SERVICE CORPORATION INTERNATIONAL
Form 10-K
February 14, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

o 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 no.)
1929 Allen Parkway Houston, Texas (Address of principal executive offices)	77019 (Zip code)

Registrant's telephone number, including area code:
713-522-5141
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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 þ No o

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 þ No o

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

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

Large accelerated filer þ Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in the Securities Exchange Act of 1934 Rule 12b-2). Yes o No þ

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming that the registrant's only affiliates are its officers and directors) was $3,696,245,685 based upon a closing market price of $18.03 on June 28, 2013 of a share of common stock as reported on the New York Stock Exchange.

The number of shares outstanding of the registrant's common stock as of February 12, 2014 was 212,382,816 (net of treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement in connection with its 2013 Annual Meeting of Stockholders (Part III).

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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 and cemetery arrangements sold after a death has occurred.

Burial Vaults — A reinforced container intended to inhibit the subsidence of the earth and house the casket after it is placed in the ground.

Cemetery Perpetual Care or Endowment Care Fund — A trust fund established for the purpose of maintaining cemetery grounds and property into perpetuity.

Cemetery Property — Developed lots, lawn crypts, and mausoleum spaces and undeveloped land we intend to develop.

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

Cemetery Merchandise and Services — Stone and bronze memorials, markers, merchandise installations, and burial openings and closings.

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

Funeral Merchandise and Services — Professional services relating to funerals and cremations and funeral-related merchandise, including caskets, casket memorialization products, burial vaults, cremation receptacles, cremation memorial products, and flowers.

Funeral Recognized Preneed Revenue — Funeral merchandise and products sold on preneed contract and delivered before a death has occurred, including funeral merchandise and travel protection insurance, which primarily represents sales by the Neptune Society.

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

General Agency (GA) Revenues — Commissions we receive from third-party life insurance companies for life insurance policies or annuities 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, in mausoleums, or in cremation niches.

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, or niche. Permanent burial markers are usually made of bronze or stone.

Maturity — When the underlying contracted service is performed or merchandise is delivered, typically at death. This is the point at which preneed 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 cremation urns.

Preneed — Purchase of products and services prior to a death occurring.

Preneed Backlog — Future revenues from unfulfilled preneed funeral and cemetery contractual arrangements.

Preneed Cemetery Production — Sales of preneed or atneed cemetery contracts. These earnings are recorded in Deferred preneed cemetery revenues until the service is performed or the merchandise is delivered.

Preneed Funeral Production — Sales of preneed funeral trust-funded and insurance-funded contracts. Preneed funeral trust-funded contracts are recorded in Deferred preneed funeral revenues until the service is performed or the merchandise is delivered. We do not reflect the unfulfilled insurance-funded preneed funeral contract amounts in our consolidated balance sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenues as these funerals are performed by the Company.

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

Trust Fund Income — Recognized 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.

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PART I

Item 1. Business.

General

We are North America's largest provider of deathcare products and services, with a network of funeral homes and cemeteries unequaled in geographic scale and reach. At December 31, 2013, we operated 1,644 funeral service locations and 514 cemeteries (including 283 funeral service/cemetery combination locations) in North America, which are geographically diversified across 43 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral segment also includes the operations of 12 funeral homes in Germany that we intend to exit when economic values and conditions are conducive to a sale. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis.

History

We were incorporated in Texas in July of 1962. Our original business plan was based on efficiencies of scale, specifically reducing overhead costs by sharing resources such as embalming, accounting, transportation, and personnel among funeral homes in a business "cluster." After proving the plan's effectiveness in Houston in the early 1960s, SCI set out to apply this operating strategy through the acquisition of deathcare businesses in other markets. It was the beginning of a three-decade period of expansion that would create a North American network of nearly 1,400 funeral homes and cemeteries by the end of 1992. Beginning in 1993, we expanded beyond North America, acquiring major deathcare companies in Australia, the United Kingdom, and France, plus smaller holdings in other European countries and South America. By the end of 1999, our global network numbered more than 4,500 funeral service locations, cemeteries, and crematories in more than 20 countries.

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

In late 2006, having arrived at a position of significant financial strength and improved operating efficiency, we acquired the then second largest company in the North American deathcare industry, Alderwoods Group. In early 2010, we acquired the then fifth largest company in the North American deathcare industry, Keystone North America. In June of 2011, we acquired 70% of the outstanding shares of The Neptune Society, Inc. (Neptune), which is the nation's largest direct cremation organization. During the twelve months ended December 31, 2013, we acquired an additional 20% of the outstanding shares of Neptune increasing our ownership from 70% to 90%.

In December 2013, we purchased Stewart Enterprises, Inc. (Stewart), the second largest operator of funeral homes and cemeteries in North America. This transaction provides us with an opportunity for growth consistent with our capital deployment strategy and will allow us the ability to serve a number of new, complementary areas, while enabling us to capitalize on what we believe will produce significant synergies and operating efficiencies.

Funeral and Cemetery Operations

Worldwide, we have 1,656 funeral service locations and 514 cemeteries (including 283 funeral service/cemetery combination locations) covering 43 states, eight Canadian provinces, the District of Columbia, Puerto Rico, and Germany. See Note 16 in Part II, Item 8. Financial Statements and Supplementary Data, for financial information about our business segments and geographic areas.

Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles and preparation and embalming services.

Funeral-related merchandise, including caskets, casket memorialization products, burial vaults, cremation receptacles, cremation memorial products, flowers, and other ancillary products and services, is sold at funeral service locations. Our cemeteries provide cemetery property interment rights, including developed lots, lawn crypts, and mausoleum spaces and sell cemetery-related merchandise and services, including stone and bronze memorials, markers, merchandise installations, and burial openings and closings.

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We also sell preneed funeral and cemetery products and services whereby a customer contractually agrees to the terms of certain products and services to be delivered and performed in the future. We define these sales as preneed sales. As a result of such preneed sales, our backlog of unfulfilled preneed funeral and preneed cemetery contracts was $8.9 billion and $7.4 billion at December 31, 2013 and 2012, respectively.

Funeral service/cemetery combination locations are those businesses in which a funeral service location is physically located within or adjoining a cemetery that we own. Combination locations allow certain facility, personnel, and equipment costs to be shared between the funeral service location and cemetery. Such combination facilities typically can be more cost competitive and have higher gross margins than if the funeral and cemetery operations were operated separately. Combination locations also create synergies between funeral and cemetery preneed sales force personnel and give families added convenience to purchase both funeral and cemetery products and services at a single location. We have the largest number of combination locations in North America. Fifty-five percent of our cemeteries are part of a combination location. Our combination operations include Rose Hills, the largest combination operation in the United States, performing over 4,500 funeral services and 8,000 cemetery interments per year.

