

SERVICE CORP INTERNATIONAL  
Form 10-Q  
April 26, 2018  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF  
 1934

For the quarterly period ended March 31, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-6402-1

SERVICE CORPORATION INTERNATIONAL  
(Exact name of registrant as specified in its charter)

Texas 74-1488375  
(State or other jurisdiction of incorporation or organization) (I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas 77019  
(Address of principal executive offices) (Zip code)

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

None  
(Former name, former address, or former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company   
(Do not check if smaller reporting company)

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

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).  
YES  NO   
The number of shares outstanding of the registrant's common stock as of April 24, 2018 was 183,343,868 (net of treasury shares).

---

Table of Contents

SERVICE CORPORATION INTERNATIONAL  
INDEX

	Page
<u>Glossary</u>	<u>3</u>
<u>Part I. Financial Information</u>	<u>5</u>
<u>Item 1. Financial Statements</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statement of Operations — Three Months Ended March 31, 2018 and 2017</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statement of Comprehensive Income — Three Months Ended March 31, 2018 and 2017</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Balance Sheet — March 31, 2018 and December 31, 2017</u>	<u>7</u>
<u>Unaudited Condensed Consolidated Statement of Cash Flows — Three Months Ended March 31, 2018 and 2017</u>	<u>8</u>
<u>Unaudited Condensed Consolidated Statement of Equity — Three Months Ended March 31, 2018</u>	<u>9</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>The Company</u>	<u>26</u>
<u>Financial Condition, Liquidity, and Capital Resources</u>	<u>26</u>
<u>Results of Operations - Three Months Ended March 31, 2018 and 2017</u>	<u>32</u>
<u>Critical Accounting Policies</u>	<u>35</u>
<u>Cautionary Statement on Forward-Looking Statements</u>	<u>35</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
<u>Item 4. Controls and Procedures</u>	<u>37</u>
<u>Part II. Other Information</u>	<u>37</u>
<u>Item 1. Legal Proceedings</u>	<u>37</u>
<u>Item 1A. Risk Factors</u>	<u>37</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>37</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>37</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>37</u>
<u>Item 5. Other Information</u>	<u>38</u>
<u>Item 6. Exhibits</u>	<u>38</u>
<u>Signature</u>	<u>38</u>

Table of Contents

GLOSSARY

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

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

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

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

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

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

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

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

Cemetery Property Interment Rights—The right to inter human remains in a specific cemetery property space. See also Cemetery Property Revenue below.

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

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

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

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

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

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

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

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

Lawn Crypt — An underground outer burial receptacle constructed of concrete and reinforced steel, which is usually pre-installed in predetermined designated areas.

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

3

---

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

SERVICE CORPORATION INTERNATIONAL  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

	Three Months Ended	
	March 31,	
	2018	2017
	(In thousands, except per share amounts)	
Revenue	\$794,482	\$777,710
Costs and expenses	(598,720 )	(600,471 )
Operating profit	195,762	177,239
General and administrative expenses	(34,784 )	(42,283 )
Gains on divestitures and impairment charges, net	482	4,935
Hurricane recoveries, net	2,232	—
Operating income	163,692	139,891
Interest expense	(43,576 )	(40,636 )
Loss on early extinguishment of debt, net	(10,131 )	—
Other income (expense), net	384	(729 )
Income before income taxes	110,369	98,526
(Provision for) benefit from income taxes	(28,321 )	76,223
Net income	82,048	174,749
Net income attributable to noncontrolling interests	(60 )	(47 )
Net income attributable to common stockholders	\$81,988	\$174,702
Basic earnings per share:		
Net income attributable to common stockholders	\$0.44	\$0.93
Basic weighted average number of shares	185,130	188,260
Diluted earnings per share:		
Net income attributable to common stockholders	\$0.43	\$0.91
Diluted weighted average number of shares	189,923	192,867
Dividends declared per share	\$0.17	\$0.13

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

SERVICE CORPORATION INTERNATIONAL  
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 (UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Net income	\$82,048	\$174,749
Other comprehensive income:		
Foreign currency translation adjustments	(9,592 )	3,164
Total comprehensive income	72,456	177,913
Total comprehensive income attributable to noncontrolling interests	(57 )	(47 )
Total comprehensive income attributable to common stockholders	\$72,399	\$177,866

(See notes to unaudited condensed consolidated financial statements)



Table of ContentsSERVICE CORPORATION INTERNATIONAL  
CONDENSED CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

	March 31, 2018	December 31, 2017
	(In thousands, except share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$219,507	\$ 330,039
Receivables, net	77,080	90,304
Inventories	26,955	25,378
Other	27,463	35,575
Total current assets	351,005	481,296
Preneed receivables, net and trust investments	4,199,414	4,778,842
Cemetery property	1,794,070	1,791,989
Property and equipment, net	1,890,475	1,873,044
Goodwill	1,819,134	1,805,981
Deferred charges and other assets	877,690	601,184
Cemetery perpetual care trust investments	1,497,220	1,532,167
Total assets	\$12,429,008	\$12,864,503
<b>LIABILITIES &amp; EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$469,159	\$ 489,172
Current maturities of long-term debt	89,249	337,337
Income taxes payable	33,397	2,470
Total current liabilities	591,805	828,979
Long-term debt	3,316,695	3,135,316
Deferred revenue, net	1,337,045	1,789,776
Deferred tax liability	341,272	283,765
Other liabilities	403,877	410,982
Deferred receipts held in trust	3,431,781	3,475,430
Care trusts' corpus	1,494,684	1,530,818
Commitments and contingencies (Note 9)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 192,428,122 and 191,935,647 shares issued, respectively, and 184,011,668 and 186,614,747 shares outstanding, respectively	184,012	186,615
Capital in excess of par value	961,744	970,468
Retained earnings	333,864	210,364
Accumulated other comprehensive income	32,125	41,943
Total common stockholders' equity	1,511,745	1,409,390
Noncontrolling interests	104	47
Total equity	1,511,849	1,409,437
Total liabilities and equity	\$12,429,008	\$12,864,503

(See notes to unaudited condensed consolidated financial statements)



Table of Contents

SERVICE CORPORATION INTERNATIONAL  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	\$82,048	\$174,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt	10,131	—
Depreciation and amortization	38,981	38,043
Amortization of intangibles	7,103	6,844
Amortization of cemetery property	12,825	13,881
Amortization of loan costs	1,518	1,433
Provision for doubtful accounts	2,158	2,484
Benefit from deferred income taxes	(1,692)	(149,585)
Gains on divestitures and impairment charges, net	(482)	(4,935)
Share-based compensation	3,699	3,633
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease in receivables	11,587	10,959
Increase in other assets	(6,685)	(5,128)
Increase in payables and other liabilities	20,486	86,596
Effect of preneed sales production and maturities:		
Decrease (increase) in preneed receivables, net and trust investments	9,742	(10,243)
Increase in deferred revenue, net	16,550	23,401
Increase (decrease) in deferred receipts held in trust	3,489	(4,019)
Net cash provided by operating activities	211,458	188,113
Cash flows from investing activities:		
Capital expenditures	(46,241)	(40,150)
Acquisitions, net of cash acquired	(33,934)	(33,212)
Proceeds from divestitures and sales of property and equipment	6,452	20,235
Payments on Company-owned life insurance policies	(9,246)	(2,827)
Proceeds from Company-owned life insurance policies	2,810	906
Other	70	—
Net cash used in investing activities	(80,089)	(55,048)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	185,000	35,000
Scheduled payments of debt	(8,535)	(8,787)
Early payments of debt	(259,594)	—
Principal payments on capital leases	(7,646)	(21,055)
Proceeds from exercise of stock options	4,989	15,261
Purchase of Company common stock	(118,797)	(83,460)
Payments of dividends	(31,348)	(24,433)
Bank overdrafts and other	(7,574)	(2,096)
Net cash used in financing activities	(243,505)	(89,570)
Effect of foreign currency on cash, cash equivalents, and restricted cash	(1,145)	784
Net (decrease) increase in cash, cash equivalents, and restricted cash	(113,281)	44,279

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-Q

Cash, cash equivalents, and restricted cash at beginning of period	340,601	211,506
Cash, cash equivalents, and restricted cash at end of period	\$227,320	\$255,785

(See notes to unaudited condensed consolidated financial statements)

