguishment of debt, net | (16,637) | (10,131) | (274) |
| Other income (expense), net | 299 | 2,760 | (1,486) |
| Income before income taxes | 464,432 | 441,732 | 400,258 |
| (Provision for) benefit from income taxes | (94,661) | 5,826 | 146,589 |
| Net income | 369,771 | 447,558 | 546,847 |
| Net income attributable to noncontrolling interests | (175) | (350) | (184) |
| Net income attributable to common stockholders | $ 369,596 | $ 447,208 | $ 546,663 |
| Basic earnings per share: | | | |
| Net income attributable to common stockholders | $ 2.03 | $ 2.45 | $ 2.91 |
| Basic weighted average number of shares | 182,246 | 182,447 | 187,630 |
| Diluted earnings per share: | | | |
| Net income attributable to common stockholders | $ 1.99 | $ 2.39 | $ 2.84 |
| Diluted weighted average number of shares | 185,523 | 186,972 | 192,246 |

(See notes to consolidated financial statements)

# Service Corporation International
# Consolidated Statement of Comprehensive Income

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (In thousands) | | |
| Net income | $ 369,771 | $ 447,558 | $ 546,847 |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments | 16,470 | (28,478) | 25,462 |
| Total comprehensive income | 386,241 | 419,080 | 572,309 |
| Total comprehensive income attributable to noncontrolling interests | (176) | (191) | (195) |
| Total comprehensive income attributable to common stockholders | $ 386,065 | $ 418,889 | $ 572,114 |

(See notes to consolidated financial statements)

# Service Corporation International
# Consolidated Balance Sheet

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands, except share amounts) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 186,276 | $ 198,850 |
| Receivables, net | 81,671 | 73,825 |
| Inventories | 25,118 | 24,950 |
| Other | 80,488 | 33,607 |
| Total current assets | 373,553 | 331,232 |
| Preneed receivables, net and trust investments | 4,789,562 | 4,271,392 |
| Cemetery property | 1,873,602 | 1,837,464 |
| Property and equipment, net | 2,065,433 | 1,977,364 |
| Goodwill | 1,864,223 | 1,863,842 |
| Deferred charges and other assets | 1,029,908 | 934,151 |
| Cemetery perpetual care trust investments | 1,681,149 | 1,477,798 |
| Total assets | $ 13,677,430 | $ 12,693,243 |
| **LIABILITIES & EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 478,545 | $ 479,768 |
| Current maturities of long-term debt | 69,821 | 69,896 |
| Income taxes payable | 8,353 | 5,936 |
| Total current liabilities | 556,719 | 555,600 |
| Long-term debt | 3,513,530 | 3,532,182 |
| Deferred revenue, net | 1,467,103 | 1,418,814 |
| Deferred tax liability | 421,482 | 404,627 |
| Other liabilities | 378,074 | 297,302 |
| Deferred receipts held in trust | 3,839,376 | 3,371,738 |
| Care trusts' corpus | 1,677,891 | 1,471,165 |
| Commitments and contingencies (Note 9) | | |
| Equity: | | |
| Common stock, $1 per share par value, 500,000,000 shares authorized, 185,100,789 and 184,720,582 shares issued, respectively, and 181,184,963 and 181,470,582 shares outstanding, respectively | 181,185 | 181,471 |
| Capital in excess of par value | 1,010,361 | 972,710 |
| Retained earnings | 601,903 | 474,327 |
| Accumulated other comprehensive income | 29,864 | 13,395 |
| Total common stockholders' equity | 1,823,313 | 1,641,903 |
| Noncontrolling interests | (58) | (88) |
| Total equity | 1,823,255 | 1,641,815 |
| Total liabilities and equity | $ 13,677,430 | $ 12,693,243 |

(See notes to consolidated financial statements)

# Service Corporation International
# Consolidated Statement of Cash Flows

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| **Cash flows from operating activities:** | | | |
| Net income | $ 369,771 | $ 447,558 | $ 546,847 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Losses on early extinguishment of debt, net | 16,637 | 10,131 | 274 |
| Depreciation and amortization | 151,000 | 153,650 | 153,141 |
| Amortization of intangibles | 25,649 | 26,195 | 27,650 |
| Amortization of cemetery property | 70,330 | 68,640 | 68,102 |
| Amortization of loan costs | 5,681 | 6,059 | 5,859 |
| Provision for doubtful accounts | 9,146 | 8,372 | 9,980 |
| Provision for (benefits from) deferred income taxes | 23,030 | (41,479) | (317,838) |
| Gains on divestitures and impairment charges, net | (32,919) | (15,933) | (7,015) |
| Gain on sale of investments | — | (2,636) | — |
| Share-based compensation | 15,029 | 15,626 | 14,788 |
| Change in assets and liabilities, net of effects from acquisitions and dispositions: | | | |
| Increase (decrease) in receivables | (12,711) | 8,052 | (9,740) |
| Increase in other assets | (23,018) | (4,814) | (14,353) |
| Increase (decrease) in payables and other liabilities | 1,788 | (16,699) | 81,763 |
| Effect of preneed sales production and maturities: | | | |
| Increase in preneed receivables, net and trust investments | (16,144) | (55,607) | (63,994) |
| Increase in deferred revenue, net | 67,792 | 28,005 | 31,182 |
| Decrease in deferred receipts held in trust | (42,306) | (19,290) | (23,274) |
| Net cash provided by operating activities | 628,755 | 615,830 | 503,372 |
| **Cash flows from investing activities:** | | | |
| Capital expenditures | (239,957) | (235,545) | (214,501) |
| Business acquisitions, net of cash acquired | (55,644) | (176,252) | (64,652) |
| Real estate acquisitions | (51,373) | (18,572) | (11,519) |
| Proceeds from divestitures and sales of property and equipment | 77,074 | 37,309 | 52,381 |
| Proceeds from sale of investments | — | 2,900 | — |
| Payments for Company-owned life insurance policies | (9,026) | (14,760) | (7,360) |
| Proceeds from Company-owned life insurance policies | — | 4,824 | 2,592 |
| Purchase of corporate land and other | 415 | (14,525) | 175 |
| Net cash used in investing activities | (278,511) | (414,621) | (242,884) |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of long-term debt | 1,149,263 | 396,349 | 1,787,500 |
| Debt issuance costs | (15,539) | — | (12,939) |
| Scheduled payments of debt | (25,471) | (34,134) | (468,973) |
| Early payments of debt | (1,164,978) | (259,590) | (1,117,512) |
| Principal payments on finance leases | (42,627) | (39,686) | (51,106) |
| Proceeds from exercise of stock options | 40,922 | 24,517 | 33,611 |
| Purchase of Company common stock | (129,589) | (277,611) | (199,637) |
| Payments of dividends | (131,402) | (123,849) | (108,750) |
| Purchase of noncontrolling interest | — | — | (4,580) |
| Bank overdrafts and other | 328 | (15,177) | 5,959 |
| Net cash used in financing activities | (319,093) | (329,181) | (136,427) |
| Effect of foreign currency | 3,885 | (5,045) | 5,034 |
| Net (decrease) increase in cash, cash equivalents, and restricted cash | 35,036 | (133,017) | 129,095 |
| Cash, cash equivalents, and restricted cash at beginning of period | 207,584 | 340,601 | 211,506 |
| Cash, cash equivalents, and restricted cash at end of period | $ 242,620 | $ 207,584 | $ 340,601 |

(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, 2016 | $ 195,403 | $ (5,998) | $ 990,203 | $ (103,387) | $ 16,492 | $ 2,534 | $ 1,095,247 |
| 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 | $ 191,936 | $ (5,321) | $ 970,468 | $ 210,364 | $ 41,943 | $ 47 | $ 1,409,437 |
| Cumulative effect of accounting changes | — | — | — | 172,461 | (229) | — | 172,232 |
| Comprehensive income | — | — | — | 447,208 | (28,319) | 191 | 419,080 |
| Dividends declared on common stock ($.68 per share) | — | — | — | (123,849) | — | — | (123,849) |
| Stock option exercises | 1,802 | — | 22,715 | — | — | — | 24,517 |
| Restricted stock awards, net of forfeitures | 178 | — | (178) | — | — | — | — |
| Employee share-based compensation earned | — | — | 15,626 | — | — | — | 15,626 |
| Purchase of Company common stock | — | (7,348) | (38,404) | (231,859) | — | — | (277,611) |
| Noncontrolling interest payments | — | — | — | — | — | (326) | (326) |
| Retirement of treasury shares | (9,419) | 9,419 | — | — | — | — | — |
| Other | 224 | — | 2,483 | 2 | — | — | 2,709 |
| Balance at December 31, 2018 | $ 184,721 | $ (3,250) | $ 972,710 | $ 474,327 | $ 13,395 | $ (88) | $ 1,641,815 |
| Comprehensive income | — | — | — | 369,596 | 16,469 | 176 | 386,241 |
| Dividends declared on common stock ($.72 per share) | — | — | — | (131,402) | — | — | (131,402) |
| Stock option exercises | 2,394 | — | 38,528 | — | — | — | 40,922 |
| Restricted stock awards, net of forfeitures | 126 | — | (126) | — | — | — | — |
| Employee share-based compensation earned | — | — | 15,029 | — | — | — | 15,029 |
| Purchase of Company common stock | — | (2,909) | (16,062) | (110,618) | — | — | (129,589) |
| Noncontrolling interest payments | — | — | — | — | — | (146) | (146) |
| Retirement of treasury shares | (2,243) | 2,243 | — | — | — | — | — |
| Other | 103 | — | 282 | — | — | — | 385 |
| Balance at December 31, 2019 | $ 185,101 | $ (3,916) | $ 1,010,361 | $ 601,903 | $ 29,864 | $ (58) | $ 1,823,255 |

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

### 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 except as described below under *"Accounting Standards Adopted in 2019"*.

### Use of Estimates in the Preparation of Financial Statements

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

### Cash, Cash Equivalents, and Restricted Cash

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

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

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Cash and cash equivalents | $ 186,276 | $ 198,850 |
| Restricted cash(1): | | |
| Included in *Other current assets* | 54,293 | 7,007 |
| Included in *Deferred charges and other assets* | 2,051 | 1,727 |
| Total restricted cash | 56,344 | 8,734 |
| Total cash, cash equivalents, and restricted cash | $ 242,620 | $ 207,584 |

(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.

## 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 receivables. These allowances are based on an analysis of historical trends of collection and cancellation activity. Atneed receivables are considered past due after thirty days. Collections are generally managed by the locations or third party agencies acting on behalf of the locations, until a receivable is one hundred eighty 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 fulfillment of performance obligations on our contracts. Cemetery property amortization was $70.3 million, $68.6 million, and $68.1 million for the years ended December 31, 2019, 2018, and 2017, 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 useful lives of the assets are capitalized. Depreciation is recognized ratably over the estimated useful lives of the various classes of assets. Buildings and improvements are depreciated over a period ranging from ten years to forty years, equipment is depreciated over a period from three years to twelve years, and leasehold improvements are depreciated over the shorter of the lease term or twelve years. Depreciation and amortization expense related to property and equipment was $151.0 million, $153.7 million, and $153.1 million for the years ended December 31, 2019, 2018, and 2017, respectively. During the fourth quarter of 2018, based on a review of our historical usage patterns for similar assets, we increased our estimate of the remaining useful life of certain building improvements and equipment by one to three years. These changes in useful life, which were made prospectively, reduced depreciation expense by $12.1 million ($0.07 per basic and diluted share) in 2019 and $4.3 million ($0.02 per basic and diluted share) in 2018. When property or equipment 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 operating and finance leases. Our operating leases primarily include funeral service real estate and office equipment for funeral service locations, cemetery locations, and administrative offices. Our finance leases primarily include transportation equipment but also include real estate and office equipment. Lease terms related to real estate generally range from one year to forty years with options to renew at varying terms. Lease terms related to office and transportation equipment generally range from one year to nine years with options to renew at varying terms.

We determine whether an arrangement is or contains a lease at the inception of the arrangement based on the unique facts and circumstances present. Right-of-use (ROU) assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Leases with a term greater than one year are recognized on the balance sheet as ROU assets and lease liabilities. We have elected not to recognize on the balance sheet leases with terms of one year or less.

Lease liabilities and their corresponding ROU assets are recorded at commencement date based on the present value of lease payments over the expected lease term. For transportation equipment, we use the rate implicit in each lease to calculate the present value. For real estate and non-transportation equipment leases, the interest rate implicit in lease contracts is typically not readily determinable. Therefore, we use the appropriate collateralized incremental borrowing rate based on the information available at commencement date in determining the present value of future payments for real estate and non-transportation equipment leases. Certain adjustments to the ROU asset may be required for items such as initial direct costs paid or incentives received.

For a lessee, the discount rate for the lease is defined as the rate implicit in the lease unless that rate cannot be readily determined. In that case, the lessee is required to use its incremental borrowing rate, which is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. We use the rate implicit in each lease for vehicles and other transportation equipment, which represent 70% of our total lease liability as of December 31, 2019 and which are all finance leases. For leases of real estate and non-transportation equipment, which are primarily operating leases, we use our incremental borrowing rate since the rate implicit in these leases cannot be readily determined. To establish the incremental borrowing rate we utilize the yield to worst of our publicly traded debt securities, adjusted for the appropriate duration. A final additional adjustment is then applied based on our credit quality spread to notch the rate to secured. As an accounting policy election, we include reasonably certain renewal periods when determining the rate to use as the incremental borrowing rate for each lease.

We calculate operating lease expense ratably over the lease term plus any reasonably assured renewal periods. We consider reasonably assured renewal options and fixed escalation provisions in our calculation. Generally, our leases do not include options to terminate the lease prior to the contractual lease expiration date, but future renewal periods are generally cancelable. The majority of our contractually available renewal periods for leases of buildings and land are considered reasonably certain of being exercised. This determination is made by our real estate team based on facts and circumstances surrounding each property. Leases with a term of 12 months or less are not recorded on the balance sheet. 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. The depreciable life of assets and leasehold improvements are generally limited by the expected lease term.

Certain of our lease agreements include variable rental payments based on a percentage of sales over base contractual levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. We generally do not have sublease arrangements, sale-leaseback arrangements, or leveraged leases.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For leases commencing before January 1, 2019, we have elected the practical expedient to not separate lease and non-lease components on certain equipment leases, such as copiers where the cost-per-copy maintenance charges are included in the lease charge. On these leases, we have elected to account for the lease and non-lease components as a single component. For leases commencing on or after January 1, 2019, we account for the maintenance charges (non-lease components) separately from the lease components. 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. The income approach, which is a discounted cash flow method, 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 6.75% discount rate, revenue growth rates ranging from 1.0% to 3.7% over a seven-year period, plus a terminal value determined using the constant growth method in projecting our future cash flows. Our terminal value was calculated using a long-term revenue growth rate of 1.0% and 2.4% for our funeral and cemetery reporting units, respectively. Additionally, we used a ratio of expenses to revenue ranging from 72.2% to 80.0% and growth rates for other assumptions in our model ranging from 1.0% to 3.7%. Fair value was calculated as the sum of the projected discounted cash flows of our reporting units over the next seven years plus terminal value at the end of those seven years.

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 2019 or 2018. For more information related to goodwill, see Note 4.

## Other Intangible Assets

Our intangible assets include covenants-not-to-compete, customer relationships, trademarks and tradenames, and other intangible assets primarily resulting from acquisitions. Certain of our trademark and tradenames and other intangible assets are considered to have an indefinite life and are not subject to amortization. We test for impairment of indefinite-lived 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 2.0% to 5.0% 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 1.0% and 2.4% for our funeral and cemetery segments, respectively, and discounted the cash flows at a 6.95% discount rate based on the relative risk of these assets to our overall business.

In addition to our annual review, we assess the impairment of intangible assets whenever certain events or changes in circumstances indicate that the carrying value may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results and significant negative industry or economic trends. No interim intangible impairment reviews were required in 2019 or 2018.

Certain of our intangible assets associated with prior acquisitions are relieved using specific identification in fulfillment of performance obligations on our contracts. We amortize all other finite-lived intangible assets on a straight-line basis over their estimated useful lives, which range from two years to eighty-nine years. For more information related to intangible assets, see Note 4.

## Fair Value Measurements

We measure the 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 two to ten 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 investments in fixed income instruments for other-than-temporary declines in fair value on a quarterly basis. Prior to our adoption of the new guidance on financial instruments discussed below in "Accounting Standards Adopted in 2019", we also assessed our investments in equity instruments for other-than temporary declines in fair value on a quarterly basis. Impairment charges resulting from these assessments 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), net*, related to *Deferred receipts held in trust*, for the years ended December 31, 2019 and 2018. We recorded no impairment charge for other-than-temporary declines in fair value related to fixed income investments for the years ended December 31, 2019 and 2018.

## 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 2.2 million, 9.4 million, and 6.9 million shares of common stock held in our treasury in 2019, 2018, and 2017, 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 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 control of the merchandise or services is transferred to the customer. Our performance obligations include the delivery of funeral and cemetery merchandise and services and cemetery property interment rights. Control transfers when merchandise is delivered or services are performed. For cemetery property interment rights, control transfers to the customer when the property is developed and the interment right has been sold and can no longer be marketed or sold to another customer. Sales taxes collected are recognized on a net basis in our consolidated financial statements.

On our atneed contracts, we generally deliver the merchandise and perform the services at the time of need. Personalized marker merchandise and marker installation services sold on atneed contracts are recognized when control is transferred to the customer, generally when the marker is delivered and installed in the cemetery.

We also 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 control of the merchandise or the services is transferred to the customer, which is upon delivery of the merchandise or as services are performed, generally at the time of need. On certain preneed contracts, we sell memorialization merchandise, which consists of urns and urn-related products, that we deliver to the customer at the time of sale. Revenue is recognized at the time of delivery when control of the memorialization merchandise is transferred.

For personalized marker merchandise sold on a preneed contract, we will:

- purchase the merchandise from vendors,
- personalize such merchandise in accordance with the customer's specific written instructions,
- either store the merchandise at a third-party bonded storage facility or install the merchandise, based on the customer's instructions, and
- transfer title to the customer.

We recognize revenue and record the cost of sales when control is transferred for the merchandise, which occurs upon delivery to the third-party storage facility or installation of the merchandise at the cemetery.

There is no general right of return for delivered items.

We also sell travel protection as an agent of a third party. Travel protection is a service 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. We do not provide travel protection services, and we are not primarily obligated to provide such services under these arrangements. Therefore, we record revenues, net of amounts due to the third-party, at the time of sale.

Total consideration received for price-guaranteed preneed and for atneed contracts with customers represents the stated amount of the contract excluding any amounts collected on behalf of third parties, such as sales taxes. Additionally, 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. Earnings on these trust funds, which are specifically identifiable for each performance obligation, are also included in total consideration.

The total consideration received for contracts with customers is allocated to each performance obligation based on relative selling price. Relative selling prices are determined by either the amount we sell the performance obligation for on a stand-alone basis or our best estimate of the amount we would sell it for based on an adjusted market assessment approach that is consistent with our historical pricing practices.

Payment on atneed contracts is generally due at the time the merchandise is delivered or the services are performed. For preneed contracts, payment generally occurs prior to our fulfillment of the performance obligations. Our preneed contracts may also have extended payment terms with associated financing charges. We do not accrue interest on preneed receivables if they are not paid in accordance with the contractual payment terms 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 preneed 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 thirty days. For unfulfilled performance obligations on cancelable preneed contracts, our Consolidated Balance Sheet reflects the net contract liability, which represents the amount we have collected from customers, in *Deferred revenue, net*.

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, net* into *Deferred receipts held in trust*. Amounts are withdrawn from the merchandise and service trusts when we fulfill the performance obligations. Earnings on these trust funds, which are specifically identifiable for each performance obligation, are also included in total consideration. We defer these investment earnings related to the 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.

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. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract. We recognize these retained funds, if any, and 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 refundable to the customer exceeds the funds in trust.

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 by us to maintain the cemetery. This portion of the proceeds is not recognized as revenue. Investment earnings from these trusts are distributed to us regularly and recognized in current cemetery revenue. These distributions are intended to defray cemetery maintenance costs incurred by us for our cemetery properties, which are expensed as incurred. The principal of such perpetual care trust funds generally cannot be withdrawn; however, in lieu of the distribution of realized income, certain states allow a total return distribution which may contain elements of income, capital appreciation, and principal.

Costs related to delivery or performance of merchandise and services are charged to expense when merchandise is delivered or services are performed. Costs related to property interment rights include the property and construction costs specifically identified by each project. Property and construction costs are charged to expense when the revenue is recognized by specific identification in the fulfillment of the performance obligation. Incremental direct selling costs are deferred until fulfillment of the performance obligations. These deferred costs are classified as long-term on our Consolidated Balance sheet because we do not control the timing of the delivery of the merchandise or performance of the services as they are generally provided at the time of need. For the years ended December 31, 2019 and 2018, we recognized $174.7 million and $180.1 million, respectively, of incremental selling costs. All other selling costs are expensed as incurred.

The components of *Cost of revenue* in our Consolidated Statement of Operations are:

- *Cost of property and merchandise*, which includes cemetery property amortization, the direct cost of merchandise, labor-related costs for merchandise handling and delivery, cemetery maintenance expenses and depreciation, and selling costs;

- *Cost of services*, which includes the direct cost of providing the services (including labor-related costs), cemetery maintenance expenses and depreciation, vehicle operating costs and depreciation, and selling costs; and

- *Overhead and other expenses*, which includes labor-related costs, facility expenses and depreciation, and other general and administrative expenses incurred in our funeral and cemetery operations.

*Corporate general and administrative expenses* include labor-related costs, corporate asset depreciation and amortization, public company costs, and other general and administrative expenses incurred by our corporate functions.

## Insurance-Funded Preneed Contracts

Where permitted by state or provincial law, we may sell a life insurance or annuity policy from third-party insurance companies, for which we earn a commission as general sales agent for the insurance company. These general agency commissions (GA revenue) are based on a percentage per contract sold and are recognized as funeral revenue when the insurance purchase transaction between the preneed purchaser and third-party insurance provider is completed. All selling costs incurred pursuant to the sale of insurance-funded preneed contracts are expensed as incurred. GA revenue recognized in 2019, 2018, and 2017 was $139.7 million, $134.1 million, and $121.0 million, respectively.

We do not reflect the unfulfilled insurance-funded preneed contract amounts in our Consolidated Balance Sheet. The policy amount of the insurance contract between the customer and the third-party insurance company generally equals the amount of the preneed contract. The policyholder has made a revocable commitment to assign the proceeds from the policy to us at the time of need. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenue as we perform these funerals.

## 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 made 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.

On December 22, 2017, 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 provided a measurement period of up to 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. During 2018, we identified and recorded discrete adjustments to the provisional amounts allowed under SAB 118. The accounting for the income tax effects of the Tax Act was completed in the fourth quarter of 2018. 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 2019

### Leases

In February 2016 and in January, July, and December 2018, the Financial Accounting Standards Board (FASB) issued and amended new guidance on "Leases" to increase transparency and comparability among organizations. Under the new guidance, we are required to recognize right-of-use (ROU) lease assets and liabilities on our balance sheet and disclose key information about leasing arrangements. In addition, the new guidance offers specific accounting considerations for lessees, lessors, 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.

We adopted the new guidance on January 1, 2019 using the modified retrospective transition method. As a result of the adoption, we recorded:

- a $0.7 million reclass from *Other current assets* to *Accounts payable and accrued liabilities* for prepaid operating lease expenses,
- a $2.7 million reclass from *Accounts payable and accrued liabilities* to *Deferred charges and other assets* for accrued operating lease expenses,
- a $62.6 million increase to *Deferred charges and other assets* for operating lease right-of-use assets, and
- a $9.4 million and $53.2 million increase to *Accounts payable and accrued liabilities* and *Other liabilities*, respectively, for operating lease liabilities.