In 2013 our operations in the United States and Canada were organized into 30 major markets, 47 metro markets, and 64 main street markets. Each market is led by a market manager or director with responsibility for funeral and/or cemetery operations and preneed sales. Within each market, the funeral homes and cemeteries share common resources such as personnel, preparation services, and vehicles. There are four market support centers in North America to assist market directors with financial, administrative, pricing, and human resource needs. These support centers are located in Houston, Miami, New York, and Los Angeles. The primary functions of the support centers are to help facilitate the execution of corporate strategies, coordinate communication between the field and corporate offices, and serve as liaisons for the implementation of policies and procedures.

The following table at December 31, 2013 provides the number of our funeral homes and cemeteries by country, and by state, territory, or province:

Country, State/Territory/Province	Number of Funeral Homes	Number of Cemeteries	Total
United States			
Alabama	38	14	52
Arizona	34	11	45
Arkansas	13	3	16
California	183	37	220
Colorado	25	11	36
Connecticut	19	—	19
District of Columbia	1	—	1
Florida	151	72	223
Georgia	37	24	61
Hawaii	2	2	4
Idaho	6	1	7
Illinois	49	24	73
Indiana	41	9	50
Iowa	4	2	6
Kansas	11	6	17
Kentucky	15	5	20
Louisiana	30	10	40
Maine	11	—	11
Maryland	19	16	35
Massachusetts	26	—	26
Michigan	38	—	38
Minnesota	12	2	14
Mississippi	21	4	25

Missouri	29	11	40
Nebraska	4	2	6
Nevada	14	6	20
New Hampshire	6	—	6
New Jersey	21	—	21
New York	86	—	86
North Carolina	59	20	79
Ohio	43	13	56

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Oklahoma	14	7	21
Oregon	17	4	21
Pennsylvania	24	20	44
Puerto Rico	13	8	21
Rhode Island	4	—	4
South Carolina	13	11	24
Tennessee	43	21	64
Texas	171	68	239
Utah	4	3	7
Vermont	4	—	4
Virginia	41	26	67
Washington	47	16	63
West Virginia	14	12	26
Wisconsin	16	3	19
Canada			
Alberta	9	—	9
British Columbia	37	7	44
Manitoba	4	3	7
New Brunswick	5	—	5
Nova Scotia	11	—	11
Ontario	46	—	46
Quebec	44	—	44
Saskatchewan	15	—	15
Germany	12	—	12
Total (1)	1,656	514	2,170

(1) Includes businesses held for sale at December 31, 2013.

We believe we have satisfactory title to the properties owned and used in our business, subject to various liens, encumbrances, and easements that are incidental to ownership rights and uses and do not materially detract from the value of the property. We also lease a number of facilities that we use in our business under both capital and operating leases.

At December 31, 2013, we owned approximately 86% of the real estate and buildings used at our facilities, and the remainder of the facilities were leased. At December 31, 2013, our 514 cemeteries contained a total of approximately 36,500 acres, of which approximately 61% was developed.

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

Competition

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

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

Strategies for Growth

We believe we are well-positioned for long-term profitable growth. We are the largest company in the North American deathcare industry with unparalleled scale on both a national and local basis and are poised to benefit from the aging of America. We have demonstrated that we can generate significant and consistent cash flow, even in difficult economic times. This, coupled with our financial position and strong liquidity, allows us to deploy our available free cash flow to enhance the value of the company. Our free cash flow deployment focus is centered on strategic acquisitions, share repurchases, dividends, and opportunistic debt repurchases when we believe we can reduce liquidity risk and enhance our near-term maturity profile.

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Acquisition of Stewart Enterprises. 2014 will be a year of meaningful growth for the company as a result of the acquisition of Stewart in December 2013. The addition of Stewart expands and complements our existing footprint in the highly fragmented funeral and cemetery industry in North America. We expect to generate approximately $60 million in annual cost savings from the combined companies. These synergies are generally expected to comprise reduced back-office systems and infrastructure costs, elimination of duplicate public company and management structure costs, and improved purchasing power. We expect to realize half, or $30 million, of these synergies in 2014 with the remaining half to be achieved in 2015.

Growing our Preneed Backlog. We believe our size and scale gives us a significant advantage in preneed selling strategies and that growth in preneed sales will ultimately lead to market share growth over the long term. In 2013, our comparable cemetery preneed sales increased 8.0% over the previous year and comparable preneed funeral sales increased 11.1%. Our aggregate funeral and cemetery preneed sales production in 2013 exceeded $1.3 billion. From this base we expect continued growth with the addition of Stewart in 2014. We recognize this level of activity is unmatched in our industry and gives us a tremendous competitive advantage. Our backlog of preneed funeral and cemetery revenues at the end of 2013 was approximately $9 billion which bodes well for future earnings and cash flow.

According to the United States Census Bureau, currently, the number of Americans that are 60 and older are approximately 61 million and this number is expected to grow to more than 77 million by 2020, resulting in a growing number of people that will be interested in preneed options. In 2009, we began to invest in developing the key infrastructure to deliver superior sales production growth in anticipation of the baby boomers entering the “stage in life” of early 60’s to early 70’s where they are most likely to consider pre-arrangement traditionally. Our success from 2010 thru 2012 was almost exclusively generated through enhanced sales force productivity as the size of our sales team remained relatively flat. More recently in 2013 and looking forward to 2014, we are investing in recruiters, trainers, and sales managers to support our effort to sell through an expanded sale force. During 2013 we added over 250 (or 7%) to our sales counselor team to 3,850.

Staying Relevant to our Consumers. In a world of change, we are focused on staying relevant to our consumers. We have streamlined and improved our interaction with consumers through the use of technology and through enhanced packaged offerings. We continue to develop new products and services including event and reception services, floral offerings, an enhanced cemetery merchandise program, and other contemporary products and services.

With an increasing preference for cremation in North America, we are also focused on product and service offerings that appeal specifically to cremation customers. In addition, we continue to expand our direct cremation brand of businesses we refer to collectively as SCI Direct which now operates in 19 states.

Leveraging our Scale. Our size and broad geographic network of businesses give us a significant advantage in this industry. We continue to drive operating discipline and leverage our scale through the standardization of processes and the use of key performance metrics for staffing and other operational and administrative activities. We continually examine our purchasing spend to look for ways to consolidate our supplier base, modify processes and policies for more efficient purchasing, and employ metrics to manage and improve supplier performance. Our recent investment in updating our purchasing system is streamlining the handling, approval, and payment of vendor invoices as well as providing greater visibility into company expenditures. Additionally, many of our accounting and administrative functions are outsourced to third party providers providing for greater efficiency.