8

---

Table of Contents

SERVICE CORPORATION INTERNATIONAL  
CONDENSED CONSOLIDATED STATEMENT OF EQUITY  
(UNAUDITED)  
(In thousands)

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
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	—	—	—	81,988	(9,589 )	57	72,456
Dividends declared on common stock (\$0.17 per share)	—	—	—	(31,348 )	—	—	(31,348 )
Employee share-based compensation earned	—	—	3,699	—	—	—	3,699
Stock option exercises	282	—	4,707	—	—	—	4,989
Restricted stock awards, net of forfeitures	163	—	(163 )	—	—	—	—
Purchase of Company common stock	—	(3,095 )	(16,101 )	(99,601 )	—	—	(118,797 )
Other	47	—	(866 )	—	—	—	(819 )
Balance at March 31, 2018	\$ 192,428	\$(8,416)	\$961,744	\$333,864	\$ 32,125	\$ 104	\$1,511,849

(See notes to unaudited condensed consolidated financial statements)

Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

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 unaudited condensed consolidated financial statements include the accounts of Service Corporation International (SCI) and all subsidiaries in which we hold a controlling financial interest. Our financial statements also include the accounts of the merchandise and service trusts and cemetery perpetual care trusts in which we have a variable interest and are the primary beneficiary. Our interim condensed consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair statement of our results for these periods. Our unaudited condensed consolidated financial statements have been prepared in a manner consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2017, unless otherwise disclosed herein, and should be read in conjunction therewith. The accompanying year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year period.

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 2018".

Use of Estimates in the Preparation of Financial Statements

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as described in our Annual Report on Form 10-K for the year ended December 31, 2017. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. As a result, actual results could differ from these estimates.

Funeral and Cemetery Operations

Revenue is recognized when control of the performance obligation is transferred to the customer. Our performance obligations include 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 when construction is complete and the property is available for use by the customer. Once the property is

constructed, the customer has obtained substantially all of the remaining benefits of the property. Sales taxes collected are recognized on a net basis in our condensed consolidated financial statements.

We sell price-guaranteed preneed contracts through various programs providing for future merchandise and services at prices prevailing when the agreements are signed. Revenue associated with sales of preneed contracts is deferred until merchandise is delivered or the services are performed, generally at the time of need. Travel protection and certain memorialization merchandise sold on a preneed basis are delivered to the customer at the time of sale and are recognized at the time delivery occurs. For personalized marker merchandise, with the customer's direction generally obtained at the time of sale,

Table of Contents

we may order, store, and transfer title to the customer. In situations in which we have no further obligation or involvement related to the merchandise, we recognize revenue and record the cost of sales upon the earlier of vendor storage of these items or delivery in our cemetery. There is no general right of return for delivered items.

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. 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. We defer investment earnings related to these merchandise and service trusts until the associated merchandise is delivered or services are performed. Fees charged by our wholly-owned registered investment advisor are also included in revenue in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in revenue.

A portion of the proceeds from the sale of cemetery property interment rights is required by state or provincial law to be paid into perpetual care trust funds. Investment earnings from these trusts are distributed to us regularly, are recognized in current cemetery revenue, and are intended to defray cemetery maintenance costs, which are expensed as incurred. The principal of such perpetual care trust funds generally cannot be withdrawn. However, some states allow a total return distribution that 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 performance of a contract. Incremental direct selling costs are deferred and recognized when the associated performance obligation is fulfilled based on specific identification in the fulfillment of a contract. All other selling costs are expensed as incurred.

As of March 31, 2018, we had \$274.7 million in deferred incremental direct selling costs included in Deferred charges and other assets. These deferred costs are classified as long-term on our Condensed 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. During the three months ended March 31, 2018, we recognized \$7.3 million from deferred incremental direct selling costs.

#### Insurance-funded preneed contracts

Not included in our Condensed Consolidated Balance Sheet are insurance-funded preneed contracts that will be funded by life insurance or annuity contracts issued by third party insurers. Where permitted by state or provincial law, 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 Condensed Consolidated Balance Sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenue as we perform these funerals.

#### Cash, Cash Equivalents, and Restricted Cash

The components of cash, cash equivalents, and restricted cash at March 31, 2018 and December 31, 2017 are as follows:





Table of Contents

	March 31, 2018	December 31, 2017
	(In thousands)	
Cash and cash equivalents	\$219,507	\$330,039
Restricted cash <sup>(1)</sup> :		
Included in Other current assets	5,877	8,625
Included in Deferred charges and other assets	1,936	1,937
Total restricted cash	7,813	10,562
Total cash, cash equivalents, and restricted cash	\$227,320	\$340,601

(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.

## Accounting Standards Adopted in 2018

## Revenue Recognition

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

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

We adopted the standard as of January 1, 2018 using the modified retrospective approach applied to all contracts that were not completed at adoption based on the contract terms in existence at adoption. As a result of the adoption, we recorded a \$172.2 million increase to Retained earnings, which comprises a \$268.0 million increase to Deferred charges and other assets partially offset by a \$38.0 million increase to Deferred revenue, net and a \$57.8 million increase to Deferred tax liability. Additionally, we reclassified \$606.9 million of amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts from Preneed receivables, net and trust investments to Deferred revenue, net. As a result of this reclassification, we eliminated our previous cancellation reserve on these performance obligations. We made the enhanced revenue-related disclosures in Footnotes 2, 3, and 8 of this Form 10-Q.

The standard primarily impacts the manner in which we recognize a) certain nonrefundable up-front fees and b) incremental costs to acquire new preneed funeral trust contracts and preneed and atneed cemetery contracts (i.e., selling costs). The nonrefundable fees will be deferred and recognized as revenue when the underlying goods and services are delivered to the customer. The incremental direct selling costs will be deferred and recognized by specific identification to the delivery of the underlying goods and services. Additionally, the amounts due from customers for unfulfilled performance obligations for cancelable preneed contracts are required to be presented with Deferred revenue, net, instead of as Preneed receivables, net and trust investments on our Condensed Consolidated Balance Sheet.

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

Table of Contents

The impact of adopting the new guidance on our Condensed Consolidated Statement of Operations for the three months ended March 31, 2018 is as follows:

	As Reported	Effect of New Guidance	Without New Guidance
	(In thousands, except per share amounts)		
Revenue	\$794,482	\$ 557	\$795,039
Costs and expenses	(598,720 )	(7,267 )	(605,987 )
Operating profit (loss)	195,762	(6,710 )	189,052
General and administrative expenses	(34,784 )	—	(34,784 )
Gain on divestitures and impairment charges, net	482	—	482
Hurricane recoveries, net	2,232	—	2,232
Operating income (loss)	163,692	(6,710 )	156,982
Interest expense	(43,576 )	—	(43,576 )
Loss on early extinguishment of debt, net	(10,131 )	—	(10,131 )
Other income, net	384	—	384
Income (loss) before income taxes	110,369	(6,710 )	103,659
(Provision for) benefit from income taxes	(28,321 )	1,724	(26,597 )
Net income (loss)	82,048	(4,986 )	77,062
Net income attributable to noncontrolling interests	(60 )	—	(60 )
Net income (loss) attributable to common stockholders	\$81,988	\$(4,986 )	\$77,002
Earnings per share <sup>(1)</sup>			
Basic	\$0.44	\$(0.03 )	\$0.42
Diluted	\$0.43	\$(0.03 )	\$0.41

(1) Net income per share is computed independently for each of the columns presented. Therefore, the sum of the first two columns' earnings per share may not equal the Without New Guidance column.