The modified retrospective transition method includes a number of optional practical expedients and accounting policy elections:

1. We elected a package of practical expedients to not reassess:
   - whether a contract is or contains a lease,
   - lease classification, or
   - initial direct costs.
2. We did not elect a practical expedient to use hindsight when determining lease term.
3. We elected the short-term lease recognition exemption.
4. The remaining practical expedients do not apply or do not have a material impact.

We established a project team to implement the new guidance. We implemented a new enterprise-wide lease management system in the form of a pre-configured cloud-based application to support the adoption and ongoing lease requirements under the new guidance. This system serves as a lease database to manage our lease inventory centrally and ensure completeness of our lease inventory. The system also produces accounting entries and financial reporting disclosures required under the new guidance and provides lease activity business intelligence reporting. We thoroughly tested the new system to ensure it produces accurate data to prepare the required accounting entries and disclosures under the new guidance upon adoption and on an ongoing basis. We evaluated and implemented additional changes to our processes and internal controls to facilitate adoption on January 1, 2019 and to meet the standard's ongoing reporting and disclosure requirements.

Our current operating lease portfolio is primarily composed of real estate and equipment. As a result of the adoption, we recognized ROU assets and lease liabilities related to substantially all operating lease arrangements. The adoption of "Leases" did not have an impact on our consolidated results of operations or cash flows. We made the required enhanced lease-related disclosures above and in Note 8 of this Form 10-K.

### Internal Use Software

In August 2018, the FASB amended "Internal Use Software" to align the requirements for capitalizing implementation costs incurred in a hosting arrangement for software-as-a-service with the requirements for capitalizing those costs in a hosting arrangement that includes a software license. Costs for implementation activities in the application development stage are capitalized, depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed. Any capitalized costs are amortized over the term of the hosting arrangement. Cash payments for the implementation costs, whether capitalized or not, are presented as operating outflows as that is consistent with the presentation of the fees in the hosting arrangement. We adopted the new guidance on a prospective basis to implementation costs incurred after January 1, 2019 with an immaterial impact on our consolidated results of operations and consolidated financial position and no impact on cash flows.

## Recently Issued Accounting Standards

### 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. During November 2018 and April 2019, the FASB made amendments to the new standard that clarified guidance on several matters, including accrued interest, recoveries, and various codification improvements. The new standard, as amended, 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 support credit loss estimates.

We established an implementation team and began analyzing the impact on our current policies and procedures to identify potential differences that would result from applying the requirements of the new standard. The implementation team reported findings and progress of the project to management on a frequent basis. Through this process, we have identified appropriate changes to our processes, systems, and controls to support recognition and disclosure under the new standard.

During 2019, we evaluated the potential changes from adopting the new standard on our future reporting and disclosures. We made changes to our methodology, data/input gathering, and validation to accommodate recognition and disclosure requirements under the new standard. Finally, we identified and designed additional controls around new processes resulting from the new standard. The new standard is effective for us in the first quarter of 2020 and we will adopt it using a modified retrospective approach, except for investments in debt securities, which will utilize a prospective approach. We are still evaluating the impact of the new standard 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. The 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 of the reporting unit. The new standard is effective for us in the first quarter of 2020 and is not expected to have an impact on our consolidated results of operations, consolidated financial position, and cash flows.

### Fair Value Measurements

In August 2018, the FASB amended *"Fair Value Measurements"* to modify the disclosure requirements related to fair value. The amendment removes requirements to disclose (1) the amount of and reasons for transfers between levels 1 and 2 of the fair value hierarchy, (2) our policy related to the timing of transfers between levels, and (3) the valuation processes used in level 3 measurements. It clarifies that, for investments measured at net asset value, disclosure of liquidation timing is only required if the investee has communicated the timing either to us or publicly. It also clarifies that the narrative disclosure of the effect of changes in level 3 inputs should be based on changes that could occur at the reporting date. The amendment adds a requirement to disclose the range and weighted average of significant unobservable inputs used in level 3 measurements. The guidance is effective for us with our quarterly filing for the period ended March 31, 2020, and we will make the required disclosure changes in that filing. Adoption will not have an impact on our consolidated results of operations, consolidated financial position, and cash flows.

### Retirement Plans

In August 2018, the FASB amended *"Retirement Plans"* to modify the disclosure requirements for defined benefit plans. For us, the amendment requires the disclosure of the weighted average interest crediting rate used for cash balance plans and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. It removes the requirement to disclose the approximate amount of future benefits covered by insurance contracts. The guidance is effective for us with our annual filing for the year ended December 31, 2020, and we will make the required disclosure changes in that filing. Adoption will not have an 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 were as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Preneed funeral receivables | $ 130,971 | $ 107,612 |
| Preneed cemetery receivables | 922,171 | 883,432 |
| Preneed receivables from customers | 1,053,142 | 991,044 |
| Unearned finance charge | (50,570) | (44,981) |
| Allowance for cancellation | (55,340) | (48,380) |
| Preneed receivables, net | 947,232 | 897,683 |
| Trust investments, at market | 5,258,319 | 4,585,720 |
| Insurance-backed fixed income securities and other | 265,160 | 265,787 |
| Trust investments | 5,523,479 | 4,851,507 |
| Less: Cemetery perpetual care trust investments | (1,681,149) | (1,477,798) |
| Preneed trust investments | 3,842,330 | 3,373,709 |
| *Preneed receivables, net and trust investments* | $ 4,789,562 | $ 4,271,392 |

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| Deposits | $ 421,460 | $ 393,523 | $ 371,234 |
| Withdrawals | $ 435,344 | $ 432,822 | $ 415,283 |
| Purchases of securities | $ 1,596,698 | $ 1,540,093 | $ 2,057,348 |
| Sales of securities | $ 1,495,733 | $ 1,564,968 | $ 1,999,918 |
| Realized gains from sales of securities[1] | $ 241,661 | $ 305,595 | $ 256,413 |
| Realized losses from sales of securities[1] | $ (121,272) | $ (77,996) | $ (76,963) |

(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.*

The activity in *Preneed receivables, net and trust investments* was as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| Beginning balance - *Preneed receivables, net and trust investments* | $ 4,271,392 | $ 4,778,842 | $ 4,305,165 |
| Net preneed contract sales | 1,372,705 | 1,325,134 | 1,257,288 |
| Cash receipts from customers, net of refunds | (1,280,468) | (1,185,717) | (1,109,380) |
| Deposits to trust | 372,644 | 347,601 | 328,241 |
| Acquisitions of businesses, net | 11,751 | 134,729 | 8,153 |
| Net undistributed investment earnings (losses) [1] | 489,577 | (191,611) | 384,512 |
| Maturities and distributed earnings | (442,507) | (433,036) | (411,452) |
| Change in cancellation allowance | (2,006) | 62,131 | (528) |
| Change in amounts due on unfulfilled performance obligations | (10,223) | (546,554) | — |
| Effect of foreign currency and other | 6,697 | (20,127) | 16,843 |
| Ending balance - *Preneed receivables, net and trust investments* | $ 4,789,562 | $ 4,271,392 | $ 4,778,842 |

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

The cost and market values associated with trust investments recorded at market value at December 31, 2019 and 2018 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Fair value represents the value of the underlying securities held by the trusts.

| | | December 31, 2019 | | | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy Level | Cost | Unrealized Gains | Unrealized Losses | Value |
| | | | (In thousands) | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $ 49,728 | $ 752 | $ (130) | $ 50,350 |
| Canadian government | 2 | 41,093 | 76 | (850) | 40,319 |
| Corporate | 2 | 9,694 | 28 | (172) | 9,550 |
| Residential mortgage-backed | 2 | 3,210 | 59 | (1) | 3,268 |
| Asset-backed | 2 | 129 | 3 | (4) | 128 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 6,338 | 804 | (115) | 7,027 |
| Common stock: | | | | | |
| United States | 1 | 1,349,828 | 303,766 | (36,507) | 1,617,087 |
| Canada | 1 | 43,866 | 12,369 | (2,075) | 54,160 |
| Other international | 1 | 95,257 | 18,227 | (522) | 112,962 |
| Mutual funds: | | | | | |
| Equity | 1 | 746,581 | 31,511 | (54,020) | 724,072 |
| Fixed income | 1 | 1,247,930 | 16,424 | (32,587) | 1,231,767 |
| Other | 3 | 7,034 | 1,184 | — | 8,218 |
| Trust investments, at fair value | | 3,600,688 | 385,203 | (126,983) | 3,858,908 |
| Commingled funds | | | | | |
| Fixed income | | 444,744 | 5,077 | (1,731) | 448,090 |
| Equity | | 249,980 | 47,631 | — | 297,611 |
| Money market funds | | 397,461 | — | — | 397,461 |
| Private equity | | 176,388 | 80,283 | (422) | 256,249 |
| Trust investments, at net asset value | | 1,268,573 | 132,991 | (2,153) | 1,399,411 |
| Trust investments, at market | | $ 4,869,261 | $ 518,194 | $ (129,136) | $ 5,258,319 |

| | Fair Value Hierarchy Level | December 31, 2018 Cost | Unrealized Gains | Unrealized Losses | Value |
|---|---|---|---|---|---|
| | | (In thousands) | | | |
| Fixed income securities: | | | | | |
| U.S. Treasury | 2 | $ 49,187 | $ 153 | $ (448) | $ 48,892 |
| Canadian government | 2 | 56,343 | 23 | (1,797) | 54,569 |
| Corporate | 2 | 19,869 | 13 | (516) | 19,366 |
| Residential mortgage-backed | 2 | 3,611 | 10 | (50) | 3,571 |
| Asset-backed | 2 | 142 | 2 | (11) | 133 |
| Equity securities: | | | | | |
| Preferred stock | 2 | 9,058 | 180 | (412) | 8,826 |
| Common stock: | | | | | |
| United States | 1 | 1,236,513 | 149,233 | (138,141) | 1,247,605 |
| Canada | 1 | 34,821 | 9,082 | (3,026) | 40,877 |
| Other international | 1 | 77,676 | 6,057 | (10,275) | 73,458 |
| Mutual funds: | | | | | |
| Equity | 1 | 760,887 | 7,104 | (151,853) | 616,138 |
| Fixed income | 1 | 1,180,325 | 800 | (89,179) | 1,091,946 |
| Other | 3 | 6,548 | 3,210 | (3) | 9,755 |
| Trust investments, at fair value | | 3,434,980 | 175,867 | (395,711) | 3,215,136 |
| Commingled funds | | | | | |
| Fixed income | | 419,206 | 2,419 | (18,981) | 402,644 |
| Equity | | 205,789 | 19,567 | (11,723) | 213,633 |
| Money market funds | | 466,429 | — | — | 466,429 |
| Private equity | | 215,618 | 72,897 | (637) | 287,878 |
| Trust investments, at net asset value | | 1,307,042 | 94,883 | (31,341) | 1,370,584 |
| Trust investments, at market | | $ 4,742,022 | $ 270,750 | $ (427,052) | $ 4,585,720 |

As of December 31, 2019, our unfunded commitment for our private equity investments was $134.9 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:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| Fair value, beginning balance at January 1 | $ 9,755 | $ 9,067 | $ 7,163 |
| Net realized and unrealized (losses) gains included in *Other income (expense), net*[(1)] | (761) | (697) | 912 |
| Purchases | 1,006 | 66 | 1,945 |
| Sales | (1,782) | (26) | (953) |
| Acquisitions, net | — | 1,345 | — |
| Fair value, ending balance at December 31 | $ 8,218 | $ 9,755 | $ 9,067 |

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

Maturity dates of our fixed income securities range from 2020 to 2040. Maturities of fixed income securities (excluding mutual funds) at December 31, 2019 are estimated as follows:

| | Fair Value |
|---|---|
| | (In thousands) |
| Due in one year or less | $ 58,452 |
| Due in one to five years | 36,994 |
| Due in five to ten years | 8,038 |
| Thereafter | 131 |
| Total estimated maturities of fixed income securities | $ 103,615 |

Recognized trust fund income (realized and unrealized) related to our preneed trust investments was $119.0 million, $121.7 million, and $112.6 million for the years ended December 31, 2019, 2018, and 2017, respectively. Recognized trust fund income (realized and unrealized) related to our cemetery perpetual care trust investments was $77.5 million, $74.7 million, and $62.9 million for the years ended December 31, 2019, 2018, and 2017, respectively.

We have determined that the unrealized losses in our fixed income trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates. 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 credit ratings and the severity and duration of the unrealized losses. Our fixed income investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2019 and 2018, are shown in the following tables:

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 3,023 | $ (36) | $ 1,947 | $ (94) | $ 4,970 | $ (130) |
| Canadian government | — | — | 13,804 | (850) | 13,804 | (850) |
| Corporate | 30 | — | 4,826 | (172) | 4,856 | (172) |
| Residential mortgage-backed | — | — | 51 | (1) | 51 | (1) |
| Asset-backed | — | — | 28 | (4) | 28 | (4) |
| Total fixed income temporarily impaired securities | $ 3,053 | $ (36) | $ 20,656 | $ (1,121) | $ 23,709 | $ (1,157) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 6,899 | $ (226) | $ 16,374 | $ (222) | $ 23,273 | $ (448) |
| Canadian government | 2,254 | (9) | 25,330 | (1,788) | 27,584 | (1,797) |
| Corporate | 11,579 | (206) | 6,563 | (310) | 18,142 | (516) |
| Residential mortgage-backed | 351 | (4) | 3,010 | (46) | 3,361 | (50) |
| Asset-backed | — | — | 79 | (11) | 79 | (11) |
| Total fixed income temporarily impaired securities | $ 21,083 | $ (445) | $ 51,356 | $ (2,377) | $ 72,439 | $ (2,822) |

## Deferred revenue, net

At December 31, 2019 and 2018, *Deferred revenue, net* represents future revenue, including distributed trust investment earnings associated with unperformed trust-funded preneed contracts that are not held in trust accounts. Future revenue and net trust investment earnings that are held in trust accounts are included in *Deferred receipts held in trust*.

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

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Deferred revenue | $ 2,046,000 | $ 1,989,232 |
| Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts [1] | (578,897) | (570,418) |
| *Deferred revenue, net* | $ 1,467,103 | $ 1,418,814 |

[1] Prior to adoption of *"Revenue from Contracts with Customers"* on January 1, 2018, amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts were included in *Preneed receivables, net and trust investments*.

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

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Beginning balance — *Deferred revenue, net* and *Deferred receipts held in trust* | $ 4,790,552 | $ 5,265,206 |
| Cumulative effect of accounting changes | — | 37,991 |
| Net preneed contract sales | 984,575 | 977,378 |
| (Dispositions) acquisitions of businesses, net | (12,741) | 159,560 |
| Net investment gains (losses)[1] | 484,577 | (195,051) |
| Recognized revenue from backlog [2] | (368,908) | (381,041) |
| Recognized revenue from current period sales | (573,804) | (572,428) |
| Change in amounts due on unfulfilled performance obligations | (10,223) | (546,554) |
| Change in cancellation reserve | 1,066 | 65,817 |
| Effect of foreign currency and other | 11,385 | (20,326) |
| Ending balance — *Deferred revenue, net* and *Deferred receipts held in trust* | $ 5,306,479 | $ 4,790,552 |

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

[2] Includes current year trust fund income through the date of performance.

The following table summarizes the activity in *Deferred revenue, net*:

| | Year Ended December 31, 2017 |
|---|---|
| | (In thousands) |
| Beginning balance — *Deferred revenue, net* | $ 1,731,417 |
| Net preneed contract sales | 900,037 |
| Acquisitions of businesses, net | 10,488 |
| Net investment earnings (1) | 381,436 |
| Recognized revenue | (876,857) |
| Change in cancellation allowance | (165) |
| Change in deferred receipts held in trust | (361,499) |
| Effect of foreign currency and other | 4,919 |
| Ending balance — *Deferred revenue, net* | $ 1,789,776 |

(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:

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Funeral | Cemetery | Total | Funeral | Cemetery | Total |
| | (In thousands) | | | | | |
| Beginning balance — *Goodwill* | $ 1,528,407 | $ 335,435 | $ 1,863,842 | $ 1,499,741 | $ 306,240 | $ 1,805,981 |
| Increase (decrease) in goodwill related to acquisitions (1) | 7,458 | (6,003) | 1,455 | 38,976 | 29,219 | 68,195 |
| Reduction of goodwill related to divestitures | (5,003) | (487) | (5,490) | (2,183) | (24) | (2,207) |
| Effect of foreign currency | 4,416 | — | 4,416 | (8,127) | — | (8,127) |
| Activity | 6,871 | (6,490) | 381 | 28,666 | 29,195 | 57,861 |
| Ending balance — *Goodwill* | $ 1,535,278 | $ 328,945 | $ 1,864,223 | $ 1,528,407 | $ 335,435 | $ 1,863,842 |

(1) Also includes adjustments within the remeasurement period related to acquisitions.

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

| | Useful Life | | | |
|---|---|---|---|---|
| | Minimum | Maximum | 2019 | 2018 |
| | (Years) | | (In thousands) | |
| Amortizing intangibles: | | | | |
| Covenants-not-to-compete | 2 - | 20 | $ 216,646 | $ 215,424 |
| Customer relationships | 10 - | 20 | 149,479 | 158,347 |
| Tradenames | 5 - | 89 | 7,000 | 16,150 |
| Other | 5 - | 89 | 26,927 | 25,103 |
| | | | 400,052 | 415,024 |
| Less: accumulated amortization: | | | | |
| Covenants-not-to-compete | | | 198,610 | 195,536 |
| Customer relationships | | | 83,047 | 75,199 |
| Tradenames | | | 123 | 9,194 |
| Other | | | 8,067 | 5,504 |
| | | | 289,847 | 285,433 |
| Amortizing intangibles, net | | | 110,205 | 129,591 |
| Non-amortizing intangibles: | | | | |
| Tradenames | | Indefinite | 310,197 | 293,474 |
| Other | | Indefinite | 10,765 | 10,765 |
| Non-amortizing intangibles | | | 320,962 | 304,239 |
| Intangible assets, net — included in *Deferred charges and other assets* | | | $ 431,167 | $ 433,830 |

As part of our annual recoverability testing process during 2019, we recognized $3.4 million of impairment on tradenames. Amortization expense for intangible assets was $25.6 million, $26.2 million, and $27.7 million for the years ended December 31, 2019, 2018, and 2017, 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 fulfillment of performance obligation on our preneed contracts, for the five years subsequent to December 31, 2019 (in thousands):

| | |
|---|---|
| 2020 | $ 7,239 |
| 2021 | 7,140 |
| 2022 | 5,975 |
| 2023 | 5,584 |
| 2024 | 5,439 |
| Total estimated amortization expense | $ 31,377 |

## 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 made 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 reduced the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018.

In accordance with SAB 118, we recognized a provisional $146.2 million net tax benefit related to deemed repatriated earnings and the remeasurement of deferred tax assets and liabilities in our consolidated financial statements for the year ended December 31, 2017. During 2018, we recognized a net $16.1 million discrete tax benefit for adjustments to the provisional tax amounts allowed under SAB 118. The accounting for the income tax effects of the Tax Act was finalized in the fourth quarter of 2018 based on the regulatory guidance, interpretations, and data available as of December 31, 2018.

As of December 31, 2019, foreign withholding taxes have not been provided on the estimated $259.8 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 $13.4 million.

Beginning in 2018, the Tax Act includes a new U.S. tax base erosion provision designed to tax global intangible low-taxed income (“GILTI”). We made a policy election to account for GILTI as a period cost. However, the tax impacts of GILTI provisions are not material to our consolidated financial statements.

Income before income taxes was composed of the following components:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| United States | $ 441,579 | $ 399,123 | $ 347,680 |
| Foreign | 22,853 | 42,609 | 52,578 |
| | $ 464,432 | $ 441,732 | $ 400,258 |

Income tax provision (benefit) consisted of the following:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| Current: | | | |
| United States | $ 51,664 | $ 18,138 | $ 154,128 |
| Foreign | 7,059 | 10,541 | 12,187 |
| State | 12,908 | 6,974 | 4,934 |
| Total current income taxes | 71,631 | 35,653 | 171,249 |
| Deferred: | | | |
| United States | $ 12,973 | $ (48,565) | $ (314,389) |
| Foreign | (571) | 386 | 618 |
| State | 10,628 | 6,700 | (4,067) |
| Total deferred income taxes | 23,030 | (41,479) | (317,838) |
| Total income taxes | $ 94,661 | $ (5,826) | $ (146,589) |

We made income tax payments of $70.6 million, $65.4 million, and $170.2 million in 2019, 2018, and 2017, respectively, and received refunds of $4.7 million, $11.4 million, and $3.4 million, respectively. The income tax payments for 2017 include$34.2 million in settlement payments to the IRS.

The differences between the U.S. federal statutory income tax rate and our effective tax rate were as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| Computed tax provision at the applicable federal statutory income tax rate | $ 97,531 | $ 92,764 | $ 140,090 |
| State and local taxes, net of federal income tax benefits | 20,081 | 10,146 | 8,216 |
| Foreign jurisdiction differences | 1,646 | 2,377 | (6,782) |
| Permanent differences associated with divestitures | 1,288 | 790 | 1,925 |
| Changes in uncertain tax positions and audit settlements | (9,842) | (88,687) | (105,821) |
| Foreign valuation allowance, net of federal income tax benefits | 43 | (431) | 1,186 |
| Enactment of U.S. Tax Act | — | (16,105) | (146,160) |
| Excess tax benefit from share-based compensation | (13,868) | (11,159) | (18,521) |
| Other | (2,218) | 4,479 | (20,722) |
| Provision (benefit from) for income taxes | $ 94,661 | $ (5,826) | $ (146,589) |
| Total consolidated effective tax rate | 20.4% | (1.3)% | (36.6)% |

The effective tax rate for the twelve months ended December 31, 2019 was lower than the federal statutory tax rate of 21% primarily due to the reduction in tax liability as a result of the expiration of statute of limitations and higher excess tax benefits on the increased exercises of stock options, The effective tax rate for the twelve months ended December 31, 2018 was lower than the federal statutory tax rate of 21% primarily due to the reduction in uncertain tax positions as a result of the expiration of statutes of limitations. 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 IRS audit settlement.

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 consisted of the following:

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Inventories and cemetery property | $ (212,498) | $ (220,537) |
| Deferred incremental direct selling costs | (76,692) | (73,696) |
| Property and equipment | (139,548) | (122,281) |
| Intangibles | (199,906) | (197,815) |
| Other | (1,893) | — |
| Deferred tax liabilities | (630,537) | (614,329) |
| Loss and tax credit carryforwards | 143,391 | 153,688 |
| Deferred revenue on preneed funeral and cemetery contracts | 113,171 | 113,970 |
| Accrued liabilities | 67,489 | 63,558 |
| Other | — | 90 |
| Deferred tax assets | 324,051 | 331,306 |
| Less: valuation allowance | (114,331) | (120,931) |
| Net deferred income tax liability | $ (420,817) | $ (403,954) |

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

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Non-current deferred tax assets | $ 665 | $ 673 |
| Non-current deferred tax liabilities | (421,482) | (404,627) |
| Net deferred income tax liability | $ (420,817) | $ (403,954) |

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2017 to December 31, 2019 (in thousands):

| | Federal, State, and Foreign Tax |
|---|---|
| | (In thousands) |
| 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 | $ 79,455 |
| Additions to tax positions related to prior years | 1,348 |
| Reduction to tax positions due to expiration of statutes of limitations | (79,455) |
| Balance at December 31, 2018 | $ 1,348 |
| Reductions to tax positions related to prior years | — |
| Balance at December 31, 2019 | $ 1,348 |

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rates were $1.4 million as of December 31, 2019 and 2018 and $79.5 million as of December 31, 2017.