Managing and Growing the Footprint. We are managing our network of business locations by positioning each business location to support the preferences of its local customer base, while monitoring each market for changing demographics and competitive dynamics. We expect to continue to pursue selective business expansion through construction or targeted acquisitions of cemeteries and funeral homes with a focus on the highest return customer categories or where we can leverage scale. We believe our unparalleled business footprint and geographic diversity uniquely positions us to benefit from the aging consumer.

Employees

At December 31, 2013, we employed 16,476 (16,440 in North America) individuals on a full-time basis and 9,243 (9,238 in North America) individuals on a part-time basis. Of the full-time employees, 15,573 were employed in the funeral and cemetery operations and 903 were employed in corporate or other overhead activities and services. All eligible employees in the United States who so elect are covered by our group health and life insurance plans. Employees covered by a collective bargaining agreement are typically covered by union health plans and are not eligible to participate in the our health insurance plan. At December 31, 2013 and 2012, there were 9,706 and 7,284 employees who had elected to participate in our group health insurance plans. Eligible employees in the United States are covered by retirement plans of SCI or various subsidiaries, while international employees are covered by other SCI (or SCI subsidiary) defined or government-mandated benefit plans. Approximately 3.0% of

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our employees in North America are represented by unions. Although labor disputes occur from time to time, relations with employees are generally considered favorable.

Regulation

Our operations are subject to regulations, supervision, and licensing under numerous foreign, federal, state, and local laws, ordinances, and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery products and services, and various other aspects of our business. We strive to comply in all material respects with the provisions of these laws, ordinances, and regulations. Since 1984, we have operated in the United States under the Federal Trade Commission (FTC) comprehensive trade regulation rule for the funeral industry. The rule contains requirements for funeral industry practices, including extensive price and other affirmative disclosures and imposes mandatory itemization of funeral goods and services.

Other

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

We make available free of charge, on or through our website, our annual, quarterly, and current reports and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission (SEC). Our website is http://www.sci-corp.com and our telephone number is (713) 522-5141. The SEC also maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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

Item 1A. Risk Factors.

Cautionary Statement on Forward-Looking Statements

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

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

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

The following table summarizes our investment returns (realized and unrealized), excluding certain fees, on our trust funds for the years ended December 31:

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	2013	2012	2011
Preneed funeral merchandise and service trust funds	16.6 %	12.4 %	0.7 %
Preneed cemetery merchandise and service trust funds	19.3 %	13.4 %	0.7 %
Perpetual care trust funds	7.6 %	10.5 %	5.2 %

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

If the investments in our trust funds experience significant declines in 2014 or subsequent years, there could be insufficient funds in the trusts to cover the costs of delivering services and merchandise or maintaining cemeteries in the future. We may be required to cover any such shortfall with cash flows from operations, which could have a material adverse effect on our financial condition, results of operations, or cash flows. For more information related to our trust investments, see Notes 4, 5, and 6 in Part II, Item 8. Financial Statements and Supplementary Data.

If the fair market value of these trusts, plus any other amount due to us upon delivery of the associated contracts, were to decline below the estimated costs to deliver the underlying products and services, we would record a charge to earnings to record a liability for the expected losses on the delivery of the associated contracts. As of December 31, 2013, no such charge was required. For additional information, see Critical Accounting Policies in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

In certain states and provinces, we have withdrawn allowable distributable earnings including unrealized gains prior to the maturity or cancellation of the related contract. Additionally, some states have laws that either require replenishment of investment losses under certain circumstances or impose various restrictions on withdrawals of future earnings when trust fund values drop below certain prescribed amounts. In the event of market declines, we may be required to deposit portions or all of these amounts into the respective trusts in some future period. As of December 31, 2013, we had unrealized losses of $19.7 million in the various trusts within these states. See Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial and Contingent Commitments in Part II, Item 7.

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

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

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

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

- Incur additional indebtedness (including guarantee obligations);
- Create liens on assets;
- Engage in certain transactions with affiliates;
- Enter into sale-leaseback transactions;
- Engage in mergers, liquidations, and dissolutions;
- Sell assets;
- Pay dividends, distributions, and other payments in respect of our capital stock;

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- Purchase our capital stock in the open market;
- Make investments, loans, or advances;
- Repay indebtedness or amend the agreements relating thereto;
- Create restrictions on our ability to receive distributions from subsidiaries; and
- Change our lines of business.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. These covenants and coverage ratios may require us to take actions to reduce our indebtedness or act in a manner contrary to our strategic plan and business objectives. In addition, events beyond our control, including changes in general economic and business conditions, may affect our ability to satisfy these covenants. A breach of any of these covenants could result in a default of our indebtedness. If an event of default under our bank credit facility occurs, and such event of default continues unremedied for 30 days after we receive notice thereof, the lenders party thereto could elect to declare all amounts outstanding thereunder, together with accrued interest, immediately due and payable. Any such declaration would also result in an event of default under our Senior Indenture governing our various senior notes. For additional information, see Liquidity and Capital Resources in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 10 in Part II, Item 8. Financial Statements and Supplementary Data.

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

We have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been issued to support our preneed funeral and cemetery activities. In the event all of the surety companies canceled or did not renew our surety bonds, which generally have twelve-month renewal periods, we would be required to either obtain replacement coverage or fund approximately $192.4 million into state-mandated trust accounts as of December 31, 2013. There can be no assurance that we would be able to obtain replacement coverage at a similar cost or at all.

The funeral home and cemetery industry continues to be increasingly competitive.

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

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

We sell price-guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. For preneed funeral contracts funded through life insurance or annuity contracts, we receive in cash a general agency commission that typically averages approximately 19.8% of the total sale from the third-party insurance company. Additionally, we receive an increasing death benefit associated with the contract of approximately 1% per year in cash at the time the funeral is performed. There is no guarantee that the increasing death benefit will cover future increases in the cost of providing a price-guaranteed funeral service, and any such excess cost could be materially adverse to our future cash flows, revenues, and operating margins.

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

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

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Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, or cash flows.

Unfavorable results of litigation, including currently pending class action cases concerning cemetery or burial practices, could have a material adverse impact on our financial statements.

As discussed in Note 12 of Part II, Item 8. Financial Statements and Supplementary Data, we are subject to a variety of claims and lawsuits in the ordinary course of our business. Adverse outcomes in some or all of the pending cases may result in significant monetary damages or injunctive relief against us, as litigation and other claims are subject to inherent uncertainties. Any such adverse outcomes, in pending cases or other lawsuits that may arise in the future, could have a material adverse impact on our financial position, cash flows, and results of operations.

Unfavorable publicity could affect our reputation and business.

