
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 June 30, 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

(State or other jurisdiction of incorporation or organization)

74-1488375

(I. R. S. employer identification number)

1929 Allen Parkway, Houston, Texas

(Address of principal executive offices)

77019

(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.

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 July 30, 2018 was 180,359,265 (net of treasury shares).

SERVICE CORPORATION INTERNATIONAL

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GLOSSARY

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

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

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

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Trust Corpus — The deposits and net realized capital gains and losses included in a perpetual care trust that cannot be withdrawn.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

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

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these trusts, the corpus remains in the trust in perpetuity and the investment earnings or elected distributions are withdrawn regularly and are intended to defray our expenses incurred to maintain the cemetery.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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Revenue	\$ 796,092	\$ 773,242	\$ 1,590,574	\$ 1,550,952
Costs and expenses	(607,965)	(589,724)	(1,206,685)	(1,190,195)
Operating profit	188,127	183,518	383,889	360,757
General and administrative expenses	(31,136)	(40,369)	(65,920)	(82,652)
Gains on divestitures and impairment charges, net	6,865	753	7,347	5,688
Hurricane (expenses) recoveries, net	(1,902)	—	330	—
Operating income	161,954	143,902	325,646	283,793
Interest expense	(44,519)	(42,083)	(88,095)	(82,719)
Loss on early extinguishment of debt, net	—	—	(10,131)	—
Other income (expense), net	1,880	(301)	2,264	(1,030)
Income before income taxes	119,315	101,518	229,684	200,044
(Provision for) benefit from income taxes	(16,034)	(32,956)	(44,355)	43,267
Net income	103,281	68,562	185,329	243,311
Net income attributable to noncontrolling interests	(42)	(81)	(102)	(128)
Net income attributable to common stockholders	\$ 103,239	\$ 68,481	\$ 185,227	\$ 243,183
Basic earnings per share:				
Net income attributable to common stockholders	\$ 0.57	\$ 0.37	\$ 1.01	\$ 1.29
Basic weighted average number of shares	182,637	187,597	183,877	187,927
Diluted earnings per share:				
Net income attributable to common stockholders	\$ 0.55	\$ 0.36	\$ 0.98	\$ 1.26
Diluted weighted average number of shares	187,188	192,138	188,547	192,511
Dividends declared per share	\$ 0.17	\$ 0.15	\$ 0.34	\$ 0.28

(See notes to unaudited condensed consolidated financial statements)

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income	\$ 103,281	\$ 68,562	\$ 185,329	\$ 243,311
Other comprehensive income:				
Foreign currency translation adjustments	(5,909)	10,441	(15,501)	13,605
Total comprehensive income	97,372	79,003	169,828	256,916
Total comprehensive income attributable to noncontrolling interests	(41)	(88)	(98)	(135)
Total comprehensive income attributable to common stockholders	<u>\$ 97,331</u>	<u>\$ 78,915</u>	<u>\$ 169,730</u>	<u>\$ 256,781</u>

(See notes to unaudited condensed consolidated financial statements)

**SERVICE CORPORATION INTERNATIONAL
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)**

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
(In thousands, except share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 164,460	\$ 330,039
Receivables, net	92,494	90,304
Inventories	26,095	25,378
Other	25,894	35,575
Total current assets	308,943	481,296
Preneed receivables, net and trust investments	4,454,346	4,778,842
Cemetery property	1,826,448	1,791,989
Property and equipment, net	1,915,408	1,873,044
Goodwill	1,850,972	1,805,981
Deferred charges and other assets	941,261	601,184
Cemetery perpetual care trust investments	1,562,659	1,532,167
Total assets	\$ 12,860,037	\$ 12,864,503
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 443,153	\$ 489,172
Current maturities of long-term debt	95,623	337,337
Income taxes payable	15,107	2,470
Total current liabilities	553,883	828,979
Long-term debt	3,493,669	3,135,316
Deferred revenue, net	1,426,757	1,789,776
Deferred tax liability	367,036	283,765
Other liabilities	390,574	410,982
Deferred receipts held in trust	3,594,222	3,475,430
Care trusts' corpus	1,557,499	1,530,818
Commitments and contingencies (Note 9)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 192,625,361 and 191,935,647 shares issued, respectively, and 181,237,989 and 186,614,747 shares outstanding, respectively	181,238	186,615
Capital in excess of par value	954,128	970,468
Retained earnings	314,669	210,364
Accumulated other comprehensive income	26,217	41,943
Total common stockholders' equity	1,476,252	1,409,390
Noncontrolling interests	145	47
Total equity	1,476,397	1,409,437
Total liabilities and equity	\$ 12,860,037	\$ 12,864,503

(See notes to unaudited condensed consolidated financial statements)

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

	Six Months Ended	
	June 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 185,329	\$ 243,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt	10,131	—
Depreciation and amortization	78,069	75,455
Amortization of intangibles	13,645	14,051
Amortization of cemetery property	29,813	30,596
Amortization of loan costs	3,017	2,881
Provision for doubtful accounts	4,494	4,544
Provision for (benefit from) deferred income taxes	22,011	(153,112)
Gains on divestitures and impairment charges, net	(7,347)	(5,688)
Gain on sale of investments	(2,636)	—
Share-based compensation	7,544	7,645
Change in assets and liabilities, net of effects from acquisitions and divestitures:		
Decrease in receivables	965	20,441
Increase in other assets	(10,635)	(7,815)
(Decrease) increase in payables and other liabilities	(37,817)	14,815
Effect of preneed sales production and maturities:		
Increase in preneed receivables, net and trust investments	(23,494)	(64,860)
Increase in deferred revenue, net	56,342	36,345
(Decrease) increase in deferred receipts held in trust	(14,055)	3,880
Net cash provided by operating activities	315,376	222,489
Cash flows from investing activities:		
Capital expenditures	(102,890)	(85,324)
Acquisitions, net of cash acquired	(167,622)	(46,373)
Proceeds from divestitures and sales of property and equipment	18,305	25,329
Proceeds from sale of investments	2,900	—
Payments for Company-owned life insurance policies	(11,733)	(3,180)
Proceeds from Company-owned life insurance policies	2,810	2,591
Purchase of land and other	(14,525)	175
Net cash used in investing activities	(272,755)	(106,782)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	370,000	110,000
Scheduled payments of debt	(8,631)	(17,570)
Early payments of debt	(259,590)	—
Principal payments on capital leases	(19,270)	(30,419)
Proceeds from exercise of stock options	7,302	20,601
Purchase of Company common stock	(228,866)	(120,064)
Payments of dividends	(62,241)	(52,529)
Purchase of noncontrolling interest	—	(4,580)
Bank overdrafts and other	(8,820)	(2,065)
Net cash used in financing activities	(210,116)	(96,626)
Effect of foreign currency on cash, cash equivalents, and restricted cash	(2,133)	4,072
Net (decrease) increase in cash, cash equivalents, and restricted cash	(169,628)	23,153
Cash, cash equivalents, and restricted cash at beginning of period	340,601	211,506
Cash, cash equivalents, and restricted cash at end of period	\$ 170,973	\$ 234,659

(See notes to unaudited condensed consolidated financial statements)

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	—	—	—	185,227	(15,497)	98	169,828
Dividends declared on common stock (\$0.34 per share)	—	—	—	(62,241)	—	—	(62,241)
Employee share-based compensation earned	—	—	7,544	—	—	—	7,544
Stock option exercises	411	—	6,891	—	—	—	7,302
Restricted stock awards, net of forfeitures	178	—	(178)	—	—	—	—
Purchase of Company common stock	—	(6,066)	(31,658)	(191,142)	—	—	(228,866)
Other	100	—	1,061	—	—	—	1,161
Balance at June 30, 2018	<u>\$ 192,625</u>	<u>\$ (11,387)</u>	<u>\$ 954,128</u>	<u>\$ 314,669</u>	<u>\$ 26,217</u>	<u>\$ 145</u>	<u>\$ 1,476,397</u>

(See notes to unaudited condensed consolidated financial statements)

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 to the customer when construction is complete and the property is available for use. 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,

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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.

Total consideration received for price guaranteed preneed contracts with customers represents the stated amount of the contract excluding any amounts collected on behalf of third-parties, such as sales taxes. 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. Earnings on these trust funds, which are specifically identifiable for each performance obligation, are also included in total consideration. We defer these investment earnings related to the merchandise and service trusts until the associated merchandise is delivered or services are performed. Fees charged by our wholly-owned registered investment advisor are also included in revenue in the period in which they are earned. 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, 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 June 30, 2018, we had \$281.2 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 and six months ended June 30, 2018, we recognized \$6.7 million and \$14.0 million, respectively, 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.

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Cash, Cash Equivalents, and Restricted Cash

The components of cash, cash equivalents, and restricted cash at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
	(In thousands)	
Cash and cash equivalents	\$ 164,460	\$ 330,039
Restricted cash ⁽¹⁾ :		
Included in <i>Other current assets</i>	4,575	8,625
Included in <i>Deferred charges and other assets</i>	1,938	1,937
Total restricted cash	6,513	10,562
Total cash, cash equivalents, and restricted cash	\$ 170,973	\$ 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.

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.

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*. We made the enhanced revenue-related disclosures in Footnotes 2, 3, and 8 of this Form 10-Q.

Additionally, the amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts are required to be presented with *Deferred revenue, net*, instead of as *Preneed receivables, net and trust investments* on our unaudited Condensed Consolidated Balance Sheet. Accordingly, we reclassified \$551.1 million of these amounts 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 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 unaudited 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.

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The impact of adopting the new guidance on our unaudited Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2018 are as follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Effect of New Guidance	Without New Guidance	As Reported	Effect of New Guidance	Without New Guidance
(in thousands, except per share amounts)						
Revenue	\$ 796,092	\$ 461	\$ 796,553	\$ 1,590,574	\$ 1,018	\$ 1,591,592
Costs and expenses	(607,965)	(6,685)	(614,650)	(1,206,685)	(13,952)	(1,220,637)
Operating profit (loss)	188,127	(6,224)	181,903	383,889	(12,934)	370,955
General and administrative expenses	(31,136)	—	(31,136)	(65,920)	—	(65,920)
Gain on divestitures and impairment charges, net	6,865	—	6,865	7,347	—	7,347
Hurricane recoveries, net	(1,902)	—	(1,902)	330	—	330
Operating income (loss)	161,954	(6,224)	155,730	325,646	(12,934)	312,712
Interest expense	(44,519)	—	(44,519)	(88,095)	—	(88,095)
Gain (loss) on early extinguishment of debt, net	—	—	—	(10,131)	—	(10,131)
Other income, net	1,880	—	1,880	2,264	—	2,264
Income (loss) before income taxes	119,315	(6,224)	113,091	229,684	(12,934)	216,750
(Provision for) benefit from income taxes	(16,034)	772	(15,262)	(44,355)	2,496	(41,859)
Net income (loss)	103,281	(5,452)	97,829	185,329	(10,438)	174,891
Net income attributable to noncontrolling interests	(42)	—	(42)	(102)	—	(102)
Net income (loss) attributable to common stockholders	\$ 103,239	\$ (5,452)	\$ 97,787	\$ 185,227	\$ (10,438)	\$ 174,789
Earnings per share ⁽¹⁾						
Basic	\$ 0.57	\$ (0.03)	\$ 0.54	\$ 1.01	\$ (0.06)	\$ 0.95
Diluted	\$ 0.55	\$ (0.03)	\$ 0.52	\$ 0.98	\$ (0.06)	\$ 0.93

⁽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 prepayments 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 unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2017 as follows:

	As Previously Reported	Effect of New Guidance	As Recast
(in thousands)			
Net cash provided by (used in) operating activities	\$ 224,223	\$ (1,734)	\$ 222,489
Cash flows from investing activities:			
Capital expenditures	(85,324)	—	(85,324)
Acquisitions, net of cash acquired	(24,044)	(22,329)	(46,373)
Proceeds from divestitures and sales of property and equipment	7,431	17,898	25,329
Payments for Company-owned life insurance policies	—	(3,180)	(3,180)
Proceeds from Company-owned life insurance policies	—	2,591	2,591
Other	175	—	175
Net cash used in investing activities	(101,762)	(5,020)	(106,782)
Net cash used in financing activities	(96,626)	—	(96,626)
Effect of foreign currency on cash, cash equivalents, and restricted cash	4,068	4	4,072
Net increase in cash, cash equivalents, and restricted cash	29,903	(6,750)	23,153
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	\$ 224,889	\$ 9,770	\$ 234,659

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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 unaudited 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 second quarter of 2017, we reclassified \$73 thousand and \$221 thousand from *Costs and expenses* and *General and administrative expenses*, respectively, to *Other income (expense), net*. For the first six months of 2017 we reclassified \$147 thousand and \$442 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 and six months ended June 30, 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, which 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, January 2018, and July 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. The amended guidance eliminates Step 2 from the goodwill impairment test. Instead, impairment is defined as the amount by which the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill. 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.