We include potential accrued interest and penalties related to unrecognized tax benefits within our income tax provision account. We have accrued $0.6 million, $0.5 million, and $11.1 million for the payment of interest, net of tax benefits, and penalties as of December 31, 2019, 2018, and 2017, respectively. We recorded an increase of $0.1 million interest and penalties and a decrease of $10.6 million and $46.2 million for the years ended December 31, 2019, 2018, and 2017, 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 and associated interest of $143.0 million. In 2017, we made $34.2 million in settlement payments to the IRS and subsequently in 2018 and 2019 received federal and state refunds totaling $5.6 million and $2.0 million, respectively. The federal statutes of limitations have expired for all tax years prior to 2016, and we are not currently under audit by the IRS. Various state jurisdictions are auditing years 2013 through 2017. There are currently no federal or provincial audits in Canada; however, years subsequent to 2014 remain open and could be subject to examination. It is reasonably possible that the amount of unrecognized tax benefits may change within the next twelve months. However, given the number of years that remain subject to examination and the number of matters being examined, an estimate of the range of the possible increase or decrease cannot be made.

Various subsidiaries have federal, state and foreign loss carryforwards in the aggregate of $2.5 billion with expiration dates through 2038. Such loss carryforwards will expire as follows:

| | Federal | State | Foreign | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| 2020 | $ — | $ 172,219 | $ — | $ 172,219 |
| 2021 | — | 150,106 | — | 150,106 |
| 2022 | — | 78,589 | — | 78,589 |
| 2023 | — | 228,210 | — | 228,210 |
| Thereafter | 1,211 | 1,828,046 | 11,147 | 1,840,404 |
| Total | $ 1,211 | $ 2,457,170 | $ 11,147 | $ 2,469,528 |

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 2018, we recorded a net $6.6 million decrease in our state valuation allowance due primarily to the legislative change in Iowa and increased activity in Indiana as a result of the Gibraltar acquisition. We also recorded a $43 thousand increase in our foreign valuation allowance due primarily to continuing cumulative operating losses in the Netherlands. 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, 2019, 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 | $ 254 | $ 136,133 | $ 7,004 | $ 143,391 |
| Valuation allowance | $ — | $ 93,982 | $ 20,349 | $ 114,331 |

## 6. Debt

Debt was as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| 4.5% Senior Notes due November 2020 | $ — | $ 200,000 |
| 8.0% Senior Notes due November 2021 | 150,000 | 150,000 |
| 5.375% Senior Notes due January 2022 | — | 425,000 |
| 5.375% Senior Notes due May 2024 | 850,000 | 850,000 |
| 7.5% Senior Notes due April 2027 | 153,465 | 200,000 |
| 4.625% Senior Notes due December 2027 | 550,000 | 550,000 |
| 5.125% Senior Notes due June 2029 | 750,000 | — |
| Term Loan due December 2022 | — | 641,250 |
| Term Loan due May 2024 | 633,750 | — |
| Bank Credit Facility due December 2022 | — | 395,000 |
| Bank Credit Facility due May 2024 | 295,000 | — |
| Obligations under finance leases | 185,252 | 211,952 |
| Mortgage notes and other debt, maturities through 2050 | 45,104 | 4,076 |
| Unamortized premiums and discounts, net | 5,634 | 6,562 |
| Unamortized debt issuance costs | (34,854) | (31,762) |
| Total debt | 3,583,351 | 3,602,078 |
| Less: Current maturities of long-term debt | (69,821) | (69,896) |
| Total long-term debt | $ 3,513,530 | $ 3,532,182 |

Current maturities of debt at December 31, 2019 include amounts due under our term loan, mortgage notes and other debt, and finance leases within the next year as well as the portion of unamortized premiums and discounts and debt issuance costs expected to be recognized in the next twelve months.

Our consolidated debt had a weighted average interest rate of 4.72% and 4.99% at December 31, 2019 and 2018, respectively. Approximately 69% and 66% of our total debt had a fixed interest rate at December 31, 2019 and 2018, respectively.

The following table summarizes the aggregate maturities of our debt for the five years subsequent to December 31, 2019 and thereafter, excluding unamortized premiums and debt issuance costs (in thousands):

| | |
|---|---|
| 2020 | $ 73,912 |
| 2021 | 244,931 |
| 2022 | 60,322 |
| 2023 | 69,898 |
| 2024 | 1,659,084 |
| 2025 and thereafter | 1,504,424 |
| Total debt maturities | $ 3,612,571 |

### Bank Credit Agreement

The bank credit agreement provides us with flexibility for working capital, if needed, and is guaranteed by a majority of our domestic subsidiaries. The subsidiary guaranty is a guaranty of payment of the outstanding amount of the total lending commitment, including letters of credit. The bank credit agreement contains certain financial covenants, including a minimum interest coverage ratio, a maximum leverage ratio, and certain dividend and share repurchase restrictions. As of December 31, 2019, we are in compliance with all of our debt covenants. We issued $34.0 million of letters of credit and pay a quarterly fee on the unused commitment, which was 0.20% at December 31, 2019. As of December 31, 2019, we have $671.0 million in borrowing capacity under the facility.

As of December 31, 2018, we issued $32.9 million of letters of credit.

### Debt Issuances and Additions

During the year ended December 31, 2019, we issued $1.1 billion of debt including:

- $750.0 million unsecured 5.125% Senior Notes due June 2029;
- $55.0 million on our Bank Credit Facility due December 2022;
- $295.0 million on our Bank Credit Facility due May 2024; and
- $49.3 million in additional proceeds from certain members of the syndicate of banks in our Bank Credit Facility.

Newly issued debt was used to pay off our Bank Credit Facility due December 2022, to redeem our 5.375% Senior Notes due January 2022, to redeem our 4.5% Senior Notes due November 2020, to fund acquisition activity, and for general corporate purposes. These transactions resulted in additional debt issuance costs of $15.5 million.

During the year ended December 31, 2018, we drew $395.0 million on our Bank Credit Facility to fund acquisition activity, to fund the redemption of senior notes, to make required payments on our Term Loan due December 2022, and for general corporate purposes.

### Debt Extinguishments and Reductions

During the year ended December 31, 2019, we made aggregate debt payments of $1.2 billion for scheduled and early extinguishment payments including:

- $450.0 million in aggregate principal of our Bank Credit Facility due December 2022;
- $8.5 million in aggregate principal of our Term Loan due December 2022;
- $32.1 million in aggregate principal payments to other members of our Term Loan due December 2022;
- $16.3 million in aggregate principal of our Term Loan due May 2024;
- $425.0 million in aggregate principal of 5.375% Senior Notes due January 2022;
- $200.0 million in aggregate principal of 4.5% Senior Notes due November 2020;
- $46.5 million in aggregate principal of 7.5% Senior Notes due April 2027;
- $11.5 million of premiums paid on early extinguishment; and
- $0.3 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of $16.6 million recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations for the year ended December 31, 2019.

During the year ended December 31, 2018, we made aggregate debt payments of $293.7 million for scheduled and early extinguishment payments including:

- $250.0 million in aggregate principal of our 7.625% Senior Notes due October 2018;
- $9.6 million in call premium for redemption of the 7.625% Senior Notes due October 2018;
- $33.8 million in aggregate principal of our Term Loan due December 2022; and
- $0.3 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of $10.1 million recorded in *Losses on early extinguishment of debt, net* in our Consolidated Statement of Operations for the year ended December 31, 2018.

### Additional Debt Disclosures

At December 31, 2019 and 2018, we had deposits of $2.7 million and $3.8 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 $0.6 million and $1.1 million pledged as collateral for the mortgage notes and other debt at December 31, 2019 and 2018, respectively.

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

| | | |
|---|---|---|
| Payments in 2019 | $ | 190,672 |
| Payments in 2018 | $ | 179,865 |
| Payments in 2017 | $ | 160,843 |

Expected cash interest payments for the five years subsequent to December 31, 2019 and thereafter are as follows (in thousands):

| | | |
|---|---|---|
| Payments in 2020 | $ | 169,519 |
| Payments in 2021 | | 166,382 |
| Payments in 2022 | | 154,506 |
| Payments in 2023 | | 153,727 |
| Payments in 2024 | | 108,640 |
| Payments in 2025 and thereafter | | 274,871 |
| Total expected cash interest payments | $ | 1,027,645 |

## 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 was as follows:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | (In thousands) | | | |
| 4.5% Senior Notes due November 2020 | $ | — | $ | 198,930 |
| 8.0% Senior Notes due November 2021 | | 165,375 | | 160,800 |
| 5.375% Senior Notes due January 2022 | | — | | 428,188 |
| 5.375% Senior Notes due May 2024 | | 879,606 | | 851,275 |
| 7.5% Notes due April 2027 | | 188,381 | | 214,940 |
| 4.625% Senior Notes due December 2027 | | 577,500 | | 517,077 |
| 5.125% Senior Notes due June 2029 | | 798,525 | | — |
| Term Loan due December 2022 | | — | | 629,579 |
| Term Loan due May 2024 | | 633,750 | | — |
| Bank Credit Facility due December 2022 | | — | | 387,061 |
| Bank Credit Facility due May 2024 | | 295,000 | | — |
| Mortgage notes and other debt, maturities through 2050 | | 45,104 | | 4,076 |
| Total fair value of debt instruments | $ | 3,583,241 | $ | 3,391,926 |

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. Leases

Our leases principally relate to office, maintenance, and transportation equipment and funeral service real estate. 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.

Future lease payments for non-cancelable operating and finance leases as of December 31, 2019 were as follows:

| | Operating | Finance | Total |
|---|---|---|---|
| | | (In thousands) | |
| 2020 | $ 11,098 | $ 45,182 | $ 56,280 |
| 2021 | 10,253 | 63,840 | 74,093 |
| 2022 | 8,703 | 27,764 | 36,467 |
| 2023 | 6,394 | 20,317 | 26,711 |
| 2024 | 5,366 | 24,774 | 30,140 |
| 2025 and thereafter | 40,364 | 24,594 | 64,958 |
| Total lease payments | $ 82,178 | $ 206,471 | $ 288,649 |
| Less: Interest | (21,549) | (21,219) | (42,768) |
| Present value of lease liabilities | $ 60,629 | $ 185,252 | $ 245,881 |

The components of lease cost as of December 31, 2019 were as follows (in thousands):

| | |
|---|---|
| Amortization of leased assets | $ 42,147 |
| Interest on lease liabilities | 6,882 |
| Total finance lease cost | 49,029 |
| Operating lease cost | 12,502 |
| Variable lease cost | 1,089 |
| Total lease cost | $ 62,620 |

We paid variable lease costs of $1.1 million, representing amounts that were not fixed at the commencement of our lease agreements and were therefore expensed as incurred, during the fiscal year ended December 31, 2019. Approximately 70% of our variable lease costs are based upon changes in published indices, while approximately 30% of our variable lease costs are based on percentage rental of the net revenue generated by leased locations.

Supplemental balance sheet information related to leases were as follows:

| Lease Type | **Balance Sheet Classification** | December 31, 2019 |
|---|---|---|
| | | (In thousands) |
| Operating lease right-of-use assets (1) | *Deferred charges and other assets* | $ 58,101 |
| Finance lease right-of-use assets (1) | Property and equipment, net | 179,538 |
| Total right-of-use assets (1) | | $ 237,639 |
| | | |
| Operating | *Accounts payable and accrued liabilities* | $ 8,538 |
| Finance | Current maturities of long-term debt | 39,428 |
| Total current lease liabilities | | 47,966 |
| Operating | *Other liabilities* | 52,091 |
| Finance | Long-term debt | 145,824 |
| Total non-current lease liabilities | | 197,915 |
| Total lease liabilities | | $ 245,881 |

(1) Right-of-use assets are presented net of accumulated amortization.

The weighted-average life remaining and discount rates of our leases as of December 31, 2019 were as follows:

| | Operating | Finance |
|---|---|---|
| Weighted-average remaining lease term (years) | 12.4 | 4.9 |
| Weighted-average discount rate | 4.6% | 3.5% |

Supplemental cash flow information related to leases for the year ended December 31, 2019, were as follows (in thousands):

| | |
|---|---|
| Cash paid for amounts in the measurement of lease liabilities | |
| Operating cash flows for operating leases | $ 12,568 |
| Operating cash flows for finance leases | 7,472 |
| Financing cash flows for finance leases | 42,627 |
| Total cash paid for amounts included in the measurement of lease liabilities | $ 62,667 |
| | |
| Right-of-use assets obtained in exchange for finance lease liabilities | $ 48,233 |
| Right-of-use assets obtained in exchange for operating lease liabilities | $ 10,925 |

The right-of-use assets obtained in exchange for lease liabilities of 48.2 million for finance leases and 10.9 million for operating leases include increases related to lease renewals and extensions of $4.4 million and $8.0 million, respectively. Additionally, we recorded modifications of $5.7 million that reduced the right-of-use assets and lease liabilities through remeasurement and reassessment of certain leases, which are excluded from the numbers shown above.

We have 65 operating leases where we are the lessor and the non-cancelable term is greater than one year, resulting in $0.5 million and $2.5 million in lease income for the quarter and year ended December 31, 2019, respectively. We lease office space and excess land, and we are party to cellular agreements and land easements. We generally do not have sales-type leases, direct financing leases, or lease receivables. The adoption of ASC 842 did not have an impact on our accounting for lessor leases. Future undiscounted lease income from operating leases as of December 31, 2019 were as follows (in thousands):

| | | |
|---|---|---|
| 2020 | $ | 1,744 |
| 2021 | | 1,428 |
| 2022 | | 1,053 |
| 2023 | | 436 |
| 2024 | | 77 |
| Thereafter | | 139 |
| Total expected cash receipts | $ | 4,877 |

As of December 31, 2018, we disclosed the following future lease payments for non-cancelable operating and capital leases exceeding one year:

| | | Operating (1) | | Capital (1) |
|---|---|---|---|---|
| | | (In thousands) | | |
| 2019 | $ | 11,295 | $ | 46,998 |
| 2020 | | 9,550 | | 51,943 |
| 2021 | | 8,251 | | 57,881 |
| 2022 | | 7,282 | | 21,842 |
| 2023 | | 5,397 | | 15,587 |
| 2024 and thereafter | | 37,841 | | 40,447 |
| Total | $ | 79,616 | $ | 234,698 |
| Less: Interest on capital leases | | | | (22,746) |
| Total principal payable on capital leases | | | $ | 211,952 |

(1) These results have not been adjusted for the impact of our adoption of "Leases" on January 1, 2019.

Rental expense for operating leases was $27.4 million and $30.5 million for the years ended December 31, 2018 and 2017, respectively.

## 9. Commitments and Contingencies

### Employment and Management, Consulting, and Non-Competition Agreements

We have entered into employment and management, consulting, and non-competition agreements, generally for five years to ten years, with certain officers and associates and former owners of businesses that we acquired. At December 31, 2019, 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) | | | | |
| 2020 | $ | 1,968 | $ | 1,020 | $ | 5,172 | $ | 8,160 |
| 2021 | | 1,296 | | 603 | | 4,289 | | 6,188 |
| 2022 | | 399 | | 444 | | 3,363 | | 4,206 |
| 2023 | | 123 | | 165 | | 2,461 | | 2,749 |
| 2024 | | 8 | | 48 | | 1,983 | | 2,039 |
| 2025 and thereafter | | — | | 171 | | 4,702 | | 4,873 |
| Total | $ | 3,794 | $ | 2,451 | $ | 21,970 | $ | 28,215 |

## 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, 2019 and 2018, we have self-insurance reserves of $84.3 million and $80.1 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.

***<u>Wage and Hour Claims</u>***. We are named as a defendant in various lawsuits alleging violations of federal and state laws regulating wage and hour pay, including but not limited to the Samborsky, Vasquez, Fredeen, Horton, Quismundo, Kallweit, Dorian, and Karpiak lawsuits described below. Given the nature of these lawsuits, except for those lawsuits where a settlement is referenced, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

***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. In addition, this lawsuit also asserts claims under the California Private Attorney General Act (PAGA) provisions on behalf of other similarly situated California persons. 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. Plaintiffs continue to assert claims under PAGA that are not subject to arbitration. The parties reached a settlement of this lawsuit in September 2019. The court approved the settlement in January 2020. The financial terms of the settlement call for SCI California Funeral Services, Inc. to pay an immaterial amount.

***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 the defendants' current and former non-exempt California employees 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, civil penalties, attorneys' fees and costs, interest, and injunctive relief. The claims were ordered to arbitration, and the arbitrator determined that the claims would proceed as a bilateral proceeding. In May 2019, the arbitrator issued an opinion rejecting the plaintiff's claims in total. 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. The National Labor Relations Act claim was finally resolved with an immaterial, non-monetary accommodation.

***Lisa Fredeen, an aggrieved employee and on behalf of other aggrieved employees v. California Cemetery and Funeral Services, LLC, et al; Case No. BC706930;*** in the Superior Court of the State of California for the County of Los Angeles. This lawsuit was filed against SCI subsidiaries on May 18, 2018, by the same law firm that filed the Vasquez case described above. This lawsuit asserts claims for violations of the California Labor Code and PAGA, based on alleged facts similar to those alleged in the Vasquez case described above. The plaintiff seeks civil penalties, interest, and attorneys' fees.

***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 SCI subsidiaries 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. In addition, this lawsuit also asserts claims under PAGA provisions on behalf of other similarly situated California persons. 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, compensatory and punitive damages, attorneys' fees and costs, interest, and injunctive relief. The parties reached a settlement of this lawsuit and the Doyle lawsuit referenced below in

November 2018. The court approved the settlement in November 2019. The financial terms of the settlement call for SCI Direct to pay an immaterial amount in relation to both the Romano and Doyle lawsuits.

***James Doyle, individually and on behalf of all others similarly situated v. SCI Direct, Inc., et al; Case No. 2:18-cv-05859 in the United States District Court Central District of California, removed from Case No. BC705666;*** in the Superior Court of California for the County of Los Angeles. This lawsuit was filed in May 2018, against an SCI subsidiary, by the same attorneys who filed the Romano case described above, and alleges causes of action and seeks damages and relief similar to those in the Romano case. The parties reached a settlement of this lawsuit and the Romano lawsuit referenced above in November 2018. On December 26, 2018, this matter was consolidated into the Romano lawsuit. The settlement agreement, noted above, was approved by the court in November 2019. The financial terms of the settlement call for SCI Direct to pay an immaterial amount collectively for the Romano and Doyle lawsuits.

***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, against SCI subsidiaries, on behalf of the plaintiff who worked as an independent sales representative of our subsidiary in California. In addition, this lawsuit asserts claims under PAGA 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 an additional lawsuit, against SCI subsidiaries, alleging individual and PAGA claims similar to those alleged in the Horton case. The additional individual and PAGA claim 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. *Sandra Dorian v. SCI Direct, Inc., et al; Case No 37-2018-0061985-CU-OE-CTL*; in the Superior Court of California for the County of San Diego, and *Holly Karpiak v. SCI Direct, Inc., et al; Case No. 37-2019-00031328-CU-OE-CTL*, in the Superior Court of California for the County of San Diego. In addition to the wage and hour and PAGA claims described above, Horton alleges claims for sexual harassment and wrongful discharge. After a trial, the court issued a preliminary statement of decision in April 2019, awarding an immaterial amount related to the aforementioned claims. The court further issued an award of attorneys' fees, in an immaterial amount, in December 2019.

***<u>Claims Regarding Acquisition of Stewart Enterprises</u>***. We are involved in the following lawsuit.

***Karen Moulton, Individually and on behalf of all others similarly situated v. Stewart Enterprises, Inc., Service Corporation International and others ; Case No. 2013-5636;*** in the Civil District Court Parish of New Orleans, Louisiana. This case was filed as a class action in June 2013 against an SCI subsidiary in connection with SCI's acquisition of Stewart Enterprises, Inc. The plaintiffs allege that SCI aided and abetted breaches of fiduciary duties by Stewart Enterprises and its board of directors in negotiating the combination of Stewart Enterprises with a subsidiary of SCI. The plaintiffs seek damages concerning the combination. We filed exceptions to the plaintiffs' complaint that were granted in June 2014. Thus, subject to appeals, SCI will no longer be party to the suit. The case has continued against our subsidiary Stewart Enterprises and its former individual directors. However, in October 2016, the court entered a judgment dismissing all of plaintiffs' claims. Plaintiffs have appealed the dismissal. Given the nature of this lawsuit, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

***<u>Operational Claims</u>.*** We are named a defendant in various lawsuits alleging operational claims, including but not limited to the Bernstein lawsuit described below.

***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 Trevose, Pennsylvania. Plaintiffs allege wrongful burial and sales practices. Plaintiffs seek compensatory, consequential and punitive damages, attorneys' fees and costs, interest, and injunctive relief. The court granted our motion for summary judgment on the named plaintiff's individual claims in January 2020. Given the nature of this lawsuit, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

***<u>Unclaimed Property Audit</u>***

We received notices from a third party auditor representing the 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. Given the nature of this matter, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

***<u>Other Potential Contingencies</u>***

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

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

We intend to vigorously defend all of the above matters; however, an adverse decision in one or more of such matters could have a material effect on us, our financial condition, results of operations, and cash flows.

# 10. 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, 2019 or 2018. At December 31, 2019 and 2018, 500,000,000 common shares of $1 par value were authorized. We had 185,100,789 and 184,720,582 shares issued and 181,184,963 and 181,470,582 outstanding at par at December 31, 2019 and 2018, respectively.

## Accumulated Other Comprehensive Income

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 2019, we repurchased 2,908,850 shares of common stock at an aggregate cost of $129.6 million, which is an average cost per share of $44.55. During 2018, we repurchased 7,347,838 shares of common stock at an aggregate cost of $277.6 million, which is an average cost per share of $37.78. During August 2019, 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 $312.0 million at December 31, 2019.

Subsequent to December 31, 2019, we repurchased 475,476 shares for $22.2 million at an average cost per share of $46.69.

# 11. 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 associates. 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 associates. 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 eight 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, 2019 and 2018, 7,148,871 and 8,287,804 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:

| | Years Ended December 31, | | |
|---|---|---|---|
| Assumptions | 2019 | 2018 | 2017 |
| Dividend yield | 1.7% | 1.8% | 2.0% |
| Expected volatility | 19.8% | 18.5% | 19.0% |
| Risk-free interest rate | 2.5% | 2.4% | 1.6% |
| 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 included in our Consolidated Statement of Operations:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| Total pretax employee share-based compensation expense included in net income | $ 15,029 | $ 15,626 | $ 14,788 |
| Income tax benefit related to share-based compensation included in net income | $ 3,842 | $ 3,998 | $ 5,416 |

## Stock Options

The following table sets forth stock option activity for the year ended December 31, 2019 (shares reported in whole numbers):

| | Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2018 | 8,917,943 | $ 23.40 |
| Granted | 785,150 | $ 42.63 |
| Exercised | (2,393,647) | $ 17.10 |
| Outstanding at December 31, 2019 | 7,309,446 | $ 27.53 |
| Exercisable at December 31, 2019 | 5,397,573 | $ 23.90 |

The aggregate intrinsic value for stock options outstanding and exercisable was $135.3 million and $119.4 million, respectively, at December 31, 2019.