Cash Flow

In August and November 2016, the FASB amended "Statement of Cash Flows" to clarify guidance on the classification of certain cash receipts and cash payments. Additionally, the guidance requires that the statement of cash flows reflects changes in restricted cash in addition to cash and cash equivalents. Amended guidance includes clarification on debt prepayment and extinguishment costs, contingent consideration in business combinations, proceeds from insurance claims, and premium payments on Company-owned life insurance. We adopted the new guidance retrospectively on January 1, 2018. As a result, we have recast our Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017 as follows:

	As Previously Reported	Effect of New Guidance	As Recast
	(in thousands)		
Net cash provided by operating activities	\$188,383	\$(270 )	\$188,113
Cash flows from investing activities:			
Capital expenditures	(40,150 )	—	(40,150 )
Acquisitions	(19,327 )	(13,885 )	(33,212 )
Proceeds from divestitures and sales of property and equipment	3,148	17,087	20,235
Payments on Company-owned life insurance policies	—	(2,827 )	(2,827 )
Proceeds from Company-owned life insurance policies	—	906	906
Net cash used in investing activities	(56,329 )	1,281	(55,048 )
Net cash used in financing activities	(89,570 )	—	(89,570 )
Effect of foreign currency on cash, cash equivalents, and restricted cash	784	—	784

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-Q

Net increase in cash, cash equivalents, and restricted cash	43,268	1,011	44,279
Cash, cash equivalents, and restricted cash at beginning of period	194,986	16,520	211,506
Cash, cash equivalents, and restricted cash at end of period	\$238,254	\$ 17,531	255,785

13

---

## Table of Contents

### Retirement Plans

In March 2017, the FASB amended "Retirement Plans" to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by requiring the classification of interest costs and actuarial gains and losses separately from operating income on the Condensed Consolidated Statement of Operations. We adopted the new guidance on January 1, 2018 and applied the practical expedient of reclassifying the amounts disclosed as "total net periodic benefit cost" in Note 11 to our December 31, 2017 Form 10-K from Operating income to Other income (expense), net. For the three months ended March 31, 2017 we reclassified \$74 thousand and \$221 thousand from Costs and expenses and General and administrative expenses, respectively, to Other income (expense), net.

### Financial Instruments

In January 2016 and February 2018, the FASB amended "Financial Instruments" to provide additional guidance on the recognition and measurement of financial assets and liabilities. The amendment requires investments in equity instruments to be measured at fair value with changes in fair value reflected in net income. For us, these changes in fair value will be offset by a corresponding change in the fair value of Deferred receipts held in trust or Care trusts' corpus. The amendment also changes the required disclosures associated with equity instruments as a result of the change in presentation. The new guidance was effective for us on January 1, 2018 and our adoption did not materially impact our consolidated results of operations, consolidated financial position, or cash flows as of and for the three months ended March 31, 2018. We made the appropriate disclosure changes in Footnote 3 of this Form 10-Q.

### Stock Compensation

In May 2017, the FASB amended "Stock Compensation" to clarify which changes in terms and conditions of share-based awards require accounting for as modifications. Under the new guidance, modification accounting is required only if the fair value, vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. We adopted the new guidance on January 1, 2018 and adoption did not have an impact on our consolidated results of operations, consolidated financial position, and 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. This amendment replaces the incurred loss impairment methodology in the current standard with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to support credit loss estimates. The new guidance is effective for us on January 1, 2020, and we are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

#### Leases

In February 2016 and January 2018, the FASB amended "Leases" to increase transparency and comparability among organizations. Under the new standard, an entity will be required to recognize lease assets and liabilities on its balance sheet and disclose key information about leasing arrangements. In addition, the new standard offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This new standard will be effective for us on January 1, 2019. We are in the process of reviewing our existing leases, have selected a software solution, and are assessing process changes as a result of the new guidance. We are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

#### Goodwill

In January 2017, the FASB amended "Goodwill" to simplify the subsequent measurement of goodwill. Amended guidance eliminates Step 2 from the goodwill impairment test. Instead, impairment is defined as the amount by which the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill. The new guidance is effective for us on January 1, 2020, and is not expected to have an impact on our consolidated results of operations, consolidated financial position, and cash flows.



Table of Contents

## 3. Preneed Activities

## Preneed receivables, net and trust investments

The components of Preneed receivables, net and trust investments in our unaudited Condensed Consolidated Balance Sheet at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
Preneed funeral receivables <sup>(1)</sup>	\$33,528	\$336,925
Preneed cemetery receivables <sup>(1)</sup>	824,719	1,118,146
Preneed receivables from customers <sup>(1)</sup>	858,247	1,455,071
Unearned finance charge	(45,541 )	(45,515 )
Allowance for cancellation <sup>(1)</sup>	(46,136 )	(107,749 )
Preneed receivables, net	\$766,570	\$1,301,807
Trust investments, at market	\$4,666,645	\$4,749,548
Assets associated with businesses held for sale	(144 )	(5,660 )
Insurance-backed fixed income securities and other	263,563	265,314
Trust investments	4,930,064	5,009,202
Less: Cemetery perpetual care trust investments	(1,497,220 )	(1,532,167 )
Preneed trust investments	\$3,432,844	\$3,477,035

Preneed receivables, net and trust investments      \$4,199,414    \$4,778,842

(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.

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

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Deposits	\$93,269	\$84,487
Withdrawals	\$106,769	\$93,082
Purchases of securities	\$599,651	\$517,031
Sales of securities	\$614,424	\$487,925
Realized gains <sup>(1)</sup>	\$58,306	\$52,433
Realized losses <sup>(1)</sup>	\$(12,296 )	\$(21,774 )

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

Table of Contents

The costs and values associated with trust investments recorded at fair value at March 31, 2018 and December 31, 2017 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.

	March 31, 2018		Unrealized		Unrealized	Value
	Value Hierarchy Level	Cost	Gains	Losses		
			(In thousands)			
Fixed income securities:						
U.S. Treasury	2	\$47,338	\$12	\$(429)	)	\$46,921
Canadian government	2	60,522	78	(1,379)	)	59,221
Corporate	2	12,402	269	(260)	)	12,411
Residential mortgage-backed	2	3,312	16	(61)	)	3,267
Asset-backed	2	305	11	(11)	)	305
Equity securities:						
Preferred stock	2	7,120	363	(172)	)	7,311
Common stock:						
United States	1	1,208,816	241,804	(46,846)	)	1,403,774
Canada	1	30,150	9,751	(1,503)	)	38,398
Other international	1	63,594	12,741	(3,280)	)	73,055
Mutual funds:						
Equity	1	696,520	53,631	(9,364)	)	740,787
Fixed income	1	1,139,940	4,227	(32,959)	)	1,111,208
Other	3	5,441	3,107	(15)	)	8,533
Trust investments, at fair value		3,275,460	326,010	(96,279)	)	3,505,191
Commingled funds						
Fixed income		417,729	41	(12,473)	)	405,297
Equity		223,207	10,312	(647)	)	232,872
Money market funds		294,039	—	—	)	294,039
Private equity		172,522	59,112	(2,388)	)	229,246
Trust investments, at net asset value		1,107,497	69,465	(15,508)	)	1,161,454
Trust investments, at market		\$4,382,957	\$395,475	\$(111,787)	)	\$4,666,645



Table of Contents

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

As of March 31, 2018, our unfunded commitment for our private equity and other investments was \$112.8 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:

	Three Months Ended March 31, 2018	
	2018	2017
	(In thousands)	
Fair value, beginning balance	\$9,067	\$8,667
Net unrealized (loss) gain included in Other income (expense), net <sup>(1)</sup>	(534)	16
Distributions and other	—	(73)
Fair value, ending balance	\$8,533	\$8,610

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

Table of Contents

Maturity dates of our fixed income securities range from 2018 to 2040. Maturities of fixed income securities (excluding mutual funds) at March 31, 2018 are estimated as follows:

	Fair Value
	(In
	thousands)
Due in one year or less	\$ 54,629
Due in one to five years	57,445
Due in five to ten years	9,680
Thereafter	371
	\$ 122,125

Recognized trust fund income (realized and unrealized) related to these trust investments was \$44.9 million and \$38.2 million for the three months ended March 31, 2018 and 2017, respectively.