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 June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
	(In thousands)	
Preneed funeral receivables ⁽¹⁾	\$ 115,406	\$ 336,925
Preneed cemetery receivables ⁽¹⁾	839,960	1,118,146
Preneed receivables from customers ⁽¹⁾	955,366	1,455,071
Unearned finance charge	(48,608)	(45,515)
Allowance for cancellation ⁽¹⁾	(47,902)	(107,749)
Preneed receivables, net	<u>\$ 858,856</u>	<u>\$ 1,301,807</u>
Trust investments, at market	\$ 4,896,475	\$ 4,749,548
Insurance-backed fixed income securities and other	261,674	259,654
Trust investments	5,158,149	5,009,202
Less: Cemetery perpetual care trust investments	(1,562,659)	(1,532,167)
Preneed trust investments	<u>\$ 3,595,490</u>	<u>\$ 3,477,035</u>
Preneed receivables, net and trust investments	<u>\$ 4,454,346</u>	<u>\$ 4,778,842</u>

(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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Deposits	\$ 106,843	\$ 106,771	\$ 200,112	\$ 191,258
Withdrawals	\$ 114,524	\$ 104,641	\$ 221,293	\$ 197,723
Purchases of securities	\$ 407,859	\$ 387,415	\$ 1,007,748	\$ 904,571
Sales of securities	\$ 419,357	\$ 738,302	\$ 1,035,357	\$ 1,227,167
Realized gains ⁽¹⁾	\$ 87,840	\$ 53,493	\$ 146,146	\$ 105,926
Realized losses ⁽¹⁾	\$ (17,552)	\$ (18,137)	\$ (29,852)	\$ (44,950)

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

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The costs and values associated with trust investments recorded at fair value at June 30, 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.

	Value Hierarchy Level	June 30, 2018			Value
		Cost	Unrealized Gains	Unrealized Losses	
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 53,781	\$ 20	\$ (569)	\$ 53,232
Canadian government	2	59,109	46	(1,531)	57,624
Corporate	2	31,206	255	(329)	31,132
Residential mortgage-backed	2	5,213	10	(80)	5,143
Asset-backed	2	142	2	(11)	133
Equity securities:					
Preferred stock	2	11,519	620	(163)	11,976
Common stock:					
United States	1	1,273,864	236,873	(46,573)	1,464,164
Canada	1	31,679	10,887	(973)	41,593
Other international	1	83,763	13,044	(3,270)	93,537
Mutual funds:					
Equity	1	709,776	40,605	(12,764)	737,617
Fixed income	1	1,175,308	3,647	(45,546)	1,133,409
Other	3	16,995	3,200	(1)	20,194
Trust investments, at fair value		<u>3,452,355</u>	<u>309,209</u>	<u>(111,810)</u>	<u>3,649,754</u>
Commingled funds					
Fixed income		417,179	23	(16,390)	400,812
Equity		225,264	15,694	(238)	240,720
Money market funds		331,228	—	—	331,228
Private equity		210,305	65,420	(1,764)	273,961
Trust investments, at net asset value		<u>1,183,976</u>	<u>81,137</u>	<u>(18,392)</u>	<u>1,246,721</u>
Trust investments, at market		<u>\$ 4,636,331</u>	<u>\$ 390,346</u>	<u>\$ (130,202)</u>	<u>\$ 4,896,475</u>

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

As of June 30, 2018, our unfunded commitment for our private equity and other investments was \$112 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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
(In thousands)				
Fair value, beginning balance	\$ 8,533	\$ 7,313	\$ 9,067	\$ 7,163
Net unrealized gain included in <i>Other income (expense), net</i> ⁽¹⁾	264	660	(270)	810
Purchases	7	28	7	28
Sales	—	(77)	—	(77)
Acquisitions	11,390	—	11,390	—
Fair value, ending balance	<u>\$ 20,194</u>	<u>\$ 7,924</u>	<u>\$ 20,194</u>	<u>\$ 7,924</u>

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

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Maturity dates of our fixed income securities range from 2018 to 2077. Maturities of fixed income securities (excluding mutual funds) at June 30, 2018 are estimated as follows:

	Fair Value (In thousands)
Due in one year or less	\$ 65,392
Due in one to five years	64,107
Due in five to ten years	15,209
Thereafter	2,556
	<u>\$ 147,264</u>

Recognized trust fund income (realized and unrealized) related to these trust investments was \$52.2 million and \$45.2 million for the three months ended June 30, 2018 and 2017, respectively. Recognized trust fund income (realized and unrealized) related to these trust investments was \$97.1 million and \$83.3 million for the six months ended June 30, 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 June 30, 2018 and December 31, 2017, respectively, are shown in the following tables:

	June 30, 2018					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$ 25,245	\$ (530)	\$ 2,382	\$ (39)	\$ 27,627	\$ (569)
Canadian government	9,693	(481)	16,233	(1,050)	25,926	(1,531)
Corporate	4,541	(60)	5,944	(269)	10,485	(329)
Residential mortgage-backed	2,868	(78)	99	(2)	2,967	(80)
Asset-backed	—	—	78	(11)	78	(11)
Total temporarily fixed income impaired securities	<u>\$ 42,347</u>	<u>\$ (1,149)</u>	<u>\$ 24,736</u>	<u>\$ (1,371)</u>	<u>\$ 67,083</u>	<u>\$ (2,520)</u>

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

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Deferred revenue, net

The components of *Deferred revenue, net* in our unaudited Condensed Consolidated Balance Sheet at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
	(In thousands)	
Deferred revenue	\$ 2,001,494	\$ 1,789,776
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts ⁽¹⁾	(574,737)	—
Deferred revenue, net	\$ 1,426,757	\$ 1,789,776

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

The following table summarizes the activity in our contract liabilities, which are recorded in *Deferred revenue, net* and *Deferred receipts held in trust* for the six months ended June 30, 2018:

	2018
	(In thousands)
Beginning balance — <i>Deferred revenue, net</i> and <i>Deferred receipts held in trust</i>	\$ 5,265,206
Cumulative effect of accounting changes	37,991
Net preneed contract sales	505,146
Acquisitions (divestitures) of businesses, net	148,048
Net investment earnings ⁽¹⁾	20,720
Recognized revenue from backlog ⁽²⁾	(212,195)
Recognized revenue from current period sales	(242,438)
Change in amounts due on unfulfilled performance obligations	(551,092)
Change in cancellation reserve	62,147
Effect of foreign currency and other	(12,554)
Ending balance — <i>Deferred revenue, net</i> and <i>Deferred receipts held in trust</i>	\$ 5,020,979

(1) Includes both realized and unrealized investment earnings.

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

4. Income Taxes

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act ("the Tax Act") which significantly revised U.S. corporate income tax law by, among other things, reducing the U.S. federal corporate income tax rate from 35% to 21% and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. Due to the complexities involved in accounting for the Tax Act, the SEC issued Staff Accounting Bulletin ("SAB") 118 which requires that we include in our financial statements the reasonable estimate of the impact of the Tax Act on earnings to the extent such reasonable estimate has been determined.

SAB 118 allows us to report provisional amounts within a measurement period up to one year due to the complexities inherent in adopting the changes. We consider both the recognition of the transition tax and the remeasurement of deferred taxes incomplete. We adjusted our provisional amounts during the six months ended June 30, 2018 by \$16.3 million due to the remeasurement of deferred taxes resulting from a change in estimate related to the finalization of the 2017 tax return. Additionally, new guidance from regulators, interpretation of the law, and refinement of our estimates from ongoing analysis of data and tax positions may change the provisional amounts recorded. Any changes in the provisional amount recorded will be reflected in income tax expense in the period identified.

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 13.4% and 32.5% for the three months ended June 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the three months ended June 30, 2018 is primarily due to the decrease in the U.S. federal income tax rate and remeasurement of deferred taxes as a result of a change in estimate in the finalization of the 2017 tax returns. Our effective tax rate was an expense of 19.3% and a benefit of 21.6% for

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the six months ended June 30, 2018 and 2017, respectively. The higher effective tax rate for the six months ended June 30, 2018 was primarily due to the effects of the 2017 IRS audit settlement, partially offset by the decrease in the U.S. federal income tax rate and remeasurement of deferred taxes as a result of the change in estimate in the finalization of the 2017 tax return.

Unrecognized Tax Benefits

As of June 30, 2018, the total amount of our unrecognized tax benefits was \$79.5 million and the year -to-date total amount of our accrued interest was \$11.9 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 2009 through 2017. 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.

5. Debt

Debt as of June 30, 2018 and December 31, 2017 was as follows:

	June 30, 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	370,000	—
Obligations under capital leases	199,554	197,232
Mortgage notes and other debt, maturities through 2050	5,845	6,036
Unamortized premiums, net	7,014	7,456
Unamortized debt issuance costs	(34,684)	(38,071)
Total debt	3,589,292	3,472,653
Less: Current maturities of long-term debt	(95,623)	(337,337)
Total long-term debt	\$ 3,493,669	\$ 3,135,316

Current maturities of debt at June 30, 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 4.88% and 4.73% at June 30, 2018 and December 31, 2017, respectively. Approximately 66% and 75% of our total debt had a fixed interest rate at June 30, 2018 and December 31, 2017, respectively.

During the six months ended June 30, 2018 and 2017, we paid \$89.1 million and \$79.9 million in cash interest, respectively.

Bank Credit Agreement

As of June 30, 2018, we have \$370.0 million of outstanding borrowings under our Bank Credit Facility due December 2022; \$666.6 million of outstanding borrowings under our Term Loan due December 2022; and issued \$33.3 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 June 30, 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 June 30, 2018. As of June 30, 2018, we have \$596.7 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 June 2018, we drew \$185.0 million on our Bank Credit Facility to fund acquisition activity, to make required payments on our Term Loan due December 2027 and for general corporate purposes.

During the six months ended June 30, 2017, we drew \$110.0 million on our Bank Credit Facility to make required payments on our Term Loan, to fund our IRS settlement payments, and for general corporate purposes.

Debt Extinguishments and Reductions

During the six months ended June 30, 2018, we made aggregate debt payments of \$268.2 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
- \$0.2 million in other debt.

Certain of the above transactions resulted in the recognition of a loss of \$10.1 million recorded in *Losses on early extinguishment of debt* in our unaudited Condensed Consolidated Statement of Operations for the six months ended June 30, 2018.

During the six months ended June 30, 2017, we made aggregate principal debt payments of \$17.6 million, including \$17.5 million for scheduled payments towards our Term Loan.

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 June 30, 2018 and December 31, 2017 was as follows:

	June 30, 2018	December 31, 2017
	(In thousands)	
7.625% Senior Notes due October 2018	\$ —	\$ 259,563
4.5% Senior Notes due November 2020	199,842	199,590
8.0% Senior Notes due November 2021	165,300	175,313
5.375% Senior Notes due January 2022	428,612	436,178
5.375% Senior Notes due May 2024	867,178	892,118
7.5% Senior Notes due April 2027	222,222	238,004
4.625% Senior Notes due December 2027	518,562	558,250
Term Loan due December 2022	666,563	675,000
Bank Credit Facility due December 2022	370,000	—
Mortgage notes and other debt, maturities through 2050	5,845	6,036
Total fair value of debt instruments	\$ 3,444,124	\$ 3,440,052

The fair value of our long-term, fixed-rate loans were estimated using market prices for those loans, and therefore 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 was 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 six months ended June 30, 2018, we repurchased 6,066,472 shares of common stock at an aggregate cost of \$228.9 million, which is an average cost per share of \$37.73. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$241.3 million at June 30, 2018.

Subsequent to June 30, 2018, we repurchased 869,229 shares of common stock at an aggregate cost of \$32.2 million, which is an average cost per share of \$37.03. After these subsequent repurchases, the remaining dollar value of shares authorized to be repurchased under our repurchase program is \$209.1 million.

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
(In thousands)				
Revenue from customers:				
Funeral revenue:				
Atneed revenue	\$ 242,951	\$ 249,097	\$ 517,357	\$ 520,930
Matured preneed revenue	146,021	138,265	311,327	290,062
Core funeral revenue	388,972	387,362	828,684	810,992
Non-funeral home revenue	11,922	11,747	25,715	24,021
Recognized preneed revenue	33,919	30,197	66,379	62,253
Other revenue	33,835	29,568	62,235	60,372
Total funeral revenue	468,648	458,874	983,013	957,638
Cemetery revenue:				
Atneed revenue	80,940	80,543	163,984	162,117
Recognized preneed property revenue	143,166	134,910	252,106	248,935
Recognized preneed merchandise and services revenue	73,130	73,255	141,493	137,121
Core cemetery revenue	297,236	288,708	557,583	548,173
Other revenue	30,208	25,660	49,978	45,141
Total cemetery revenue	327,444	314,368	607,561	593,314
Total revenue from customers	\$ 796,092	\$ 773,242	\$ 1,590,574	\$ 1,550,952
Operating profit:				
Funeral operating profit	\$ 90,421	\$ 92,077	\$ 210,876	\$ 204,684
Cemetery operating profit	97,706	91,441	173,013	156,073
Operating profit from reportable segments	188,127	183,518	383,889	360,757
General and administrative expenses	(31,136)	(40,369)	(65,920)	(82,652)
Gains on divestitures and impairment charges, net	6,865	753	7,347	5,688
Hurricane (expenses) recoveries, net	(1,902)	—	330	—
Operating income	161,954	143,902	325,646	283,793
Interest expense	(44,519)	(42,083)	(88,095)	(82,719)
Loss on early extinguishment of debt, net	—	—	(10,131)	—
Other income (expense), net	1,880	(301)	2,264	(1,030)
Income before income taxes	\$ 119,315	\$ 101,518	\$ 229,684	\$ 200,044

⁽¹⁾ The results for the three and six months ended June 30, 2017 have not been adjusted for the impact of our adoption of "Revenue from Contracts with Customers" on January 1, 2018.