Set forth below is certain information related to stock options outstanding and exercisable at December 31, 2019 (shares reported in whole numbers):

| | Options Outstanding | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding at December 31, 2019 | Weighted-Average Remaining Contractual Life (in years) | | Weighted-Average Exercise Price | Number Exercisable at December 31, 2019 | | Weighted-Average Exercise Price |
| $10.00 — 20.00 | 1,239,011 | 1.8 | $ | 16.77 | 1,239,011 | $ | 16.77 |
| $20.01 — 30.00 | 4,096,760 | 4.2 | $ | 24.99 | 3,666,044 | $ | 24.49 |
| $30.01 — 40.00 | 1,188,525 | 6.1 | $ | 37.50 | 492,518 | $ | 37.50 |
| $40.01 — 50.00 | 785,150 | 7.1 | $ | 42.63 | — | $ | — |
| $0.00 — 50.00 | 7,309,446 | 4.4 | $ | 27.53 | 5,397,573 | $ | 23.90 |

Other information pertaining to stock options was as follows (in thousands, except weighted-average grant date fair value):

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | | 2018 | | 2017 |
| Weighted average grant-date fair value of stock options granted | $ | 6.86 | $ | 5.52 | $ | 3.90 |
| Total fair value of stock options vested | $ | 7,250 | $ | 6,857 | $ | 7,425 |
| Total intrinsic value of stock options exercised | $ | 65,023 | $ | 48,643 | $ | 56,946 |
| Cash received from the exercise of stock options | $ | 40,922 | $ | 24,517 | $ | 33,611 |
| Recognized compensation expense | $ | 6,314 | $ | 6,648 | $ | 6,909 |

As of December 31, 2019, the unrecognized compensation expense related to stock options of $6.1 million is expected to be recognized over a weighted average period of 1.7 years.

## Restricted Shares

The fair value of our restricted share awards and units, as determined on the grant date, is being amortized and charged to income (with an offsetting credit to *Capital in excess of par value*) generally over the average period during which the restrictions lapse.

Restricted share award activity was as follows (share awards reported in whole numbers):

| | Restricted Share Awards | | Weighted-Average Grant-Date Fair Value |
|---|---|---|---|
| Nonvested restricted share awards at December 31, 2018 | 389,245 | $ | 31.67 |
| Granted | 125,546 | $ | 42.73 |
| Vested | (226,726) | $ | 29.63 |
| Nonvested restricted share awards at December 31, 2019 | 288,065 | $ | 38.09 |

Other information pertaining to restricted share awards was as follows (in thousands, except weighted-average grant date fair value):

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | | 2018 | | 2017 |
| Recognized compensation expense related to restricted share awards | $ | 6,000 | $ | 6,063 | $ | 5,564 |
| Weighted-average grant date fair value for nonvested restricted stock granted | $ | 42.73 | $ | 37.50 | $ | 29.28 |
| Total fair market value of restricted share awards vested | $ | 6,718 | $ | 5,702 | $ | 5,463 |
| Aggregate intrinsic value of restricted share awards vested | $ | 3,724 | $ | 3,578 | $ | 4,454 |

At December 31, 2019, 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.

Restricted share units activity was as follows (share units reported in whole numbers):

| | Restricted Share Units | | Weighted-Average Grant-Date Fair Value |
|---|---|---|---|
| Nonvested restricted share units at December 31, 2018 | 175,301 | $ | 31.17 |
| Granted | 72,067 | $ | 40.91 |
| Vested | (95,459) | $ | 29.62 |
| Forfeited and other | (457) | $ | 27.94 |
| Nonvested restricted share units at December 31, 2019 | 151,452 | $ | 36.79 |

Other information pertaining to restricted share units was as follows (in thousands, except weighted-average grant date fair value):

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | | 2018 | | 2017 |
| Recognized compensation expense related to restricted share units | $ | 2,715 | $ | 2,862 | $ | 2,052 |
| Weighted-average grant date fair value for nonvested restricted share units granted | $ | 40.91 | $ | 35.89 | $ | 27.94 |
| Total fair market value of restricted share units vested | $ | 2,827 | $ | 1,946 | $ | 1,239 |
| Aggregate intrinsic value of restricted share units vested | $ | 1,432 | $ | 970 | $ | 558 |

At December 31, 2019, the unrecognized compensation expense related to restricted share units of $3.2 million is expected to be recognized over a weighted average period of 1.8 years.

## 12. 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”). 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 *Other income (expense), net* on our Consolidated Statement of Operations in the year such gains and losses are incurred. The components of the Plans’ net periodic benefit cost were as follows:

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | | 2018 | | 2017 |
| | | | | (In thousands) | | |
| Interest cost on projected benefit obligation | $ | 956 | $ | 923 | $ | 1,067 |
| Recognized net actuarial losses (gains) | | 2,886 | | (1,127) | | 879 |
| Total net periodic benefit cost | $ | 3,842 | $ | (204) | $ | 1,946 |

The Plans' funded status was as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| **Change in Benefit Obligation:** | | |
| Benefit obligation at beginning of year | $ 24,707 | $ 28,681 |
| Interest cost | 956 | 923 |
| Actuarial loss (gain) | 2,886 | (1,127) |
| Benefits paid | (3,588) | (3,770) |
| Benefit obligation at end of year | $ 24,961 | $ 24,707 |
| **Change in Plan Assets:** | | |
| Fair value of plan assets at beginning of year | $ — | $ — |
| Employer contributions | 3,588 | 3,770 |
| Benefits paid, including expenses | (3,588) | (3,770) |
| Fair value of plan assets at end of year | $ — | $ — |
| Funded status of plan | $ (24,961) | $ (24,707) |
| **Funding Summary:** | | |
| Projected benefit obligations | $ 24,961 | $ 24,707 |
| Accumulated benefit obligation | $ 24,961 | $ 24,707 |
| **Amounts Recognized in the Consolidated Balance Sheet:** | | |
| Included in *Accounts payable and accrued liabilities* | $ (2,708) | $ (3,175) |
| Included in *Other liabilities* | (22,253) | (21,532) |
| Total accrued benefit liability | $ (24,961) | $ (24,707) |

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, 2019 and 2018 was $47.7 million and $47.1 million, respectively, and the cash surrender value was $38.0 million and $37.2 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 periodic benefit cost are as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Weighted-average discount rate used to determine obligations | 2.95% | 4.13% | 3.41% |
| Weighted-average discount rate used to determine net periodic benefit cost | 4.15% | 3.26% | 3.86% |

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 frozen, the assumed rate of compensation increase is zero.

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

| | | |
|---|---|---|
| 2020 | $ | 2,742 |
| 2021 | | 2,410 |
| 2022 | | 2,337 |
| 2023 | | 2,095 |
| 2024 | | 1,902 |
| Years 2025 through 2029 | | 8,335 |
| Total expected benefit payments | $ | 19,821 |

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 2019, 2018, and 2017, 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 2019, 2018, and 2017 was $39.7 million, $36.8 million, and $33.2 million, respectively.

## 13. Segment Reporting

Our operations are both product-based and geographically-based, and the reportable operating segments presented below include our funeral and cemetery operations. Our geographic areas include the United States and Canada, where we conduct both funeral and cemetery operations.

Our reportable segment, including disaggregated revenue, information was as follows and includes a reconciliation of gross profit to our consolidated income before income taxes.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| **Revenue from customers:** | | | |
| Funeral revenue: | | | |
| Atneed revenue | $ 996,643 | $ 998,464 | $ 1,011,214 |
| Matured preneed revenue | 605,237 | 600,944 | 574,235 |
| Core funeral revenue | 1,601,880 | 1,599,408 | 1,585,449 |
| Non-funeral home revenue | 52,211 | 49,671 | 46,513 |
| Recognized preneed revenue | 139,525 | 125,144 | 117,352 |
| Other revenue | 130,286 | 123,769 | 118,838 |
| Total funeral revenue | 1,923,902 | 1,897,992 | 1,868,152 |
| Cemetery revenue: | | | |
| Atneed revenue | 326,230 | 323,162 | 319,899 |
| Recognized preneed property revenue | 581,724 | 572,955 | 538,314 |
| Recognized preneed merchandise and services revenue | 287,589 | 288,282 | 274,885 |
| Core cemetery revenue | 1,195,543 | 1,184,399 | 1,133,098 |
| Other revenue | 111,340 | 107,783 | 93,781 |
| Total cemetery revenue | 1,306,883 | 1,292,182 | 1,226,879 |
| Total revenue from customers | $ 3,230,785 | $ 3,190,174 | $ 3,095,031 |
| **Gross profit:** | | | |
| Funeral gross profit | $ 372,638 | $ 369,613 | $ 371,853 |
| Cemetery gross profit | 387,942 | 390,709 | 350,926 |
| Gross profit from reportable segments | 760,580 | 760,322 | 722,779 |
| Corporate general and administrative expenses | (126,886) | (145,596) | (158,651) |
| Gains on divestitures and impairment charges, net | 32,919 | 15,933 | 7,015 |
| Operating income | 666,613 | 630,659 | 571,143 |
| Interest expense | (185,843) | (181,556) | (169,125) |
| Losses on early extinguishment of debt, net | (16,637) | (10,131) | (274) |
| Other income (expense), net | 299 | 2,760 | (1,486) |
| Income before income taxes | $ 464,432 | $ 441,732 | $ 400,258 |

Other reportable segment information for the year ended December 31 was as follows:

| | Reportable Segments | | | |
|---|---|---|---|---|
| | Funeral | Cemetery | Corporate | Consolidated |
| | (In thousands) | | | |
| **2019** | | | | |
| Interest expense | $ 4,026 | $ 659 | $ 181,158 | $ 185,843 |
| Depreciation and amortization | $ 106,982 | $ 33,323 | $ 10,695 | $ 151,000 |
| Amortization of intangibles | $ 15,343 | $ 10,297 | $ 9 | $ 25,649 |
| Amortization of cemetery property | $ — | $ 70,330 | $ — | $ 70,330 |
| Capital expenditures | $ 112,090 | $ 125,365 | $ 2,502 | $ 239,957 |
| Total assets | $ 5,821,408 | $ 7,483,713 | $ 372,309 | $ 13,677,430 |
| **2018** | | | | |
| Interest expense | $ 3,634 | $ 469 | $ 177,453 | $ 181,556 |
| Depreciation and amortization | $ 108,891 | $ 33,183 | $ 11,576 | $ 153,650 |
| Amortization of intangibles | $ 17,515 | $ 8,619 | $ 61 | $ 26,195 |
| Amortization of cemetery property | $ — | $ 68,640 | $ — | $ 68,640 |
| Capital expenditures | $ 99,008 | $ 125,131 | $ 11,406 | $ 235,545 |
| Total assets | $ 5,411,178 | $ 6,913,132 | $ 368,933 | $ 12,693,243 |
| **2017** | | | | |
| 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 |
| Amortization of cemetery property | $ — | $ 68,102 | $ — | $ 68,102 |
| Capital expenditures | $ 83,241 | $ 118,699 | $ 12,561 | $ 214,501 |

Our geographic area information for the year ended December 31 was as follows:

| | United States | Canada | Total |
|---|---|---|---|
| | | (In thousands) | |
| **2019** | | | |
| Revenue from external customers | $ 3,052,101 | $ 178,684 | $ 3,230,785 |
| Interest expense | $ 185,512 | $ 331 | $ 185,843 |
| Depreciation and amortization | $ 142,550 | $ 8,450 | $ 151,000 |
| Amortization of intangibles | $ 25,079 | $ 570 | $ 25,649 |
| Amortization of cemetery property | $ 66,552 | $ 3,778 | $ 70,330 |
| Operating income | $ 628,204 | $ 38,409 | $ 666,613 |
| Gains (losses) on divestitures and impairment charges, net | $ 33,200 | $ (281) | $ 32,919 |
| Long-lived assets | $ 6,531,705 | $ 301,461 | $ 6,833,166 |
| **2018** | | | |
| Revenue from external customers | $ 2,991,617 | $ 198,557 | $ 3,190,174 |
| Interest expense | $ 181,266 | $ 290 | $ 181,556 |
| Depreciation and amortization | $ 144,877 | $ 8,773 | $ 153,650 |
| Amortization of intangibles | $ 25,664 | $ 531 | $ 26,195 |
| Amortization of cemetery property | $ 63,709 | $ 4,931 | $ 68,640 |
| Operating income | $ 568,446 | $ 62,213 | $ 630,659 |
| Gains on divestitures and impairment charges, net | $ 8,419 | $ 7,514 | $ 15,933 |
| Long-lived assets | $ 6,334,924 | $ 277,897 | $ 6,612,821 |
| **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 | $ 502,865 | $ 68,278 | $ 571,143 |
| Gains on divestitures and impairment charges, net | $ 61 | $ 6,954 | $ 7,015 |

## 14. Supplementary Information

The detail of certain balance sheet accounts is as follows:

| | Years Ended December 31, 2019 | Years Ended December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents: | | |
| Cash | $ 149,981 | $ 177,338 |
| Commercial paper and temporary investments | 36,295 | 21,512 |
| | $ 186,276 | $ 198,850 |
| Receivables, net: | | |
| Notes receivable | $ 1,765 | $ 1,781 |
| Atneed funeral receivables, net of allowances of $1,884 and $1,412, respectively | 39,471 | 39,709 |
| Atneed cemetery receivables, net of allowances of $346 and $166, respectively | 21,131 | 15,277 |
| Other | 19,304 | 17,058 |
| | $ 81,671 | $ 73,825 |
| Other current assets: | | |
| Income tax receivable | $ 5,905 | $ 8,333 |
| Prepaid insurance | 4,451 | 5,047 |
| Restricted Cash | 54,293 | 7,007 |
| Other | 15,839 | 13,220 |
| | $ 80,488 | $ 33,607 |
| Cemetery property: | | |
| Undeveloped land | $ 1,233,363 | $ 1,209,109 |
| Developed lots, lawn crypts, mausoleum spaces, cremation niches, and cremation memorialization property | 640,239 | 628,355 |
| | $ 1,873,602 | $ 1,837,464 |
| Property and equipment, net: | | |
| Land | $ 642,168 | $ 631,679 |
| Buildings and improvements | 2,221,758 | 2,107,300 |
| Operating equipment | 499,700 | 609,658 |
| Leasehold improvements | 40,879 | 34,755 |
| Finance leases | 350,626 | 263,940 |
| | 3,755,131 | 3,647,332 |
| Less: Accumulated depreciation | (1,518,610) | (1,525,059) |
| Less: Accumulated amortization of finance leases | (171,088) | (144,909) |
| | $ 2,065,433 | $ 1,977,364 |
| Deferred charges and other assets: | | |
| Intangible assets, net | $ 431,167 | $ 433,830 |
| Restricted cash[(1)] | 2,051 | 1,727 |
| Deferred tax assets | 665 | 673 |
| Notes receivable, net of allowances of $8,374 and $10,814, respectively | 6,623 | 8,651 |
| Cash surrender value of insurance policies | 176,126 | 145,981 |
| Deferred incremental direct selling costs | 293,125 | 282,283 |
| Operating leases | 58,101 | — |
| Other | 62,050 | 61,006 |
| | $ 1,029,908 | $ 934,151 |

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Accounts payable and accrued liabilities: | | |
| Accounts payable | $ 174,494 | $ 173,361 |
| Accrued benefits | 99,396 | 90,303 |
| Accrued interest | 15,390 | 25,976 |
| Accrued property taxes | 16,402 | 18,512 |
| Self-insurance reserves | 84,290 | 80,114 |
| Bank overdrafts | 16,694 | 16,221 |
| Operating leases | 8,538 | — |
| Other accrued liabilities | 63,341 | 75,281 |
| | $ 478,545 | $ 479,768 |
| Other liabilities: | | |
| Accrued benefit costs | $ 22,253 | $ 21,532 |
| Deferred compensation | 152,119 | 126,891 |
| Customer refund obligation reserve | 46,958 | 48,000 |
| Tax liability | 2,004 | 1,873 |
| Payable to perpetual care trust | 93,053 | 88,784 |
| Operating leases | 52,091 | — |
| Other | 9,596 | 10,222 |
| | $ 378,074 | $ 297,302 |

(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.

### Certain Non-Cash Investing and Financing Transactions

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (In thousands) | |
| Net change in capital expenditure accrual | $ 4,435 | $ (2,597) | $ 223 |

## 15. Earnings Per Share

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

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | |
| Amounts attributable to common stockholders: | | | |
| Net income — basic | $ 369,596 | $ 447,208 | $ 546,663 |
| After tax interest on convertible debt | — | — | 52 |
| Net income — diluted | $ 369,596 | $ 447,208 | $ 546,715 |
| Weighted average shares: | | | |
| Weighted average shares — basic | 182,246 | 182,447 | 187,630 |
| Stock options | 3,223 | 4,339 | 4,396 |
| Restricted share units | 54 | 186 | 99 |
| Convertible debt | — | — | 121 |
| Weighted average shares — diluted | 185,523 | 186,972 | 192,246 |
| Amounts attributable to common stockholders: | | | |
| Net income per share: | | | |
| Basic | $ 2.03 | $ 2.45 | $ 2.91 |
| Diluted | $ 1.99 | $ 2.39 | $ 2.84 |

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 antidilutive options not currently included in the computation of dilutive EPS are as follows (in shares):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (In thousands) | | |
| Antidilutive options | 678 | 1,035 | 911 |

## 16. Acquisitions and Divestiture-Related Activities

### Acquisitions

In June 2018, we acquired fifteen funeral homes and seven cemeteries in four states (the “acquired businesses”) for $82.2 million in cash. Additionally, we paid $49.8 million of the acquired businesses' existing debt in conjunction with the closing of the acquisition.

The primary reasons for the merger and the principal factors that contributed to the recognition of goodwill in this acquisition were:

- the acquisition enhances our network footprint, enabling us to serve a number of new, complementary areas and
- the acquisition of the preneed backlog of deferred revenues enhances our long-term stability.

The following table summarizes the adjusted fair values of the assets acquired and liabilities assumed in the acquisition (in thousands):

| | | |
|---|---|---|
| Other current assets | $ | 3,388 |
| Cemetery property | | 32,266 |
| Property and equipment | | 25,896 |
| Preneed receivables, net and trust investments | | 107,444 |
| Finite-lived intangible assets | | 32,371 |
| Indefinite-lived intangible assets | | 18,000 |
| Deferred charges and other assets | | 1,717 |
| Cemetery perpetual care trust investments | | 52,747 |
| Goodwill | | 37,908 |
| Total assets acquired | $ | 311,737 |
| Current liabilities | | 7,666 |
| Deferred revenue and deferred receipts held in trust | | 113,173 |
| Deferred income taxes | | 4,704 |
| Other liabilities | | 1,439 |
| Care trusts' corpus | | 52,747 |
| Total liabilities assumed | | 179,729 |
| Net assets acquired | $ | 132,008 |

Included in *preneed receivables, net and trust investments* are receivables under preneed contracts with a fair value of $8.4 million. The gross amount due under the contracts is $8.9 million, of which $0.5 million is not expected to be collected.

We have completed our purchase price allocation. During the twelve months of 2019, we made the following adjustments to our estimates of the fair value of assets and liabilities (in thousands):

| | | |
|---|---|---|
| Increase in the fair value of other current assets | $ | (67) |
| Increase in the fair value of cemetery property | | (3,583) |
| Increase in property and equipment, net | | (179) |
| Increase in the fair value of preneed receivables, net and trust investments | | (4,910) |
| Decrease in the fair value of finite-lived intangible assets | | 10,428 |
| Increase in the fair value of current liabilities | | 3,075 |
| Decrease in the fair value of deferred revenue and deferred receipts held in trust | | (7,349) |
| Decrease in the fair value of deferred income taxes | | (7,026) |
| Increase in the fair value of other liabilities | | 1,439 |
| Total adjustment to goodwill | $ | (8,172) |

Goodwill, land, and certain identifiable intangible assets recorded in the acquisition are not subject to amortization; however, the goodwill and intangible assets will be tested periodically for impairment. Of the $37.9 million in goodwill recognized, $21.2 million was allocated to our cemetery segment and $16.7 million was allocated to our funeral segment. $23.7 million of this goodwill is deductible for tax purposes. The identified intangible assets comprise the following:

| | Useful life | | | |
|---|---|---|---|---|
| | Minimum | Maximum | | Fair Value |
| | (Years) | | | (In thousands) |
| Other preneed customer relationships | 10 | 20 | $ | 9,347 |
| Selling and management agreements | 89 | 89 | | 13,176 |
| Operating leases | 89 | 89 | | 2,848 |
| Tradenames | 89 | 89 | | 7,000 |
| Tradenames | | Indefinite | | 18,000 |
| Total intangible assets | | | $ | 50,371 |

Included in our results of operations for the twelve months ended December 31, 2018 is revenue of $17.9 million and net income of $1.7 million for the period from the acquisition date (June 8, 2018) through December 31, 2018. The following unaudited pro forma summary presents financial information as if the acquisition had occurred on January 1, 2017:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | (In thousands) (unaudited) | | | |
| Revenue | $ | 32,434 | $ | 29,193 |
| Net income | $ | 4,669 | $ | 2,531 |

Excluding the June 2018 acquisition described above, we spent $107.0 million, $62.8 million, and $76.2 million for real estate, funeral service locations, and cemeteries for the three years ended December 31, 2019, 2018, and 2017, respectively. These amounts include the use of $13.6 million, $5.9 million, and $26.2 million in 1031 exchange funds for the three years ended December 31, 2019, 2018, and 2017, respectively.

## Divestiture-Related Activities

As divestitures occur in the normal course of business, gains or losses on the sale of such locations are recognized in the income statement line item *Gains on divestitures and impairment charges, net*, which consist of the following:

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | (In thousands) | | | | | |
| Gains on divestitures, net | $ | 41,835 | $ | 20,340 | $ | 29,053 |
| Impairment losses | | (8,916) | | (4,407) | | (22,038) |
| Gains on divestitures and impairment charges, net | $ | 32,919 | $ | 15,933 | $ | 7,015 |

## 17. Quarterly Financial Data (Unaudited)

Quarterly financial data for 2019 and 2018 is as follows:

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | | (In thousands, except per share amounts) | | |
| **2019** | | | | |
| Revenue | $ 798,212 | $ 812,572 | $ 769,241 | $ 850,760 |
| Costs of revenue | $ (606,378) | $ (621,426) | $ (609,509) | $ (632,892) |
| Gross profit | $ 191,834 | $ 191,146 | $ 159,732 | $ 217,868 |
| Operating income | $ 146,978 | $ 150,105 | $ 128,585 | $ 240,945 |
| Income before income taxes(1) | $ 100,308 | $ 96,083 | $ 72,869 | $ 195,172 |
| Provision for income taxes | $ (21,095) | $ (23,570) | $ (1,997) | $ (47,999) |
| Net income | $ 79,213 | $ 72,513 | $ 70,872 | $ 147,173 |
| Net loss (income) attributable to noncontrolling interests | $ 110 | $ (184) | $ (80) | $ (21) |
| Net income attributable to common stockholders | $ 79,323 | $ 72,329 | $ 70,792 | $ 147,152 |
| Net income attributable to common stockholders per share(2): | | | | |
| Basic — EPS | $ 0.44 | $ 0.40 | $ 0.39 | $ 0.81 |
| Diluted — EPS | $ 0.43 | $ 0.39 | $ 0.38 | $ 0.79 |
| **2018** | | | | |
| Revenue | $ 794,482 | $ 796,092 | $ 778,786 | $ 820,814 |
| Costs of revenue | $ (598,720) | $ (607,965) | $ (612,616) | $ (610,551) |
| Gross profit | $ 195,762 | $ 188,127 | $ 166,170 | $ 210,263 |
| Operating income | $ 163,692 | $ 161,954 | $ 132,303 | $ 172,710 |
| Income before income taxes(1) | $ 110,369 | $ 119,315 | $ 86,036 | $ 126,012 |
| (Provision for) benefit from income taxes | $ (28,321) | $ (16,034) | $ (17,043) | $ 67,224 |
| Net income | $ 82,048 | $ 103,281 | $ 68,993 | $ 193,236 |
| Net income attributable to noncontrolling interests | $ (60) | $ (42) | $ (58) | $ (190) |
| Net income attributable to common stockholders | $ 81,988 | $ 103,239 | $ 68,935 | $ 193,046 |
| Net income attributable to common stockholders per share(2): | | | | |
| Basic — EPS | $ 0.44 | $ 0.57 | $ 0.38 | $ 1.07 |
| Diluted — EPS | $ 0.43 | $ 0.55 | $ 0.37 | $ 1.04 |

(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, 2019

| 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, 2019 | $ 1,578 | $ 9,146 | $ (8,494) | $ 2,230 |
| Year Ended December 31, 2018 | $ 2,090 | $ 8,372 | $ (8,884) | $ 1,578 |
| Year Ended December 31, 2017 | $ 3,395 | $ 9,980 | $ (11,285) | $ 2,090 |
| Due After One Year: | | | | |
| Allowance For Doubtful Accounts: | | | | |
| Year Ended December 31, 2019 | $ 10,814 | $ — | $ (2,440) | $ 8,374 |
| Year Ended December 31, 2018 | $ 10,946 | $ — | $ (132) | $ 10,814 |
| Year Ended December 31, 2017 | $ 11,334 | $ — | $ (388) | $ 10,946 |
| Preneed Receivables, Net | | | | |
| Asset Allowance For Cancellation: | | | | |
| Year Ended December 31, 2019 | $ 48,380 | $ 1,617 | $ 5,343 | $ 55,340 |
| Year Ended December 31, 2018 | $ 107,749 | $ (69) | $ (59,300) | $ 48,380 |
| Year Ended December 31, 2017 | $ 104,740 | $ 1,105 | $ 1,904 | $ 107,749 |
| Deferred Revenue | | | | |
| Revenue Allowance For Cancellation: (1) | | | | |
| Year Ended December 31, 2019 | $ — | $ — | $ — | $ — |
| Year Ended December 31, 2018 | $ (118,099) | $ — | $ 118,099 | $ — |
| Year Ended December 31, 2017 | $ (116,913) | $ — | $ (1,186) | $ (118,099) |
| Deferred Tax Valuation Allowance: | | | | |
| Year Ended December 31, 2019 | $ 120,931 | $ (6,604) | $ 4 | $ 114,331 |
| Year Ended December 31, 2018 | $ 141,154 | $ (20,219) | $ (4) | $ 120,931 |
| Year Ended December 31, 2017 | $ 132,500 | $ 8,035 | $ 619 | $ 141,154 |

(1) Upon adoption of *"Revenue from Contracts with Customers"* on January 1, 2018, we reclassified amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts as a reduction in *Deferred revenue, net*. As a result of this reclassification, we eliminated the allowance for cancellation on these performance obligations.