We have determined that the unrealized losses in our fixed income investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates. 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 values, and the duration of unrealized losses as of March 31, 2018 and December 31, 2017, respectively, are shown in the following tables:

	March 31, 2018		In Loss Position		Total	Unrealized
	In Loss Position	Less Than 12	Greater Than 12	Total		
	Value	Unrealized	Value	Unrealized	Value	Losses
		Losses		Losses		
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$27,045	\$ (402 )	\$2,045	\$ (27 )	\$29,090	\$ (429 )
Canadian government	16,545	(684 )	9,999	(695 )	26,544	(1,379 )
Corporate	4,728	(80 )	4,165	(180 )	8,893	(260 )
Residential mortgage-backed	2,868	(59 )	150	(2 )	3,018	(61 )
Asset-backed	5	(1 )	93	(10 )	98	(11 )
Total temporarily fixed income impaired securities	\$51,191	\$ (1,226 )	\$ 16,452	\$ (914 )	\$67,643	\$ (2,140 )

	December 31, 2017		In Loss Position		Total	Unrealized
	In Loss Position	Less Than 12	Greater Than 12	Total		
	Value	Unrealized	Value	Unrealized	Value	Losses
		Losses		Losses		
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$29,014	\$ (115 )	\$ 106	\$ (2 )	\$29,120	\$ (117 )
Canadian government	20,947	(639 )	6,370	(450 )	27,317	(1,089 )
Corporate	2,423	(31 )	4,453	(139 )	6,876	(170 )
Residential mortgage-backed	2,880	(12 )	151	(2 )	3,031	(14 )
Asset-backed	—	—	74	(10 )	74	(10 )
Total temporarily impaired fixed income securities	\$55,264	\$ (797 )	\$ 11,154	\$ (603 )	\$66,418	\$ (1,400 )



Table of Contents

## Deferred revenue, net

The components of Deferred revenue, net in our unaudited Condensed Consolidated Balance Sheet at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
Deferred revenue	\$1,943,933	\$ 1,789,776
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts <sup>(1)</sup>	(606,888 )	—
Deferred revenue, net	\$1,337,045	\$ 1,789,776

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

The following table summarizes the activity in our contract liabilities, which are recorded in Deferred revenue, net and Deferred receipts held in trust for the three months ended March 31,:

2018		
(In thousands)		
Beginning balance — Deferred revenue, net and Deferred receipts held in trust	\$	5,265,206
Cumulative effect of accounting changes	37,991	
Net preneed contract sales	244,091	
Acquisitions (divestitures) of businesses, net	40,332	
Net investment losses <sup>(1)</sup>	(46,918	)
Recognized revenue from backlog <sup>(2)</sup>	(115,202	)
Recognized revenue from current period sales	(105,256	)
Change in amounts due on unfulfilled performance obligations	(606,888	)
Change in cancellation reserve	61,987	
Effect of foreign currency and other	(6,517	)
Ending balance — Deferred revenue, net and Deferred receipts held in trust	\$	4,768,826

(1)Includes both realized and unrealized investment earnings.

(2)Includes current year trust fund income through the date of performance.

## 4. Income Taxes

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items, which are recorded in the period in which they occur. Discrete items include, among others, such events as changes in estimates due to the finalization of tax returns, tax audit settlements, expiration of statutes of limitation, and increases or decreases in valuation allowances on deferred tax assets. Our effective tax rate was an expense of 25.7% and a benefit of 77.4% for the three months ended March 31, 2018 and 2017, respectively. The

lower effective tax rate for the three months ended March 31, 2017 was primarily due to the effects of the IRS audit settlement and windfall tax benefits recognized on the settlement of employee share-based awards, partially offset by a higher corporate income tax rate, which was reduced from 35% to 21% as a result of the Tax Cuts and Jobs Act ("the Tax Act") enacted in December 2017. The higher effective tax rate for the three months ended March 31, 2018 was primarily a result of limitation on deductibility of certain executive compensation and repeal of the domestic manufacturing deduction. We continue to assess forthcoming guidance and accounting interpretations on the effects of the Tax Act, which could potentially affect the provisional estimates that were recorded at December 31, 2017, and expect to complete our analysis within the measurement period.

#### Unrecognized Tax Benefits

As of March 31, 2018, the total amount of our unrecognized tax benefits was \$79.5 million and the total amount of our accrued interest was \$11.1 million.

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. Tax years subsequent to 2005 remain open to review and adjustment by the IRS. In addition, we are under audit by various state jurisdictions for years 2000 through 2016. There are currently no federal or provincial audits in Canada. It is reasonably possible that the amount of unrecognized tax benefits could significantly decrease over the next 12 months as certain tax positions will be released as a result of Statutes closing. However, since the years to which uncertain tax positions relate remain subject to review by the tax authorities, a current estimate of the range of decrease that may occur within the next 12 months cannot be made.

Table of Contents

## 5. Debt

Debt as of March 31, 2018 and December 31, 2017 was as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
7.625% Senior Notes due October 2018	\$—	\$ 250,000
4.5% Senior Notes due November 2020	200,000	200,000
8.0% Senior Notes due November 2021	150,000	150,000
5.375% Senior Notes due January 2022	425,000	425,000
5.375% Senior Notes due May 2024	850,000	850,000
7.5% Senior Notes due April 2027	200,000	200,000
4.625% Senior Notes due December 2027	550,000	550,000
Term Loan due December 2022	666,563	675,000
Bank Credit Facility due December 2022	185,000	—
Obligations under capital leases	202,324	197,232
Mortgage notes and other debt, maturities through 2050	5,940	6,036
Unamortized premiums, net	7,236	7,456
Unamortized debt issuance costs	(36,119 )	(38,071 )
Total debt	3,405,944	3,472,653
Less: Current maturities of long-term debt	(89,249 )	(337,337 )
Total long-term debt	\$3,316,695	\$ 3,135,316

Current maturities of debt at March 31, 2018 include amounts due under our Term Loan, mortgage notes and other debt, and capital leases within the next year.

Our consolidated debt had a weighted average interest rate of 4.90% and 4.73% at March 31, 2018 and December 31, 2017, respectively. Approximately 70% and 75% of our total debt had a fixed interest rate at March 31, 2018 and December 31, 2017, respectively.

During the three months ended March 31, 2018 and 2017, we paid \$24.9 million and \$20.0 million in cash interest, respectively.

**Bank Credit Agreement**

As of March 31, 2018, we have \$185.0 million of outstanding borrowings under our Bank Credit Facility due December 2022; \$667 million of outstanding borrowings under our Term Loan due December 2022; and issued \$33 million of letters of credit. 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 March 31, 2018, we were in compliance with all of our debt covenants. We pay a quarterly fee on the unused commitment, which was 0.25% at March 31, 2018. As of March 31, 2018, we have \$781.7 million in borrowing capacity under the Bank Credit Facility.

**Debt Issuances and Additions**

In January 2018, we drew \$175.0 million on our Bank Credit Facility to fund the redemption of our 7.625% Senior notes due October 2018.

In March 2018, we drew \$10.0 million on our Bank Credit Facility to make required payments on our Term Loan due December 2022.

In January 2017, we drew \$25.0 million and in March 2017 we drew \$10.0 million on our Bank Credit Facility due March 2021 to make required payments on our Term Loan due March 2021 and for general corporate purposes.

**Debt Extinguishments and Reductions**

During the three months ended March 31, 2018, we made aggregate debt payments of \$268.1 million for scheduled and early extinguishment payments including:

- \$250 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;
- \$8.4 million in aggregate principal of our Term Loan due December 2022; and
- \$0.1 million in other debt.

Table of Contents

Certain of the above transactions resulted in the recognition of a loss of \$10.1 million recorded in Losses on early extinguishment of debt in our unaudited Condensed Consolidated Statement of Operations.

During the three months end March 31, 2017, we made aggregate principal payments of \$8.8 million for scheduled payments toward our previous Term Loan due March 2021.

## 6. 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 fair value of receivables on preneed contracts are impracticable to estimate because of the lack of a trading market and the diverse number of individual contracts with varying terms.

The fair value of our debt instruments at March 31, 2018 and December 31, 2017 was as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
7.625% Senior Notes due October 2018	\$—	\$ 259,563
4.5% Senior Notes due November 2020	201,500	199,590
8.0% Senior Notes due November 2021	173,340	175,313
5.375% Senior Notes due January 2022	433,373	436,178
5.375% Senior Notes due May 2024	882,181	892,118
4.625% Senior Notes due December 2027	531,449	558,250
7.5% Senior Notes due April 2027	229,000	238,004
Term Loan due December 2022	666,563	675,000
Bank Credit Facility due December 2022	185,000	—
Mortgage notes and other debt, maturities through 2050	5,941	6,036
Total fair value of debt instruments	\$3,308,347	\$ 3,440,052

The fair value 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 notes and other debt are classified within Level 3 of the fair value measurements hierarchy. The fair value of these instruments has been estimated using a discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements. An increase (decrease) in the inputs results in a directionally opposite change in the fair value of the instruments.