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

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

If the number of deaths declines, the number of funeral services and interments performed by us could decrease and our financial condition, results of operations, and cash flows could be materially adversely affected.

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

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

The continuing upward trend in the number of cremations performed in North America could result in lower revenues and gross profit.

There is a continuing upward trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. In our North American operations during 2013, 50.2% of the comparable funeral services we performed were cremation cases compared to 48.8% and 44.3% performed in 2012 and 2011, respectively. The addition of Neptune Society fulfilled contracts to our comparable results has accelerated our cremation mix change. If we are unable to continue to expand our cremation memorialization products and services, and cremations remain a significant percentage of our funeral services, our financial condition, results of operations, and cash flows could be materially adversely affected.

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

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

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

Our operations are subject to regulation, supervision, and licensing under numerous foreign, federal, state, and local laws, ordinances, and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery products and services, and various other aspects of our business. For example, the funeral home industry is regulated by the Federal Trade Commission, which requires funeral homes to take actions designed to protect consumers. Our facilities are also subject to stringent health, safety, and environmental regulations. Violations of applicable laws could result in fines or sanctions against us.

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Businesses in general are subject to the impact of major legislation, including the Patient Protection and Affordable Care Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act. Many provisions of these complex laws could impact our business, and many of the provisions require implementation through regulations that have not yet been promulgated. Although we do not know the ultimate impact of these laws, we expect such laws will increase our costs and the potential risks of failure to comply.

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

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

Increased costs, including potential increased health care costs, may have a negative impact on earnings and cash flows.

We may not be successful in maintaining our margins and may incur additional costs. On March 23, 2010, the Patient Protection and Affordable Care Act became law, and one week later, the Health Care and Education Reconciliation Act of 2010 became effective, together enacting comprehensive health care reform in the United States. The legislation is likely to increase our health care costs. Many provisions of the law that could impact our business will not become effective until 2015, or later, and require implementation through regulations that have not yet been promulgated. Accordingly, the costs and other effects of the legislation, which may include the cost of compliance and potentially increased costs of providing for medical insurance for our employees, cannot be determined with certainty at this time. Some of the costs impacting our business are largely beyond our control. To the extent that we are unable to pass these cost increases on to our customers, they will have a negative impact on our earnings and cash flows.

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

Our cemetery practices have evolved and improved over time. Most of our cemeteries have been operating for decades and, therefore, may have used practices and procedures that are outdated in comparison to today's standards. When cemetery disputes occur, we may be subjected to litigation and liability for improper burial practices, including (1) burial practices of a different era that are judged today in hindsight as being outdated, and (2) alleged violations of our practices and procedures by one or more of our associates. For example, the Sands case described elsewhere in this Annual Report on Form 10-K alleges improper burial practices dating from February 1985 to September 2009. In addition, since we acquired most of our cemeteries, we may be subject to litigation and liability based upon actions or events that occurred before we acquired or managed the cemeteries. Claims or litigation based upon our cemetery burial practices could have a material adverse impact on our financial condition, results of operations, and cash flows.

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

The number of tax years with open tax audits varies depending on the tax jurisdiction. In the United States, the Internal Revenue Service is currently examining our tax returns for 1999 through 2005 and various state jurisdictions are auditing years through 2010. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals reflect the probable outcome of known tax contingencies. However, unfavorable settlement of any particular issue may reduce a deferred tax asset or require the use of cash, which may have a material adverse impact to our financial statements. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future. See Note 9 of Part II, Item 8. Financial

Statements and Supplementary Data for additional information.

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.

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In addition to an annual review, we assess the impairment of goodwill and/or other intangible assets whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, a significant decline in our stock price, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. If these factors occur, we may have a triggering event, which could result in an impairment of our goodwill and/or other intangible assets. If economic conditions worsen causing deterioration in our operating revenues, operating margins and cash flows, we may have a triggering event that could result in an impairment of our goodwill and/or other intangible assets. Our cemetery segment, which has a goodwill balance of $321.2 million as of December 31, 2013, is more sensitive to market conditions and goodwill impairments because it is more reliant on preneed sales, which are impacted by customer discretionary spending. For additional information, see Critical Accounting Policies in Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

In the ordinary course of our business, we receive certain personal information, in both physical and electronic formats, about our customers, their loved ones, our associates, and our vendors. In addition, our on-line operations at our websites depend upon the secure transmission of confidential information over public networks, including information permitting electronic payments. We maintain substantial security measures to protect, and to prevent unauthorized access to, such information. Nevertheless, it is possible that computer hackers and others (through cyberattacks, which are rapidly evolving and becoming increasingly sophisticated, or by other means) might defeat our security measures in the future and obtain the personal information of customers, their loved ones, our associates, and our vendors that we hold. Further, our associates, contractors, or third parties with whom we do business may attempt to circumvent our security measures in order to misappropriate such information, and may purposefully or inadvertently cause a breach involving such information. A breach of our security measures could adversely affect our reputation with our customers and their loved ones, associates, and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of penalties. Moreover, a security breach could require that we expend significant additional resources to upgrade further the security measures that we employ to guard such important personal information against cyberattacks and other attempts to access such information and could result in a disruption of our operations.

We may fail to realize the anticipated benefits of the acquisition of Stewart.

The success of the acquisition of Stewart will depend, in part, on our ability to realize the anticipated cost savings from reduced back-office and infrastructure expenses, elimination of duplicative public company and management structure costs, and improved purchasing power through greater scale. However, to realize the anticipated benefits from the acquisition, we must successfully combine the businesses of SCI and Stewart in a manner that permits those costs savings to be realized. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer or cost more to realize than expected. It is possible that the integration process could result in the loss of valuable employees, the disruption of each company's ongoing businesses, or inconsistencies in standards, controls, procedures, practices, and policies that could adversely impact our operations.

The acquisition of Stewart may result in unexpected consequences to our business and results of operations.

Although Stewart's businesses are generally subject to risks similar to those to which we are subject to in our existing operations, we may not have discovered all risks applicable to Stewart's businesses during the due diligence process. Some of these risks could produce unexpected and unwanted consequences for us. Undiscovered risks may result in us incurring financial liabilities, which could be material and have a negative impact on our business operations.

Our level of indebtedness following the completion of the acquisition of Stewart 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 prevent us from fulfilling our obligations under our indebtedness.