## 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, 2019, 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, 2019 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, 2019 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, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019, 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, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Item 9B. Other Information

No other information.

# 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 2020 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, 2019:

| 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 | 7,309,446 | $ 27.53 | 7,148,871 |

# 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 41 of this report.

(3) Exhibits:

### Exhibit Index
### Pursuant to Item 601 of Reg. S-K

| Exhibit Number | | Description |
|---|---|---|
| 3.1 | — | Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-10867 on Form S-3). |
| 3.2 | — | Articles of Amendment to Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended September 30, 1996). |
| 3.3 | — | Certificate of Amendment to Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Form 8-K filed May 25, 2018). |
| 3.4 | — | Statement of Resolution Establishing Series of Shares of Series D Junior Participating Preferred Stock, dated July 27, 1998 (Incorporated by reference to Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 1998). |
| 3.5 | — | Bylaws of the Company. (Incorporated by reference to Exhibit 3.4 to Form 8-K filed May 25, 2018). |
| 4.1 | — | Senior Indenture dated as of February 1, 1993 by and between the Company and The Bank of New York, as trustee (Incorporated by reference as Exhibit 4.1 to Form S-4 filed September 2, 2004 (File No. 333-118763)). |
| 4.2 | — | Agreement of Resignation, Appointment of Acceptance, dated December 12, 2005, among the Company, The Bank of New York and The Bank of New York Trust Company, N.A., appointing a successor trustee for the Senior Indenture dated as of February 1, 1993 (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the fiscal quarter ended June 30, 2005). |
| 4.3 | — | Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. |
| 10.1 | — | Retirement Plan For Non-Employee Directors (Incorporated by reference by Exhibit 10.1 to Form 10-K for the year ended December 31, 2018). |
| 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 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). |
| 10.5 | — | 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). |
| 10.6 | — | 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). |

| Exhibit Number | | Description |
|---|---|---|
| 10.7 | — | Employment and Noncompetition Agreement, dated December 7, 2016, between OFTC, Inc. and Gregory T. Sangalis (Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 2018). |
| 10.8 | — | Employment and Noncompetition Agreement, dated December 7, 2016, between OFTC, Inc. and Steven A. Tidwell. |
| 10.9 | — | Form of Employment and Noncompetition Agreement pertaining to executive officers. |
| 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 (Incorporated by reference to Exhibit 10.21 to Form 10-K for the fiscal year ended December 31, 2017.) |
| 10.22 | — | Fifth Amendment to the 401 (k) Retirement Savings Plan (Incorporated by reference to Exhibit 10.22 to Form 10-K for the fiscal year ended December 31, 2018). |
| 10.23 | — | Sixth Amendment to the 401 (k) Retirement Savings Plan (Incorporated by reference to Exhibit 10.23 to Form 10-K for the fiscal year ended December 31, 2018). |
| 10.24 | — | Seventh Amendment to 401(k) Retirement Savings Plan (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended June 30, 2019). |
| 10.25 | — | Amended and Restated Director Fee Plan (Incorporated by reference to Annex C to Proxy Statement dated April 1, 2011). |
| 10.26 | — | 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). |
| 10.27 | — | 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). |
| 10.28 | — | Deferred Compensation Plan 2017 as Amended and Restated Effective January 1, 2017 (Incorporated by reference to Exhibit 10.25 to Form 10-K for the fiscal year ended December 31, 2017). |
| 10.29 | — | Amendment One to the Deferred Compensation Plan 2017 (Incorporated by reference to Exhibit 10.28 to Form 10-Q for the quarterly period ended March 31, 2019). |
| 10.30 | — | Form of Performance Unit Grant Award Agreement (Incorporated by reference to Exhibit 10.29 to Form 10-Q for the quarterly period ended March 31, 2019). |
| 10.31 | — | Credit Agreement, dated May 21, 2019, between Service Corporation International, JPMorgan Chase Bank, N.A., as administrative agent, and certain other financial institutions, as lenders thereto (Incorporated by reference to Exhibit 10.1 to Form 8-K filed May 23, 2019). |

| Exhibit Number | | Description |
|---|---|---|
| 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 formatted Inline XBRL. |
| 104 | — | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

In the above list, the management contracts or compensatory plans or arrangements are set forth in Exhibits 10.1 through 10.30.

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 18, 2020

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

| Signature | Title | Date |
|---|---|---|
| /s/ THOMAS L. RYAN<br>(Thomas L. Ryan) | President, Chief Executive Officer,and Chairman of the Board (Principal Executive Officer) | February 18, 2020 |
| /s/ ERIC D. TANZBERGER<br>(Eric D. Tanzberger) | Senior Vice President, Chief Financial Officer (Principal Financial Officer) | February 18, 2020 |
| /s/ TAMMY R. MOORE<br>(Tammy R. Moore) | Vice President and Corporate Controller (Principal Accounting Officer) | February 18, 2020 |
| /s/ ANTHONY L. COELHO*<br>(Anthony L. Coelho) | Lead Independent Director | February 18, 2020 |
| /s/ ALAN R. BUCKWALTER, III*<br>(Alan R. Buckwalter, III) | Director | February 18, 2020 |
| /s/ JAKKI L. HAUSSLER*<br>(Jakki L. Haussler) | Director | February 18, 2020 |
| /s/ VICTOR L. LUND*<br>(Victor L. Lund) | Director | February 18, 2020 |
| /s/ CLIFTON H. MORRIS, JR.*<br>(Clifton H. Morris, Jr.) | Director | February 18, 2020 |
| /s/ ELLEN OCHOA*<br>(Ellen Ochoa) | Director | February 18, 2020 |
| /s/ SARA MARTINEZ TUCKER*<br>(Sara Martinez Tucker) | Director | February 18, 2020 |
| /s/ W. BLAIR WALTRIP*<br>(W. Blair Waltrip) | Director | February 18, 2020 |
| /s/ MARCUS A. WATTS*<br>(Marcus A. Watts) | Director | February 18, 2020 |
| *By /s/ GREGORY T. SANGALIS<br>(Gregory T. Sangalis, as Attorney-In-Fact for each of the Persons indicated) | | February 18, 2020 |

**Exhibit 4.3**

# DESCRIPTION OF SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following description of the common stock, par value $1.00 per share, of Service Corporation International (“SCI”) is based upon SCI’s Restated Articles of Incorporation, as amended (the “Articles”), SCI’s Bylaws (the “Bylaws”), and applicable provisions of law. We have summarized certain portions of the Articles and Bylaws below. The summary is not complete and is subject to, and is qualified in its entirety by express reference to, the provisions of the Articles and Bylaws, each of which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part. References to “we”, “our” and “us” refer to SCI, unless the context otherwise requires. References to “shareholders” refer to holders of our common stock.

## Authorized Capital Stock

Our authorized capital stock under our Articles consists of 500,000,000 shares of common stock and 1,000,000 shares of preferred stock, par value $1.00 per share.

## Common Stock

The common stock is listed on the New York Stock Exchange under the symbol “SCI.” Computershare serves as the transfer agent and registrar for our common stock.

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the shareholders.

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of us, subject to prior distribution rights of preferred stock, if any, then outstanding, the holders of common stock are entitled to receive all of the remaining assets available for distribution.

Shareholders have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our common stock. The issued and outstanding shares of common stock are, and any shares of common stock issued will be, fully paid and non-assessable. The rights, preferences and privileges of shareholders are subject to and may be adversely affected by the rights of the holders of shares of any series of preferred stock that we may designate in the future.

Holders of our common stock are entitled to receive dividends as declared by the Board of Directors of SCI (the “Board of Directors”) out of funds legally available for the payment of dividends, subject to preferential dividend rights of preferred stock, if any, then outstanding.

## Certain Antitakeover Effects of Texas Law

We are subject to Section 21.606 of the Texas Business Organizations Code (the “TBOC”). In general, the law prohibits Texas corporations from engaging in a wide range of specified transactions with any affiliated shareholder during the three-year period immediately following the affiliated shareholder’s acquisition of shares in the absence of certain board of director or shareholder approvals. An affiliated shareholder of a corporation is any person, other than the corporation and any of its wholly owned subsidiaries, that is or was within the preceding three-year period the beneficial owner of 20% or more of the outstanding shares of stock entitled to vote generally in the election of directors. Section 21.606 may make it more difficult for a person who would be an affiliated shareholder to effect various business combinations with a corporation for a three-year period.

**Certain Provisions of our Articles and Bylaws**

In addition to the restrictions of the TBOC, a number of provisions in our Articles and our Bylaws could have an effect of delaying, deferring, or preventing a change in control of us in the context of a merger, reorganization, tender offer, sale or transfer of substantially all of our assets, or liquidation involving us.

Our Articles require the affirmative vote of holders of two-thirds of the outstanding shares of our capital stock to approve certain mergers, consolidations, sales, leases and exchanges with shareholders that own more than 10% of any class of our capital stock.

Our Articles and Bylaws provide that the number of directors shall not be less than 9 nor more than 15, with the number of directors to be fixed from time to time by resolution of the Board of Directors. In the event of a vacancy (other than by an increase in the number of directors), a majority of the remaining directors have the sole power to fill such vacancy. Our Board of Directors is not classified, and all directors are elected to hold office for a term expiring at our next succeeding annual meeting; however, any director elected for a longer term before our 2019 annual meeting shall hold office for the entire term for which he or she was originally elected. No cumulative voting is allowed in the election of directors or for any other purpose.

Pursuant to our Bylaws, the timing of our annual meeting is determined by the Board of Directors. Special meetings of the shareholders may be called by the Board of Directors, the chair of the Board of Directors, the Chief Executive Officer or shareholders owning at least 10% of all outstanding shares entitled to vote. The Bylaws set forth advance notice procedures with respect to shareholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the Board of Directors.

Our Board of Directors could create and issue a series of preferred stock with rights, privileges or restrictions that effectively discriminate against an existing or prospective shareholder as a result of the holder’s beneficially owning or commencing a tender offer for a substantial amount of common stock. One of the effects of authorized but unissued and unreserved shares of capital stock may be to make it more difficult for or discourage an attempt by a potential acquirer to obtain control of us by means of a merger, tender offer, proxy contest or otherwise. The issuance of these shares of capital stock may defer or prevent a change in control of us without any further shareholder action.

**Exhibit 10.8**

# EMPLOYMENT AND NONCOMPETITION AGREEMENT

THIS AGREEMENT is made and effective this 7th day of December, 2016 between OFTC, Inc., a Delaware corporation (the "Company"), and Steve A. Tidwell (the "Employee"):

## ARTICLE I
## EMPLOYMENT

1.1 Employment Term. The Company agrees to employ the Employee and the Employee agrees to accept such employment, in accordance with the terms and conditions of this Agreement, for the period beginning on the date of this Agreement and ending as of the close of business on December 31, 2017 (such period together with all extensions thereof are referred to hereinafter as the "Employment Term"); provided, however, that commencing on January 1, 2018, and on each January 1 thereafter (each such date shall be hereinafter referred to as a "Renewal Date"), the Employment Term shall be extended so as to terminate one year from such Renewal Date if (i) the Company notifies the Employee in writing of such extension at least thirty days prior to such Renewal Date and (ii) the Employee has not previously given the Company written notice that the Employment Term shall not be so extended. In the event that the Company gives the Employee written notice at any time of its intention not to renew the Employment Term, then the Employment Term shall terminate on December 31 of the year in which such notice of non-renewal is given and shall not thereafter be further extended. If the Company fails to notify the Employee at least thirty days prior to a Renewal Date either of its intention to extend the Employment Term as provided above or its intention not to so extend the Employment Term, then the Employment Term shall not be extended and shall terminate as of the day prior to such Renewal Date.

1.2 Duties. The Employee shall serve the Company in an executive or managerial capacity and shall hold such title as may be authorized from time to time by the Board of Directors of Service Corporation International ("SCI"). The Employee shall have the duties, powers and authority consistent therewith and such other powers as are delegated to him in writing from time to time by the Board of Directors of SCI. If the Employee is elected to any office or other position with the Company during the term of this Agreement, the Employee will serve in such capacity or capacities without further compensation unless the Compensation Committee (the "Compensation Committee") of the Board of Directors of SCI authorizes additional compensation. The Employee's title and duties may be changed from time to time at the discretion of the Company. The Employee also agrees to perform, without additional compensation, such other services for the Company and for any subsidiary or affiliated corporations of the Company or for any partnerships in which the Company has an interest, as the Company shall from time to time specify. The term "Company" as used hereinafter shall be deemed to include and refer to subsidiaries and affiliated corporations and partnerships. Employee agrees and acknowledges that he owes, and will comply with, a fiduciary duty of loyalty, fidelity and allegiance to act at all times in the best interests of the Company and to take no action or fail to take action if such action or failure to act would injure the Company's business, its interests or its reputation.

1.3 Extent of Service. During the Employment Term, the Employee shall devote his full time, attention and energy to the business of the Company, and, except as may be specifically permitted by the Company, shall not be engaged in any other business activity during the term of this Agreement. The foregoing shall not be construed as preventing the Employee from making passive investments in other businesses or enterprises, provided, however, that such investments will not: (1) require services on the part of the Employee which would in any way impair the performance of his duties under this Agreement, or (2) in any manner significantly interfere with Employee's responsibilities as an Employee of the Company in accordance with this Agreement.

1.4 Compensation.

(a) Salary. The Company shall pay to the Employee a salary at the rate in effect for Employee at the date of this Agreement. Such salary is to be payable in installments in accordance with the payroll policies of the Company in effect from time to time during the term of this Agreement. The Company may (but is not required to) make such upward adjustments to the Employee's salary as it deems appropriate from time to time.

(b) Incentive Compensation. In addition to the above salary, the Employee shall be eligible annually for incentive compensation at the discretion of the Compensation Committee.

(c) Other Benefits. The Employee shall be reimbursed in accordance with the Company's normal expense reimbursement policy for all of the actual and reasonable costs and expenses accrued by Employee in the performance of his or her services and duties hereunder, including but not limited to, travel and entertainment expenses. The Employee shall be entitled to participate in all insurance, stock options, retirement plans and other benefit plans or programs as may be from time to time specifically adopted and approved by the Company for its employees, in accordance with the eligibility requirements and any other terms and conditions of such plans. It is understood and agreed between the parties hereto that the Company reserves the right, at its sole discretion, to modify, amend or terminate such plans, programs or benefits at any time.

1.5 Termination.

(a) Death. If the Employee dies during the term of this Agreement and while in the employ of the Company, this Agreement shall automatically terminate and the Company shall have no further obligation to the Employee or his estate except that (i) the Company shall continue to pay the Employee's estate the Employee's salary in installments through the end of the Employment Term which was in effect immediately prior to Employee's death, (ii) the Company shall pay the Employee's estate any applicable Pro Rated Bonus (defined hereinbelow). and (iii) the Company will provide to Employee’s family members who previously had such coverage, continuation of Employee’s Group Health and Dental Coverage and ArmadaCare program (including pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986 (“COBRA”) to the extent applicable) for a period of eighteen months beginning the month following such date of termination, with such family members paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company.

(b) Disability. If during the term of this Agreement, the Employee shall be prevented from performing his duties hereunder by reason of disability, then the Company, on 30 days' prior notice to the Employee, may terminate Employee's employment under this Agreement. For purposes of this Agreement, the Employee shall be deemed to have become disabled when the Company, upon the advice of a qualified physician, shall have determined that the Employee has become physically or mentally incapable (excluding infrequent and temporary absences due to ordinary illness) of performing his duties under this Agreement. In the event of a termination pursuant to this paragraph 1.5(b), the Company shall be relieved of all of its obligations under this Agreement, except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death), (i) the Employee's salary in installments through the end of the Employment Term which was in effect immediately prior to Employee's disability, (ii) any applicable Pro Rated Bonus, and (iii) continuation of Employee’s Group Health and Dental coverage and ArmadaCare program (including pursuant to COBRA to the extent applicable) for a period of eighteen months beginning the month following such date of termination, with Employee paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company. Before making any termination decision pursuant to this Section 1.5(b), the Company shall determine whether there is any reasonable accommodation (within the meaning of the Americans With Disabilities Act) which would enable the Employee to perform the essential functions of the Employee's position under this Agreement despite the existence of any such disability. If such a reasonable accommodation is possible, the Company shall make that accommodation and shall not terminate the Employee's employment hereunder during the Employment Term based on such disability.

(c) Certain Discharges. Prior to the end of the Employment Term, the Company may discharge the Employee for Cause and terminate Employee's employment hereunder without notice and without any further liability hereunder to Employee or his estate except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death), (i) salary accrued to the date of termination, and (ii) continuation of Employee’s Group Health and Dental coverage program pursuant to COBRA to the extent applicable, for a period of eighteen months beginning the month following such date of termination, with Employee paying all premiums. For purposes of this Agreement, "Cause" shall mean a determination by the Company that Employee: (i) has been convicted of a crime involving moral turpitude; (ii) has regularly failed or refused to follow policies or directives established by the Company or the Board of Directors of SCI; (iii) has willfully and persistently failed to attend to his duties; (iv) has committed acts amounting to gross negligence or willful misconduct to the detriment of the Company or its affiliates; (v) has violated any of his obligations under Articles II or III of this Agreement; or (vi) has otherwise breached any of the terms or provisions of this Agreement.

(d) Without Cause. Prior to the end of the Employment Term, the employment of the Employee with the Company may be terminated by the Company other than for Cause, death or disability. Unless such event occurs during the CoC Protection Period, the Company shall have no further obligation to Employee or his estate except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death), (i) bi-weekly salary continuation payments calculated based on Employee’s rate of salary as in effect immediately prior to Employee’s termination, which shall continue for a period equal to two years from such date of termination, each of which shall be treated as a separate payment obligation of the Company, (ii) any applicable Pro Rated Bonus and (iii) continuation of Employee's Group Health and Dental coverage and ArmadaCare program (including pursuant to COBRA to the extent applicable) for a period of eighteen months beginning the month following such date of termination, with Employee paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company.

(e) Voluntary Termination by Employee. If during the term of this Agreement, the Employee voluntarily terminates his employment with the Company other than for Good Reason, the Company shall be relieved of all of its obligations under this Agreement, except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death) (i) the Employee's salary through the date of Employee's termination, (ii) any incentive compensation under Section 1.4(b) determined by the Compensation Committee for any fiscal period ended prior to the date of Employee's termination which had not been paid at the time of his termination, and (iii) continuation of Employee’s Group Health and Dental coverage program pursuant to COBRA to the extent applicable, for a period of eighteen months beginning the month following such date of termination, with employee paying all premiums. All such payments of salary or incentive compensation to the Employee or his estate shall be made in the same manner and at the same times as the Employee's salary or incentive compensation would have been paid to the Employee had he not terminated his employment.

(f) Change of Control. If during the CoC Protection Period the Employee's employment is (i) terminated by the Company other than for Cause, death or disability, or (ii) terminated by Employee after an occurrence of any Good Reason (except under circumstances which would be grounds for termination of Employee by the Company for Cause), then the Company shall be relieved of all of its obligations under this Agreement, except that the Company shall pay or provide the Employee (or his estate, in the event of his subsequent death) the following amounts:

(1) Three, multiplied by the sum of Employee's most recently set Target Bonus plus his annual salary in effect immediately prior to the CoC Protection Period, which amount will be paid in a lump sum in cash within 30 days after the later of the date of the Change of Control or Employee's date of termination; and

(2) Partial Bonus, to be paid within 30 days after the later of the date of the Change of Control or Employee's date of termination; and

(3) Continuation of Employee's Group Health and Dental coverage and ArmadaCare program (including pursuant to COBRA to the extent applicable) for a period of eighteen months beginning the month following the later of the date of the Change of Control or such date of termination, with Employee paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company.

The obligations of the Company under this Section 1.5(f) shall remain in effect for the CoC Protection Period notwithstanding the fact that such CoC Protection Period may extend beyond the expiration of the Employment Term.

Amounts payable under this paragraph (f) of Section 1.5 shall be reduced to the extent of any amounts paid by the Company under paragraph (d) of Section 1.5.

(g) <u>Post Employment Term Matters.</u> In the event the Employment Term terminates because it is not extended or renewed pursuant to Section 1.1, then the Company shall be relieved of all of its obligations under this Agreement and Employee will thereafter be an employee "at will" of the Company.

(h) <u>Release.</u> As a condition to the payment of any benefit related to the termination of employment, including without limitation severance, vesting of options or restricted stock, or other benefits, including any amounts otherwise payable under the Executive Deferred Compensation Plan, the Employee (or Employee’s executor, legal guardian, or other legal representative in the case of the Employee’s death or disability) shall execute and not revoke a waiver and release of all claims against the Company and its affiliates in a form reasonably acceptable to the Company within 21 days following the Employee’s termination date.

## ARTICLE II
## INFORMATION

2.1 <u>Nondisclosure of Information.</u> The Employee acknowledges that in the course of his employment by the Company he will receive certain trade secrets, which may include, but are not limited to, programs, lists of acquisition or disposition prospects and knowledge of acquisition strategy, financial information and reports, lists of customers or potential customers and other confidential information and knowledge concerning the business of the Company (hereinafter collectively referred to as "Information") which the Company desires to protect. The Employee understands that the Information is confidential and agrees not to reveal the Information to anyone outside the Company so long as the confidential or secret nature of the Information shall continue, unless compelled to do so by any federal or state regulatory agency or by a court order. If Employee becomes aware that disclosure of any Information is being sought by such an agency or through a court order, Employee will immediately notify the Company. The Employee further agrees that he will at no time use the Information in competing with the Company. Upon termination of Employee's employment with the Company, the Employee shall surrender to the Company all papers, documents, writings and other property produced by him or coming into his possession by or through his employment or relating to the Information, and the Employee agrees that all such materials are and will at all times remain the property of the Company and to the extent the Employee has any rights therein, he hereby irrevocably assigns such rights to the Company. The foregoing notwithstanding, Employee understands that neither this Agreement nor any other agreement or policy of the Company limits Employee’s ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission (“Government Agencies”). Employee further understands that this Agreement does not limit Employee’s ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company.

