Service Corporation International

Key Takeaways

- The CtW Investment Group (CtW) is conducting a Vote No campaign, focused on the say-on-pay proposal. Concerns raised by CTW include the company's continuing provision of substantial pay to Executive Chairman Waltrip; numerous adjustments made to incentive plan metrics; and the fact that the company apparently does not engage with shareholders, despite receiving above average opposition to prior say-on-pay proposals.
- The board is less than two-thirds majority independent.
- Anthony L. Coelho and Edward E. Williams are non-independent members of a key board committee.
- R. L. Waltrip serves as a non-independent board chair.
- The company has retained the same audit firm in excess of seven years.
- A stock retention requirement would benefit shareholders by enhancing executives' long-term focus and alignment with shareholders' interests.

Meeting Type: Annual
Meeting Date: 13 May 2015
Record Date: 16 March 2015
Meeting ID: 961216

New York Stock Exchange: SCI
Index: S&P 400
Sector: Specialized Consumer Services
GICS: 25302020

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Agenda & Recommendations

Policy: Taft-Hartley

Incorporated: Texas, USA

Item	Code	Proposal	Board Rec.	T-H Rec.
MANAGEMENT PROPOSALS				
1.1	M0201	Elect Director Ellen Ochoa	FOR	FOR
1.2	M0201	Elect Director R. L. Waltrip	FOR	WITHHOLD
1.3	M0201	Elect Director Anthony L. Coelho	FOR	WITHHOLD
1.4	M0201	Elect Director Marcus A. Watts	FOR	FOR
1.5	M0201	Elect Director Edward E. Williams	FOR	WITHHOLD
2	M0101	Ratify PricewaterhouseCoopers LLP as Auditors	FOR	AGAINST
▶3	M0550	Advisory Vote to Ratify Named Executive Officers' Compensation	FOR	AGAINST
4	M0215	Declassify the Board of Directors	FOR	FOR
SHAREHOLDER PROPOSALS				
5	S0500	Stock Retention	AGAINST	FOR

Shading indicates that Taft-Hartley Advisory Services recommendation differs from Board recommendation
▶ Items deserving attention due to contentious issues or controversy

Report Contents

Material Company Updates

Item	Summary
Notable Shareholder Support	At the last annual meeting, the shareholder proposal to declassify the board received the support of 80.3 percent of the votes cast (votes FOR and AGAINST the proposal). The company has responded by putting to a shareholder vote a proposal to declassify the board (see Item 4).
"Vote No" Campaign	On April 21, 2015, CtW Investment Group filed a Notice of Exempt Solicitation with the U.S. Securities and Exchange Commission, urging SCI shareholders to vote against the "say-on-pay" proposal on the ballot at this annual meeting, in light of what it called "a bloated pay structure," weak pay oversight, and performance metrics that exclude the impact of legal costs from claims and litigation related to its core business. For further details, see below and analysis of Item 3.

Vote No Campaign

As noted in the Material Updates section, the CtW Investment Group sent a letter to SCI shareholders, which was disclosed in an exempt solicitation filing on April 21, 2015, urging them to vote against the advisory vote on executive compensation at this year's annual meeting. CtW, which works with pension funds sponsored by affiliates of the Change to Win federation of labor unions, cites "a litany of pay issues" underlying its campaign, and highlights three areas of concern:

- A "*bloated pay structure*," evidenced by CEO Thomas Ryan and COO Michael Webb being "handsomely paid" to lead the company, in addition to former CEO R. L. Waltrip receiving over $5 million a year as Executive Chairman, a position he has held for a decade, resulting in more than $50 million in total compensation based on SCI proxy statements, according to CtW.

  CtW's letter notes that Waltrip resigned as CEO a decade ago, although his pay has continued at a level similar to when he served as CEO (and on a par with the median CEO pay in a peer group provided by an outside compensation analytics firm), even as Ryan and Webb have served as CEO and COO since Waltrip stepped down. CtW also highlights that Waltrip receives more than 150 percent of the average pay of "other 'permanent' non-CEO Executive Chairs at companies in the broad industry "Reference Group" that the company uses to benchmark pay (though this analysis include pay for Executive Chairs who never served as CEO); additionally, it exceeds the median pay package of individuals who transitioned from chair/CEO to Executive Chair at S&P 500 companies in the last five years, according to an Equilar report, CtW says.

- *Weak pay oversight*, demonstrated by lack of responsiveness to shareholders' say-on-pay opposition of 22% in 2014 and 18% in 2013. CtW points to the average board tenure in excess of 17 years for compensation committee members as bearing "hallmarks of entrenchment."