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Our geographic area information is as follows:

	United States	Canada	Total
	(In thousands)		
Three Months Ended June 30,			
Revenue from external customers:			
2018	\$ 750,445	\$ 45,647	\$ 796,092
2017 ⁽¹⁾	\$ 728,370	\$ 44,872	\$ 773,242
Six Months Ended June 30,			
Revenue from external customers:			
2018	\$ 1,494,558	\$ 96,016	\$ 1,590,574
2017 ⁽¹⁾	\$ 1,455,610	\$ 95,342	\$ 1,550,952

⁽¹⁾ The results for the three and six months ended June 30, 2017 have not been adjusted for the impact of our adoption of "Revenue from Contracts with Customers" on January 1, 2018.

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 June 30, 2018 and December 31, 2017, we have self-insurance reserves of \$76.5 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, Doyle, and Horton lawsuits described below. Given the nature of these lawsuits, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

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

Adrian Mercedes Vasquez, an individual and on behalf of others similarly situated, v. California Cemetery and Funeral Services, LLC, et al; Case No. BC58837; in the Superior Court of the State of California for the County of Los Angeles. This lawsuit was filed in July 2015 against SCI subsidiaries and purports to be brought on behalf of the defendants' current and former non-exempt California employees during the four years preceding the filing of the complaint. The plaintiff alleges numerous causes of action for alleged wage and hour pay violations. The plaintiff seeks unpaid wages, compensatory and punitive damages, attorneys' fees and costs, interest, and injunctive relief. The claims have been ordered to arbitration and the arbitrator has determined that the claims will proceed as a bilateral proceeding. In addition, the plaintiff filed an unfair labor practice charge against defendants with the National Labor Relations Board alleging that by enforcing a mandatory arbitration provision, defendants allegedly violated the National Labor Relations Act.

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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. In addition, this lawsuit also asserts claims under PAGA provisions on behalf of other similarly situated California persons. The plaintiff alleges numerous causes of action for alleged wage and hour pay violations, including misclassifying the independent sales representatives as independent contractors instead of employees. The plaintiff seeks unpaid wages, compulsory and punitive damages, attorneys' fees and costs, interest, and injunctive relief.

James Doyle, individually and on behalf of all others similarly situated v. SCI Direct, Inc., et al; Case No. 2:18-cv-05859 in the United States District Court Central District of California, removed from Case No. BC705666; in the Superior Court of California for the County of Los Angeles. This lawsuit was filed in May 2018 by the same attorneys who filed the Romano case described above and alleges causes of action and seeks damages and relief similar to those in the Romano case.

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 PAGA on behalf of other similarly situated California persons. The lawsuit alleges causes of action and seeks damages and relief similar to those in the Romano case described above. The attorneys in the Horton case have also filed additional lawsuits alleging individual and PAGA claims similar to those alleged in the Horton case. The additional lawsuits are styled *Jandy Quismundo v. SCI Direct, Inc., et al*; Case No. 37-2017-00031825-CU-OE-CTL; in the Superior Court of California for the County of San Diego, and *Jaime Kallweit v. SCI Direct, Inc., et al*; Case No. 37-2017-00037186-CU-OE-CTL; in the Superior Court for the State of California for the County of San Diego.

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 International and others ; Case No. 2013-5636; in the Civil District Court Parish of New Orleans, Louisiana. This case was filed as a class action in June 2013 against 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. Given the nature of this lawsuit, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

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

Caroline Bernstein, on behalf of herself and Marla Urofsky on behalf of Rhea Schwartz, and both on behalf of all others similarly situated v. SCI Pennsylvania Funeral Services, Inc. and Service Corporation International, Case No. 2:17-cv-04960-GAM; in the United States District Court Eastern District of Pennsylvania. This case was filed in November 2017 as a purported national or alternatively as a Pennsylvania class action regarding our Forest Hills/Shalom Memorial Park in Huntingdon Valley, Pennsylvania and our Roosevelt Memorial Park Cemetery in Trevoze, Pennsylvania. Plaintiffs allege wrongful burial and sales practices. Plaintiffs seek compensatory, consequential and punitive damages, attorneys' fees and costs, interest, and injunctive relief. Given the nature of this lawsuit, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

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. Given the nature of this lawsuit, we are unable to reasonably estimate the possible loss or ranges of loss, if any.

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

10. 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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
(In thousands, except per share amounts)				
Amounts attributable to common stockholders:				
Net income:				
Net income — basic	\$ 103,239	\$ 68,481	\$ 185,227	\$ 243,183
After tax interest on convertible debt	15	13	30	25
Net income — diluted	\$ 103,254	\$ 68,494	\$ 185,257	\$ 243,208
Weighted average shares (denominator):				
Weighted average shares — basic	182,637	187,597	183,877	187,927
Stock options	4,265	4,333	4,391	4,389
Restricted stock units	165	87	158	74
Convertible debt	121	121	121	121
Weighted average shares — diluted	187,188	192,138	188,547	192,511
Net income per share:				
Basic	\$ 0.57	\$ 0.37	\$ 1.01	\$ 1.29
Diluted	\$ 0.55	\$ 0.36	\$ 0.98	\$ 1.26

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
(In thousands)				
Antidilutive options	1,155	1,523	868	1,212

11. Acquisitions and Divestiture-Related Activities

Acquisitions

In June 2018, we acquired fifteen funeral homes and seven cemeteries in four states (the “acquired businesses”) for \$82.2 million in cash. Additionally, we paid \$49.8 million of the acquired businesses existing debt in conjunction with the closing of the acquisition. The purchase accounting is preliminary as we have not finalized our assessment of the fair value as there has been insufficient time between the acquisition date and the issuance of these financial statements to complete our review and final determination of fair value.

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Gains on divestitures, net	\$ 6,865	\$ 5,922	\$ 8,141	\$ 22,673
Impairment losses	—	(5,169)	(794)	(16,985)
Gains on divestitures and impairment charges, net	\$ 6,865	\$ 753	\$ 7,347	\$ 5,688

12. Supplementary Information

The detail of certain balance sheet accounts as presented in the unaudited Condensed Consolidated Balance Sheet is as follows:

	June 30, 2018	December 31, 2017
	(In thousands)	
Receivables, net:		
Notes receivable	\$ 9,232	\$ 1,605
Atneed funeral receivables, net of allowances of \$1,561 and \$1,845, respectively	36,547	44,536
Atneed cemetery receivables, net of allowances of \$211 and \$245, respectively	16,153	16,556
Other	30,562	27,607
Total receivables, net	\$ 92,494	\$ 90,304

Revenue and Costs and Expenses

The detail of certain income statement accounts as presented in the unaudited Condensed Consolidated Statement of Operations is as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Revenue:				
Property and merchandise revenue	\$ 397,600	\$ 386,089	\$ 765,814	\$ 752,617
Service revenue	334,449	331,925	712,548	692,821
Other revenue	64,043	55,228	112,212	105,514
Total revenue	796,092	773,242	1,590,574	1,550,952
Costs and expenses:				
Cost of property and merchandise	209,925	202,911	397,648	398,552
Cost of service	188,293	181,192	379,141	367,054
Overhead and other expenses	209,747	205,621	429,896	424,589
Total cost and expenses	\$ 607,965	\$ 589,724	\$ 1,206,685	\$ 1,190,195

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 June 30, 2018, we operated 1,486 funeral service locations and 480 cemeteries (including 285 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 \$11.1 billion backlog of future revenue from both trust and insurance-funded preneed sales at June 30, 2018. Preneed selling provides us with a strategic 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 continue to focus on our cremation customer's preferences and remaining relevant by developing additional memorialization merchandise and services that specifically appeal to cremation customers. We believe the presentation of these additional merchandise and services through our customer-facing technology enhances our customer's experience by reducing administrative burdens and allowing them to visualize the product offerings and services, which will help drive increases in the average revenue for a cremation in future periods.

For further discussion of our key operating metrics, see our *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 \$315.4 million in the first six months of 2018. We have \$596.7 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 June 30, 2018, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of June 30, 2018 are as follows:

	Per Credit Agreement	Actual
Leverage ratio	4.50 (Max)	3.85
Interest coverage ratio	3.00 (Min)	5.32

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 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 six months ended June 30, 2018, we repurchased 6,066,472 shares of common stock at an

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aggregate cost of \$228.9 million, which is an average cost per share of \$37.73. After these repurchases, the remaining dollar value of shares authorized to be purchased under our share repurchase program was approximately \$241.3 million at June 30, 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 June 30, 2018, we repurchased 869,229 shares of common stock at an aggregate cost of \$32.2 million, which is an average cost per share of \$37.03. After these subsequent repurchases, the remaining dollar value of shares authorized to be repurchased under our repurchase program is \$209.1 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, investing, and financial needs.

Operating Activities

Net cash provided by operating activities increased \$92.9 million to \$315.4 million in the first six months of 2018, compared to \$222.5 million in the first six 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. The prior year includes \$34.2 million cash taxes paid in 2017 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) and \$6.3 million in pension termination settlement payments.

Excluding the above items, cash flow from operations increased \$46.8 million from the prior year as a result of the following:

- a \$43.9 million increase in cash receipts from customers,
- a \$17.1 million increase in net trust withdrawals,
- a \$3.3 million increase in hurricane insurance proceeds,
- a \$2.2 million increase in General Agency (GA) and other receipts, and
- a \$52.4 million decrease in cash tax payments as a result of the impact of recently enacted tax reform and effective tax planning, excluding the tax items noted above, partially offset by
 - a \$47.3 million increase in vendor and other payments,
 - a \$15.6 million increase in employee compensation paid, and
 - a \$9.2 million increase in cash interest paid.

Investing Activities

Cash flows from investing activities used \$272.8 million in the first six months of 2018 compared to using \$106.8 million in the same period of 2017. The \$166.0 million increase from 2018 over 2017 is primarily due to the following:

- a \$7.0 million decrease in cash receipts from divestitures and asset sales,
- a \$121.2 million increase in cash spent on acquisitions,
- a \$17.6 million increase in capital expenditures primarily due to improvements at existing funeral homes,
- a \$14.7 million increase primarily for the purchase of land, and
- a \$8.3 million increase in payments for Company-owned life insurance policies, net of proceeds.

Financing Activities

Financing activities used \$210.1 million in the first six months of 2018 compared to using \$96.6 million in the same period of 2017. The \$113.5 million increase from 2018 over 2017 is primarily due to the following:

- a \$108.8 million increase in purchase of Company common stock, and
- a \$9.7 million increase in payments of dividends, and
- a \$13.3 million decrease in proceeds from exercises of stock options, partially offset by
 - a \$20.5 million increase in net debt issuance proceeds, net of payments.

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.

	June 30, 2018	December 31, 2017
	(In millions)	
Preneed funeral	\$ 109.3	\$ 109.8
Preneed cemetery:		
Merchandise and services	138.1	132.2
Pre-construction	14.5	11.9
Bonds supporting preneed obligations	261.9	253.9
Bonds supporting preneed business permits	4.7	4.5
Other bonds	19.0	18.0
Total surety bonds outstanding	<u>\$ 285.6</u>	<u>\$ 276.4</u>

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 six months ended June 30, 2018 and 2017, we had \$12.3 million and \$11.9 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 and six months ended June 30, 2018 and 2017, and the number of contracts associated with those transactions.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
(In millions)				
Preneed insurance-funded:				
Sales production ⁽¹⁾	\$ 148.1	\$ 133.0	\$ 274.7	\$ 261.3
Sales production (number of contracts) ⁽¹⁾	25,232	21,979	46,821	43,008
General agency revenue	\$ 36.1	\$ 30.0	\$ 67.6	\$ 61.8
Maturities	\$ 82.7	\$ 80.8	\$ 179.1	\$ 172.1
Maturities (number of contracts)	14,020	13,607	30,251	29,083

⁽¹⁾ 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 maturity). The funds in trust are then invested by professional money managers with oversight by independent trustees in accordance with state and provincial laws.