2.2 <u>Disclosure of Information, Ideas, Concepts, Improvements, Discoveries and Inventions.</u> As part of the Employee's fiduciary duties to the Company, Employee agrees that during his employment by the Company, and for a period of six months after the termination of the employment relationship for any reason, Employee shall promptly disclose in writing to the Company all information, ideas, concepts, improvements, discoveries and inventions, whether patentable or not, and whether or not reduced to practice, which are conceived, developed, made or acquired by Employee, either individually or jointly with others, and which relate to the business, products or services of the Company or any of its subsidiaries or affiliates, irrespective of whether Employee utilized the Company's time or facilities and irrespective of whether such information, idea, concept, improvement, discovery or invention was conceived, developed, discovered or acquired by the Employee on the job, at home, or elsewhere. This obligation extends to all types of information, ideas and concepts, including information, ideas and concepts relating to new types of services, corporate opportunities, acquisition prospects, the identity of key representatives within acquisition prospect organizations, prospective names or service marks for the Company's business activities, and the like.

2.3 Immunity. As provided by the Defend Trade Secrets Act, 28 U.S.C. §1833(b) (the “DTSA”), Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in confidence to a Federal, State, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law. The DTSA further provides that Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, provided such filing is made under seal. In the event Employee files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Employee may disclose the trade secret to Employee’s attorney and use the trade secret information in the court proceeding, provided Employee files any document containing the trade secret under seal; and does not disclose the trade secret, except pursuant to court order.

2.4 <u>Ownership of Information, Ideas, Concepts, Improvements, Discoveries and Inventions and All Original Works of Authorship.</u>

(a) All information, ideas, concepts, improvements, discoveries and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee or which are disclosed or made known to Employee, individually or in conjunction with others, during Employee's employment by the Company and which relate to the Company's business, products or services (including but not limited to all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organization or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names and marks), are and shall be the sole and exclusive property of the Company. Moreover, all drawings, memoranda, notes, records, files, correspondence, manuals, models, specifications, computer programs, maps and all other writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries and inventions are and shall be the sole and exclusive property of the Company.

(b) In particular, Employee hereby specifically sells, assigns and transfers to the Company all of his worldwide right, title and interest in and to all such information, ideas, concepts, improvements, discoveries or inventions described in Section 2.3 (a) above, and any United States or foreign applications for patents, inventor's certificates or other industrial rights that may be filed thereon, including divisions, continuations, continuations-in-part, reissues and/or extensions thereof, and applications for registration of such names and marks. Both during the period of Employee's employment by the Company and thereafter, Employee shall assist the Company and its nominees at all times in the protection of such information, ideas, concepts, improvements, discoveries or inventions both in the United States and all foreign countries, including but not limited to the execution of all lawful oaths and all assignment documents requested by the Company or its nominee in connection with the preparation, prosecution, issuance or enforcement of any applications for United States or foreign letters patent, including divisions, continuations, continuations-in-part, reissues, and/or extensions thereof, and any application for the registration of such names and marks.

(c) Moreover, if during Employee's employment by the Company, Employee creates any original work of authorship fixed in any tangible medium of expression which is the subject matter of copyright (such as videotapes, written presentations on acquisitions, computer programs, drawing, maps, architectural renditions, models, manuals, brochures or the like) relating to the Company's business, products, or services, whether such work is created solely by Employee or jointly with others, the Company shall be deemed the author of such work if the work is prepared by Employee in the scope of his or her employment; or, if the work is not prepared by Employee within the scope of his or her employment but is specially ordered by Company as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation or as an instructional text, then the work shall be considered to be work made for hire and the Company shall be considered the author of the work. In the event such work is neither prepared by the Employee within the scope of his or her employment or is not a work specially ordered and deemed to be a work made for hire, then Employee hereby agrees to assign, and by these presents, does assign, to the Company all of Employee's worldwide right, title and interest in and to the work and all rights of copyright therein. Both during the period of Employee's employment by the Company and thereafter, Employee agrees to assist the Company and its nominee, at any time, in protection of the Company's worldwide right, title and interest in and to the work and all rights of copyright therein, including but not limited to, the execution of all formal assignment documents requested by the Company or its nominees and the execution of all lawful oaths and applications for registration of copyright in the United States and foreign countries.

## ARTICLE III
## NONCOMPETITION

3.1 <u>Noncompetition.</u> During the Employment Term (and for a period of one or two years thereafter if the Company exercises its options under Section 3.2 hereof), Employee shall not, acting alone or in conjunction with others, directly or indirectly, in any market in which the Company or any of its affiliated companies conducts business, work for or engage in any business in competition with the business conducted by the Company or any of its affiliated companies, whether for his own account or by soliciting, canvassing or accepting any business or transaction for or from any other company or business in competition with such business of the Company or any of its affiliated companies. In the event that a court should determine that any restriction herein is unenforceable, the parties hereto agree that the obligations under this paragraph shall be enforceable for the maximum term and maximum geographical area allowable by law.

3.2 Extension. The Company shall have the option to extend Employee's obligations under Section 3.1 for one additional year (the "First Extension Term") beyond the end of the Employment Term. If the Company exercises such option, it shall be required to pay Employee an amount equal to one year's salary, based on Employee's salary rate as of the date his employment with the Company ceased (the "Noncompetition Payment"). Such Noncompetition Payment shall be made in 12 equal monthly installments (each installment being an amount equal to 1/12th of such annual salary) commencing on the date which is thirty (30) days after the last day of the Employment Term. Subsequent payments shall be made on the same day of each succeeding month until 12 payments have been made. If the Employee breaches his noncompetition obligations, the Company shall be entitled to cease making such monthly payments. The purpose of this paragraph is to make the noncompetition obligation of the Employee more reasonable from the Employee's point of view. The amounts to be paid by the Company are not intended to be liquidated damages or an estimate of the actual damages that would be sustained by the Company if the Employee breaches his post-employment noncompetition obligation. If the Employee breaches his post-employment noncompetition obligation, the Company shall be entitled to all of its remedies at law or in equity for damages and injunctive relief. The Company may exercise the option conferred by this paragraph at any time within 30 days after the last day of the Employment Term by mailing written notice of such exercise to Employee.

If the Company exercises its option to extend Employee's obligations as set forth in the preceding paragraph, then the Company shall have the option to extend Employee's obligations under Section 3.1 for one additional year (the "Second Extension Term") beyond the end of the First Extension Term. If the Company exercises its option to extend Employee's obligations for the Second Extension Term, the rights and obligations of the parties set forth in the preceding paragraph shall be applicable during the Second Extension Term. The Company may exercise the option conferred by this paragraph at any time within 30 days after the last day of the First Extension Term by mailing written notice of such exercise to Employee.

3.3 Termination For Cause or Termination By Employee. Notwithstanding anything to the contrary in this Agreement, in the event that Employee's employment hereunder is terminated for Cause pursuant to Section 1.5 (c) hereof, or in the event Employee voluntarily terminates the employment relationship for any reason other than a material breach of this Agreement by the Company, the noncompetition obligations of Employee described in Section 3.1 above shall automatically continue for a period of two years from the date the employment relationship ceases, and the Company shall not be required to (i) make any payments to Employee in consideration for such obligations, or (ii) provide any notice to Employee. Notwithstanding the foregoing this Section 3.3 shall not be applicable in the event Employee voluntarily terminates the employment relationship for Good Reason within twenty four months after a Change of Control that occurs during the Employment Term; provided however, the first clause of this sentence shall be null and void if such termination referenced therein occurs under circumstances which would be grounds for termination of Employee by the Company for Cause.

3.4 Obligations to Refrain From Competing Unfairly. In addition to the other obligations agreed to by Employee in this Agreement, Employee agrees that during the Employment Term and for five (5) year(s) thereafter, he shall not at any time, directly or indirectly for the benefit or any other party than the Company or any of its affiliated companies, (a) induce, entice, or solicit any employee of the Company or any of its affiliated companies to leave his employment, or (b) contact, communicate or solicit any customer of the Company or any of its affiliated companies derived from any customer list, customer lead, mail, printed matter or other information secured from the Company or any of its affiliated companies or their present or past employees, or (c) in any other manner use any customer lists or customer leads, mail, telephone numbers, printed material or material of the Company or any of its affiliated companies relating thereto.

3.5 Acknowledgement. Employee acknowledges that Employee's compliance with the provisions of this Article III is necessary to protect the existing goodwill and other proprietary rights of the Company, as well as all goodwill and relationships that may be acquired or enhanced during the course of Employee's employment with the Company, and all confidential information which may come into existence or to which Employee may have access during his employment with the Company. Employee further acknowledges that Employee will become familiar with certain of the Company's affairs, operations, customers and confidential information and data by means of his employment with the Company, and that failure to comply with the provisions of this Article III will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law. The Company shall be entitled to all of its remedies at law or in equity for damages and injunctive relief in the event of any violation of this Article III by Employee.

ARTICLE IV
MISCELLANEOUS

4.1 Notices. All notices, requests, consents and other communications under this Agreement shall be in writing and shall be deemed to have been delivered on the date personally delivered or on the date mailed, postage prepaid, by certified mail, return receipt requested, or telegraphed and confirmed if addressed to the respective parties as follows:

If to the Employee:

_______________________________
_______________________________
_______________________________

If to the Company:

President
c/o OFTC, Inc.
1929 Allen Parkway
Houston, Texas 77019
Attention: Legal Department

Either party hereto may designate a different address by providing written notice of such new address to the other party hereto.

4.2 Entire Agreement. This Agreement replaces and merges all previous agreements and discussions relating to the same or similar subject matters between Employee and the Company (or any of its affiliates) and constitutes the entire agreement between the Employee and the Company (and any of its affiliates) with respect to the subject matter of this Agreement. Any existing employment agreement between the Employee and the Company (or any of its affiliates) is hereby terminated, effective immediately. This Agreement may not be modified in any respect by any verbal statement, representation or agreement made by an employee, officer, or representative of the Company or by any written agreement unless signed by an officer of the Company who is expressly authorized by the Company to execute such document.

4.3 Specific Performance. The Employee acknowledges that a remedy at law for any breach of Article II or III of this Agreement will be inadequate, agrees that the Company shall be entitled to specific performance and injunctive and other equitable relief in case of any such breach or attempted breach, and further agrees to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or any other equitable relief.

4.4 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid or unenforceable under applicable law, such provision shall be ineffective to the extent of such prohibition, invalidity or unenforceability without invalidating the remainder of such provision or the remaining provisions of this Agreement.

4.5 Assignment. This Agreement may not be assigned by the Employee. Neither the Employee, his spouse, nor his estate shall have any right to commute, encumber or dispose of any right to receive payments hereunder, it being understood that such payments and the right thereto are nonassignable and nontransferable. This Agreement may be assigned by the Company.

4.6 Binding Effect. Subject to the provisions of Section 4.5 of this Agreement, this Agreement shall be binding upon and inure to the benefit of the parties hereto, the Employee's heirs and personal representatives, and the successors and assigns of the Company.

4.7 Captions. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

4.8 Governing Law. This Agreement shall be construed and enforced in accordance with, and governed by, the laws of Texas.

4.9 Counterparts. This Agreement may be executed in multiple original counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument.

4.10 Survival of Certain Obligations. Employee's obligations under Articles II and III hereof shall survive any termination of Employee's employment hereunder.

4.11 Waiver. The waiver by either party of any right hereunder or of any breach of this Agreement shall not operate as or be construed to be an amendment of this Agreement or a waiver of any future right or breach.

4.12 Gender. All references to the masculine pronoun herein are used for convenience and ease of reading only and are intended and apply to the feminine gender as well.

4.13 Dispute Resolution.

(a) Employee and the Company agree that, except for the matters identified in Section 4.13(b) below, all disputes relating to any aspects of Employee's employment with the Company shall be resolved by binding arbitration. This includes, but is not limited to, any claims against the Company, its affiliates or their officers, directors, employees, or agents for breach of contract, wrongful discharge, discrimination, harassment, defamation, misrepresentation, and emotional distress, as well as any disputes pertaining to the meaning or effect of this Agreement.

(b) It is expressly agreed that this Section 4.13 shall not govern claims for workers' compensation or unemployment benefits, or any claim by the Company against Employee which is based on fraud, theft or other dishonest conduct of Employee.

(c) Any claim which either party has against the other must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim. Otherwise, the claim shall be deemed waived and forever barred even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(d) Each party may retain legal counsel and shall pay its own costs and attorneys' fees, regardless of the outcome of the arbitration. Each party shall pay one-half of the compensation to be paid to the arbitrators, as well as one-half of any other costs relating to the administration of the arbitration proceeding (for example, room rental, court reporter, etc.).

(e) An arbitrator shall be selected by mutual agreement of the parties. If the parties are unable to agree on a single arbitrator, each party shall select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. The three arbitrators so selected will then hear and decide the matter. All arbitrators must be attorneys, judges or retired judges who are licensed to practice law in the state where the Employee is or most recently was employed by the Company. The arbitration proceedings shall be conducted within the county in which Employee is or most recently was employed by the Company or at another mutually agreeable location.

(f) Except as otherwise provided herein, the arbitration proceedings shall be conducted in accordance with the statutes, rules or regulations governing arbitration in the state in which Employee is or most recently was employed by the Company. In the absence of such statutes, rules or regulations, the arbitration proceedings shall be conducted in accordance with the employment arbitration rules of the American Arbitration Association ("AAA"); provided however, that the foregoing reference to the AAA rules shall not be deemed to require any filing with that organization, nor any direct involvement of that organization. In the event of any inconsistency between this Agreement and the statutes, rules or regulations to be applied pursuant to this paragraph, the terms of this Agreement shall apply.

(g) The arbitrator shall issue a written award, which shall contain, at a minimum, the names of the parties, a summary of the issues in controversy, and a description of the award issued. Upon motion to a court of competent jurisdiction, either party may obtain a judgment or decree in conformity with the arbitration award, and said award shall be enforced as any other judgment or decree.

(h) In resolving claims governed by this Section 4.13, the arbitrator shall apply the laws of the state in which Employee is or most recently was employed by the Company, and/or federal law, if applicable.

(i) Employee and the Company agree and acknowledge that any arbitration proceedings between them, and the outcome of such proceedings, shall be kept strictly confidential; provided however, that the Company may disclose such information to the extent required by law and to its employees, agents and professional advisors who have a legitimate need to know such information, and the Employee may disclose such information (1) to the extent required by law, (2) to the extent that the Employee is required to disclose same to professional persons assisting Employee in preparing tax returns; and (3) to Employee's legal counsel.

4.14 Certain Definitions. The following defined terms used in this Agreement shall have the meanings indicated:

Change of Control. "Change of Control" means the happening of any of the following events:

(a) 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 (A) the then outstanding shares of Common Stock of SCI (the "Outstanding SCI Common Stock") or (B) the combined voting power of the then outstanding voting securities of SCI entitled to vote generally in the election of directors (the "Outstanding SCI Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control under this subsection (a): (i) any acquisition directly from SCI (excluding an acquisition by virtue of the exercise of a conversion privilege), (ii) any acquisition by SCI, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by SCI or any corporation controlled by SCI, or (iv) 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 (c) of this definition of "Change of Control" are satisfied; or

(b) Individuals who, as of the effective date hereof, constitute the Board of Directors of SCI (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of SCI; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by SCI's shareholders, was approved by (A) a vote of at least a majority of the directors then comprising the Incumbent Board, or (B) a vote of at least a majority of the directors then comprising the Executive Committee of the Board of Directors of SCI 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 (b), 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 Directors of SCI; or

(c) Consummation 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 SCI Common Stock and Outstanding SCI Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding SCI Common Stock and Outstanding SCI Voting Securities, as the case may be, (B) no Person (excluding SCI, any employee benefit plan (or related trust) of SCI 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 SCI Common Stock or Outstanding SCI 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

(d) Consummation of a sale or other disposition of all or substantially all of the assets of SCI other than to a corporation, with respect to which following such sale or other disposition, (i) 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 the beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding SCI Common Stock and Outstanding SCI 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 SCI Common Stock and Outstanding SCI Voting Securities, as the case may be, (ii) no Person (excluding SCI and any employee benefit plan (or related trust) of SCI 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 SCI Common Stock or Outstanding SCI 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 (iii) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board of Directors of SCI providing for such sale or other disposition of assets of SCI; or

(e) Approval by the shareholders of SCI of a complete liquidation or dissolution of SCI.

<u>“CoC Protection Period”</u> shall mean the period commencing sixty (60) days prior to a Change of Control and ending twenty-four months after the date upon which a Change of Control occurs.”

<u>Good Reason.</u> "Good Reason" shall mean the occurrence of any of the following during the CoC Protection Period:

(a) The Company requires the Employee to be relocated more than 50 miles from the current office location, unless the Employee’s commute is reduced by the relocation;

(b) The Company materially reduces the responsibilities, authority or accountability of Employee from the same in effect immediately prior to the Change of Control;

(c) The Company reduces the base salary, Target Bonus or other compensation program participation of Employee; or

(d) The Company materially reduces the aggregate benefits of Employee.

<u>Partial Bonus.</u> "Partial Bonus" shall mean a bonus equal to the product of (i) Employee's most recently set Target Bonus, and (ii) a fraction, the denominator of which is 365 and the numerator of which is the number of days in the fiscal year being considered through the date of the termination of Employee's employment.

<u>Pro Rated Bonus.</u> "Pro Rated Bonus" shall mean, a bonus equal to the product of (i) the bonus Employee did not receive but would have received under Section 1.4(b) if he had remained an employee through the end of the Employment Term, it being understood that the amount of such bonus Employee would have received shall be determined by reference to the average amount of bonus actually awarded to other officers who were at the same or comparable level of responsibility as Employee immediately prior to his termination, and (ii) a fraction, the denominator of which is 365 and the numerator of which is the number of days in the fiscal year being considered through the date of death, determination of disability or notice of termination of employment, whichever is applicable. In the event that a majority of SCI officers do not receive a bonus for the fiscal year being considered, then the Pro Rated Bonus shall not be applicable and Employee shall not be entitled to a Pro Rated Bonus. The Pro Rated Bonus, if any, payable to Employee shall be paid during the period between January 1$^{st}$ and March 14$^{th}$ of the calendar year immediately following the date Employee ceases to be employed by the Company.

<u>Target Bonus.</u> "Target Bonus" shall mean the percentage of salary or level of bonus for Employee which is set by the Compensation Committee at the beginning of each year as an incentive goal to be achieved (it being understood that the actual bonus eventually earned could be lesser or greater than the Target Bonus).

4.15 Section 409A.

(a) Notwithstanding the applicable provisions of this Agreement regarding timing of distribution of payments, the following special rules shall apply in order for this Agreement to comply with Internal Revenue Code Section 409A (“IRC §409A”): (i) to the extent any distribution is to a “specified employee” (as defined under IRC §409A) and to the extent such applicable provisions of IRC §409A require a delay of such distributions by a six month period after the date of such Employee’s separation of service with the Company, the provisions of this Agreement shall be construed and interpreted as requiring a six month delay in the commencement of such distributions thereunder, and (ii) in the event there are any installment payments under this Agreement that are required to be delayed by a six month period in order to comply with IRC §409A, the monthly installments that would have been paid during such six month delay shall be accumulated and paid to the Employee in a single lump sum within five business days after the end of such six month delay, and (iii) the Company shall not have the discretion to prepay any installment payments otherwise provided under this Agreement.

(b) In the event that Employee is required to execute a release to receive any payments from the Company that constitute nonqualified deferred compensation under IRC §409A, payment of such amounts shall not be made or commence until the sixtieth (60th) day following such termination of employment. Any payments that are suspended during the sixty (60) day period shall be paid on the date the first regular payroll is made immediately following the end of such period.

(c) For purposes of this Agreement, any reference to “termination” of Employee’s employment shall be interpreted consistent with the meaning of the term “separation from service” in IRC §409A(a)(2)(A)(i) and any amount payable upon termination of employment which constitutes “nonqualified deferred compensation” under IRC §409A shall not be paid to Employee prior to the date such Employee incurs a separation from service under IRC §409A(a)(2)(A)(i). In addition, to the extent of any compliance issues under IRC §409A, the Agreement shall be construed in such a manner so as to comply with the requirements of such provision so as to avoid any adverse tax consequences to the Employee.

4.16 Limitations on Severance Payment and Other Payments or Benefits.

(a) Limitation on Payments. Notwithstanding any provision of this Agreement, if any portion of any severance payment or any other payment under this Agreement, or under any other agreement with the Employee or plan of the Company or its affiliates (in the aggregate, “Total Payments”), would constitute an “excess parachute payment” and would, but for this Section 4.16, result in the imposition on the Employee of an excise tax under Internal Revenue Code Section 4999 or the disallowance of deductions to the Company under Internal Revenue Code Section 280G (“IRC §280G”), then the Total Payments to be made to the Employee shall either be (i) delivered in full, or (ii) delivered in such amount so that no portion of such Total Payment would be subject to the Excise Tax, whichever of the foregoing results in the receipt by the Employee of the greatest benefit on an after-tax basis (taking into account the applicable federal, state and local income taxes and the Excise Tax).

(b) Determination of Limit. Within forty (40) days following a termination of employment or notice by one party to the other of its belief that there is a payment or benefit due the Employee that will result in an excess parachute payment, the Employee and the Company, at the Company’s expense, shall obtain the opinion (which need not be unqualified) of a nationally recognized tax counsel ("National Tax Counsel") selected by the Company (which may be regular outside counsel to the Company), which opinion sets forth (i) the amount of the Base Period Income (as defined below), (ii) the amount and present value of the Total Payments, (iii) the amount and present value of any excess parachute payments determined without regard to any reduction of Total Payments pursuant to subsection (a), and (iv) the net after-tax proceeds to the Employee, taking into account the tax imposed under IRC §280G if (x) the Total Payments were reduced in accordance with subsection (a) or (y) the Total Payments were not so reduced. The opinion of National Tax Counsel shall be addressed to the Company and the Employee and shall be binding upon the Company and the Employee. If such National Tax Counsel opinion determines that subsection (a)(ii) above applies, then the payments hereunder or any other payment or benefit determined by such counsel to be includable in Total Payments shall be reduced or eliminated so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. In such event, payments or benefits included in the Total Payments shall be reduced or eliminated by applying the following principles, in order: (1) the payment or benefit with the higher ratio of the parachute payment value to present economic value (determined using reasonable actuarial assumptions) shall be reduced or eliminated before a payment or benefit with a lower ratio; (2) the payment or benefit with the later possible payment date shall be reduced or eliminated before a payment or benefit with an earlier payment date; and (3) cash payments shall be reduced prior to non-cash benefits; provided that if the foregoing order of reduction or elimination would violate IRC §409A, then the reduction shall be made pro rata among the payments or benefits described above (on the basis of the relative present value of the parachute payments).

(c) Definitions and Assumptions. For purposes of this Agreement: (i) the terms "excess parachute payment" and "parachute payments" shall have the meanings assigned to them in IRC §280G and such "parachute payments" shall be valued as provided therein; (ii) present value shall be calculated in accordance with IRC §280G(d)(4); (iii) the term "Base Period Income" means an amount equal to the Employee's "annualized includible compensation for the base period" as defined in IRC §280G(d)(1); (iv) for purposes of the opinion of National Tax Counsel, the value of any noncash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of IRC §§280G(d)(3) and (4), which determination shall be evidenced in a certificate of such auditors addressed to the Company and the Employee; and (v) the Employee shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation, and state and local income taxes at the highest marginal rate of taxation in the state or locality of the Employee's domicile (determined in both cases in the calendar year in which the termination of employment or notice described in subsection (b) above is given, whichever is earlier), net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

(d) Reasonableness of Compensation. If such National Tax Counsel so requests in connection with the opinion required by this Section 4.16, the Employee and the Company shall obtain, at the Company's expense, and the National Tax Counsel may rely on, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by the Employee solely with respect to its status under IRC §280G.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

"COMPANY"

OFTC, Inc.