## 7. Equity

### Share Repurchases

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 stock repurchase program. During the three months ended March 31, 2018, we repurchased 3,095,554 shares of common stock at an aggregate cost of \$118.8 million, which is an average cost per share of \$38.38. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$351.4 million at March 31, 2018.

Subsequent to March 31, 2018, we repurchased 667,800 shares of common stock at an aggregate cost of \$25.5 million, which is an average cost per share of \$38.12. After these subsequent repurchases, the remaining dollar value of shares authorized to be repurchased under our repurchase program is \$325.9 million.



Table of Contents

## 8. Segment Reporting

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

Our reportable segment, including disaggregated revenue, information is as follows:

	Three Months Ended March 31,	
	2018	2017 <sup>(1)</sup>
	(In thousands)	
Revenue from customers:		
Funeral revenue:		
Atneed revenue	\$274,406	\$271,833
Matured preneed revenue	165,306	151,797
Core funeral revenue	439,712	423,630
Non-funeral home revenue	13,793	12,274
Recognized preneed revenue	32,460	32,056
Other revenue	28,400	30,804
Total funeral revenue	514,365	498,764
Cemetery revenue:		
Atneed revenue	83,044	81,574
Recognized preneed property revenue	108,940	114,025
Recognized preneed merchandise and services revenue	68,363	63,866
Core revenue	260,347	259,465
Other revenue	19,770	19,481
Total cemetery revenue	280,117	278,946
Total revenue from customers	\$794,482	\$777,710
Operating profit:		
Funeral operating profit	\$120,455	\$112,607
Cemetery operating profit	75,307	64,632
Operating profit from reportable segments	195,762	177,239
General and administrative expenses	(34,784 )	(42,283 )
Gains on divestitures and impairment charges, net	482	4,935
Hurricane recoveries, net	2,232	—
Operating income	163,692	139,891
Interest expense	(43,576 )	(40,636 )
Loss on early extinguishment of debt, net	(10,131 )	—
Other income (expense), net	384	(729 )
Income before income taxes	\$110,369	\$98,526

(1) The results for the three months ended March 31, 2017 have not been adjusted for the impact of our adoption of "Revenue from Contracts with Customers" on January 1, 2018.

Our geographic area information is as follows:

	United States	Canada	Total
	(In thousands)		
Three Months Ended March 31,			
Revenue from external customers:			
2018	\$744,113	\$ 50,369	\$794,482

2017

\$727,240 \$ 50,470 \$777,710

22

---

Table of Contents

9. Commitments and Contingencies

Insurance Loss Reserves

We purchase comprehensive general liability, morticians' and cemetery professional liability, automobile liability, and workers' compensation insurance coverage, all of which are 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 March 31, 2018 and December 31, 2017, we have self-insurance reserves of \$75.4 million and \$78.2 million, respectively.

Litigation and Regulatory Matters

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

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

Charles Samborsky, et al, individually and on behalf of those persons similarly situated, v. SCI California Funeral Services, Inc., et al ; Case No. BC544180; in the Superior Court of the State of California for the County of Los Angeles, Central District-Central Civil West Courthouse. This lawsuit was filed in April 2014 against an SCI subsidiary and purports to have been brought on behalf of employees who worked as family service counselors in California since April 2010. The plaintiffs allege causes of action for various violations of state laws regulating wage and hour pay. The plaintiffs seek unpaid wages, compensatory and punitive damages, attorneys' fees and costs, interest, and injunctive relief. The claims have been sent to arbitration. In July 2017, the arbitrator entered an award rejecting the plaintiffs' claims, ruling that they did not sue the correct party. We cannot quantify our ultimate liability, if any, in this lawsuit.

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

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

Felicia Horton, an individual and on behalf of other aggrieved employees v. SCI Direct, Inc., et al; Case No. 37-2016-00039356-CU-OE-CTL; in the Superior Court of California for the County of San Diego. This lawsuit was

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

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

Karen Moulton, Individually and on behalf of all others similarly situated v. Stewart Enterprises, Inc., Service Corporation

Table of Contents

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

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

Linda Allard, on behalf of herself and all others similarly situated v. SCI Direct, Inc., Case No 16-1033; in the United States District Court, Middle District of Tennessee. This case was filed in June 2016 as a class action under the Telephone Consumer Protection Act (the Act). Plaintiff alleged she received telemarketing telephone calls that were made with a prerecorded voice or made by an automatic telephone dialing system in violation of the Act. Plaintiff sought actual and statutory damages, as well as attorney's fees and costs. The parties reached a settlement of the lawsuit as reported in our Form 8-K filed on August 30, 2017. The settlement agreement has been approved by the Court and is final. The financial terms of the settlement called for SCI Direct to pay \$15.0 million, of which \$3.5 million was paid by its insurer.

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 Trevoese, Pennsylvania. Plaintiffs allege wrongful burial and sales practices. Plaintiffs seek compensatory, consequential and punitive damages, attorneys' fees and costs, interest, and injunctive relief. We cannot quantify our ultimate liability, if any, in this matter.

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

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

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

Table of Contents

## 10. Earnings Per Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing Net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted 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 shares that then shared in our earnings.

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

	Three Months Ended March 31, 2018 2017 (In thousands, except per share amounts)	
Amounts attributable to common stockholders:		
Net income:		
Net income — basic	\$81,988	\$174,702
After tax interest on convertible debt	15	12
Net income — diluted	\$82,003	\$174,714
Weighted average shares (denominator):		
Weighted average shares — basic	185,130	188,260
Stock options	4,522	4,425
Restricted stock units	150	61
Convertible debt	121	121
Weighted average shares — diluted	189,923	192,867
Net income per share:		
Basic	\$0.44	\$0.93
Diluted	\$0.43	\$0.91

The computation of diluted EPS excludes outstanding stock options in certain periods in which the inclusion of such options would be anti-dilutive in the periods presented. Total options not included in the computation of dilutive EPS are as follows (in shares):

	Three Months Ended March 31, 2018 2017 (In thousands)	
Antidilutive options	577	898

## 11. Divestiture-Related Activities

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

	Three Months Ended March 31, 2018 2017 (In thousands)	
Gains on divestitures, net	\$1,276	\$16,751
Impairment losses	(794 )	(11,816 )
Gains on divestitures and impairment charges, net	\$482	\$4,935



Table of Contents

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## The Company

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries unequaled in geographic scale and reach. At March 31, 2018, we operated 1,480 funeral service locations and 472 cemeteries (including 280 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 are Dignity Planning™, National Cremation Society®, Advantage® Funeral and Cremation Services, Funeraria del Angel™, Making Everlasting Memories®, Neptune Society™, and Trident Society™. Our funeral and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses, which enable us to serve a wide array of customer needs. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis. Our financial position is enhanced by our approximately \$10.8 billion backlog of future revenue from both trust and insurance-funded preneed sales at March 31, 2018. Preneed selling provides us with a current opportunity to lock-in future market share while deterring the customer from going to a competitor in the future. We also believe it adds to the stability and predictability of our revenue and cash flows. While revenue on the majority of preneed merchandise and service sales is deferred until the time of need, sales of preneed cemetery property provide opportunities for full current revenue recognition to the extent that the property is developed and available for use. We have adequate liquidity and a favorable debt maturity profile, which allows us to return capital to shareholders through share repurchases and dividends.

Factors affecting our operating results include: demographic trends in terms of population growth and average age, which impact death rates and number of deaths; establishing and maintaining leading market share positions supported by strong local heritage and relationships; effectively responding to increasing cremation trends by selling complementary services and merchandise; controlling salary and merchandise costs; and exercising pricing leverage related to our at-need revenue. The average revenue per funeral contract is influenced by the mix of traditional and cremation services because our average cremation service revenue is approximately half of the average revenue earned from a traditional burial service. To further enhance revenue opportunities, we have developed memorialization merchandise and services that specifically appeal to cremation customers. We believe that these additional merchandise and services will help drive increases in the average revenue for a cremation in future periods. For further discussion of our key operating metrics, see our Results of Operations and Cash Flow sections below.

## Financial Condition, Liquidity and Capital Resources

## Capital Allocation Considerations

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided \$211.5 million in the first three months of 2018. We have \$781.7 million in borrowing capacity under our bank credit facility.