The tables below detail our results of preneed production and maturities, excluding insurance contracts, for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
(In millions)				
Funeral:				
Preneed trust-funded (including bonded):				
Sales production	\$ 92.3	\$ 81.1	\$ 185.0	\$ 164.5
Sales production (number of contracts)	25,123	23,971	50,996	49,661
Maturities	\$ 70.5	\$ 64.1	\$ 147.6	\$ 131.7
Maturities (number of contracts)	17,182	16,646	36,843	34,832
Cemetery:				
Sales production:				
Preneed	\$ 245.6	\$ 235.8	\$ 447.1	\$ 443.5
Atneed	79.9	79.5	165.0	163.2
Total sales production	\$ 325.5	\$ 315.3	\$ 612.1	\$ 606.7
Sales production deferred to backlog:				
Preneed	\$ 120.2	\$ 112.6	\$ 217.4	\$ 200.7
Atneed	59.4	58.3	122.7	118.7
Total sales production deferred to backlog	\$ 179.6	\$ 170.9	\$ 340.1	\$ 319.4
Revenue recognized from backlog:				
Preneed	\$ 81.2	\$ 75.7	\$ 138.2	\$ 130.7
Atneed	59.5	58.3	120.4	115.6
Total revenue recognized from backlog	\$ 140.7	\$ 134.0	\$ 258.6	\$ 246.3

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 June 30, 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 June 30, 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.

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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.

	June 30, 2018		December 31, 2017	
	Fair Value	Cost	Fair Value	Cost
	(In billions)			
Deferred revenue, net	\$ 1.43	\$ 1.43	\$ 1.79	\$ 1.79
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts ⁽¹⁾	0.57	0.57	—	—
Deferred receipts held in trust	3.59	3.36	3.48	3.18
Allowance for cancellation	(0.28)	(0.26)	(0.27)	(0.25)
Backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	\$ 5.31	\$ 5.10	\$ 5.00	\$ 4.72
Backlog of insurance-funded deferred revenue ⁽²⁾	5.79	5.79	5.66	5.66
Total backlog of deferred revenue	\$ 11.10	\$ 10.89	\$ 10.66	\$ 10.38
Preneed receivables, net and trust investments	\$ 4.45	\$ 4.22	\$ 4.78	\$ 4.48
Amounts due from customers for unfulfilled performance obligations on cancelable preneed contracts ⁽¹⁾	0.57	0.57	—	—
Allowance for cancellation on trust investments	(0.28)	(0.26)	(0.27)	(0.25)
Assets associated with backlog of trust-funded deferred revenue, net of estimated allowance for cancellation	\$ 4.74	\$ 4.53	\$ 4.51	\$ 4.23
Insurance policies associated with insurance-funded deferred revenue ⁽²⁾	5.79	5.79	5.66	5.66
Total assets associated with backlog of preneed deferred revenue	\$ 10.53	\$ 10.32	\$ 10.17	\$ 9.89

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

(2) Amounts are not included in our 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 June 30, 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, \$0.09 billion collected from customers that were not required to be deposited into trust, and \$0.23 billion in allowable cash distributions from trust assets. As of June 30, 2018, the fair value of the total backlog comprised \$2.97 billion related to cemetery contracts and \$8.13 billion related to funeral contracts. As of June 30, 2017, the fair value of the assets associated with the backlog of trust-funded deferred revenue comprised \$2.71 billion related to cemetery contracts and \$2.03 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 shortly 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 cemetery 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

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the corpus, 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, beginning in 2016, we 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 June 30, 2018, approximately 87% 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 four 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.

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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 June 30, 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 six months ended June 30, 2018, the Standard and Poor's 500 Index increased 2.7% and the Barclay's Aggregate Index decreased 1.6%, while the combined SCI trusts increased 1.3%.

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 June 30, 2018 and 2017

Management Summary

In the three months ended June 30, 2018, we reported net income attributable to common stockholders of \$103.2 million (\$0.55 per diluted share) compared to net income attributable to common stockholders for the same period in 2017 of \$68.5 million (\$0.36 per diluted share). These results were affected by the following items:

	Three Months Ended June 30,	
	2018	2017
	(In millions)	
Pre-tax gains from divestitures and impairment, net	\$ 6.9	\$ 0.8
Pre-tax pension termination obligation	\$ —	\$ (1.1)
Tax (provision for) benefit from above items	\$ (2.2)	\$ 0.1
Change in certain tax reserves	\$ 16.1	\$ 1.3

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

Funeral Results

	Three Months Ended June 30,	
	2018	2017
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$ 468.6	\$ 458.9
Less: Revenue associated with acquisitions/new construction	8.6	2.8
Less: Revenue associated with divestitures	—	3.0
Comparable ¹ funeral revenue	460.0	453.1
Less: Comparable recognized preneed revenue	33.7	30.2
Less: Comparable general agency and other revenue	33.5	29.5
Adjusted comparable funeral revenue	\$ 392.8	\$ 393.4
Comparable services performed	73,978	74,466
Comparable average revenue per service ²	\$ 5,310	\$ 5,283
Consolidated funeral operating profit	\$ 90.4	\$ 92.1
Less: Operating profit associated with acquisitions/new construction	0.8	0.4
Less: Operating loss associated with divestitures	(0.4)	(1.5)
Comparable funeral operating profit	\$ 90.0	\$ 93.2

- (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 June 30, 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 is preneed sales of merchandise that are delivered at the time of sale, including memorial merchandise and travel protection, and is 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 \$468.6 million for the three months ended June 30, 2018 compared to \$458.9 million for the same period in 2017. This increase is primarily attributable to a \$6.9 million increase in comparable revenue as described below and \$5.8 million in revenue contributed by acquired properties. These increases were partially offset by the loss of \$3.0 million in revenue contributed by properties that have been subsequently divested.

Comparable revenue from funeral operations was \$460.0 million for the three months ended June 30, 2018 compared to \$453.1 million for the same period in 2017. This \$6.9 million increase is due to a 0.5% increase in average revenue per funeral service, an increase in general agency revenue resulting from higher preneed funeral insurance production, and an increase in recognized preneed revenue as a result of higher non-funeral home sales production, partially offset by 0.7% lower comparable services performed.

A slight increase in the organic sales average was offset by a 120 basis point increase in our cremation mix. Our total comparable cremation rate increased to 54.6% in the three months ended June 30, 2018 from 53.4% in 2017 as a result of an increase in both direct cremations and cremations with service.

Funeral Operating Profit

Consolidated funeral operating profit decreased \$1.7 million, or 1.8%, in the three months ended June 30, 2018 compared to the same period in 2017. This decrease is primarily attributable to a decrease in comparable funeral operating profit of \$3.2 million, or 3.4%. Comparable funeral operating profit decreased \$3.2 million to \$90.0 million and the operating margin percentage decreased 100 basis points to 19.6%. Our fixed costs in the funeral segment were higher by \$8.7 million, or 3.4%, as expected wage increases for critical customer-facing employees and the timing of self-insured medical claims added to the increase. Additionally, we experienced higher selling costs associated with marketing and sales lead procurement that we believe is helping drive the increase in funeral preneed sales production.

Cemetery Results

	Three Months Ended June 30,	
	2018	2017
	(In millions)	
Consolidated cemetery revenue	\$ 327.4	\$ 314.4
Less: Revenue associated with acquisitions/new construction	3.0	1.0
Less: Revenue associated with divestitures	0.1	0.5
Comparable ¹ cemetery revenue	<u>\$ 324.3</u>	<u>\$ 312.9</u>
Consolidated cemetery operating profit	\$ 97.7	\$ 91.4
Less: Operating profit (loss) associated with acquisitions/new construction	0.5	(0.1)
Less: Operating loss associated with divestitures	—	(0.1)
Comparable cemetery operating profit	<u>\$ 97.2</u>	<u>\$ 91.6</u>

(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 June 30, 2018.

Cemetery Revenue

Consolidated revenue from our cemetery operations increased \$13.0 million, or 4.1%, in the second quarter of 2018 compared to the same period in 2017 primarily due to a \$11.4 million increase in comparable cemetery revenue described below and \$2.0 million in revenue contributed by acquired properties. The increase in comparable revenue over the prior year quarter is primarily due to increased sales into existing developed property projects, the completion of cemetery property construction projects, and higher endowment care trust fund income.

Cemetery Operating Profit

Consolidated cemetery operating profit increased \$6.3 million, or 6.9%, in the second quarter of 2018 compared to the same period in 2017. Comparable cemetery operating profit increased \$5.6 million to \$97.2 million and the operating margin percentage increased 70 basis points to 30.0%. The improvement was partially due to the increased revenue described above and a \$4.7 million net benefit of deferring selling compensation under the new revenue recognition accounting standard. These increases were partially offset by investments in our marketing programs and search engine optimization that are leading to increased sales production, as well as higher labor costs due to permanent wage increases for certain of our critical customer-facing employees.

Other Financial Statement Items**General and Administrative Expenses**

General and administrative expenses decreased \$9.2 million to \$31.1 million in the three months ended June 30, 2018. The prior year period includes \$1.1 million related to a pension termination settlement. Excluding this settlement, general and administrative expenses decreased \$8.1 million primarily related to decreased costs related to the Company's long-term incentive compensation programs and unusually high legal expenses in the prior year.

Gains on Divestitures and Impairment Charges, Net

Gains on divestitures increased \$6.1 million to \$6.9 million in the three months ended June 30, 2018 associated with the divestitures of non-strategic funeral and cemetery locations in the United States and Canada.

Hurricane (Expenses) Recoveries, Net

Hurricane (expenses) recoveries, net, reflects \$1.9 million in damages incurred through June 30, 2018 as we continue repairs at various locations caused by the 2017 hurricanes.

Interest Expense

Interest expense increased \$2.4 million to \$44.5 million in the three months ended June 30, 2018 as we were impacted by increased interest rates on our floating rate debt as well as an increase in the overall balance of our total debt.

(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 statutes of limitation, and increases or decreases in valuation allowances on deferred tax assets. Our effective tax rate was 13.4% and 32.5% for the three months ended June 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the three months ended June 30, 2018

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primarily due to the decrease in the U.S. federal income tax rate and remeasurement of deferred taxes as a result of change in estimate in the finalization of the 2017 tax returns and tax reform.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 187.2 million in the three months ended June 30, 2018, compared to 192.1 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.

Management Summary

In the six months ended June 30, 2018, we reported net income attributable to common stockholders of \$185.2 million (\$0.98 per diluted share) compared to net income attributable to common stockholders for the same period in 2017 of \$243.2 million (\$1.26 per diluted share). These results were affected by the following items:

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Pre-tax gains from divestitures and impairment charges, net	\$ 7.3	\$ 5.7
Pre-tax losses from the early extinguishment of debt, net	\$ (10.1)	\$ —
Pre-tax pension termination obligation	\$ —	\$ (12.8)
Tax (provision for) benefit from above items	\$ (0.6)	\$ 2.5
Change in certain tax reserves and other	\$ 17.3	\$ 107.2

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

Funeral Results

	Six Months Ended June 30,	
	2018	2017
	(Dollars in millions, except average revenue per service)	
Consolidated funeral revenue	\$ 983.0	\$ 957.6
Less: Revenue associated with acquisitions/new construction	15.2	4.1
Less: Revenue associated with divestitures	0.8	7.0
Comparable ¹ funeral revenue	967.0	946.5
Less: Comparable recognized preneed revenue	66.0	62.2
Less: Comparable general agency and other revenue	61.6	60.0
Adjusted comparable funeral revenue	\$ 839.4	\$ 824.3
Comparable services performed	158,854	156,324
Comparable average revenue per service ²	\$ 5,284	\$ 5,273
Consolidated funeral operating profit	\$ 210.9	\$ 204.7
Less: Operating profit associated with acquisitions/new construction	1.7	1.1
Less: Operating loss associated with divestitures	(1.0)	(2.8)
Comparable funeral operating profit	\$ 210.2	\$ 206.4

(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 June 30, 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 \$983.0 million for the six months ended June 30, 2018 compared to \$957.6 million for the same period in 2017. This increase is primarily attributable to a \$20.5 million increase in comparable

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revenue as described below and \$11.1 million in revenue contributed by acquired properties, partially offset by the loss of \$6.2 million in revenue contributed by properties that have been subsequently divested.

Comparable revenue from funeral operations was \$967.0 million for the six months ended June 30, 2018 compared to \$946.5 million for the same period in 2017. The \$20.5 million increase was primarily due to a 1.6% increase in comparable services performed. The increase in services performed comprises a 1.5% increase in services performed by our funeral homes and a 2.5% 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 54.5% in the six months ended June 30, 2018 from 53.3% in 2017 as a result of an increase in both direct cremations and cremations with service.

Funeral Operating Profit

Consolidated funeral operating profit increased \$6.2 million, or 3.0%, in the six months ended June 30, 2018 compared to the same period in 2017. This increase is primarily attributable to an increase in comparable funeral operating profit of \$3.8 million, or 1.8%, and the increase in revenue described above. Comparable funeral operating profit increased \$3.8 million to \$210.2 million, which is primarily due to the increased revenue from funeral services performed resulting from the stronger flu season. This was slightly offset by investments in our marketing programs and search engine optimization that are leading to increased sales production, as well as from higher labor costs due to permanent wage increases for certain of our customer facing employees.