We have a significant amount of indebtedness which was increased substantially to complete the acquisition of Stewart Enterprises. Our substantial indebtedness could have important consequences, including the following:

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

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- a portion of our cash flows from operations will be dedicated to the payment of principal and interest on our indebtedness, including indebtedness we may incur in the future, and will not be available for other purposes, including to finance our working capital, capital expenditures, acquisitions, and general corporate or other purposes;
- it could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate and place us at a competitive disadvantage compared to our competitors that have less debt;
- it could make us more vulnerable to downturns in general economic or industry conditions or in our business, or prevent us from carrying out activities that are important to our growth;
- it could increase our interest expense if interest rates in general increase because a portion of our indebtedness, including all of our indebtedness under our senior credit facilities, bears interest at floating rates; and
- it could make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including any financial and other restrictive covenants, could result in an event of default under the agreements governing our other indebtedness which, if not cured or waived, could result in the acceleration of our indebtedness.

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

Item 3. Legal Proceedings.

Information regarding legal proceedings is set forth in Note 12 of Part II, Item 8. Financial Statements and Supplementary Data.

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EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth as of February 14, 2014, the name and age of each executive officer of the Company, the office held, and the year first elected an officer.

Officer Name	Age	Position	Year First Became Officer
R. L. Waltrip	83	Chairman of the Board	1962
Thomas L. Ryan	48	President and Chief Executive Officer	1999
Michael R. Webb	55	Executive Vice President and Chief Operating Officer	1998
Eric D. Tanzberger	45	Senior Vice President Chief Financial Officer and Treasurer	2000
Stephen M. Mack	62	Senior Vice President Operations	1998
Elisabeth G. Nash	52	Senior Vice President Operations Services	2004
Gregory T. Sangalis	58	Senior Vice President General Counsel and Secretary	2007
Philip C. Jacobs	59	Senior Vice President and Chief Marketing Officer	2007
Kenneth G. Myers, Jr.	56	Senior Vice President Operations	2014
Steven A. Tidwell	52	Senior Vice President Sales and Merchandising	2010
Sumner J. Waring, III	45	Senior Vice President Operations	2002
John H. Faulk	38	Vice President Business Development	2010
Joseph A. Hayes	57	Vice President Ethics and Business Conduct and Assistant General Counsel	2007
Gerry D. Heard	49	Vice President Sales	2012
Albert R. Lohse	53	Vice President Litigation and Risk Management	2004
John Del Mixon, II	50	Vice President Information Technology	2010
Tammy R. Moore	46	Vice President and Corporate Controller	2010

Mr. Waltrip is the founder and Chairman of the Board of SCI. He has provided invaluable leadership to the Company for over 50 years. A licensed funeral director, Mr. Waltrip grew up in his family’s funeral business and assumed management of the firm in the 1950s. He began buying additional funeral homes in the 1960’s and achieved significant cost efficiencies through the “cluster” strategy of sharing pooled resources among numerous locations. Mr. Waltrip took the Company public in 1969. At the end of 2013, the network he began had grown to include more than 2,100 funeral service locations and cemeteries. Mr. Waltrip holds a Bachelor’s degree in business administration from the University of Houston.

Mr. Ryan was elected Chief Executive Officer of the Company in February 2005 and has served as President of SCI since July 2002. From 2002 to 2005, Mr. Ryan was Chief Operating Officer of SCI, and from 2000 to 2002 he was Chief Executive Officer of SCI European operations. From the time Mr. Ryan joined the Company in 1996, he served in a variety of financial management roles. In July 2002, Mr. Ryan returned to the United States where he was appointed President and Chief Operating Officer of SCI. Before joining SCI, Mr. Ryan was a Certified Public Accountant with Coopers & Lybrand LLP for eight years. He holds a Bachelor’s degree in Business Administration from the University of Texas at Austin. Mr. Ryan serves as Chairman of the Board of Trustees of the United Way of Greater Houston. Mr. Ryan also serves on the Board of Directors of the Greater Houston Partnership, Greater Houston Community Foundation Governing Board, and the University of Texas McCombs Business School Advisory Council. Other Directorships include Texas Industries, Inc., Weingarten Realty Investors, and Chesapeake Energy Corporation.

Mr. Webb was elected Chief Operating Officer of Service Corporation International in February 2005 and has served as Executive Vice President of SCI since July 2002. He joined the Company in 1991 when it acquired Arlington Corporation, a regional funeral and cemetery consolidator, where he was then Chief Financial Officer. Prior to joining Arlington Corporation, Mr. Webb held various executive financial and development roles at Days Inns of America and Telemundo Group, Inc. In 1993, Mr. Webb joined our corporate development group, which he later led on a global basis before accepting operational responsibility for our Australian and Hispanic businesses. He is a graduate of the University of Georgia, where he earned a Bachelor of Business Administration degree.

Mr. Tanzberger was appointed Senior Vice President and Chief Financial Officer in June 2006, and was named Treasurer in July 2007. He joined the Company in August 1996 and held various financial management positions prior to being promoted to Corporate Controller in August 2002. Prior to joining the Company, Mr. Tanzberger was Assistant Corporate Controller at Kirby Marine Transportation Corporation, an inland waterway barge and tanker company, from January through August 1996. Prior thereto, he was a Certified Public Accountant with Coopers & Lybrand L.L.P. for more than five years. Mr. Tanzberger holds a

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Bachelor in Business Administration from the University of Notre Dame. He serves on the Board of Directors of New Orleans Medical Mission Services.

Mr. Mack joined the Company in 1973 as a resident director after graduating from Farmingdale State University of New York. He became Vice President of the Eastern Region in 1986, and in February 1998 Mr. Mack was appointed Vice President North American Funeral Operations. Mr. Mack was promoted to Senior Vice President Eastern Operations in August 2002, Senior Vice President Middle Market Operations in May 2004, and assumed the office of Senior Vice President Operations, his current position, in February 2014.

Ms. Nash joined SCI in 2002 as Managing Director of Strategic Planning and Process Improvement. Prior to joining SCI, Ms. Nash worked for the Pennzoil Corporation and held various senior management accounting and financial positions. In 2004, Ms. Nash was promoted to Vice President Process & Technology. In 2010, Ms. Nash was named Senior Vice President Operations Services. She is a graduate of Texas A&M University, where she received a Bachelor of Business Administration degree in Accounting.

Mr. Sangalis joined the Company in 2007 as Senior Vice President General Counsel and Secretary. In 2012, his responsibilities were expanded to include the human resources department. Mr. Sangalis previously served as Senior Vice President, Law and Administration for Team Inc., a leading provider of specialty industrial maintenance and construction services. Prior to that, Mr. Sangalis served as Managing Director and General Counsel of Main Street Equity Ventures II, a private equity investment firm, and as Senior Vice President General Counsel and Secretary for Waste Management, Inc., the leading provider of waste management services in North America. Mr. Sangalis holds a Bachelor’s degree in Finance from Indiana University and a Master of Business Administration from the University of Minnesota. He earned his Juris Doctorate from the University of Minnesota Law School where he graduated Cum Laude.