Our bank credit agreement requires us to maintain certain leverage and interest coverage ratios. As of March 31, 2018, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of March 31, 2018 are as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.50 (Max)	3.70
Interest coverage ratio	3.00 (Min)	5.24

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

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

Invest in acquisitions and new builds. We intend to make acquisitions of funeral service locations and cemeteries when pricing and terms are favorable. We expect an acquisition investment to earn an after-tax cash return in excess



of our weighted average cost of capital with room for execution risk. We will also invest in the construction of funeral service locations. We target businesses with favorable customer segments and/or where we can achieve additional economies of scale.

Pay a dividend. Our quarterly dividend rate has steadily grown from \$0.025 per common share in 2005 to \$0.17 per common share in 2018. We target a payout ratio of 30% to 40% 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

Table of Contents

are subject to limitations in our debt covenants and final determination by our Board of Directors each quarter upon review of our financial performance.

Repurchase shares. Absent a strategic acquisition opportunity, we believe share repurchases are attractive at the appropriate price. During the three months ended March 31, 2018, we repurchased 3,095,554 shares of common stock at an aggregate cost of \$118.8 million, which is an average cost per share of \$38.38. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$351.4 million at March 31, 2018. We intend to make purchases from time to time in the open market or through privately negotiated transactions, subject to market conditions, debt covenants, and normal trading restrictions. Our bank credit agreement contains covenants that limit our ability to repurchase our common stock. There can be no assurance that we will buy our common stock under our share repurchase program in the future.

Subsequent to March 31, 2018, we repurchased 667,800 shares of common stock at an aggregate cost of \$25.5 million, which is an average cost per share of \$38.12. After these subsequent repurchases, the remaining dollar value of shares authorized to be repurchased under our repurchase program is \$325.9 million.

Repurchase debt. We seek open market debt repurchases when it is opportunistic to do so relative to other capital development opportunities to manage our near-term debt maturity profile. We have a relatively consistent annual cash flow stream that is generally resistant to down economic cycles. This cash flow stream and our significant liquidity is available to substantially reduce our long-term debt maturities should we choose to do so. Furthermore, our capital expenditures are generally discretionary in nature and can be managed based on the availability of operating cash flow.

Cash Flow

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

Operating Activities

Net cash provided by operating activities increased \$23.4 million to \$211.5 million in the first three months of 2018, compared to \$188.1 million in the first three months of 2017. The current period includes a \$5.6 million tax refund related to the March 2017 settlement of audits for tax years 1999-2005 (see Part I, Item 1. Financial Statements, Note 4 for more information). Excluding this benefit, cash flow from operations increased \$17.8 million from the prior year. The 2018 increase comprises:

- a \$25.6 million increase in cash receipts from customers,
- a \$10.8 million increase in net trust withdrawals,
- a \$2.1 million increase in General Agency (GA) and other receipts,
- a \$0.8 million increase in insurance proceeds, and
- a \$15.9 million decrease in cash tax payments as a result of the timing of federal tax payments in 2018 versus 2017 (excluding the refund noted above), partially offset by
- a \$27.1 million increase in vendor and other payments,
- a \$5.4 million increase in employee compensation paid, and
- a \$4.9 million increase in cash interest paid.

Investing Activities

Cash flows from investing activities used \$80.1 million in the first three months of 2018 compared to using \$55.0 million in the same period of 2017. The \$25.1 million increase from 2018 over 2017 is primarily due to the following:

- a \$13.8 million decrease in cash receipts from divestitures and asset sales,
- a \$6.1 million increase in capital expenditures primarily due to improvements at existing funeral homes,
- a \$4.5 million increase in payments on Company-owned life insurance policies, net of proceeds, and
- a \$0.7 million increase in cash spent on acquisitions.

Financing Activities

Financing activities used \$243.5 million in the first three months of 2018 compared to using \$89.6 million in the same period of 2017. The \$153.9 million increase from 2018 over 2017 is primarily due to:

- a \$95.9 million increase in payments of debt, net of proceeds from the issuance of debt,

- a \$35.3 million increase in purchase of Company common stock,
- a \$6.9 million increase in payments of dividends, and
- a \$10.3 million decrease in proceeds from exercises of stock options.

Table of Contents

## 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 funeral and cemetery sales activities. The obligations underlying these surety bonds are recorded on the unaudited Condensed Consolidated Balance Sheet as Deferred revenue, net. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, is described below.

	March 31,	December 31,
	2018	2017
	(In millions)	
Preneed funeral	\$ 109.3	\$ 109.8
Preneed cemetery:		
Merchandise and services	136.5	132.2
Pre-construction	14.9	11.9
Bonds supporting preneed obligations	260.7	253.9
Bonds supporting preneed business permits	4.6	4.5
Other bonds	18.2	18.0
Total surety bonds outstanding	\$ 283.5	\$ 276.4

When selling preneed contracts, we may post surety bonds where allowed by state law. We post the surety bonds in lieu of trusting a certain amount of funds received from the customer. The amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law. For the three months ended March 31, 2018 and 2017, we had \$5.9 million and \$6.0 million, respectively, of cash receipts attributable to bonded sales. These amounts do not consider reductions associated with taxes, obtaining costs, or other costs.

Surety bond premiums are paid annually and 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 because of lack of surety capacity or surety company non-performance.

## Preneed Funeral and Cemetery 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. Since preneed funeral and cemetery merchandise or services will generally not be provided until sometime in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed contracts be 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 unaudited Condensed Consolidated Balance Sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenue as we perform these funerals.

The table below details the results of insurance-funded preneed production and maturities for the three months ended March 31, 2018 and 2017, and the number of contracts associated with those transactions.

28

---

Table of Contents

	Three Months Ended March 31, 2018 2017 (In millions)	
Preneed insurance-funded:		
Sales production <sup>(1)</sup>	\$126.6	\$128.3
Sales production (number of contracts) <sup>(1)</sup>	21,589	21,029
General agency revenue	\$31.5	\$31.8
Maturities	\$96.4	\$91.3
Maturities (number of contracts)	16,231	15,476

<sup>(1)</sup> Amounts are not included in our unaudited Condensed Consolidated Balance Sheet.

Trust-Funded Preneed Contracts: The funds collected from customers and required by state or provincial law are deposited into trusts. We retain any funds above the amounts required to be deposited into trust accounts and use them for working capital purposes, generally to offset the selling and administrative costs of our preneed programs.

Although this represents cash flow to us, the associated revenues are deferred until the merchandise is delivered or services are performed (typically at death). 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 the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31, 2018 2017 (In millions)	
Funeral:		
Preneed trust-funded (including bonded):		
Sales production	\$92.7	\$83.4
Sales production (number of contracts)	25,873	25,690
Maturities	\$77.1	\$67.6
Maturities (number of contracts)	19,661	18,186
Cemetery:		
Sales production:		
Preneed	\$201.5	\$207.7
Atneed	85.1	83.7
Total sales production	\$286.6	\$291.4
Sales production deferred to backlog:		
Preneed	\$97.2	\$88.1
Atneed	63.3	60.4
Total sales production deferred to backlog	\$160.5	\$148.5
Revenue recognized from backlog:		
Preneed	\$57.0	\$55.0
Atneed	60.9	57.3
Total revenue recognized from backlog	\$117.9	\$112.3

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 March 31, 2018 and December 31, 2017. Additionally, the table reflects our backlog of unfulfilled insurance-funded contracts (which are not included in our unaudited Condensed Consolidated Balance Sheet) at March 31, 2018 and December 31, 2017. 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.

Table of Contents

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.