Cemetery Results

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Consolidated cemetery revenue	\$ 607.6	\$ 593.3
Less: Revenue associated with acquisitions/new construction	4.8	1.6
Less: Revenue associated with divestitures	0.3	1.0
Comparable ¹ cemetery revenue	<u>\$ 602.5</u>	<u>\$ 590.7</u>
Consolidated cemetery operating profit	\$ 173.0	\$ 156.1
Less: Operating profit associated with acquisitions/new construction	1.0	0.2
Less: Operating loss associated with divestitures	—	(0.2)
Comparable cemetery operating profit	<u>\$ 172.0</u>	<u>\$ 156.1</u>

(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 June 30, 2018.

Cemetery Revenue

Consolidated revenue from our cemetery operations increased \$14.3 million, or 2.4%, in the six months ended June 30, 2018 compared to the same period in 2017, primarily attributable to a \$11.8 million increase in comparable revenue and \$3.2 million in revenue contributed by acquired properties, partially offset by the loss of \$0.7 million in properties that have been subsequently divested. The increase in comparable revenue over the prior year is primarily due to the completion of cemetery property construction projects and higher endowment care trust fund income.

Cemetery Operating Profit

Consolidated cemetery operating profit increased \$16.9 million, or 10.8%, in the six months ended June 30, 2018 compared to the same period in 2017. This increase is primarily the result of a \$15.9 million increase in comparable operating profit. Comparable cemetery operating profit increased \$15.9 million to \$172.0 million and the operating margin percentage increased 210 basis points to 28.5%. The increase in comparable cemetery operating profit was partially due to increased revenue as described above, partially offset by investments in our marketing programs and search engine optimization that are leading to increased sales production, as well as from higher labor costs due to permanent wage increases for certain of our customer facing employee.

Other Financial Statement Items**General and Administrative Expenses**

General and administrative expenses decreased \$16.7 million to \$65.9 million in the six months ended June 30, 2018. The prior year period includes \$12.8 million related to a pension termination settlement. Excluding these costs, general and

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administrative expenses decreased \$3.9 million primarily related to decreased costs related to the Company's long-term incentive compensation program.

Gains on Divestitures and Impairment Charges, Net

Gains on divestitures and impairment charges, net, improved \$1.7 million in the six months ended June 30, 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 (Expenses) Recoveries, Net

Hurricane (expenses) recoveries, net, reflects \$4.2 million in damages incurred through June 30, 2018 at various locations caused by the 2017 hurricanes, offset by \$4.5 million of insurance proceeds recognized through June 30, 2018.

Interest Expense

Interest expense increased \$5.4 million to \$88.1 million in the six months ended June 30, 2018 as we were impacted by increased interest rates on our floating rate debt as well as an increase in the overall balance of our total debt.

Loss on Early Extinguishment of Debt

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

(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 19.3% and a benefit of 21.6% for the six months ended June 30, 2018 and 2017, respectively. The higher effective tax rate for the six months ended June 30, 2018 was primarily due to the effects of the 2017 IRS audit settlement, partially offset by the decrease in the U.S. federal income tax rate and remeasurement of deferred taxes as a result of the change in estimate in the finalization of the 2017 tax return and tax reform.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 188.5 million in the first six months of 2018, compared to 192.5 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:

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- 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, cash flows, 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.
- 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.

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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. 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

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 June 30, 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 June 30, 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 June 30, 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 financial condition, results of operations, and cash flows for the periods presented in conformity with US GAAP.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended June 30, 2018 that have materially affected or are reasonably 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 June 30, 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
April 1, 2018 - April 30, 2018	824,040	\$ 38.16	824,040	\$ 319,915,921
May 1, 2018 - May 31, 2018	1,191,055	\$ 36.91	1,191,055	\$ 275,955,648
June 1, 2018 - June 30, 2018	955,823	\$ 36.27	955,823	\$ 241,291,747
	2,970,918		2,970,918	

Item 3. Defaults Upon Senior Securities.

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None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

- [3.1](#) — [Articles of Amendment to Restated Articles of Incorporation](#)
- [3.4](#) — [Bylaws, as amended effective May 23, 2018](#)
- [12.1](#) — [Ratio of Earnings to Fixed Charges for the three and six months ended June 30, 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 — Interactive 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.

July 31, 2018

SERVICE CORPORATION INTERNATIONAL
By: /s/ Tammy Moore
Tammy Moore
Vice President and Corporate Controller
(Principal Accounting Officer)

**CERTIFICATE OF AMENDMENT TO
RESTATED ARTICLES OF INCORPORATION
Of
SERVICE CORPORATION INTERNATIONAL**

Pursuant to the provisions of the Texas Business Organizations Code (the “TBOC”), Service Corporation International, a Texas corporation (the “Corporation”), desires to amend its Restated Articles of Incorporation dated August 26, 1996, and, for that purpose, hereby adopts this Certificate of Amendment to the Restated Articles of Incorporation (this “Certificate of Amendment”) of the Corporation. The undersigned certifies to the following:

FIRST: The name of the Corporation is Service Corporation International.

SECOND: The Corporation is a for-profit Corporation.

THIRD: The Corporation was formed on July 6, 1962. The file number issued to the Corporation by the Secretary of State of the State of Texas is 0018531200.

FOURTH: The following identified provisions are amended as follows:

1. The first sentence of Article Eight is amended to read as follows:

“The affirmative vote of the holders of two-thirds of the outstanding shares of the capital stock of the corporation entitled to vote shall be required (1) for the adoption of any agreement for the merger or consolidation of the corporation with or into any other corporation and (2) to authorize any sale, lease or exchange to or with the corporation (in exchange for its securities in a transaction for which stockholder approval is required by law or any agreement between the corporation and any national securities exchange) of any assets of, any other corporation, person or other entity, if (as of the record date for the determination of stockholders entitled to notice thereof and to vote thereon) such other corporation, person or entity referred to in clause (1) or clause (2), above, is the beneficial owner, directly or indirectly, of more than 10% of any class of capital stock of the corporation.”

2. Article Eleven is amended and restated to read as follows:

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

3. Article Twelve, Section 1(b) is amended and restated to read as follows:

“Except as may otherwise be provided pursuant to the provisions established by the Board of Directors with respect to any series of Preferred Stock pursuant to Article Four hereof, at each Annual Meeting of Shareholders, all directors shall be elected to hold office for a term expiring at the next succeeding Annual Meeting of Shareholders and until their successors have been elected and qualified; provided, that any director elected for a longer term before the 2019 Annual Meeting of Shareholders shall hold office for the entire term for which he or she was originally elected and until his or her successor has been elected and qualified.”

4. Article Twelve, Section 1(d) is deleted in its entirety.

5. Article Twelve, Section 1(e) is amended and restated to read as follows:

“Amendment or Repeal. Except as set forth below, any provision of the Restated Articles of Incorporation of the corporation may be amended or repealed by the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the corporation entitled to vote thereon at a meeting called for that purpose.

RESTATED ARTICLES OF INCORPORATION
OF
SERVICE CORPORATION INTERNATIONAL

ARTICLE ONE

The name of the corporation is SERVICE CORPORATION INTERNATIONAL.

ARTICLE TWO

The period of its duration is perpetual.

ARTICLE THREE

The purposes for which the corporation is organized are:

To own, operate, or manage funeral homes, mortuaries, undertaking establishments, and related facilities, and generally to engage in every aspect of the funeral service business.

To conduct the business of funeral director, undertaker and embalmer.

To engage in the manufacturing business.

To buy and sell goods, wares, and merchandise.

To own, operate or manage mercantile establishments.

To manage, supervise and operate for others all types of business and commercial enterprises.

To act as broker, forwarder or agent.

To engage in the general contracting business.

To own, construct, erect, maintain, repair, lease, rent, manage and operate hotels, motels, apartment houses, buildings, warehouses and other structures.

To lease, sell, subdivide and develop real estate, subject however, to the limitations imposed by part Four of the Texas Miscellaneous Corporation Act.

To purchase, sell, store, rent, operate, repair and otherwise deal in motor vehicles, aircraft and watercraft and all accessories of or pertaining thereto.

In general, to carry out any other business in connection with the foregoing, to engage in any other commercial, industrial, manufacturing and agricultural enterprise calculated or designed to be profitable to the corporation, and to have and exercise all the powers conferred by the laws of Texas upon corporations formed under the Texas Business Corporation Act and to do any and all of the things hereinbefore set forth to the same extent as natural persons might or could do.

ARTICLE FOUR

The aggregate number of shares of stock of all classes which the corporation shall have authority to issue is 501,000,000 shares, consisting of 1,000,000 shares of preferred stock of the par value of One Dollar (\$1.00) each (hereinafter sometimes called "Preferred Stock"), and 500,000,000 shares of common stock of the par value of One Dollar (\$1.00) each (hereinafter sometimes called "Common Stock").

The preferences, limitations and relative rights in respect of the shares of each class of stock are as follows:

1. Preferred Stock, \$1 Par. The number of shares constituting the Preferred Stock (\$1 par) is one million (1,000,000) of the par value of One Dollar (\$1.00) each. The preferences, limitations and relative rights of the Preferred Stock (\$1 par) are as follows:

(a) Series. The Preferred Stock (\$1 par) may be divided into such amounts and issued from time to time in one or more series as may be fixed and determined by the Board of Directors. The relative rights and preferences among each series of Preferred Stock (\$1 par) shall be such as are provided herein as shall be stated in any Resolution or Resolutions adopted by the Board of Directors providing for the issue of such series of Preferred Stock (\$1 par), any such Resolution or Resolutions being herein called "a Directors' Resolution." The Board of Directors is hereby authorized to fix and determine such variations and the relative rights and preferences as between series as shall be stated in a Directors' Resolution, and such authority in the Board of Directors shall include, without limitation thereto, the determination of any or all of the following and the shares of each series may vary from the shares of any other series in the following respects:

- (1) The designation of such series,
- (2) The number of shares constituting such series,
- (3) The rate of dividend,
- (4) The price at and the terms and conditions on which shares of such series may be redeemed,
- (5) The amount payable upon shares of such series in the event of involuntary liquidation,
- (6) The amount payable upon shares of each series in the event of voluntary liquidation,
- (7) Sinking Fund provisions for the redemption or purchase of such series,
- (8) The terms and conditions on which shares of such series may be converted, if such shares are issued with privilege of conversation, and
- (9) Any special rights of the shares of such series.

(b) Dividends. The Preferred Stock (\$1 par) of each series shall be entitled to receive dividends, when and as declared by the Board of Directors, at the rate and on such other terms and conditions as may be fixed for such series, in preference to dividends on the Common Stock or on other shares of capital stock of the corporation ranking junior to the Preferred Stock (\$1 par) as to dividends (herein called "Junior Stock").

(c) Dividend Preference. Subject to such further conditions or restrictions as may be imposed in any Directors' Resolution, so long as any shares of Preferred Stock (\$1 par) are outstanding, the corporation shall not declare or pay any dividend, in cash or stock or otherwise (other than dividends payable in shares of Junior

Stock), on any shares of Junior Stock or make any distribution upon or purchase or redeem or otherwise acquire for valuable consideration any shares of Junior Stock (1) unless all dividends for Preferred Stock (\$1 par) for all past dividend periods shall have been paid or declared and a sum sufficient for the payment thereof set apart for payment and be in the process of payment, and the full dividend thereon for the current dividend period shall have been paid or declared, and (2) unless, as to each series of the Preferred Stock (\$1 par) for which a sinking fund shall have been provided, the corporation shall have retired the number of shares of Preferred Stock (\$1 par) of such series required to have been retired for the sinking fund or otherwise shall have met the obligations of said sinking fund.

(d) Redemption. Subject to such further conditions or restrictions as may be imposed in any Directors' Resolution, the shares of any series of Preferred Stock (\$1 par) shall be subject to redemption in whole or in part at the applicable redemption price as provided for such series on the terms and conditions and upon notice as hereinafter provided.

Notice of any such redemption shall be given to each holder of shares being called, either personally or by mail, not less than twenty (20) nor more than fifty (50) days before date fixed for redemption. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at the address as it appears on the stock transfer book of the corporation, with postage thereon prepaid.

If less than all outstanding shares of the series are to be redeemed, the shares to be redeemed shall be selected for redemption ratably or by lot in such manner as may be prescribed by resolution of the Board of Directors. The notice of redemption shall set forth the designation of the series of which the shares to be redeemed constitute a part, the date fixed for redemption, the redemption price, the place at which the shareholders may obtain payment of the redemption price upon the surrender of their respective share certificates and shall include a statement with respect to the existence of any right of conversion with respect to the shares to be redeemed and the period within which such right may be exercised.