Mr. Jacobs joined SCI in 2007 as Senior Vice President and Chief Marketing Officer. Prior to joining the Company, Mr. Jacobs was employed by CompUSA as Chief Marketing Officer. Prior to that, he was employed by Publicis Worldwide as Chief Marketing Officer and prior to that held other management roles over the past 23 years at several of the nation’s top advertising agencies, as well as client-side positions. Mr. Jacobs holds a Bachelor of Science degree from the University of Tennessee and a Masters degree from Vanderbilt University.

Mr. Myers joined the Company in December 2013 when it acquired Stewart Enterprises, Inc., and he was appointed Senior Vice President Operations of the Company in February 2014. Prior to joining the Company, Mr. Myers served Stewart Enterprises in a variety of senior executive positions from February 2006 through December 2013, most recently as Executive Vice President of Operations and Sales. Prior to that he was the Chief Executive Officer, President and Director of Conrad Industries, a publicly-traded company engaged in the construction and repair of government and commercial marine vessels and as Vice President of Avondale Industries, Inc., a publicly-traded company engaged in the design, construction, system integration, and repair of large, complex ships for commercial and government customers, which was subsequently acquired by Northrop Grumman Corporation. Mr. Myers holds a Bachelor's degree in Accounting from Nicholls State University.

Mr. Tidwell joined SCI as Vice President Main Street Market Operations in March 2010 and was promoted to Senior Vice President Sales and Marketing in August 2012. As a co-founder of Keystone North America, Inc., Mr. Tidwell served as its President and Chief Executive Officer from May of 2007 until it was acquired by SCI in March 2010. In his role, Mr. Tidwell worked closely with Keystone’s Senior Leadership Team to develop and implement organic growth strategies, as well as external growth and acquisition strategies. He began his career as a licensed Funeral Director and Embalmer in Nashville, Tennessee and has been actively involved in the funeral home and cemetery profession for three decades. He holds an Associate of Arts degree from John A. Gupton College and has attended executive management and leadership programs at the Harvard Business School, the Owen School of Business at Vanderbilt University, and the Center for Creative Leadership.

Mr. Waring, a licensed funeral director, joined the Company as an Area Vice President in 1996 when we merged with his family’s funeral business. Mr. Waring was appointed Regional President of the Northeast Region in 1999 and was promoted to Regional President of the Pacific Region in September 2001. Mr. Waring was promoted to Vice President Western Operations in August 2002 and assumed the office of Vice President Major Market Operations in November

2003. In February 2006, Mr. Waring was promoted to Senior Vice President Major Market Operations. In July 2008, Mr. Waring's responsibilities were expanded to include business development. Mr. Waring holds a Bachelor of Science degree in Business Administration from Stetson University, a degree in Mortuary Science from Mt. Ida College and a Master of Business Administration degree from the University of Massachusetts Dartmouth.

Mr. Faulk joined SCI in March 2010 as Vice President Business Development, to oversee the Company's strategic growth, including mergers and acquisitions, real estate, and construction. Prior to joining the Company, Mr. Faulk worked for Bain & Company, Inc. since 2002. At Bain, he helped Fortune 500 Companies and specialty retailers identify profit growth opportunities and achieve strong operating results. He holds a Master's degree in Business Administration from the Darden Graduate School of Business at the University of Virginia and a Bachelor's degree in Electrical Engineering from the University of Virginia.

Mr. Hayes was appointed Vice President Ethics and Business Conduct and Assistant General Counsel in November 2007. Mr. Hayes joined the Company in 1991 as corporate counsel. He was named Managing Counsel in 1996 and Assistant General Counsel in 2005. Prior to joining SCI, Mr. Hayes practiced law in Chicago and San Diego, specializing in securities, mergers and acquisitions, and commercial transactions. He received a Bachelor's degree in Commerce from DePaul University and earned his Juris Doctorate from the University of California at Berkeley.

Mr. Heard was appointed Vice President Sales in August 2012. He began his career as a high school intern at a Company funeral home, where he continued to work while attending the University of Houston. In 1986, he joined the sales force as a Family Service Counselor and was promoted to the role of Sales Manager in 1989. Throughout his years with SCI, Mr. Heard was appointed to numerous leadership roles, including: Area Sales Director; Senior Managing Director of Sales, Houston and Gulf Regions; Managing Director of Sales for Middle Markets; Managing Director of North American Sales; and Senior Managing Director, Major Market Sales.

Mr. Lohse joined SCI in 2000 as Managing Director of Litigation and has since been involved in the resolution of major litigation issues for the Company. Mr. Lohse was promoted to Vice President Corporate Governance in 2004 and to Vice President Litigation and Risk Management in 2007. Before joining the Company, Mr. Lohse was Managing Partner at McDade, Fogler, Maines & Lohse, where he conducted a general civil trial practice. Prior to that, he practiced tort and commercial litigation at Fulbright & Jaworski. Mr. Lohse received a Bachelor of Business Administration degree from the University of Texas and a Juris Doctorate from the University of Houston Law Center.

Mr. Mixon joined SCI in 1995 as a Project Manager in the Information Technology Department. He later served as Directeur Informatique for OGF, a former subsidiary company based in Paris, France. Most recently, he has led the Information Technology Department and the Outsourcing Management Office as Managing Director. Prior to SCI, Mr. Mixon worked for Andersen Consulting (now Accenture PLC) and served on active duty in the United States Army achieving the rank of Captain. He holds a Bachelor of Science degree in Commerce from Washington and Lee University and a Master of Science degree in Systems Management from the University of Southern California.

Mrs. Moore joined the Company in August 2002 as Manager of Financial Reporting. She was promoted to Director of Financial Reporting in 2004 and Managing Director and Assistant Controller in June 2006. In February 2010, she was promoted to Vice President and Corporate Controller and oversees all onshore and offshore general accounting, internal and external reporting, trust administration, customer service, and financial planning and analysis. Prior to joining the Company, Mrs. Moore was a Certified Public Accountant with PricewaterhouseCoopers LLP for more than three years. She holds a Bachelor of Business Administration degree in Accounting from the University of Texas at San Antonio.

Each officer of the Company is elected by the Board of Directors and holds their office until a successor is elected and qualified or until earlier death, resignation, or removal in the manner prescribed in the Bylaws of the Company. Each officer of a subsidiary of the Company is elected by the subsidiary's board of directors and holds their office until a successor is elected and qualified or until earlier death, resignation, or removal in the manner prescribed in the Bylaws of the Subsidiary.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Our common stock has been traded on the New York Stock Exchange since May 14, 1974. On December 31, 2013, there were 5,287 holders of record of our common stock. In calculating the number of stockholders, we consider clearing agencies and security position listings as one stockholder for each agency or listing. At December 31, 2013, we had 212,316,642 shares outstanding, net of 10,000 treasury shares.