	March 31, 2018		December 31, 2017	
	Fair Value	Cost	Fair Value	Cost
	(In billions)			
Deferred revenue, net	\$1.34	\$1.34	\$1.79	\$1.79
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts <sup>(1)</sup>	0.60	0.60	—	—
Deferred receipts held in trust	3.43	3.19	3.48	3.18
Allowance for cancellation	(0.27 )	(0.25 )	(0.27 )	(0.25 )
Backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	\$5.10	\$4.88	\$5.00	\$4.72
Backlog of insurance-funded deferred revenue <sup>(2)</sup>	5.71	5.71	5.66	5.66
Total backlog of deferred revenue	\$10.81	\$10.59	\$10.66	\$10.38
Preneed receivables, net and trust investments	\$4.20	\$3.96	\$4.78	\$4.48
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts <sup>(1)</sup>	0.60	0.60	—	—
Allowance for cancellation on trust investments	(0.27 )	(0.25 )	(0.27 )	(0.25 )
Assets associated with backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	\$4.53	\$4.31	\$4.51	\$4.23
Insurance policies associated with insurance-funded deferred revenue <sup>(2)</sup>	5.71	5.71	5.66	5.66
Total assets associated with backlog of preneed deferred revenue	\$10.24	\$10.02	\$10.17	\$9.89

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

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

The fair value of our trust investments was based on a combination of quoted market prices, observable inputs such as interest rates or yield curves, and appraisals. As of March 31, 2018, the difference between the backlog and asset fair value amounts totaled \$0.57 billion, consisting of \$0.25 billion related to contracts for which we have posted surety bonds as financial assurance in lieu of trusting, \$0.11 billion collected from customers that were not required to be deposited into trust, and \$0.21 billion in allowable cash distributions from trust assets. As of March 31, 2018, the fair value of the total backlog comprised \$2.86 billion related to cemetery contracts and \$7.95 billion related to funeral contracts. As of March 31, 2018, the fair value of the assets associated with the backlog of trust-funded deferred revenue comprised \$2.59 billion related to cemetery contracts and \$1.94 billion related to funeral contracts.

The table also reflects the amounts expected to be received from insurance companies through the assignment of policy proceeds related to insurance-funded contracts. We do not reflect the unfulfilled insurance-funded preneed amounts in our unaudited Condensed Consolidated Balance Sheet because they are not assets or liabilities as defined in Statement of Accounting Concepts No. 6 as we have no claim to the insurance proceeds until the contract is fulfilled and no obligation under the contract until the benefits are assigned to us upon or after the time of need.

**Trust Investments**

In addition to selling our products and services to client families at the time of need, we enter into price-guaranteed preneed funeral and cemetery contracts, which provide for future funeral or cemetery merchandise and services. Since preneed funeral and cemetery merchandise or services will generally not be provided until sometime in the future,



most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into trusts and/or escrow accounts until the merchandise is delivered or the service is performed. Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery merchandise and services in the future at the prices that were guaranteed at the time of sale.

Also, we are required by state and provincial law to pay a portion of the proceeds from the preneed or atneed sale of cemetery property interment rights into perpetual care trusts. For these investments, the original corpus remains in the trust in perpetuity and the net ordinary earnings or elected distributions are withdrawn with the intention of offsetting the expense to maintain the cemetery property. While many states require that net capital gains or losses be retained and added to the corpus,

## Table of Contents

certain states allow the net realized capital gains and losses to be included in the net ordinary 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 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 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. Currently, the asset allocation is split approximately evenly between income and growth orientations.

We expect this asset allocation shift to enhance asset growth and provide further protection to our customers.

Additionally, we expect more states to adopt total return distribution legislation in the coming years.

As of March 31, 2018, approximately 86% of our trusts were under the control and custody of three large financial institutions. The U.S. trustees primarily use four managed limited liability companies (LLCs), one for each merchandise and service trust type and two for the cemetery perpetual care trust type, and 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 LLCs' units. For those accounts not eligible for participation in the LLCs, or in the event a particular state's regulations contain 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 three managed LLCs, one for each 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, 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 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 products sold in certain Canadian jurisdictions must be invested in these instruments.

Table of Contents

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 March 31, 2018, the largest single equity position represented less than 1% of the total securities portfolio. The objective of private equity fund investments is to provide high rates of return with reduced volatility and lower correlation. These investments are typically long term in duration. These investments are diversified by strategy, sector, manager, and vintage year. The investments consist of numerous limited partnerships, including private equity, real estate, fund of funds, 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 three months ended March 31, 2018, the Standard and Poor's 500 Index decreased 0.8% and the Barclay's Aggregate Index decreased 1.5%, while the combined SCI trusts had no significant change.

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

**Results of Operations — Three Months Ended March 31, 2018 and 2017****Management Summary**

In the three months ended March 31, 2018, we reported net income attributable to common stockholders of \$82.0 million (\$0.43 per diluted share) compared to net income attributable to common stockholders for the same period in 2017 of \$174.7 million (\$0.91 per diluted share). These results were affected by the following items:

	Three Months Ended March 31, 2018    2017 (In millions)	
Pre-tax (losses) gains from divestitures and impairment charges, net	\$0.5	\$4.9
Pre-tax losses from the early extinguishment of debt, net	\$(10.1)	\$—
Pre-tax pension termination obligation	\$—	\$(11.6)
Tax benefit from above items	\$1.5	\$2.4
Change in certain tax reserves and other	\$1.2	\$106.0

In addition to the above items, the increase in diluted earnings per share excluding special items was primarily driven by strong funeral and cemetery results, the impact of new accounting standards and selling processes, a lower effective tax rate, a lower share count, partially offset by higher interest expense.

Table of Contents

## Funeral Results

	Three Months Ended March 31,	
	2018	2017
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$514.4	\$498.8
Less: Revenue associated with acquisitions/new construction	6.6	1.5
Less: Revenue associated with divestitures	0.5	3.6
Comparable <sup>1</sup> funeral revenue	507.3	493.7
Less: Comparable recognized preneed revenue	32.4	32.1
Less: Comparable general agency and other revenue	28.1	30.5
Adjusted comparable funeral revenue	\$446.8	\$431.1
Comparable services performed	84,910	81,918
Comparable average revenue per service <sup>2</sup>	\$5,262	\$5,263
Consolidated funeral operating profit	\$120.5	\$112.6
Less: Operating profit associated with acquisitions/new construction	1.0	0.8
Less: Operating loss associated with divestitures	(0.6 )	(1.5 )
Comparable funeral operating profit	\$120.1	\$113.3

(1) We define comparable (or same store) operations as those funeral locations owned by us for the entire period beginning January 1, 2017 and ending March 31, 2018.

(2) We calculate comparable average revenue per service by dividing comparable funeral revenue, excluding recognized preneed revenue, general agency 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 are preneed sales of merchandise that are delivered at the time of sale, including memorial merchandise and travel protection, and are 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 \$514.4 million for the three months ended March 31, 2018 compared to \$498.8 million for the same period in 2017. This increase is primarily attributable to a \$13.6 million increase in comparable revenue as described below and \$5.1 million in revenue contributed by acquired and newly constructed properties, partially offset by the loss of \$3.1 million in revenue contributed by properties that have been subsequently divested.

Comparable revenue from funeral operations was \$507.3 million for the three months ended March 31, 2018 compared to \$493.7 million for the same period in 2017. The \$13.6 million increase was primarily due to a 3.7% increase in comparable services performed. The increase in services performed comprises a 3.3% increase in services performed by our funeral homes and a 6.0% increase in cremation services performed by our non-funeral home channel.

Average revenue per service was relatively flat as a slight increase in the organic sales average was offset by a 120 basis point increase in the core cremation mix. Our total comparable cremation rate increased to 54.4% in the first three months of 2018 from 53.2% in 2017 as a result of an increase in both direct cremations and cremations with service.

## Funeral Operating Profit

Consolidated funeral operating profit increased \$7.9 million, or 7.0%, in the first three months of 2018 compared to the same period in 2017. This increase is primarily attributable to an increase in comparable funeral operating profit of \$6.8 million, or 6.0%. Comparable funeral operating profit increased \$6.8 million to \$120.1 million and the operating

margin percentage increased 80 basis points to 23.7%, which is primarily due to the increased revenue from funeral services performed resulting from the stronger flu season, which carries a high incremental profit percentage. This was slightly offset by increased labor and marketing costs.

Table of Contents

## Cemetery Results

	Three Months Ended March 31, 2018 2017 (In millions)	
Consolidated cemetery revenue	\$280.1	\$278.9
Less: Revenue associated with acquisitions/new construction	1.7	0.6
Less: Revenue associated with divestitures	0.1	0.4
Comparable <sup>1</sup> cemetery revenue	\$278.3	\$277.9
Consolidated cemetery operating profit	\$75.3	\$64.6
Less: Operating profit associated with acquisitions/new construction	0.5	0.1
Less: Operating loss associated with divestitures	(0.1 )	—
Comparable cemetery operating profit	\$74.9	\$64.5

(1) We define comparable (or same store) operations as those cemetery locations owned by us for the entire period beginning January 1, 2017 and ending March 31, 2018.