  CtW notes that the average tenure of independent directors on the SCI board, which includes Waltrip's son, is 16 years. Compensation to the company's outside directors -- $300,000 in 2014 – puts the Russell 3000 company's board pay at about the 75th percentile of Fortune 500 firms, according to a Towers Watson article cited by CtW. The investment group also references a PWC survey showing that a majority of investors surveyed believe that a board "should consider" modifying executive pay structures if its say-on-pay proposal receives opposition between 21 and 30 percent; although the company was within that range in 2014, the compensation committee states in this year's proxy that the vote results "did not impact" its pay decisions for 2015.

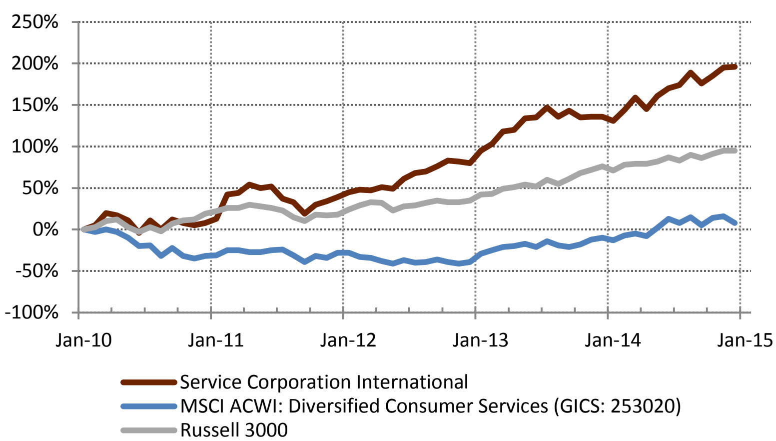
- *Undermined performance metrics*, as the company, which faces material risks from claims and litigation over its burial practices, routinely adjusts the annual bonus plan to exclude most legal costs, which removes a potentially key cost of doing business and distorts the incentive to drive sustainable profitability. Long-term performance units pay out against the relative performance of "a motley array of 'peer' companies (including banks, oil and gas, industrials, restaurants) that omits any of SCI's publicly-traded competitors."

  CtW points out that the many adjustments the company makes to annual results for its incentive plan metrics include exclusion of litigation or settlements in excess of $5 million for one class of legal cases. Such an approach seems "unwise" for a company that faces continuing challenges related to its burial practices, including a lawsuit that was settled for $35 million last year. Noting that the company lists these types of claims as a having a potential "material adverse impact" on its financial position in its 10-K, CtW believes that excluding the costs can potentially distort incentives "in the running of the company." In fact, CtW suggests that including an explicit measure, such as customer satisfaction or litigation, to the plan would be "eminently sensible." Finally, CtW raises concern about the peer group SCI uses to calculate relative TSR under its incentive program, which does not include any of its publicly traded direct competitors. Rather, this peer group includes a range of companies from the energy, financial, food services, industrial, IT, medical device, and REIT industries, among others, many of which had "very different exposures to current and future economic conditions." Given the significant payout opportunity linked to this metric, "it is vital to use a more appropriately constructed peer group," CtW believes.

Financial Highlights

Company Description: Service Corporation International, together with its subsidiaries, provides death-care products and services in the United States and Canada. The company operates through Funeral and Cemetery segments.

STOCK PRICE PERFORMANCE



TOTAL SHAREHOLDER RETURNS

	1 Yr	3 Yr	5 Yr
Company TSR (%)	27.24	31.00	24.87
GICS 2530 TSR (%)	12.72	21.47	17.07
Russell 3000 TSR (%)	12.56	20.51	15.63

Source: Compustat. As of last day of company FY end month: 12/31/2014

COMPANY SNAPSHOT

Market Cap (M)	4,650.5
Closing Price	22.70
Annual Dividend	0.34
52-Week High	25.92
52-Week Low	18.49
Shares Outstanding (M)	204.9
Average daily trading volume (prior mo)*	1,039.56

As of March 16, 2015 (All currency in USD)
* Trading Volume in thousands of shares