In 2013, four dividends totaling $57.2 million were paid. During 2012, we paid five quarterly cash dividends totaling $60.3 million. While we intend to pay regular quarterly cash dividends for the foreseeable future, all subsequent dividends are subject to final determination by our Board of Directors each quarter after its review of our financial performance.

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

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	2013		2012	
	High	Low	High	Low
First quarter	$16.73	$14.17	$11.42	$10.55
Second quarter	$18.44	$15.50	$12.37	$10.59
Third quarter	$19.23	$17.91	$13.99	$12.33
Fourth quarter	$19.24	$17.17	$14.54	$13.38

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

Stock Performance Graph. This graph assumes the total return on $100 invested on December 31, 2008, in SCI Common Stock, the S&P 500 Index, and a peer group selected by the Company (the "Peer Group"). The Peer Group is comprised of Carriage Services, Inc., Hillenbrand Inc., and Matthews International Corp. Rock of Ages Corporation was included in the Peer Group until January 19, 2011 when it was acquired by Swenson Granite, LLC. Stewart Enterprises, Inc. was included in the Peer Group until December 23, 2013 when it was acquired by us. Total return data assumes reinvestment of dividends.

TOTAL STOCKHOLDER RETURNS
INDEXED RETURNS
Years Ending

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

On December 31, 2013, we issued 1,111 deferred common stock equivalents or units pursuant to provisions regarding the receipt of dividends under the Amended and Restated Director Fee Plan to four non-employee directors. These issuances were unregistered as they did not constitute a "sale" within the meaning of Section 2(3) of the Securities Act of 1933, as amended.

Since August 2004, we have repurchased a total of $1.5 billion of common stock at an average cost per share of $9.65. During the fiscal year ended December 31, 2013, there were no shares repurchased under our stock repurchase program. In November 2012, our Board of Directors approved an increase in our share repurchase program authorizing the investment of up to an additional $155 million to repurchase our common stock, bringing total authorization up to $200 million. The remaining dollar value of shares to be purchased under the share repurchase program was $190.1 million at December 31, 2013. As discussed in Item 1A, our credit agreement contains covenants that restrict our ability to repurchase our common stock.

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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
December 1, 2013 — December 31, 2013 [1]	157,577	$18.06	—	190,132,279

(1) The 157,577 shares purchased in December 2013 that were not part of the publicly announced programs represent shares acquired through the exercise of stock options by attestation, which do not affect our share repurchase program.

Item 6. Selected Financial Data.

The data set forth below should be read in conjunction with our consolidated financial statements and accompanying notes to these consolidated financial statements. This historical information is not necessarily indicative of future results. The table below contains selected consolidated financial data as of and for the years ended December 31, 2009 through December 31, 2013.

Selected Consolidated Financial Information

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in millions, except per share amounts)				
Selected Consolidated Statements of Operations Data:					
Revenues	$2,556.4	$2,410.5	$2,316.0	$2,190.6	$2,053.5
Net income	$149.1	$154.1	$146.2	$127.0	$123.1
Net income attributable to noncontrolling interests	$(5.3)	$(1.6)	$(1.3)	$(0.6)	$—
Net income attributable to common stockholders	$143.8	$152.5	$144.9	$126.4	$123.1
Earnings per share:					
Income from continuing operations attributable to common stockholders					
Basic	$.70	$.71	$.62	$.51	$.49
Diluted	$.69	$.70	$.62	$.50	$.49
Net income attributable to common stockholders					
Basic	$.68	$.71	$.62	$.51	$.49
Diluted	$.67	$.70	$.61	$.50	$.49
Cash dividends declared per share	$.27	$.23	$.20	$.16	$.16
Selected Consolidated Balance Sheet Data (at December 31):					
Total assets	$12,906.1	$9,683.6	$9,327.8	$9,190.5	$8,890.9
Long-term debt (less current maturities), including capital leases	$3,155.5	$1,916.6	$1,861.1	$1,832.4	$1,840.5
Equity	$1,424.4	$1,362.8	$1,412.2	$1,479.9	$1,482.8
Selected Consolidated Statement of Cash Flows Data:					
Net cash provided by operating activities	$384.7	$369.2	$388.1	$354.4	$372.1

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

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The Company

We are North America's largest provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At December 31, 2013, we operated 1,644 funeral service locations and 514 cemeteries (including 283 combination locations) in North America, which are geographically diversified across 43 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral segment also includes the operations of 12 funeral homes in Germany that we intend to exit when economic values and conditions are conducive to a sale. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and related businesses. We sell cemetery property and funeral and cemetery products and services at the time of need and on a preneed basis.

Our financial position is enhanced by our $8.9 billion backlog of future revenues from both trust and insurance-funded sales at December 31, 2013, which is the result of preneed funeral and cemetery sales. Preneed arrangements provide us with a current opportunity to secure future market share while deterring the customer from going to a competitor in the future. We believe it adds to the stability and predictability of our revenue and cash flows. While revenue on the majority of preneed funeral sales is deferred until the time of need, sales of preneed cemetery property provides opportunities for full current revenue recognition (to the extent we collect 10% from the customer and the property is developed).

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

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, merchandise costs, and other expense categories; and exercising pricing leverage related to our at-need revenues. 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 are developing memorialization products and services that specifically appeal to cremation customers. We believe that these additional products and services will help drive increases in the average revenue for a cremation in future periods.

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

Financial Condition, Liquidity and Capital Resources

Capital Allocation Considerations

We rely on cash flow from operations as a significant source of liquidity. Our cash flow from operating activities provided $384.7 million in 2013. In addition, as of December 31, 2013, we have $418.9 million in excess borrowing capacity under our bank credit facility. As of December 31, 2013, we have $146.4 million in current maturities of long-term debt, which primarily consists of 3.125% Senior Convertible Notes due July 2014, including related unamortized premiums, that we assumed as part of the acquisition of Stewart Enterprises, Inc. (Stewart). As of February 10, 2014, we have funded from our revolver an additional $110.0 million to partially fund $167.0 million in debt extinguishments of principal and premiums for our 3.125% Senior Convertible Notes due 2014 and our 3.375% Senior Convertible Notes due 2016 in the amounts of $107.9 million and $59.1 million, respectively. Due to these subsequent transactions, our borrowing capacity under our bank credit facility is $308.9 million at February 10, 2014. We did not incur any gains or losses as a result of these transactions.