By: /s/ Curtis G. Briggs
Curtis G. Briggs
President

"EMPLOYEE"

By: /s/ Steve A. Tidwell
Steve A. Tidwell

**Exhibit 10.9**

EMPLOYMENT AND NONCOMPETITION AGREEMENT

THIS AGREEMENT is made and effective this ___ day of ________, 20__ between OFTC, Inc., a Delaware corporation (the "Company"), and __________ (the "Employee"):

ARTICLE I
EMPLOYMENT

1.1 Employment Term. The Company agrees to employ the Employee and the Employee agrees to accept such employment, in accordance with the terms and conditions of this Agreement, for the period beginning on the date of this Agreement and ending as of the close of business on December 31, 2019 (such period together with all extensions thereof are referred to hereinafter as the "Employment Term"); provided, however, that commencing on January 1, 2020, and on each January 1 thereafter (each such date shall be hereinafter referred to as a "Renewal Date"), the Employment Term shall be extended so as to terminate one year from such Renewal Date if (i) the Company notifies the Employee in writing of such extension at least thirty days prior to such Renewal Date and (ii) the Employee has not previously given the Company written notice that the Employment Term shall not be so extended. In the event that the Company gives the Employee written notice at any time of its intention not to renew the Employment Term, then the Employment Term shall terminate on December 31 of the year in which such notice of non-renewal is given and shall not thereafter be further extended. If the Company fails to notify the Employee at least thirty days prior to a Renewal Date either of its intention to extend the Employment Term as provided above or its intention not to so extend the Employment Term, then the Employment Term shall not be extended and shall terminate as of the day prior to such Renewal Date.

1.2 Duties. The Employee shall serve the Company in an executive or managerial capacity and shall hold such title as may be authorized from time to time by the Board of Directors of Service Corporation International ("SCI"). The Employee shall have the duties, powers and authority consistent therewith and such other powers as are delegated to him in writing from time to time by the Board of Directors of SCI. If the Employee is elected to any office or other position with the Company during the term of this Agreement, the Employee will serve in such capacity or capacities without further compensation unless the Compensation Committee (the "Compensation Committee") of the Board of Directors of SCI authorizes additional compensation. The Employee's title and duties may be changed from time to time at the discretion of the Company. The Employee also agrees to perform, without additional compensation, such other services for the Company and for any subsidiary or affiliated corporations of the Company or for any partnerships in which the Company has an interest, as the Company shall from time to time specify. The term "Company" as used hereinafter shall be deemed to include and refer to subsidiaries and affiliated corporations and partnerships. Employee agrees and acknowledges that he owes, and will comply with, a fiduciary duty of loyalty, fidelity and allegiance to act at all times in the best interests of the Company and to take no action or fail to take action if such action or failure to act would injure the Company's business, its interests or its reputation.

1.3 Extent of Service. During the Employment Term, the Employee shall devote his full time, attention and energy to the business of the Company, and, except as may be specifically permitted by the Company, shall not be engaged in any other business activity during the term of this Agreement. The foregoing shall not be construed as preventing the Employee from making passive investments in other businesses or enterprises, provided, however, that such investments will not: (1) require services on the part of the Employee which would in any way impair the performance of his duties under this Agreement, or (2) in any manner significantly interfere with Employee's responsibilities as an Employee of the Company in accordance with this Agreement.

1.4 Compensation.

(a) Salary. The Company shall pay to the Employee a salary at the rate in effect for Employee at the date of this Agreement. Such salary is to be payable in installments in accordance with the payroll policies of the Company in effect from time to time during the term of this Agreement. The Company may (but is not required to) make such upward adjustments to the Employee's salary as it deems appropriate from time to time.

(b) Incentive Compensation. In addition to the above salary, the Employee shall be eligible annually for incentive compensation at the discretion of the Compensation Committee.

(c) Other Benefits. The Employee shall be reimbursed in accordance with the Company's normal expense reimbursement policy for all of the actual and reasonable costs and expenses accrued by Employee in the performance of his or her services and duties hereunder, including but not limited to, travel and entertainment expenses. The Employee shall be entitled to participate in all insurance, stock options, retirement plans and other benefit plans or programs as may be from time to time specifically adopted and approved by the Company for its employees, in accordance with the eligibility requirements and any other terms and conditions of such plans. It is understood and agreed between the parties hereto that the Company reserves the right, at its sole discretion, to modify, amend or terminate such plans, programs or benefits at any time.

1.5 Termination.

(a) Death. If the Employee dies during the term of this Agreement and while in the employ of the Company, this Agreement shall automatically terminate and the Company shall have no further obligation to the Employee or his estate except that (i) the Company shall continue to pay the Employee's estate the Employee's salary in installments through the end of the Employment Term which was in effect immediately prior to Employee's death, (ii) the Company shall pay the Employee's estate any applicable Pro Rated Bonus (defined hereinbelow). and (iii) the Company will provide to Employee’s family members who previously had such coverage, continuation of Employee’s Group Health and Dental Coverage and ArmadaCare program (including pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986 (“COBRA”) to the extent applicable) for a period of eighteen months beginning the month following such date of termination, with such family members paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company.

(b) Disability. If during the term of this Agreement, the Employee shall be prevented from performing his duties hereunder by reason of disability, then the Company, on 30 days' prior notice to the Employee, may terminate Employee's employment under this Agreement. For purposes of this Agreement, the Employee shall be deemed to have become disabled when the Company, upon the advice of a qualified physician, shall have determined that the Employee has become physically or mentally incapable (excluding infrequent and temporary absences due to ordinary illness) of performing his duties under this Agreement. In the event of a termination pursuant to this paragraph 1.5(b), the Company shall be relieved of all of its obligations under this Agreement, except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death), (i) the Employee's salary in installments through the end of the Employment Term which was in effect immediately prior to Employee's disability, (ii) any applicable Pro Rated Bonus, and (iii) continuation of Employee’s Group Health and Dental coverage and ArmadaCare program (including pursuant to COBRA to the extent applicable) for a period of eighteen months beginning the month following such date of termination, with Employee paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company. Before making any termination decision pursuant to this Section 1.5(b), the Company shall determine whether there is any reasonable accommodation (within the meaning of the Americans With Disabilities Act) which would enable the Employee to perform the essential functions of the Employee's position under this Agreement despite the existence of any such disability. If such a reasonable accommodation is possible, the Company shall make that accommodation and shall not terminate the Employee's employment hereunder during the Employment Term based on such disability.

(c) <u>Certain Discharges.</u> Prior to the end of the Employment Term, the Company may discharge the Employee for Cause and terminate Employee's employment hereunder without notice and without any further liability hereunder to Employee or his estate except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death), (i) salary accrued to the date of termination, and (ii) continuation of Employee’s Group Health and Dental coverage program pursuant to COBRA to the extent applicable, for a period of eighteen months beginning the month following such date of termination, with Employee paying all premiums. For purposes of this Agreement, "Cause" shall mean a determination by the Company that Employee: (i) has been convicted of a crime involving moral turpitude; (ii) has regularly failed or refused to follow policies or directives established by the Company or the Board of Directors of SCI; (iii) has willfully and persistently failed to attend to his duties; (iv) has committed acts amounting to gross negligence or willful misconduct to the detriment of the Company or its affiliates; (v) has violated any of his obligations under Articles II or III of this Agreement; or (vi) has otherwise breached any of the terms or provisions of this Agreement.

(d) <u>Without Cause.</u> Prior to the end of the Employment Term, the employment of the Employee with the Company may be terminated by the Company other than for Cause, death or disability. Unless such event occurs during the CoC Protection Period, the Company shall have no further obligation to Employee or his estate except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death), (i) bi-weekly salary continuation payments calculated based on Employee’s rate of salary as in effect immediately prior to Employee’s termination, which shall continue for a period equal to two years from such date of termination, each of which shall be treated as a separate payment obligation of the Company, (ii) any applicable Pro Rated Bonus and (iii) continuation of Employee's Group Health and Dental coverage and ArmadaCare program (including pursuant to COBRA to the extent applicable) for a period of eighteen months beginning the month following such date of termination, with Employee paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company.

(e) <u>Voluntary Termination by Employee.</u> If during the term of this Agreement, the Employee voluntarily terminates his employment with the Company other than for Good Reason, the Company shall be relieved of all of its obligations under this Agreement, except that the Company shall pay or provide to the Employee (or his estate, in the event of his subsequent death) (i) the Employee's salary through the date of Employee's termination, (ii) any incentive compensation under Section 1.4(b) determined by the Compensation Committee for any fiscal period ended prior to the date of Employee's termination which had not been paid at the time of his termination, and (iii) continuation of Employee’s Group Health and Dental coverage program pursuant to COBRA to the extent applicable, for a period of eighteen months beginning the month following such date of termination, with employee paying all premiums. All such payments of salary or incentive compensation to the Employee or his estate shall be made in the same manner and at the same times as the Employee's salary or incentive compensation would have been paid to the Employee had he not terminated his employment.

(f) <u>Change of Control.</u> If during the CoC Protection Period the Employee's employment is (i) terminated by the Company other than for Cause, death or disability, or (ii) terminated by Employee after an occurrence of any Good Reason (except under circumstances which would be grounds for termination of Employee by the Company for Cause), then the Company shall be relieved of all of its obligations under this Agreement, except that the Company shall pay or provide the Employee (or his estate, in the event of his subsequent death) the following amounts:

(1) Three, multiplied by the sum of Employee's most recently set Target Bonus plus his annual salary in effect immediately prior to the CoC Protection Period, which amount will be paid in a lump sum in cash within 30 days after the later of the date of the Change of Control or Employee's date of termination; and

(2) Partial Bonus, to be paid within 30 days after the later of the date of the Change of Control or Employee's date of termination; and

(3) Continuation of Employee's Group Health and Dental coverage and ArmadaCare program (including pursuant to COBRA to the extent applicable) for a period of eighteen months beginning the month following the later of the date of the Change of Control or such date of termination, with Employee paying such amount of premiums as would have been applicable if Employee had remained an employee of the Company.

The obligations of the Company under this Section 1.5(f) shall remain in effect for the CoC Protection Period notwithstanding the fact that such CoC Protection Period may extend beyond the expiration of the Employment Term.

Amounts payable under this paragraph (f) of Section 1.5 shall be reduced to the extent of any amounts paid by the Company under paragraph (d) of Section 1.5.

(g) Post Employment Term Matters. In the event the Employment Term terminates because it is not extended or renewed pursuant to Section 1.1, then the Company shall be relieved of all of its obligations under this Agreement and Employee will thereafter be an employee "at will" of the Company.

(h) Release. As a condition to the payment of any benefit related to the termination of employment, including without limitation severance, vesting of options or restricted stock, or other benefits, including any amounts otherwise payable under the Executive Deferred Compensation Plan, the Employee (or Employee’s executor, legal guardian, or other legal representative in the case of the Employee’s death or disability) shall execute and not revoke a waiver and release of all claims against the Company and its affiliates in a form reasonably acceptable to the Company within 21 days following the Employee’s termination date.

## ARTICLE II
## INFORMATION

2.1 Nondisclosure of Information. The Employee acknowledges that in the course of his employment by the Company he will receive certain trade secrets, which may include, but are not limited to, programs, lists of acquisition or disposition prospects and knowledge of acquisition strategy, financial information and reports, lists of customers or potential customers and other confidential information and knowledge concerning the business of the Company (hereinafter collectively referred to as "Information") which the Company desires to protect. The Employee understands that the Information is confidential and agrees not to reveal the Information to anyone outside the Company so long as the confidential or secret nature of the Information shall continue, unless compelled to do so by any federal or state regulatory agency or by a court order. If Employee becomes aware that disclosure of any Information is being sought by such an agency or through a court order, Employee will immediately notify the Company. The Employee further agrees that he will at no time use the Information in competing with the Company. Upon termination of Employee's employment with the Company, the Employee shall surrender to the Company all papers, documents, writings and other property produced by him or coming into his possession by or through his employment or relating to the Information, and the Employee agrees that all such materials are and will at all times remain the property of the Company and to the extent the Employee has any rights therein, he hereby irrevocably assigns such rights to the Company. The foregoing notwithstanding, Employee understands that neither this Agreement nor any other agreement or policy of the Company limits Employee’s ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission (“Government Agencies”). Employee further understands that this Agreement does not limit Employee’s ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company.

2.2 Disclosure of Information, Ideas, Concepts, Improvements, Discoveries and Inventions. As part of the Employee's fiduciary duties to the Company, Employee agrees that during his employment by the Company, and for a period of six months after the termination of the employment relationship for any reason, Employee shall promptly disclose in writing to the Company all information, ideas, concepts, improvements, discoveries and inventions, whether patentable or not, and whether or not reduced to practice, which are conceived, developed, made or acquired by Employee, either individually or jointly with others, and which relate to the business, products or services of the Company or any of its subsidiaries or affiliates, irrespective of whether Employee utilized the Company's time or facilities and irrespective of whether such information, idea, concept, improvement, discovery or invention was conceived, developed, discovered or acquired by the Employee on the job, at home, or elsewhere. This obligation extends to all types of information, ideas and concepts, including information, ideas and concepts relating to new types of services, corporate opportunities, acquisition prospects, the identity of key representatives within acquisition prospect organizations, prospective names or service marks for the Company's business activities, and the like.

2.3 Immunity. As provided by the Defend Trade Secrets Act, 28 U.S.C. §1833(b) (the “DTSA”), Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in confidence to a Federal, State, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law. The DTSA further provides that Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, provided such filing is made under seal. In the event Employee files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Employee may disclose the trade secret to Employee’s attorney and use the trade secret information in the court proceeding, provided Employee files any document containing the trade secret under seal; and does not disclose the trade secret, except pursuant to court order.

2.4 Ownership of Information, Ideas, Concepts, Improvements, Discoveries and Inventions and All Original Works of Authorship.

(a) All information, ideas, concepts, improvements, discoveries and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee or which are disclosed or made known to Employee, individually or in conjunction with others, during Employee's employment by the Company and which relate to the Company's business, products or services (including but not limited to all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organization or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names and marks), are and shall be the sole and exclusive property of the Company. Moreover, all drawings, memoranda, notes, records, files, correspondence, manuals, models, specifications, computer programs, maps and all other writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries and inventions are and shall be the sole and exclusive property of the Company.

(b) In particular, Employee hereby specifically sells, assigns and transfers to the Company all of his worldwide right, title and interest in and to all such information, ideas, concepts, improvements, discoveries or inventions described in Section 2.3 (a) above, and any United States or foreign applications for patents, inventor's certificates or other industrial rights that may be filed thereon, including divisions, continuations, continuations-in-part, reissues and/or extensions thereof, and applications for registration of such names and marks. Both during the period of Employee's employment by the Company and thereafter, Employee shall assist the Company and its nominees at all times in the protection of such information, ideas, concepts, improvements, discoveries or inventions both in the United States and all foreign countries, including but not limited to the execution of all lawful oaths and all assignment documents requested by the Company or its nominee in connection with the preparation, prosecution, issuance or enforcement of any applications for United States or foreign letters patent, including divisions, continuations, continuations-in-part, reissues, and/or extensions thereof, and any application for the registration of such names and marks.

(c) Moreover, if during Employee's employment by the Company, Employee creates any original work of authorship fixed in any tangible medium of expression which is the subject matter of copyright (such as videotapes, written presentations on acquisitions, computer programs, drawing, maps, architectural renditions, models, manuals, brochures or the like) relating to the Company's business, products, or services, whether such work is created solely by Employee or jointly with others, the Company shall be deemed the author of such work if the work is prepared by Employee in the scope of his or her employment; or, if the work is not prepared by Employee within the scope of his or her employment but is specially ordered by Company as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation or as an instructional text, then the work shall be considered to be work made for hire and the Company shall be considered the author of the work. In the event such work is neither prepared by the Employee within the scope of his or her employment or is not a work specially ordered and deemed to be a work made for hire, then Employee hereby agrees to assign, and by these presents, does assign, to the Company all of Employee's worldwide right, title and interest in and to the work and all rights of copyright therein. Both during the period of Employee's employment by the Company and thereafter, Employee agrees to assist the Company and its nominee, at any time, in protection of the Company's worldwide right, title and interest in and to the work and all rights of copyright therein, including but not limited to, the execution of all formal assignment documents requested by the Company or its nominees and the execution of all lawful oaths and applications for registration of copyright in the United States and foreign countries.

## ARTICLE III
## NONCOMPETITION

3.1 <u>Noncompetition.</u> During the Employment Term (and for a period of one or two years thereafter if the Company exercises its options under Section 3.2 hereof), Employee shall not, acting alone or in conjunction with others, directly or indirectly, in any market in which the Company or any of its affiliated companies conducts business, work for or engage in any business in competition with the business conducted by the Company or any of its affiliated companies, whether for his own account or by soliciting, canvassing or accepting any business or transaction for or from any other company or business in competition with such business of the Company or any of its affiliated companies. In the event that a court should determine that any restriction herein is unenforceable, the parties hereto agree that the obligations under this paragraph shall be enforceable for the maximum term and maximum geographical area allowable by law.

3.2 Extension. The Company shall have the option to extend Employee's obligations under Section 3.1 for one additional year (the "First Extension Term") beyond the end of the Employment Term. If the Company exercises such option, it shall be required to pay Employee an amount equal to one year's salary, based on Employee's salary rate as of the date his employment with the Company ceased (the "Noncompetition Payment"). Such Noncompetition Payment shall be made in 12 equal monthly installments (each installment being an amount equal to 1/12th of such annual salary) commencing on the date which is thirty (30) days after the last day of the Employment Term. Subsequent payments shall be made on the same day of each succeeding month until 12 payments have been made. If the Employee breaches his noncompetition obligations, the Company shall be entitled to cease making such monthly payments. The purpose of this paragraph is to make the noncompetition obligation of the Employee more reasonable from the Employee's point of view. The amounts to be paid by the Company are not intended to be liquidated damages or an estimate of the actual damages that would be sustained by the Company if the Employee breaches his post-employment noncompetition obligation. If the Employee breaches his post-employment noncompetition obligation, the Company shall be entitled to all of its remedies at law or in equity for damages and injunctive relief. The Company may exercise the option conferred by this paragraph at any time within 30 days after the last day of the Employment Term by mailing written notice of such exercise to Employee.

If the Company exercises its option to extend Employee's obligations as set forth in the preceding paragraph, then the Company shall have the option to extend Employee's obligations under Section 3.1 for one additional year (the "Second Extension Term") beyond the end of the First Extension Term. If the Company exercises its option to extend Employee's obligations for the Second Extension Term, the rights and obligations of the parties set forth in the preceding paragraph shall be applicable during the Second Extension Term. The Company may exercise the option conferred by this paragraph at any time within 30 days after the last day of the First Extension Term by mailing written notice of such exercise to Employee.

3.3 Termination For Cause or Termination By Employee. Notwithstanding anything to the contrary in this Agreement, in the event that Employee's employment hereunder is terminated for Cause pursuant to Section 1.5 (c) hereof, or in the event Employee voluntarily terminates the employment relationship for any reason other than a material breach of this Agreement by the Company, the noncompetition obligations of Employee described in Section 3.1 above shall automatically continue for a period of two years from the date the employment relationship ceases, and the Company shall not be required to (i) make any payments to Employee in consideration for such obligations, or (ii) provide any notice to Employee. Notwithstanding the foregoing this Section 3.3 shall not be applicable in the event Employee voluntarily terminates the employment relationship for Good Reason within twenty four months after a Change of Control that occurs during the Employment Term; provided however, the first clause of this sentence shall be null and void if such termination referenced therein occurs under circumstances which would be grounds for termination of Employee by the Company for Cause.

3.4 Obligations to Refrain From Competing Unfairly. In addition to the other obligations agreed to by Employee in this Agreement, Employee agrees that during the Employment Term and for five (5) year(s) thereafter, he shall not at any time, directly or indirectly for the benefit or any other party than the Company or any of its affiliated companies, (a) induce, entice, or solicit any employee of the Company or any of its affiliated companies to leave his employment, or (b) contact, communicate or solicit any customer of the Company or any of its affiliated companies derived from any customer list, customer lead, mail, printed matter or other information secured from the Company or any of its affiliated companies or their present or past employees, or (c) in any other manner use any customer lists or customer leads, mail, telephone numbers, printed material or material of the Company or any of its affiliated companies relating thereto.

3.5 Acknowledgement. Employee acknowledges that Employee's compliance with the provisions of this Article III is necessary to protect the existing goodwill and other proprietary rights of the Company, as well as all goodwill and relationships that may be acquired or enhanced during the course of Employee's employment with the Company, and all confidential information which may come into existence or to which Employee may have access during his employment with the Company. Employee further acknowledges that Employee will become familiar with certain of the Company's affairs, operations, customers and confidential information and data by means of his employment with the Company, and that failure to comply with the provisions of this Article III will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law. The Company shall be entitled to all of its remedies at law or in equity for damages and injunctive relief in the event of any violation of this Article III by Employee.

ARTICLE IV
MISCELLANEOUS

4.1 Notices. All notices, requests, consents and other communications under this Agreement shall be in writing and shall be deemed to have been delivered on the date personally delivered or on the date mailed, postage prepaid, by certified mail, return receipt requested, or telegraphed and confirmed if addressed to the respective parties as follows:

If to the Employee:

[___]

If to the Company:

President
c/o OFTC, Inc.
1929 Allen Parkway
Houston, Texas 77019
Attention: Legal Department

Either party hereto may designate a different address by providing written notice of such new address to the other party hereto.

4.2 Entire Agreement. This Agreement replaces and merges all previous agreements and discussions relating to the same or similar subject matters between Employee and the Company (or any of its affiliates) and constitutes the entire agreement between the Employee and the Company (and any of its affiliates) with respect to the subject matter of this Agreement. Any existing employment agreement between the Employee and the Company (or any of its affiliates) is hereby terminated, effective immediately. This Agreement may not be modified in any respect by any verbal statement, representation or agreement made by an employee, officer, or representative of the Company or by any written agreement unless signed by an officer of the Company who is expressly authorized by the Company to execute such document.

4.3 Specific Performance. The Employee acknowledges that a remedy at law for any breach of Article II or III of this Agreement will be inadequate, agrees that the Company shall be entitled to specific performance and injunctive and other equitable relief in case of any such breach or attempted breach, and further agrees to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or any other equitable relief.

4.4 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid or unenforceable under applicable law, such provision shall be ineffective to the extent of such prohibition, invalidity or unenforceability without invalidating the remainder of such provision or the remaining provisions of this Agreement.

4.5 Assignment. This Agreement may not be assigned by the Employee. Neither the Employee, his spouse, nor his estate shall have any right to commute, encumber or dispose of any right to receive payments hereunder, it being understood that such payments and the right thereto are nonassignable and nontransferable. This Agreement may be assigned by the Company.

4.6 Binding Effect. Subject to the provisions of Section 4.5 of this Agreement, this Agreement shall be binding upon and inure to the benefit of the parties hereto, the Employee's heirs and personal representatives, and the successors and assigns of the Company.

4.7 Captions. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

4.8 Governing Law. This Agreement shall be construed and enforced in accordance with, and governed by, the laws of Texas.

4.9 Counterparts. This Agreement may be executed in multiple original counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument.