The corporation may, on or prior to the date fixed for redemption of any shares of Preferred Stock (\$1 par), deposit with any bank or trust company in Texas, or any bank or trust company in the United States duly appointed and acting as transfer agent for this corporation, as a trust fund, a sum sufficient to redeem shares called for redemption with irrevocable instructions and authority to such bank or trust company to give or complete the notice of redemption thereof and to pay, on or after the date fixed for such redemption, to the respective holders of the shares as evidenced by a list of holders certified by the corporation by its president or vice president or by its secretary or an assistant secretary, the redemptive price upon the surrender of their respective share certificates. Thereafter, from and after the date fixed for redemption, such shares shall be redeemed and dividends thereon shall cease to accrue after such date fixed for redemption. Such deposit shall be deemed to constitute full payment of such shares to their holders. Thereafter, such shares shall no longer be deemed to be outstanding, and the holders thereof shall cease to be shareholders with respect to such shares, and shall have no rights with respect thereto except the right to receive from the bank or trust company payment of the redemptive price of such shares without interest, upon the surrender of their respective certificates therefor, and any right to convert such shares which may exist. In case the holders of such shares shall not, within six years, after such deposit, claim the amount deposited for redemption thereof, such bank or trust company shall upon demand pay over to the corporation the balance of such amounts so deposited to be held in trust in such bank or trust company and such trust company thereupon shall be relieved of all responsibility to the holders thereof.

Any shares of Preferred Stock (\$1 par) which are redeemed or purchased by the corporation and cancelled shall be restored to the status of authorized but unissued shares and may be reissued as shares of another series.

(e) Voting. The holders of the Preferred Stock (\$1 par) together with the holders of the Common Stock all voting as one class, shall possess voting power for the election of directors and for all other purposes, subject to such limitations as may be imposed by law and by any provision of the Articles of Incorporation. In the exercise of its voting power, the Preferred Stock (\$1 par) shall be entitled to one vote for each share held.

(f) Special Directors. Whenever, at any time or times, dividends payable on any series of Preferred Stock (\$1 par) shall be in arrears in an aggregate amount equivalent as to such series to six (6) full dividends, there shall be vested in the holders of shares of all outstanding Preferred Stock (\$1 par), voting as one class and with one vote for each share, the right to elect two directors of the corporation. Such right of the holders of Preferred Stock (\$1 par), to vote for the election of two directors may be exercised at any annual meeting or at any special meeting called for such purpose, or at any adjournment thereof until all arrearages and dividends on the outstanding shares of Preferred Stock (\$1 par) shall have been paid in full or declared and funds sufficient for the payment thereof deposited in trust and when so paid or provided for, then all rights of the holders of Preferred Stock (\$1 par) under this subdivision (f) of this paragraph 2 shall cease. So long as such right to vote continues, the Secretary of the corporation may call, and upon written request of the holders of record of ten percent (10%) or more of the outstanding Preferred Stock (\$1 par), addressed to him at the principal office of the corporation, shall call a special meeting of the holders of Preferred Stock (\$1 par) for the election of such two directors as provided herein. Such meeting shall be held within fifty (50) days after delivery of such request to such Secretary, at the place and upon the notice provided by law and in the By-laws of the corporation for the holding of meetings of its shareholders. If at any such meeting or any adjournment thereof the holders of at least a majority of the then outstanding shares of Preferred Stock (\$1 par) then entitled to vote in such election shall be present or represented by proxy, then, by vote of the holders of at least the majority of all such shares of Preferred Stock (\$1 par) present or represented in such meeting, the then authorized number of directors of the corporation shall be increased by two and the holders of such shares of Preferred Stock (\$1 par) shall be entitled to elect such two additional directors. Directors so elected shall serve until the next annual meeting or until their successors shall be elected and shall qualify; provided, however, that whenever all arrearages and dividends on all outstanding shares of Preferred Stock (\$1 par) shall have been paid or declared and funds sufficient for the payment thereof deposited in trust, the term of the office of the persons so elected as directors shall forthwith terminate, and the number of the whole Board of Directors in the corporation shall be reduced accordingly. In case of any vacancy occurring among the directors so elected the remaining director who shall have been so elected may appoint a successor to hold office for the unexpired term of the director whose place shall be vacant. If both directors so elected by the holders of the Preferred Stock (\$1 par) shall cease to serve as directors before their term shall expire, the holders of Preferred Stock (\$1 par) then outstanding may, at a special meeting of such holders called as provided above, elect successors to hold office for the unexpired terms of the directors whose places shall be vacant. In any vote under this subdivision (f), each share of Preferred Stock (\$1 par) shall be entitled to vote.

(g) Approval of Changes. The corporation shall not, without the approval (by vote at a meeting or by consent in writing) of the holders of at least two-thirds (2/3) of the outstanding shares of Preferred Stock (\$1 par) and subject to the provisions of ARTICLE EIGHT hereof:

(1) amend or repeal any provision of, or add any provision to the Articles of Incorporation or Bylaws if such action would alter or change the preferences, rights, privileges, or powers of, or the restrictions provided for the benefit of the Preferred Stock (\$1 par); or

(2) Authorize or create shares of any class of stock having any preference or priority as to dividends, assets, or other characteristics superior to the Preferred Stock (\$1 par), or authorize or create shares of stock of any class or any bonds, indentures, notes or other obligations convertible into or

exchangeable for or having option or rights to purchase, any shares of stock having any such preference or priority; or

(3) Reclassify any Junior Stock into Preferred Stock (\$1 par) or into shares having any preference or priority as to dividends, assets or any other characteristics superior to the Preferred Stock (\$1 par), or

(4) Increase the aggregate number of authorized shares of Preferred Stock (\$1 par) or create a new class of shares having rights and preferences equal to the shares of Preferred Stock (\$1 par).

(h) Liquidation Preference. In the event of any liquidation, dissolution, or winding up of the corporation, the Preferred Stock (\$1 par) of each series shall be entitled to payment of such amount or amounts in preference to any payment on Junior Stock, as shall be provided in the Directors' Resolution providing for the issuance of such shares. In any such event if the assets available for distribution shall be insufficient to permit payment of the full preferential amount to all holders of Preferred Stock (\$1 par), then distribution shall be made ratably among such holders according to the amount due to each.

(i) Disposition. The Preferred Stock (\$1 par) may be issued or sold to such persons and for such consideration as may be determined from time to time by the Board of Directors and, whether or not convertible into Common Stock, need not first be offered to the holders of Common Stock, when so issued shares of Preferred Stock (\$1 par) shall be considered fully paid and non-assessable.

2. Common Stock. Subject to the prior and superior rights of the Preferred Stock (\$1 par), such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared paid on the Common Stock from time to time out of any funds legally available therefor. In the exercise of its voting power the Common Stock shall be entitled to one vote for each share held.

After payment shall have been made in full to the holders of the Preferred Stock (\$1 par) in the event of any liquidation, dissolution, or winding up of the affairs of the corporation, the remaining assets and funds of the corporation shall be distributed among the holders of the Common Stock according to their respective shares.

ARTICLE FIVE

The corporation shall not commence business until it has received for the issuance of its shares consideration of the value of One Thousand Dollars (\$1,000.00) consisting of money, labor done or property actually received.

ARTICLE SIX

The post-office address of its registered office is 1929 Allen Parkway, Houston, Texas, 77019, and the name of its registered agent is James M. Shelger, at such address.

ARTICLE SEVEN

The number of Directors constituting the Board of Directors at the time of this Restatement is fourteen (14), and the names and addresses of the persons who are to serve as Directors until the next annual meeting of the shareholders or until their successors are otherwise elected and qualified are:

<u>Name</u>	<u>Address</u>
Anthony L. Coelho	1929 Allen Parkway Houston, Texas 77019
Douglas M. Conway	1929 Allen Parkway Houston, Texas 77019

Jack Finkelstein	1929 Allen Parkway	Houston, Texas 77019
A.J. Foyt, Jr.	1929 Allen Parkway	Houston, Texas 77019
James J. Gavin, Jr.	1929 Allen Parkway	Houston, Texas 77019
James H. Greer	1929 Allen Parkway	Houston, Texas 77019
L. William Heiligbrodt	1929 Allen Parkway	Houston, Texas 77019
B.D. Hunter	1929 Allen Parkway	Houston, Texas 77019
John W. Mecom, Jr.	1929 Allen Parkway	Houston, Texas 77019
Clifton H. Morris, Jr.	1929 Allen Parkway	Houston, Texas 77019
E.H. Thornton, Jr.	1929 Allen Parkway	Houston, Texas 77019
R.L. Waltrip	1929 Allen Parkway	Houston, Texas 77019
W. Blair Waltrip	1929 Allen Parkway	Houston, Texas 77019
Edward E. Williams	1929 Allen Parkway	Houston, Texas 77019

ARTICLE EIGHT

The affirmative vote of the holders of four-fifths of the outstanding shares of the capital stock of the corporation entitled to vote shall be required (1) for the adoption of any agreement for the merger or consolidation of the corporation with or into any other corporation and (2) to authorize any sale, lease or exchange to or with the corporation (in exchange for its securities in a transaction for which stockholder approval is required by law or any agreement between the corporation and any national securities exchange) of any assets of, any other corporation, person or other entity, if (as of the record date for the determination of stockholders entitled to notice thereof and to vote thereon) such other corporation, person or entity referred to in clause (1) or clause (2), above, is the beneficial owner, directly or indirectly, of more than 10% of any class of capital stock of the corporation. For the purposes hereof any corporation, person or other entity shall be deemed to be the beneficial owner of any shares of capital stock of the corporation, (i) which it has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, or (ii) which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause (i), above), by any other corporation, person or entity with which it has any agreement, arrangement or understanding with respect to the acquisition, holding, voting or disposition of stock of the corporation, or which is its "affiliate" or "associate" as those terms are defined in the General Rules and Regulations under the Securities Exchange Act of 1934.

ARTICLE NINE

The right of cumulative voting is hereby expressly prohibited.

ARTICLE TEN

The pre-emptive right of shareholders to acquire authorized but unissued shares, or to acquire Treasury shares, is expressly denied. No shareholder shall be entitled as a matter of right to subscribe for, purchase or receive any shares of the stock or any rights or options of the corporation which it may issue or sell, whether out of the number of shares authorized by these Articles of Incorporation or by amendment thereof or out of the shares of the stock of the corporation acquired by it after the issuance thereof, nor shall any shareholder be entitled as a matter of right to subscribe for, purchase or receive any bonds, debentures or other securities which the corporation may issue or sell that shall be convertible into or exchangeable for stock or to which shall be attached or appertain any warrant or warrants or other instrument or instruments that shall confer upon the holder or owner of such obligation the right to subscribe for, purchase or receive from the corporation any shares of its capital stock; but all such additional issues of stock, rights and options, or of bonds, debentures or other securities convertible into or exchangeable for stock or to which warrants shall be attached or appertain or which shall confer upon the holder the right to subscribe for, purchase or receive any shares of stock, may be issued and disposed of by the Board of Directors to such persons, firms or corporations as in their absolute discretion may deem advisable. The acceptance of stock in the corporation shall be a waiver of any pre-emptive or preferential right which in the absence of this provision might otherwise be asserted by shareholders of the corporation of any of them.

ARTICLE ELEVEN

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

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

ARTICLE TWELVE

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

(a) Number. The Board of Directors shall consist of not less than nine (9) nor more than fifteen (15) Directors, as so determined from time to time by resolution of the Board of Directors. Within the above limits, the number of directors may be increased or decreased (provided that any decrease does not shorten the term of any incumbent director) from time to time by resolution of the Board of Directors. Directors need not be shareholders nor residents of Texas.

(b) Election and Terms. At the 1982 Annual Meeting of Shareholders, the directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of the first class to expire at the 1983 Annual Meeting of Shareholders, the term of office of the second class to expire at the 1984 Annual Meeting of Shareholders and the term of office of the third class to expire at the 1985 Annual Meeting of Shareholders (in each case, the term shall continue until the respective successors are elected and qualified). At each annual meeting of shareholders following such initial classification and election, directors elected to

succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders and until their successors have been elected and qualified.

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

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

(e) Amendment or Repeal. The affirmative vote of the holders of at least four-fifths of the outstanding shares of capital stock of the corporation entitled to vote thereon at a meeting called for that purpose shall be required to amend or repeal, or to adopt any provision inconsistent with, Article Eleven, Article Twelve or Article Eight of the Restated Articles of Incorporation of the corporation.

ARTICLE THIRTEEN

A director of the corporation shall not be liable to the corporation or its shareholders for monetary damages for an act or omission in the director's capacity as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for any transaction from which the director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the director's office, (iv) for acts or omissions for which the liability of a director is expressly provided by statute, or (v) for acts related to an unlawful stock repurchase or dividend payment. Any repeal or amendment of this Article by the shareholders of the corporation shall be prospective only, and shall not adversely affect any limitation on the liability of a director of the corporation existing at the time of such repeal or amendment. In addition to the circumstances in which a director of the corporation is not liable as set forth in the preceding sentences, a director shall not be liable to the fullest extent permitted by any provision of the statutes of Texas hereafter enacted that further limits the liability of a director.

DATED effective as of the 26th day of August, 1996.