Our bank credit facility requires us to maintain certain leverage and interest coverage ratios. As of December 31, 2013, we were in compliance with all of our debt covenants. Our financial covenant requirements and actual ratios as of December 31, 2013 are as follows:

	Per Credit Agreement	Actual
Leverage ratio	5.00 (Max)	4.05
Interest coverage ratio	3.00 (Min)	6.21

We believe the sources of liquidity can be supplemented by our ability to access the capital markets for additional debt or equity securities. We believe that our $144.9 million of cash on hand, future operating cash flows, and the available capacity under our credit facility will give us adequate liquidity to meet our short-term needs as well as our long-term financial obligations. In July 2013, as part of establishing financing for the acquisition of Stewart Enterprises, Inc (Stewart), we issued $425 million in 5.375% Senior Notes due January 2022 and entered into a new $1.1 billion credit agreement due July 2018 with a syndicate of banks. The net proceeds of the $425 million 5.375% Senior Notes due January 2022 were held in escrow and released on December 23, 2013 in connection with the close of the Stewart acquisition. The credit agreement consists of a $500 million bank

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credit facility and a term loan of up to $600 million. The term loan was fully drawn and used to fund the Stewart acquisition. We used $30.0 million of cash advances against the bank credit facility to help partially fund the Stewart acquisition in December, however the bank credit facility will primarily exist to provide the company with flexibility for general corporate purposes and to give us access to capital markets to refinance our long-term debt if, and when, we choose to do so.

It is our intention to 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:

Reinvest in the core business. We expect to continue to focus on funding growth initiatives that generate increased profitability, revenue, and cash flows. Our primary internal growth initiative is to increase our funeral and cemetery preneed backlog to grow the Company over the long-term. We will also invest in the construction of funeral home facilities and in the construction of cemetery property to promote future cemetery sales growth. Lastly, from time to time we may have other smaller capital projects, primarily related to the improvement of processes and systems.

Invest in acquisitions. We intend to make acquisitions of funeral homes and cemeteries when pricing and terms are favorable. We expect an acquisition investment to earn an after-tax cash return that is in excess of our weighted average cost of capital with room for execution risk. We target businesses with favorable consumer segments and/or where we can achieve additional economies of scale.

On December 23, 2013, we acquired all of the outstanding shares of Stewart, the second largest operator of funeral homes and cemeteries in North America. This transaction provides us with an opportunity for growth consistent with our capital deployment strategy and will allow us the ability to serve a number of new, complementary areas, while enabling us to capitalize on what we believe will produce significant synergies and operating efficiencies.

Repurchase shares. Absent a strategic acquisition opportunity, we believe share repurchases are attractive at the appropriate price. Currently, we have approximately $190.1 million authorized under our share repurchase program. 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 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.

Pay a dividend. Beginning in November 2007, we began to pay quarterly dividends of $0.04 per common share. The quarterly dividend has steadily increased over the past few years with the latest increase to $0.07 per common share approved by the Board of Directors on May 8, 2013. We intend to continue to grow our cash dividend commensurate with the growth of our free cash flow. 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 debt. We will seek to make open market debt repurchases when it is opportunistic to do so relative to other capital deployment opportunities in order to manage our near-term debt maturity profile.

The Company has a relatively consistent annual cash flow stream which is generally resistant to down economic cycles. This cash flow stream is available to substantially reduce our long-term debt maturities should we choose to do so. Furthermore, the Company's capital expenditures are generally discretionary in nature and can be managed based on the availability of operating cash flow.

Cash Flow

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

Operating Activities

Net cash provided by operating activities increased $15.5 million to $384.7 million in 2013 from $369.2 million in 2012. This increase was driven by:

- a $132.9 million increase in cash receipts from customers primarily due to preneed cash receipts from higher preneed sales;
- a $47.4 million increase in net trust fund withdrawals; and
-

a $9.3 million increase in General Agency (GA) receipts due to an increase in preneed insurance production; partially offset by

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- an $85.3 million increase in vendor payments;
- a $47.7 million increase in payroll; and
- a $40.8 million increase in acquisition costs primarily related to the Stewart acquisition.

Net cash provided by operating activities decreased $18.9 million to $369.2 million in 2012 from $388.1 million in 2011. This decrease was driven by:

- a $35.7 million increase in vendor payments resulting primarily from improved visibility into company expenditures as a result of our newly installed purchase order system;
- a $21.6 million increase in payroll;
- a $13.3 million decrease in net trust fund withdrawals; and
- a $17.0 million increase in cash tax payments; partially offset by
- a $58.9 million increase in cash receipts from customers resulting from increased revenues primarily from acquisitions and improved collection rates at existing locations; and
- an $8.8 million increase in General Agency (GA) receipts due in part to acquisitions.

Investing Activities

Cash flows from investing activities used $1,156.8 million in 2013 compared to using $175.0 million in 2012. This increase was primarily attributable to a $991.7 million increase in cash spent for acquisitions, net of cash acquired (primarily the Stewart acquisition in 2013).

Cash flows from investing activities used $175.0 million in 2012 compared to using $190.3 million in 2011. This decrease was primarily attributable to:

- a $34.1 million decrease in cash spent for acquisitions (primarily the Neptune acquisition in 2011); and
- a $2.7 million decrease in capital expenditures; partially offset by
- a $7.0 million decrease in withdrawals of restricted funds; and
- a $14.6 million decrease in cash receipts from divestitures.

Financing Activities

Financing activities provided $825.1 million in 2013 compared to using $231.5 million in 2012. This increase was primarily driven by:

- a $795.9 million increase in proceeds from the issuance of long-term debt (net of debt issuance costs);
- a $185.1 million decrease in repurchases of Company common stock;
- a $111.4 million decrease in debt payments; and
- a $3.1 million decrease in dividend payments; partially offset by
- a $20.3 million increase in purchases of non-controlling interests;
- a $12.1 million decrease in proceeds from exercise of stock options; and
- a $5.9 million decrease in bank overdrafts and other.

Financing activities used $231.5 million in 2012 compared to using $238.7 million in 2011. This decrease was primarily driven by:

- a $138.0 million increase in proceeds from the issuance of long-term debt (net of debt issuance costs);
- a $10.5 million decrease in repurchases of Company common stock;
- a $10.2 million increase in proceeds from exercise of stock options; and
- a $7.0 million increase in bank overdrafts and other; partially offset by

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- $137.3 million increase in debt payments;
- $15.5 million increase in dividend payments;
- $3.0 million increase in purchases of non-controlling interest; and
- $2.7 million increase in capital lease payments.

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

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

The following table details our known future cash payments (on an undiscounted basis) related to various contractual obligations as of December 31, 2013.

	Payments Due by Period				
Contractual Obligations	2014	2015-2016	2017-2018	Thereafter	Total
		(Dollars in millions)			
Debt maturities[1]	$123.7	$441.1	$		