4.10 Survival of Certain Obligations. Employee's obligations under Articles II and III hereof shall survive any termination of Employee's employment hereunder.

4.11 Waiver. The waiver by either party of any right hereunder or of any breach of this Agreement shall not operate as or be construed to be an amendment of this Agreement or a waiver of any future right or breach.

4.12 Gender. All references to the masculine pronoun herein are used for convenience and ease of reading only and are intended and apply to the feminine gender as well.

4.13 Dispute Resolution.

(a) Employee and the Company agree that, except for the matters identified in Section 4.13(b) below, all disputes relating to any aspects of Employee's employment with the Company shall be resolved by binding arbitration. This includes, but is not limited to, any claims against the Company, its affiliates or their officers, directors, employees, or agents for breach of contract, wrongful discharge, discrimination, harassment, defamation, misrepresentation, and emotional distress, as well as any disputes pertaining to the meaning or effect of this Agreement.

(b) It is expressly agreed that this Section 4.13 shall not govern claims for workers' compensation or unemployment benefits, or any claim by the Company against Employee which is based on fraud, theft or other dishonest conduct of Employee.

(c) Any claim which either party has against the other must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim. Otherwise, the claim shall be deemed waived and forever barred even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(d) Each party may retain legal counsel and shall pay its own costs and attorneys' fees, regardless of the outcome of the arbitration. Each party shall pay one-half of the compensation to be paid to the arbitrators, as well as one-half of any other costs relating to the administration of the arbitration proceeding (for example, room rental, court reporter, etc.).

(e) An arbitrator shall be selected by mutual agreement of the parties. If the parties are unable to agree on a single arbitrator, each party shall select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. The three arbitrators so selected will then hear and decide the matter. All arbitrators must be attorneys, judges or retired judges who are licensed to practice law in the state where the Employee is or most recently was employed by the Company. The arbitration proceedings shall be conducted within the county in which Employee is or most recently was employed by the Company or at another mutually agreeable location.

(f) Except as otherwise provided herein, the arbitration proceedings shall be conducted in accordance with the statutes, rules or regulations governing arbitration in the state in which Employee is or most recently was employed by the Company. In the absence of such statutes, rules or regulations, the arbitration proceedings shall be conducted in accordance with the employment arbitration rules of the American Arbitration Association ("AAA"); provided however, that the foregoing reference to the AAA rules shall not be deemed to require any filing with that organization, nor any direct involvement of that organization. In the event of any inconsistency between this Agreement and the statutes, rules or regulations to be applied pursuant to this paragraph, the terms of this Agreement shall apply.

(g) The arbitrator shall issue a written award, which shall contain, at a minimum, the names of the parties, a summary of the issues in controversy, and a description of the award issued. Upon motion to a court of competent jurisdiction, either party may obtain a judgment or decree in conformity with the arbitration award, and said award shall be enforced as any other judgment or decree.

(h) In resolving claims governed by this Section 4.13, the arbitrator shall apply the laws of the state in which Employee is or most recently was employed by the Company, and/or federal law, if applicable.

(i) Employee and the Company agree and acknowledge that any arbitration proceedings between them, and the outcome of such proceedings, shall be kept strictly confidential; provided however, that the Company may disclose such information to the extent required by law and to its employees, agents and professional advisors who have a legitimate need to know such information, and the Employee may disclose such information (1) to the extent required by law, (2) to the extent that the Employee is required to disclose same to professional persons assisting Employee in preparing tax returns; and (3) to Employee's legal counsel.

4.14 <u>Certain Definitions.</u> The following defined terms used in this Agreement shall have the meanings indicated:

<u>Change of Control.</u> "Change of Control" means the happening of any of the following events:

(a) 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 (A) the then outstanding shares of Common Stock of SCI (the "Outstanding SCI Common Stock") or (B) the combined voting power of the then outstanding voting securities of SCI entitled to vote generally in the election of directors (the "Outstanding SCI Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control under this subsection (a): (i) any acquisition directly from SCI (excluding an acquisition by virtue of the exercise of a conversion privilege), (ii) any acquisition by SCI, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by SCI or any corporation controlled by SCI, or (iv) 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 (c) of this definition of "Change of Control" are satisfied; or

(b) Individuals who, as of the effective date hereof, constitute the Board of Directors of SCI (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of SCI; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by SCI's shareholders, was approved by (A) a vote of at least a majority of the directors then comprising the Incumbent Board, or (B) a vote of at least a majority of the directors then comprising the Executive Committee of the Board of Directors of SCI 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 (b), 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 Directors of SCI; or

(c) Consummation 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 SCI Common Stock and Outstanding SCI Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding SCI Common Stock and Outstanding SCI Voting Securities, as the case may be, (B) no Person (excluding SCI, any employee benefit plan (or related trust) of SCI 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 SCI Common Stock or Outstanding SCI 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

(d) Consummation of a sale or other disposition of all or substantially all of the assets of SCI other than to a corporation, with respect to which following such sale or other disposition, (i) 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 the beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding SCI Common Stock and Outstanding SCI 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 SCI Common Stock and Outstanding SCI Voting Securities, as the case may be, (ii) no Person (excluding SCI and any employee benefit plan (or related trust) of SCI 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 SCI Common Stock or Outstanding SCI 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 (iii) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board of Directors of SCI providing for such sale or other disposition of assets of SCI; or

(e) Approval by the shareholders of SCI of a complete liquidation or dissolution of SCI.

“CoC Protection Period” shall mean the period commencing sixty (60) days prior to a Change of Control and ending twenty-four months after the date upon which a Change of Control occurs.”

Good Reason. "Good Reason" shall mean the occurrence of any of the following during the CoC Protection Period:

(a) The Company requires the Employee to be relocated more than 50 miles from the current office location, unless the Employee’s commute is reduced by the relocation;

(b) The Company materially reduces the responsibilities, authority or accountability of Employee from the same in effect immediately prior to the Change of Control;

(c) The Company reduces the base salary, Target Bonus or other compensation program participation of Employee; or

(d) The Company materially reduces the aggregate benefits of Employee.

Partial Bonus. "Partial Bonus" shall mean a bonus equal to the product of (i) Employee's most recently set Target Bonus, and (ii) a fraction, the denominator of which is 365 and the numerator of which is the number of days in the fiscal year being considered through the date of the termination of Employee's employment.

Pro Rated Bonus. "Pro Rated Bonus" shall mean, a bonus equal to the product of (i) the bonus Employee did not receive but would have received under Section 1.4(b) if he had remained an employee through the end of the Employment Term, it being understood that the amount of such bonus Employee would have received shall be determined by reference to the average amount of bonus actually awarded to other officers who were at the same or comparable level of responsibility as Employee immediately prior to his termination, and (ii) a fraction, the denominator of which is 365 and the numerator of which is the number of days in the fiscal year being considered through the date of death, determination of disability or notice of termination of employment, whichever is applicable. In the event that a majority of SCI officers do not receive a bonus for the fiscal year being considered, then the Pro Rated Bonus shall not be applicable and Employee shall not be entitled to a Pro Rated Bonus. The Pro Rated Bonus, if any, payable to Employee shall be paid during the period between January 1st and March 14th of the calendar year immediately following the date Employee ceases to be employed by the Company.

Target Bonus. "Target Bonus" shall mean the percentage of salary or level of bonus for Employee which is set by the Compensation Committee at the beginning of each year as an incentive goal to be achieved (it being understood that the actual bonus eventually earned could be lesser or greater than the Target Bonus).

4.15 Section 409A.

(a) Notwithstanding the applicable provisions of this Agreement regarding timing of distribution of payments, the following special rules shall apply in order for this Agreement to comply with Internal Revenue Code Section 409A ("IRC §409A"): (i) to the extent any distribution is to a "specified employee" (as defined under IRC §409A) and to the extent such applicable provisions of IRC §409A require a delay of such distributions by a six month period after the date of such Employee's separation of service with the Company, the provisions of this Agreement shall be construed and interpreted as requiring a six month delay in the commencement of such distributions thereunder, and (ii) in the event there are any installment payments under this Agreement that are required to be delayed by a six month period in order to comply with IRC §409A, the monthly installments that would have been paid during such six month delay shall be accumulated and paid to the Employee in a single lump sum within five business days after the end of such six month delay, and (iii) the Company shall not have the discretion to prepay any installment payments otherwise provided under this Agreement.

(b) In the event that Employee is required to execute a release to receive any payments from the Company that constitute nonqualified deferred compensation under IRC §409A, payment of such amounts shall not be made or commence until the sixtieth (60th) day following such termination of employment. Any payments that are suspended during the sixty (60) day period shall be paid on the date the first regular payroll is made immediately following the end of such period.

(c) For purposes of this Agreement, any reference to "termination" of Employee's employment shall be interpreted consistent with the meaning of the term "separation from service" in IRC §409A(a)(2)(A)(i) and any amount payable upon termination of employment which constitutes "nonqualified deferred compensation" under IRC §409A shall not be paid to Employee prior to the date such Employee incurs a separation from service under IRC §409A(a)(2)(A)(i). In addition, to the extent of any compliance issues under IRC §409A, the Agreement shall be construed in such a manner so as to comply with the requirements of such provision so as to avoid any adverse tax consequences to the Employee.

4.16 Limitations on Severance Payment and Other Payments or Benefits.

(a) Limitation on Payments. Notwithstanding any provision of this Agreement, if any portion of any severance payment or any other payment under this Agreement, or under any other agreement with the Employee or plan of the Company or its affiliates (in the aggregate, "Total Payments"), would constitute an "excess parachute payment" and would, but for this Section 4.16, result in the imposition on the Employee of an excise tax under Internal Revenue Code Section 4999 or the disallowance of deductions to the Company under Internal Revenue Code Section 280G ("IRC §280G"), then the Total Payments to be made to the Employee shall either be (i) delivered in full, or (ii) delivered in such amount so that no portion of such Total Payment would be subject to the Excise Tax, whichever of the foregoing results in the receipt by the Employee of the greatest benefit on an after-tax basis (taking into account the applicable federal, state and local income taxes and the Excise Tax).

(b) Determination of Limit. Within forty (40) days following a termination of employment or notice by one party to the other of its belief that there is a payment or benefit due the Employee that will result in an excess parachute payment, the Employee and the Company, at the Company's expense, shall obtain the opinion (which need not be unqualified) of a nationally recognized tax counsel ("National Tax Counsel") selected by the Company (which may be regular outside counsel to the Company), which opinion sets forth (i) the amount of the Base Period Income (as defined below), (ii) the amount and present value of the Total Payments, (iii) the amount and present value of any excess parachute payments determined without regard to any reduction of Total Payments pursuant to subsection (a), and (iv) the net after-tax proceeds to the Employee, taking into account the tax imposed under IRC §280G if (x) the Total Payments were reduced in accordance with subsection (a) or (y) the Total Payments were not so reduced. The opinion of National Tax Counsel shall be addressed to the Company and the Employee and shall be binding upon the Company and the Employee. If such National Tax Counsel opinion determines that subsection (a)(ii) above applies, then the payments hereunder or any other payment or benefit determined by such counsel to be includable in Total Payments shall be reduced or eliminated so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. In such event, payments or benefits included in the Total Payments shall be reduced or eliminated by applying the following principles, in order: (1) the payment or benefit with the higher ratio of the parachute payment value to present economic value (determined using reasonable actuarial assumptions) shall be reduced or eliminated before a payment or benefit with a lower ratio; (2) the payment or benefit with the later possible payment date shall be reduced or eliminated before a payment or benefit with an earlier payment date; and (3) cash payments shall be reduced prior to non-cash benefits; provided that if the foregoing order of reduction or elimination would violate IRC §409A, then the reduction shall be made pro rata among the payments or benefits described above (on the basis of the relative present value of the parachute payments).

(c) Definitions and Assumptions. For purposes of this Agreement: (i) the terms "excess parachute payment" and "parachute payments" shall have the meanings assigned to them in IRC §280G and such "parachute payments" shall be valued as provided therein; (ii) present value shall be calculated in accordance with IRC §280G(d)(4); (iii) the term "Base Period Income" means an amount equal to the Employee's "annualized includible compensation for the base period" as defined in IRC §280G(d)(1); (iv) for purposes of the opinion of National Tax Counsel, the value of any noncash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of IRC §§280G(d)(3) and (4), which determination shall be evidenced in a certificate of such auditors addressed to the Company and the Employee; and (v) the Employee shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation, and state and local income taxes at the highest marginal rate of taxation in the state or locality of the Employee's domicile (determined in both cases in the calendar year in which the termination of employment or notice described in subsection (b) above is given, whichever is earlier), net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

(d) Reasonableness of Compensation. If such National Tax Counsel so requests in connection with the opinion required by this Section 4.16, the Employee and the Company shall obtain, at the Company's expense, and the National Tax Counsel may rely on, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by the Employee solely with respect to its status under IRC §280G.

***[Signatures on Following Page]***

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

"COMPANY"

OFTC, Inc.

By:
Daniel Kleban
President

"EMPLOYEE"

By:
[___________]

**Exhibit 21.1**

## SUBSIDIARIES OF THE COMPANY

| | January 31, 2020 Ownership |
|---|---|
| ALABAMA | |
| SCI Funeral Services, LLC (Iowa LLC) Alabama subsidiary | |
| SCI Alabama Funeral Services, LLC | 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% |
| | |
| ALASKA | |
| 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% |
| | |
| ARIZONA | |
| SCI Funeral Services, LLC (Iowa LLC) Arizona subsidiary | |
| SCI Arizona Funeral Services, LLC | 100% |
| | |
| ARKANSAS | |
| 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% |
| | |
| CALIFORNIA | |
| SCI Funeral Services, LLC (Iowa LLC) California subsidiary | |
| SCI California Funeral Services, Inc. | 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% |
| 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, Inc. (CA Corp) 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 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, LLC (VA LLC) 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% |

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| SCI Administrative Services, LLC - *General Partner of* | 100% |
| SCI Management L.P. | 1% |
| Remembrance Memorial Traditions, LLC - *Limited Partner of* | 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. | |
| SCI Direct, Inc. (FL Corp) Delaware subsidiary | |
| 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% |
| 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% |
| | |
| DISTRICT OF COLUMBIA | |
| SCI Funeral Services, LLC (Iowa LLC) DC subsidiaries | |
| Joseph Gawler’s Sons, LLC | 99% |
| Witzke Funeral Homes, Inc. | 100% |
| | |
| FLORIDA | |
| SCI Funeral Services, LLC (Iowa LLC) Florida subsidiary | |
| SCI Funeral Services of Florida, LLC | 99% |
| Oaklawn Cemetery Association | 100% |
| WPALM, Inc. | 100% |
| Alderwoods Group, LLC (DE LLC) | |
| Alderwoods (Minnesota), LLC (MN LLC) Florida subsidiary | |

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|---|---|
| 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, LLC (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% |
| Ballard Mortuary, Inc. | 100% |
| Ballard & Son, Inc. | 100% |
| Family Funeral Services, LLC | 100% |
| | |
| IDAHO | |
| Alderwoods Group, LLC (DE LLC) Idaho subsidiary | |
| Alderwoods (Idaho), Inc. | 100% |

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% |
| Ridgewood Cemetery Company, 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% |

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|---|---|
| KENTUCKY | |
| SCI Funeral Services, LLC (Iowa LLC) Kentucky subsidiary | |
| SCI Kentucky Funeral Services, Inc. | 99% |
| | |
| LOUISIANA | |
| 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 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% |
| Stewart Services, LLC | 100% |
| Sympathyshop.com, LLC | 100% |
| Stewart Enterprises (Europe) Inc. | 100% |
| | |
| MARYLAND | |
| 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 | |

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| S.E. Mid-Atlantic, LLC | 100% |
| Bounds Funeral Home, LLC | 100% |
| Cedar Hill Cemetery Company, LLC | 100% |
| Crest Lawn Memorial Gardens, LLC | 100% |
| Fort Lincoln Cemetery, LLC | 100% |
| Fort Lincoln Funeral Home, LLC | 100% |
| Hillcrest Memorial Cemetery, Inc. | 100% |
| Hines-Rinaldi Funeral Home, LLC | 100% |
| John M. Taylor Funeral Home, LLC | 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% |

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|---|---|
| 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% |
| 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. (CA Corp) | |
| Neptune Management Corp. (CA Corp) | |
| Neptune Management (MA), Inc | 5% |

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| MICHIGAN | |
| SCI Funeral Services, LLC (Iowa LLC) Michigan subsidiary | |
| SCI Michigan Funeral Services, Inc. | 100% |
| SCI Virginia Funeral Services, LLC (VA LLC) Michigan subsidiaries | |
| WMP, Inc. | 100% |
| Alderwoods Group, LLC (DE LLC) Michigan subsidiary | |
| Alderwoods (Michigan), LLC | 100% |
| | |
| MINNESOTA | |
| 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% |
| | |
| MISSISSIPPI | |
| Stewart Enterprises, Inc. (LA Corp) Mississippi subsidiaries | |
| Lakewood Memorial Park, LLC | 100% |
| SCI Mississippi Funeral Services, LLC | 100% |
| | |
| MISSOURI | |
| SCI Funeral Services, LLC (Iowa LLC) Missouri subsidiaries | |
| SCI Missouri Funeral Services, Inc. | 100% |
| Memorial Guardian Plans, Inc. | 100% |
| Mt. Hope Cemetery and Mausoleum Company | 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% |
| | |
| MONTANA | |
| Alderwoods Group, LLC (DE LLC) Montana subsidiary | |
| Alderwoods (Montana), Inc. | 100% |
| | |
| NEBRASKA | |
| 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% |

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| 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), LLC – 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% |
| Thomas M. Quinn & Sons, LLC | 100% |
| | |
| NORTH CAROLINA | |
| SCI Special, LLC (DE LLC) | |
| SCI Capital Corporation (DE Corp) | |
| SCI Capital Holdings, Inc. (DE Corp) | |

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| 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), LLC (GA LLC) North Carolina subsidiary | |
| Reeves, Inc. | 100% |
| Stewart Enterprises, Inc. (LA Corp) North Carolina subsidiaries | |
| Alderwoods (North Carolina), LLC | 100% |
| Westminster Gardens, Inc. | 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% |

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|---|---|
| <u>OHIO</u> | |
| 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% |
| | |
| <u>OKLAHOMA</u> | |
| 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% |
| | |
| <u>OREGON</u> | |
| SCI Funeral Services, LLC (Iowa LLC) Oregon subsidiaries | |
| SCI Oregon Funeral Services, Inc. | 100% |
| Uniservice Corporation | 100% |

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|---|---|
| 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% |
| Cremation Society of Pennsylvania, Inc. | 100% |
| Funeral Service Pennsylvania, LLC | 100% |
| Laughlin Funeral Home, Ltd. | 100% |
| Parklawns 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% |
| Nineteen Thirty-Five Holdings, Inc. | 100% |
| Osiris Holding,LLC (DE LLC) Pennsylvania subsidiary | |
| Oak Woods Management Company | 100% |
| Zimmerman- Auer Funeral Home, Inc. | 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), LLC (GA LLC) 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% |
| Wilson-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% |
| 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% |

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|---|---|
| FHC Realty, Inc. | 100% |
| WFG Liquidation Corporation | 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) - *Limited Partner of* | |
| 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) – *General Partner of* | |
| 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% |
| Alderwoods (Texas), LLC (CA LLC) Texas subsidiary | |
| Funeral Service, 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% |

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|---|---|
| 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 | |
| Memorial Guardian Plans, Inc. (DE Corp) Virginia subsidiary | |
| Sentinel Security Plans, Inc. | 100% |
| Stewart Enterprises, Inc. (LA Corp) | |
| SCI Virginia Funeral Services, LLC | 100% |
| S.E. Mid-Atlantic, LLC (MD LLC) Virginia subsidiaries | |
| Clinch Valley Memorial Cemetery, 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% |
| Evergreen-Washelli Memorial Park Company | 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 | |

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|---|---|
| Alderwoods (West Virginia), Inc. | 100% |
| Stewart Enterprises, Inc. (LA Corp) | |
| S.E. Mid-Atlantic, LLC. (MD LLC) WV subsidiaries - *partner of* | |
| 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) - *partner of* | |
| Kanawha Plaza Partnership | 30% |
| S.E. Cemeteries of West Virginia, Inc. - *partner of* | 100% |
| Kanawha Plaza Partnership | 10% |
| S.E. Funeral Homes of West Virginia, Inc. | 100% |
| Wilson Funeral Home, Inc. | 100% |

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|---|---|
| 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% |
| | |
| BRAZIL | |
| SCI International, LLC (DE Corp) | |
| SCI Latin America Ltd. (Cayman Co) Brazil subsidiary | |
| Service Corporation International Brazil Limitada --- (dormant) | 100% |

| | |
|---|---|
| CANADA | |
| SCI International, LLC (DE LLC) | |
| SCI Cerberus, Inc. (DE Corp) - *limited partner of* | |
| SCI Parkway Limited Partnership--(Ontario partnership) | 99.99% |
| SCI Parkway, LLC (DE Corp) - *general partner of* | |

| | |
|---|---|
| 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% |
| Mourning Glory Funeral Services Inc. (Sask Corp) | 100% |
| Mourning Glory Cremation Centre Inc. (Sask Corp) | 100% |
| Residence Funeraire St. Louis Inc. - (QC Corp) | 100% |
| 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>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) | |
| *managing partner of* | |
| Empresas Stewart-Cementerios | 99.77% |
| Stewart Cementerios Puerto Rico Holding II, LLC ( DE LLC) | |
| *co-partner of* | |
| Empresas Stewart-Cementerios | .23% |
| Stewart Funerarias Puerto Rico Holding II, LLC (DE LLC) | |
| *managing partner of* | |
| Empresas Stewart-Funerarias | 99.42% |
| Stewart Funerarias Puerto Rico Holding I, LLC ( DE LLC) | |
| *co-partner of* | |
| Empresas Stewart-Funerarias | .58% |
| Stewart Simplicity Plan of Puerto Rico Holding II, LLC ( DE LLC) | |
| *managing partner of* | |
| The Simplicity Plan of Puerto Rico | 99.64% |

| | |
|---|---|
| Stewart Simplicity Plan of Puerto Rico Holding I, LLC ( DE LLC) | |
| *co-partner of* | |
| The Simplicity Plan of Puerto Rico | .36% |
| | |
| <u>VIRGIN ISLANDS</u> | |
| SCI International, LLC (DE LLC) BVI subsidiaries | |
| Service Corporation International (BVI) Ltd. | 100% |
| | |

**Exhibit 23.1**

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 18, 2020 relating to the financial statements and 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 18, 2020

**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, 2019 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 18th day of February, 2020.

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

# 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, 2019 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 18th day of February, 2020.

/s/ Anthony L. Coelho
ANTHONY L. COELHO

# 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, 2019 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 18th day of February, 2020.

/s/ Jakki L. Haussler
JAKKI L. HAUSSLER

<u>POWER OF ATTORNEY</u>

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, 2019 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 18th day of February, 2020.

<u>/s/ Victor L. Lund</u>
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, 2019 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 18th day of February, 2020.

/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, 2019 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 18th day of February, 2020.

/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, 2019 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 18th day of February, 2020.

/s/ Sara Martinez Tucker
SARA MARTINEZ TUCKER

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, 2019 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 18th day of February, 2020.

/s/ W. Blair Waltrip
W. BLAIR WALTRIP

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, 2019 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 18th day of February, 2020.

/s/ Marcus A. Watts
MARCUS A. WATTS

**Exhibit 31.1**

**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
President, Chairman of the Board, and Chief Executive Officer
(Principal Executive Officer)

Date: February 18, 2020

**Exhibit 31.2**

**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 18, 2020

**Exhibit 32.1**

**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, 2019 (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
President, Chairman of the Board, and Chief Executive Officer
(Principal Executive Officer)

Dated: February 18, 2020

**Exhibit 32.2**

**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, 2019 (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 18, 2020