SERVICE CORPORATION INTERNATIONAL

By: /s/ James M. Shelger
James M. Shelger
Senior Vice President
General Counsel and Secretary

BYLAWS
OF
SERVICE CORPORATION INTERNATIONAL

(Effective as of May 23, 2018)

ARTICLE I
SHAREHOLDERS

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

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

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

Section 4. Notice. Written or printed notice stating the place, day and hour of each meeting of shareholders and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall

be delivered not less than ten (10) nor more than fifty (50) days before the date of the meeting, either personally or by mail, to each shareholder of record entitled to vote at such meeting.

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

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

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

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

each meeting of shareholders, and in the absence of the Secretary, his or her duties shall be performed by some person appointed by the meeting.

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

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

anything in this Article I, Section 10 of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public disclosure naming all of the nominees for election or reelection to the Board of Directors or specifying the size of the increased Board of Directors made by the corporation at least 130 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice of nomination shall be timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to, or mailed and received at, the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which public disclosure of such increase in the number of directors to be elected to the Board of Directors is first made by the corporation. In no event shall the public announcement of an adjournment of a shareholder meeting commence a new time period for the giving of timely notice as described above. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the shareholder, (d) any material interest of the shareholder in such business, and (e) any such further information as shall be reasonably requested by the corporation. Additionally, a shareholder's notice of the nomination of persons for election to the Board of Directors shall set forth as to each person whom the shareholder proposes to nominate for election or reelection to the Board of Directors (a) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder (including such person's written consent to being named as a nominee and to serving as a director if elected) and (b) any such further information as shall be reasonably requested by the corporation. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at a shareholder meeting except in accordance with the procedures set forth in this Section 10. The Chair of the meeting shall, if the facts warrant, determine

and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of these Bylaws, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 10, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section. Nothing in this Section shall be deemed to affect any rights of (a) shareholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (b) the holders of any series of Preferred Stock to elect directors under specified circumstances. For purposes of these Bylaws, "publicly disclosed" or "public disclosure" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission.

ARTICLE II

BOARD OF DIRECTORS

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

(a) Number. The Board of Directors shall consist of not less than nine (9) nor more than fifteen (15) Directors, as so determined from time to time by resolution of the Board of Directors. Within the above limits, the number of directors may be increased or decreased (provided that such decrease does not shorten the term of any incumbent director) from time to time by resolution of the Board of Directors. Directors need not be shareholders nor residents of Texas.

(b) Election and Terms. Except as may otherwise be provided pursuant to the provisions established by the Board of Directors with respect to any series of Preferred Stock pursuant to Article Four of the restated articles of incorporation of the corporation, at each Annual Meeting of Shareholders, all

directors shall be elected to hold office for a term expiring at the next succeeding Annual Meeting of Shareholders and until their successors have been elected and qualified; provided, that any director elected for a longer term before the 2019 Annual Meeting of Shareholders shall hold office for the entire term for which he or she was originally elected and until his or her successor has been elected and qualified.

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

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

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

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

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

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

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

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

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

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

At all meetings of the Board of Directors, the (1) Chair of the Board shall preside, and in the absence of the Chair, the (2) Lead Director of the Board shall preside, and in the absence of the Lead Director, the

(3) Chief Executive Officer shall preside, and in the absence of the Chief Executive Officer, the (4) chair of the Nominating and Corporate Governance Committee shall preside. In the event that all of the foregoing persons shall be absent, a chair shall be chosen by the Board from among the directors present.

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

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

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

Section 12. Executive Committee and other Committees.

(a) Designation of Executive Committee. The Board of Directors, by resolution adopted by a majority of the entire number of directors, from time to time may designate two or more directors to constitute an Executive Committee. The designation of such Executive Committee, and the delegation of authority thereto, shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him or her by law. No member of the Executive Committee shall continue to be a member

thereof after he or she ceases to be a director of the corporation. The Board of Directors shall have the power at any time to increase or decrease the number of members of the Executive Committee, to fill vacancies thereon, to change any member thereof, and to change the function or terminate the existence thereof.

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

(c) Procedure; Meetings; Quorum. Unless designated by the Board of Directors, the chair of the Executive Committee shall be chosen by the Executive Committee, and the Secretary of the corporation, if present, shall act as Secretary of the meetings. In the absence of either, the Executive Committee shall appoint

a chair or secretary, as the case may be, of the meeting. The Executive Committee shall keep a record of its acts and proceedings. The Executive Committee shall fix its own rules of procedure (which need not be written) and shall meet from time to time on call of the Chair of the Board, the Chief Executive Officer or any two or more members of the Executive Committee. Notice of each such meeting, stating the place, day and hour thereof, shall be mailed, telegraphed or telephoned to each member's business or residential address at least twenty-four (24) hours before the meeting, but need not state the purpose of the meeting. Meetings may be held at any place within or without the State of Texas, specified in the notice of such meeting. Notice of any meeting may be waived in writing, signed by the member or members entitled to such notice, whether before or after the time stated therein, and shall be equivalent to the giving of such notice. Attendance of any members at a meeting shall constitute a waiver of notice of such meeting. A majority of the Executive Committee shall be necessary to constitute a quorum for the transaction of any business, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the Executive Committee. The members of the Executive Committee shall act only as a Committee, and the individual members shall have no power as such, but the Executive Committee may vote the members of the Executive Committee a reasonable fee as compensation and also provide for reimbursement of expenses for attendance at meetings of such Committee.

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

Section 13. Action Without A Meeting.

(a) Written Consent. Any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if a consent in writing, setting forth the

action so taken, is signed by all the members of the Board of Directors or committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any document or instrument filed with the Secretary of State.

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

ARTICLE III

OFFICERS

Section 1. Number, Titles and Term of Office. The officers of the corporation shall be a Chair of the Board, a Chief Executive Officer, a President, one or more Vice Presidents (including one or more Executive Vice Presidents and one or more Senior Vice Presidents if deemed appropriate by the Board of Directors), a Secretary, a Treasurer and such other officers as the Board of Directors may from time to time elect or appoint. Each officer shall hold office until his or her successor shall have been duly elected and qualified or until his or her death or until he or she shall resign or shall have been removed in the manner hereinafter provided. One person may hold more than one office, except that the President shall not hold the office of Secretary. None of the officers need be a director.

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

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

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

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

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

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

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

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

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

business hours; and he or she shall in general perform all duties incident to the office of Secretary, subject to the control of the Board of Directors.

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

ARTICLE IV

INDEMNIFICATION

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

The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or equivalent shall not, of itself, create a presumption that the director, officer, or representative did not act in good faith and in a manner he or she reasonably believed to be in or not opposed

to the best interests of the corporation, or with respect to any criminal action or proceeding that he or she had reasonable cause to believe his or her conduct was unlawful.

Section 2. Procedure. A determination of whether or not indemnification is proper under this Article IV shall be made (a) by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; (b) by a majority vote of a committee of the Board of Directors, if: (i) the committee is designated by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; and (ii) the committee consists solely of one or more of the directors not named as defendants or respondents in the proceeding; (c) by special legal counsel selected by the Board of Directors or a committee thereof by a vote as set forth in subsection (a) or (b) of this Section 2, or if a vote as set forth in subsection (a) or (b) cannot be obtained, then by special legal counsel selected by the Board of Directors; or (d) by the shareholders in a vote that excludes the shares held by directors who are named defendants or respondents in the proceeding.

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

Section 4. Insurance. The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation,

partnership, joint venture, trust, or other enterprise, against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the corporation itself would have the power to indemnify him or her against such liability under law.

Section 5. Expenses. To the extent permitted by law, expenses incurred in connection with a civil, criminal, administrative or investigative action, suit or proceeding, or threat thereof, may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided in Section 2 of this Article IV, upon receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the applicable standard of conduct set forth in this Article IV and a written undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified by the corporation as authorized in this Article IV.

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

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

Section 8. Employee Benefit Plans.

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

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

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

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

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

(d) The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Company, or is or was serving at the request

of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise (and "other enterprise" shall in this Section 8 be deemed to include an employee benefit plan), against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the corporation itself would have the power to indemnify him or her against such liability under law.

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

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

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

ARTICLE V

CAPITAL STOCK

Section 1. Certificates of Shares. The shares of the capital stock of the corporation may be certificated or uncertificated, as provided under Texas law, and shall be entered in the books of the corporation and

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

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

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

Upon the receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be cancelled, issuance of new equivalent uncertificated shares or certificated shares shall be made to the shareholder entitled thereto and the transaction shall be recorded upon the books of the corporation. If the corporation has a transfer agent or registrar acting on its behalf, the signature of any officer or representative thereof may be in facsimile.

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

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

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

ARTICLE VI

MISCELLANEOUS PROVISIONS

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

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

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

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

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

Section 6. Securities of Other Corporation. The Chair of the Board, the Chief Executive Officer, the President or any Vice President of the corporation shall have power and authority to transfer, endorse for

transfer, vote, consent or take any other action with respect to any securities of another issuer which may be held or owned by the corporation and to make, execute and deliver any waiver, proxy or consent with respect to any such securities.

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

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

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

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

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

ARTICLE VII

AMENDMENTS

Bylaws may be altered, amended or repealed, or new bylaws may be adopted, by the affirmative vote of the holders of a majority of the outstanding shares of capital stock entitled to vote thereon at any annual meeting, or at any special meeting if notice of the proposed amendment is contained in the notice of said

special meeting, or by the affirmative vote of a majority of the full Board of Directors at any regular or special meeting, provided notice of said proposed amendment is contained in the notice of the meeting.

**BYLAWS OF
SERVICE CORPORATION INTERNATIONAL**

~~(Adopted and Amended by the Board Effective as of Directors on February 14~~ May 23, 2018)

ARTICLE I SHAREHOLDERS

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

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

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

Section 4. Notice. Written or printed notice stating the place, day and hour of each meeting of shareholders and, in case of a special meeting, the purpose or purposes for which the meeting is

called, shall be delivered not less than ten (10) nor more than fifty (50) days before the date of the meeting, either personally or by mail, to each shareholder of record entitled to vote at such meeting.

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

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

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

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

his or her duties shall be performed by some person appointed by the meeting.

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

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

principal executive offices of the corporation not later than the close of business on the 10th day following the day on which the date of such meeting has been first publicly disclosed. Notwithstanding anything in this Article I, Section 10 of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public disclosure naming all of the nominees for election or reelection to the Board of Directors or specifying the size of the increased Board of Directors made by the corporation at least 130 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice of nomination shall be timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to, or mailed and received at, the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which public disclosure of such increase in the number of directors to be elected to the Board of Directors is first made by the corporation. In no event shall the public announcement of an adjournment of a shareholder meeting commence a new time period for the giving of timely notice as described above. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, the class and number of shares of the corporation which are beneficially owned by the shareholder, any material interest of the shareholder in such business, and (c) any such further information as shall be reasonably requested by the corporation. Additionally, a shareholder's notice of the nomination of persons for election to the Board of Directors shall set forth as to each person whom the shareholder proposes to nominate for election or reelection to the Board of Directors (a) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and

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

ARTICLE II BOARD OF DIRECTORS

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

- (a) Number The Board of Directors shall consist of not less than nine (9) nor more than fifteen (15) Directors, as so determined from time to time by resolution of the Board of Directors. Within the above limits, the number of directors may be increased or decreased (provided that
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such decrease does not shorten the term of any incumbent director) from time to time by resolution of the Board of Directors. Directors need not be shareholders nor residents of Texas.

- (b) Election and Terms. ~~At Except as may otherwise be provided pursuant to the 1982 provisions established by the Board of Directors with respect to any series of Preferred Stock pursuant to Article Four of the restated articles of incorporation of the corporation, at each~~ Annual Meeting of Shareholders, ~~the~~all directors shall be ~~divided into three classes, as nearly equal in number as possible, with the term of~~ elected to hold office ~~of the first class to expire for a term expiring~~ at the ~~1983 Annual Meeting of Shareholders, the term of office of the second class to expire at the 1984 Annual Meeting of Shareholders and the term of office of the third class to expire at the 1985 Annual Meeting of Shareholders; in each case, the term shall continue until the respective successors are elected and qualified. At each Annual Meeting of Shareholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third~~next succeeding Annual Meeting of Shareholders and until their successors have been elected and qualified; provided, that any director elected for a longer term before the 2019 Annual Meeting of Shareholders shall hold office for the entire term for which he or she was originally elected and until his or her successor has been elected and qualified.
- (c) Vacancies and Increases of Directors. Any vacancy (other than by an increases in number) in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. Any directors so elected by the Board of Directors to fill a vacancy shall hold office for the unexpired term of the director whose place he or she has been elected to fill, even though that term may extend beyond the next annual meeting of shareholders. In case of any increase in the number of directors
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(within the above limits), the additional directors shall be elected at an annual meeting or at a special meeting of shareholders called for that purpose.

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

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

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

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

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

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

Section 7. Notice. The Secretary shall give notice of each special meeting in person, or by mail or by telegraph at least two (2) days before the meeting to each director. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called or convened. Neither the business to be transacted at nor the purpose of any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting, except as otherwise required by law, the restated articles of incorporation or these bylaws. At any meeting at which every director shall be present, even though without any notice, any business may be transacted.