## Cemetery Revenue

Consolidated revenue from our cemetery operations increased \$1.2 million, or 0.4%, in the three months ended March 31, 2018 compared to the same period in 2017, primarily attributable to \$1.1 million in revenue contributed by acquired properties and the \$0.4 million increase in comparable revenue, partially offset by the loss of \$0.3 million in properties that have been subsequently divested. Total comparable cemetery revenue was relatively flat when compared with the first quarter of 2017, as a reduction in both atneed and preneed cemetery property revenue related to property sales production was offset by increases in both atneed and recognized preneed merchandise and service revenues. The merchandise and service related revenue increase was driven by higher service volume from the strong flu season as well as trust fund income associated with recognized preneed merchandise and service revenues.

## Cemetery Operating Profit

Consolidated cemetery operating profit increased \$10.7 million, or 16.6%, in the three months ended March 31, 2018 compared to the same period in 2017. This increase is primarily the result of a \$10.4 million increase in comparable operating profit. Comparable cemetery operating profit increased \$10.4 million to \$74.9 million and the operating margin percentage increased 370 basis points to 26.9%. The increase was partially due to a \$5 million net benefit of deferring selling compensation under the new revenue recognition accounting standard. The additional \$5 million of increased profit was due to a change in revenue mix from property revenue towards merchandise and service revenue which typically carries a higher margin percentage due to reduced selling costs, lower variable cost for services and the inclusion of trust fund income. The margins were also positively impacted by lower variable and fixed costs during the quarter.

## Other Financial Statement Items

## General and Administrative Expenses

General and administrative expenses decreased \$7.5 million to \$34.8 million in the three months ended March 31, 2018 compared to \$42.3 million in the same period of 2017. The prior year period includes \$11.6 million related to a pension termination charge. Excluding these costs, general and administrative expenses increased \$4.1 million primarily related to higher workers compensation and auto related insurance claims, increased legal and accounting costs resulting from the implementation of new accounting standards, and a pension termination expense.

## Gains on Divestitures and Impairment Charges, Net

Gains on divestitures and impairment charges, net, declined \$4.5 million in the three months ended March 31, 2018 compared to the same period of 2017 associated with the divestitures of non-strategic funeral and cemetery locations in the United States and Canada.

## Hurricane Recoveries, Net

Hurricane recoveries, net, reflects \$2.3 million in damages incurred through March 31, 2018 at various locations caused by the 2017 hurricanes, offset by \$4.5 million of insurance proceeds recognized through March 31, 2018.

**Loss on Early Extinguishment of Debt**

We incurred a \$10.1 million loss on early extinguishment of debt in the first three months of 2018 to manage our near-term debt maturity profile and lower our effective interest rate by refinancing our 2018 notes.



## Table of Contents

### Interest Expense

Interest expense increased \$2.9 million to \$43.6 million in the three months ended March 31, 2018 as we were impacted by increased interest rates and higher balances on our floating rate debt as we continued to maintain our leverage ratio.

### (Provision for) Benefit From Income Taxes

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items, which are recorded in the period in which they occur. Discrete items include, among others, such events as changes in estimates due to the finalization of tax returns, tax audit settlements, expiration of statute of limitations, and increases or decreases in valuation allowances on deferred tax assets. Our effective tax rate was an expense of 25.7% and a benefit of 77.4% for the three months ended March 31, 2018 and 2017, respectively. The lower effective tax rate for the three months ended March 31, 2017 was primarily due to the effects of the IRS audit settlement and windfall tax benefits recognized on the settlement of employee share-based awards, partially offset by a higher corporate income tax rate, which was reduced from 35% to 21% as a result of the Tax Act enacted in December 2017. The higher effective tax rate for the three months ended March 31, 2018 was primarily a result of limitation on deductibility of certain executive compensation and repeal of the domestic manufacturing deduction. We continue to assess forthcoming guidance and accounting interpretations on the effects of the Tax Act, which could potentially affect the provisional estimates that were recorded at December 31, 2017, and expect to complete our analysis within the measurement period.

### Weighted Average Shares

The diluted weighted average number of shares outstanding was 189.9 million in the three months ended March 31, 2018, compared to 192.9 million in the same period in 2017. The decrease in the number of shares reflects the impact of shares repurchased under our share repurchase program.

### Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Although we base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, actual results may differ from the estimates on which our financial statements are prepared at any given point of time. Changes in these estimates could materially affect our consolidated financial position, consolidated results of operations, or cash flows. Significant items that are subject to such estimates and assumptions include revenue and expense accruals, fair value of merchandise and perpetual care trust assets, and the allocation of purchase price to the fair value of assets acquired. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

There were no significant changes to our accounting policies that have occurred subsequent to December 31, 2017, except as described below within Recent Accounting Pronouncements and Accounting Changes.

### Recent Accounting Pronouncements and Accounting Changes

For discussion of recent accounting pronouncements and accounting changes, see Part I, Item 1. Financial Statements, Note 2.

### Cautionary Statement on Forward-Looking Statements

The statements in this Form 10-Q that are not historical facts are forward-looking statements made in reliance on the "safe harbor" protections provided under the Private Securities Litigation Reform Act of 1995. These statements may be accompanied by words such as "believe," "estimate," "project," "expect," "anticipate," 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 results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by us, or on our behalf. Important factors, which could cause actual results to differ materially from those in forward-looking statements include, among others, the following:

-

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

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

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

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

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

The funeral and cemetery industry is competitive.

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

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

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

Unfavorable publicity could affect our reputation and business.

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

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

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

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

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

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

Table of Contents

• 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.

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

• 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.

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

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

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

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

• A failure of key information technology systems or processes could disrupt and adversely affect our business.

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

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

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2017 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at [www.sci-corp.com](http://www.sci-corp.com). We assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term “market” risk refers to the risk of gains or losses arising from changes in interest rates and prices of marketable securities. The disclosures are not meant to be precise indicators of expected future gains or losses, but rather indicators of reasonably possible gains or losses. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures. All of our market risk-sensitive instruments were entered into for purposes other than trading.

Marketable Equity and Debt Securities — Price Risk

Table of Contents

In connection with our preneed operations and sales, the related trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. Cost and market values as of March 31, 2018 are presented in Part I, Item 1. Financial Statements and Note 3 of this Form 10-Q. Also, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, Financial Conditions, Liquidity and Capital Resources, for discussion of trust investments.

## Item 4. Controls and Procedures

## Disclosure Controls and Procedures

As of March 31, 2018, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission (SEC) reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based on our evaluation, our CEO and CFO have concluded that our disclosure controls and procedures are effective as of March 31, 2018 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our consolidated financial condition, consolidated results of operations, and cash flows for the periods presented in conformity with US GAAP.

## Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2018, the company implemented new controls as part of the efforts to adopt the new revenue recognition standard (ASC Topic 606). In particular, new controls related to monitoring the adoption process and gathering information and evaluating the analysis used in the development of disclosures required. The company evaluated the design of these new controls before adoption during the quarter ended March 31, 2018. As the implementation process continues, the company will continue to evaluate the need for additional internal controls over financial reporting. However, there were no additional changes in our internal control over financial reporting during the month ended March 31, 2018 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

Information regarding legal proceedings is set forth in Note 9 in Item 1 of Part I of this Form 10-Q, which information is hereby incorporated by reference herein.

## Item 1A. Risk Factors

There have been no material changes in our Risk Factors as set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Dollar value of shares that may yet be purchased under the program <sup>(1)</sup>
January 1, 2018 - January 31, 2018	1,227,831	\$ 38.44	1,227,831	\$ 121,380,433
February 1, 2018 - February 28, 2018	1,029,682	\$ 38.28	1,029,682	\$ 382,762,278

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-Q

March 1, 2018 - March 31, 2018	838,041	\$ 38.41	817,435	\$351,360,829
	3,095,554		3,074,948	

<sup>(1)</sup> In February 2018, our Board of Directors increased our repurchase authorization for up to \$400.0 million.  
Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

37

---

Table of Contents

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

12.1 Ratio of Earnings to Fixed Charges for the three months ended March 31, 2018 and 2017.

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 ~~I~~nteractive data file.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

April 26, 2018 SERVICE CORPORATION INTERNATIONAL

By: /s/ Tammy Moore

Tammy Moore

Vice President and Corporate Controller

(Principal Accounting Officer)