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

Section 9. Order of Business. At meetings of the Board of Directors, business shall be transacted in such order as from time to time the Board may determine. At all meetings of the Board of Directors, the (1) Chair of the Board shall preside, and in the absence of the Chair, the (2) Lead Director of the Board shall preside, and in the absence of the Lead Director, the (3) Chief

Executive Officer shall preside, and in the absence of the Chief Executive Officer, the (4) chair of the Nominating and Corporate Governance Committee shall preside. In the event that all of the foregoing persons shall be absent, a chair shall be chosen by the Board from among the directors present. The Secretary of the corporation shall act as secretary of the meetings of the Board of Directors, but in the absence of the Secretary, the presiding officer may appoint any person to act as secretary of the meeting.

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

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

Section 12. Executive Committee and other Committees.

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

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

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

- (c) Procedure; Meetings; Quorum. Unless designated by the Board of Directors, the chair of the Executive Committee shall be chosen by the Executive Committee, and the Secretary of the corporation, if present, shall act as Secretary of the meetings. In the absence of either, the Executive Committee shall appoint a chair or secretary, as the case may be, of the meeting. The Executive Committee shall keep a record of its acts and proceedings. The Executive Committee shall fix its own rules of procedure (which need not be written) and shall meet from time to time on call of the Chair of the Board, the Chief Executive Officer or any two or more members of the Executive Committee. Notice of each such meeting, stating the place, day and hour thereof, shall be mailed, telegraphed or telephoned to each member's business or residential address at least twenty-four (24) hours before the meeting, but need not state the purpose of the meeting. Meetings may be held at any place within or without the State of Texas, specified in the notice of such meeting. Notice of any meeting may be waived in writing, signed by the member or members entitled to such notice, whether before or after the time stated therein, and shall be equivalent to the giving of such notice. Attendance of any members at a meeting shall constitute a waiver of notice of such meeting. A majority of the Executive Committee shall be necessary to constitute a quorum for the transaction of any business, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the Executive Committee. The members of the Executive Committee shall act only as a Committee, and the individual members shall have no power as such, but the Executive Committee may vote the members of the Executive Committee a reasonable fee as compensation and also provide for reimbursement of expenses for
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attendance at meetings of such Committee.

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

Section 13. Action Without A Meeting.

- (a) Written Consent. Any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all the members of the Board of Directors or ~~Committee~~committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any document or instrument filed with the Secretary of State.
- (b) Telephonic Meetings. Members of the Board of Directors, or members of any committee designated by such ~~board~~Board, may participate in and hold a meeting of such ~~board~~Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE III OFFICERS

Section 1. Number, Titles and Term of Office. The officers of the corporation shall be a Chair

of the Board, a Chief Executive Officer, a President, one or more Vice Presidents (including one or more Executive Vice Presidents and one or more Senior Vice Presidents if deemed appropriate by the Board of Directors), a Secretary, a Treasurer and such other officers as the Board of Directors may from time to time elect or appoint. Each officer shall hold office until his or her successor shall have been duly elected and qualified or until his or her death or until he or she shall resign or shall have been removed in the manner hereinafter provided. One person may hold more than one office, except that the President shall not hold the office of Secretary. None of the officers need be a director. Section 2. Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

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

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

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

certificates for shares of capital stock of the corporation.

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

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

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

shall, if required by the Board of Directors, give such bond for the faithful discharge of his or her duties in such form as the Board of Directors may require.

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

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

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

ARTICLE IV INDEMNIFICATION

Section 1. Indemnification by the Corporation. Each director and officer of the corporation and any person who may have served at the request of the corporation as a director or officer of another

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

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

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

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

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

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

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

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

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

Section 8. Employee Benefit Plans. In addition, and not in lieu of, any indemnity provided under the preceding sections of this Article IV, the corporation shall indemnify each director, officer or employee and each former director, officer or employee of the corporation against any costs and expenses, including counsel fees, actually and necessarily incurred in connection with the defense of any civil, criminal, administrative or other claim, action, suit or proceeding, whether by or in the right of the corporation or otherwise, in which he or she may become involved or with which he or

she may be threatened with regard to any error or omission or breach of duty committed or alleged to have been committed in the discharge of his or her fiduciary duties, obligations or responsibilities with respect to any employee pension, deferred compensation, welfare benefit or other benefit plan, including specifically, but without limitation, plans covered under the Employee Retirement Income Security Act of 1974 (which plans are herein collectively called "employee benefit plan"), of the corporation or any other corporation in which it owns shares of capital stock, or of which it is a creditor (which entities are herein collectively called the "Company") provided, that in connection with such matter, the said director, officer or employee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The corporation shall be deemed to have requested a director, officer or employee of the corporation to serve an employee benefit plan where the performance by such person of his or her duties to the Company also imposes duties on or otherwise involves services by such person to such employee benefit plan or participants or beneficiaries thereof; excise taxes or taxes assessed on a person with respect to an employee benefit plan pursuant to said Act of Congress or the Internal Revenue Code of 1986 shall be deemed "fines"; and action taken or omitted by such a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the employee benefit plan shall be deemed to be for a purpose which is not opposed to the best interest of the Company. Costs and expenses indemnified shall include payments in settlements or in satisfaction of any judgment, fine, penalty, excise tax or tax. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the director, officer, or employee did not act in good faith. Any indemnification provided for herein, unless ordered by a court, shall be made by the corporation only as authorized in the specific case

upon a determination that indemnification of the director, officer or employee is proper in the circumstances because he or she had met the applicable standard of conduct set forth in Section 8 (a) hereof. Such determination shall be made (a) by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; (b) by a majority vote of a committee of the ~~board~~Board of ~~directors~~Directors, if: (i) the committee is designated by a majority vote of the directors who at the time of the vote are not named defendants or respondents in the proceeding, regardless of whether the directors not named defendants or respondents constitute a quorum; and (ii) the committee consists solely of one or more of the directors not named as defendants or respondents in the proceeding; (c) by special legal counsel selected by the ~~board~~Board of ~~directors~~Directors or a committee thereof by a vote as set forth in subsection (a) or (b) of this Section 8(b), or if a vote as set forth in subsection (a) or (b) cannot be obtained, then by special legal counsel selected by the ~~board~~Board of ~~directors~~Directors; or (d) by the shareholders in a vote that excludes the shares held by directors who are named defendants or respondents in the proceeding. It is specifically intended to provide indemnification with regard to acts or omissions on the part of directors, officers or employees which may be or are adjudged to constitute negligence, misrepresentations, slander, libel, misconduct, or other breach of duty, but only to the extent that such indemnification may be provided for under law, and only upon a determination under Section 8 (b) hereof that such conduct was in good faith. The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Company, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise (and "other enterprise" shall in this Section 8 be deemed to include an employee benefit plan), against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the

corporation itself would have the power to indemnify him or her against such liability under law. To the extent permitted by law, expenses incurred in connection with a civil, criminal, administrative or investigative action, suit or proceeding, or threat thereof, may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided in Section 8(b) of this Article IV, upon receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the applicable standard of conduct set forth in this Article IV and a written undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified by the corporation as authorized in this Article IV. Should any of the indemnification rights provided for herein be declared invalid, such declaration shall not invalidate the indemnification provisions generally, and such of the indemnification rights provided for herein as are permissible under law shall remain effective. The foregoing right of indemnification shall not be deemed exclusive of any other rights to which any director, officer, employee or representative may be entitled under any other bylaw, agreement, or vote of shareholders or disinterested directors, as a matter of law or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office or performing such of his or her duties and shall continue as to a person who has ceased to be a director, officer, employee or representative and shall inure to the benefit of the heirs, executors, and administrators of such a person.

ARTICLE V CAPITAL STOCK

Section 1. Certificates of Shares. The shares of the capital stock of the corporation may be certificated or uncertificated, as provided under Texas law, and shall be entered in the books of the corporation and registered as they are issued. Any certificates representing shares of stock shall be in such form as the Board of Directors shall prescribe, certifying the number and class of shares of the stock of the corporation owned by the shareholder. The certificates shall be signed by the Chief

Executive Officer, President or a Vice President, and also by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer and may be sealed with the seal of this corporation or a facsimile thereof. Where any such certificate is countersigned by a transfer agent, or registered by a registrar, either of which is other than the corporation itself or an employee of the corporation, the signatures of any such Chief Executive Officer, President or Vice President and Secretary or Assistant Secretary or Treasurer or Assistant Treasurer may be facsimiles. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice that shall set forth the name of the corporation, that the corporation is organized under the laws of the State of Texas, the name of the shareholder, the number and class (and the designation of the series, if any) of the shares represented, and any restrictions on the transfer or registration of such shares of stock imposed by the corporation's restated articles of incorporation, these Bylaws~~bylaws~~, any agreement among shareholders or any agreement between shareholders and the corporation.

Section 2. Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate or evidence of the issuance of uncertificated shares to the shareholder entitled thereto, cancel the old certificate and record the transaction upon the corporation's books. Upon the receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be cancelled, issuance of new equivalent uncertificated shares or certificated shares shall be made to the shareholder entitled thereto and the transaction shall be recorded upon the books of the corporation. If the corporation has a transfer agent or registrar acting on its behalf, the signature of any officer or representative thereof may be in facsimile. The Board of Directors may appoint a transfer agent and one or more co-transfer agents and registrar

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

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

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

ARTICLE VI MISCELLANEOUS PROVISIONS

Section 1. Offices. Until the Board of Directors otherwise determines, the registered office of

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

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

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

Section 4. Notice and Waiver of Notice. Whenever any notice whatever is required to be given under the provisions of these bylaws, said notice shall be deemed to be sufficient if given (a) by depositing the same in a post office box in a sealed postpaid wrapper addressed to the person thereto at his or her post office address, as it appears on the books of the corporation, (b) by transmitting to a facsimile number provided by the shareholder for the purpose of receiving notice, by transmitting to an electronic mail address provided by the shareholder for the purpose of receiving notice, or (d) by posting on an electronic network and sending a message to the shareholder at the address provided by the shareholder for the purpose of alerting the shareholder of a posting; and such notice shall be deemed to have been given on the day of such mailing, transmission or posting. A waiver of notice, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Section 5. Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the Chief Executive Officer, President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation. Section 6. Securities of Other Corporation. The Chair of the Board, the Chief Executive Officer, the President or any Vice President of the corporation shall have power and authority to transfer,

endorse for transfer, vote, consent or take any other action with respect to any securities of another issuer which may be held or owned by the corporation and to make, execute and deliver any waiver, proxy or consent with respect to any such securities.

Section 7. Interested Directors and Officers. An otherwise valid contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation or other entity in which one or more of its directors or officers are directors or officers or have a financial interest, shall be valid notwithstanding whether the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof that authorizes the contract or transaction, and notwithstanding whether his or her or their votes are counted for such purpose, if: The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or The contract or transaction is fair as to the corporation as of the time it is authorized, approved, or ratified by the Board of Directors, a committee thereof, or the shareholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract or transaction.

ARTICLE VII AMENDMENTS

~~Except as set forth below, bylaws~~ Bylaws may be altered, amended or repealed, or new bylaws may be adopted, by the affirmative vote of the holders of a majority of the outstanding shares of

capital stock entitled to vote thereon at any annual meeting, or at any special meeting if notice of the proposed amendment is contained in the notice of said special meeting, or by the affirmative vote of a majority of the full Board of Directors at any regular or special meeting, provided notice of said proposed amendment is contained in the notice of the meeting.

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

**SERVICE CORPORATION INTERNATIONAL
RATIO OF EARNINGS TO FIXED CHARGES**

(In thousands, except ratio amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Earnings:				
Pretax income	\$ 119,315	101,518	\$ 229,684	\$ 200,044
Add fixed charges as adjusted (from below)	46,574	43,926	91,736	86,754
	<u>\$ 165,889</u>	<u>\$ 145,444</u>	<u>\$ 321,420</u>	<u>\$ 286,798</u>
Fixed charges:				
Interest expense:				
Corporate	\$ 43,020	\$ 40,635	\$ 85,078	\$ 79,838
Amortization of deferred financing costs	1,499	1,448	3,017	2,881
Portion of rent representative of interest	2,055	1,843	3,641	4,035
Fixed charges	<u>\$ 46,574</u>	<u>\$ 43,926</u>	<u>\$ 91,736</u>	<u>\$ 86,754</u>
Ratio (earnings divided by fixed charges)	3.56	3.31	3.50	3.31

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

I, Thomas L. Ryan, certify that:

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

Date: July 31, 2018

/s/ Thomas L. Ryan

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

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

I, Eric D. Tanzberger, certify that:

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

Date: July 31, 2018

/s/ Eric D. Tanzberger

Eric D. Tanzberger
Chief Financial Officer
(Principal Financial Officer)

Certification of Chief Executive Officer

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

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Service Corporation International.

Dated: July 31, 2018

/s/ Thomas L. Ryan

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

Certification of Chief Financial Officer

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

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Service Corporation International.

Dated: July 31, 2018

/s/ Eric D. Tanzberger

Eric D. Tanzberger
Chief Financial Officer
(Principal Financial Officer)