FINANCIAL & OPERATIONAL PERFORMANCE

	Historical Performance (FY ending)					Compared to Peers (Compustat FY*) – **2014**				
All currency in USD	**12/2010**	**12/2011**	**12/2012**	**12/2013**	**12/2014**	**WTW**	**RGS**	**HRB -FY13**	**GHC**	**DV**
Earnings						Weight Watchers International, Inc.	Regis Corporation	H&R Block, Inc.	Graham Holdings Company	DeVry Education Group Inc.
Revenue (M)	2,191	2,316	2,410	2,556	2,994	1,480	1,892	3,024	3,535	1,923
Net Income (M)	126	145	154	147	172	99	-136	475	1,294	134
EBITDA (M)	495	516	554	575	735	360	101	939	647	301
EPS (USD)	0.51	0.62	0.71	0.68	0.81	1.74	-2.43	1.82	139.44	2.35
EPS Y/Y Growth (%)	4	22	15	-4	19	-52	N/A	7	440	22
Profitability										
Net Margin (%)	10	10	10	10	13	11	-4	25	38	9
EBITDA Margin (%)	23	22	23	23	25	24	5	31	18	16
Return on Equity (%)	9	10	11	10	12	N/A	-19	32	29	10
Return on Assets (%)	1	2	2	1	1	7	-10	11	16	8
ROIC (%)	4	4	5	3	4	10	-16	24	26	10
Leverage										
Debt/Assets	20	20	20	26	26	156	21	19	8	0
Debt/Equity	126	137	147	234	225	-170	41	58	14	0
Cash Flows										
Operating (M)	354	388	369	385	319	232	117	810	372	266
Investing (M)	-280	-190	-175	-1,157	257	-69	-44	11	229	-84
Financing (M)	-88	-239	-232	825	-538	-29	104	-365	-389	-19
Net Change (M)	-9	-42	-36	52	36	127	178	438	204	161
Valuation & Performance										
Price/Earnings	16.20	17.20	19.50	26.70	28.00	14.30	N/A	15.60	6.20	18.00
Annual TSR (%)	2.68	31.51	32.56	33.27	27.24	-24.57	-13.60	5.37	32.15	37.70

Source: Compustat. *Note: Compustat standardizes financial data and fiscal year designations to allow for accurate comparison across companies and industries. Compustat data may differ from companies' disclosed financials. See www.issgovernance.com/policy-gateway/company-financials-faq/ for more information. Peers used in Financial Highlights represent closest industry peers drawn from those peers used in ISS' pay-for-performance analysis.

Corporate Governance Profile

BOARD & COMMITTEE SUMMARY

	Independence	Members	Meetings
Full Board	17%	12	4
Audit	0%	4	7
Compensation	25%	4	5
Nominating	20%	5	5

Chairman classification	Insider
Separate chair/CEO	Yes
Independent lead director	No
Voting standard	Majority
Plurality carveout for contested elections	No
Resignation policy	No
Total director ownership (000 shares)	9,097
Total director ownership (%)	3.0
Percentage of directors owning stock	91.7%
Number of directors attending < 75% of meetings	0
Number of directors on excessive number of outside boards	0
Average director age	67 years
Average director tenure	20 years
Percentage of women on board	8%

SHAREHOLDER RIGHTS SUMMARY

Controlled company	No
Classified board	Yes
Dual-class stock	No
Vote standard for mergers/acquisitions	66.67%
Vote standard for charter/bylaw amendment	80%
Shareholder right to call special meetings	Yes, 10%
Material restrictions on right to call special meetings	No
Shareholder right to act by written consent	Unanimous
Cumulative voting	No
Board authorized to issue blank-check preferred stock	Yes
Poison pill	No

Board Profile

Director Independence & Affiliations

EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gen-der	Age	Tenure	Term Ends	Outside		Key Committees			
			Company	T-H						Boards	CEO	Audit	Comp	Nom	Gov
✓	**R. L. Waltrip**	Chair	Non-Independent	Insider		M	84	53	2018	0					
	Thomas L. Ryan	CEO	Non-Independent	Insider		M	49	11	2017	2					

NON-EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gen-der	Age	Tenure	Term Ends	Outside		Key Committees			
			Company	T-H						Boards	CEO	Audit	Comp	Nom	Gov
✓	**Anthony L. Coelho**	Lead Director	Independent	Affiliated Outsider		M	72	24	2018	1			**M**	**C**	**C**
	Alan R. Buckwalter III		Independent	Affiliated Outsider		M	68	12	2016	1		**M**	**C**		
	S. Malcolm Gillis		Independent	Affiliated Outsider		M	74	11	2017	0		**M**			
	Victor L. Lund		Independent	Affiliated Outsider		M	67	15	2016	1		**C F**		**M**	**M**
	John W. Mecom Jr.		Independent	Affiliated Outsider		M	75	32	2016	0			**M**		
	Clifton H. Morris Jr.		Independent	Affiliated Outsider		M	79	25	2017	0		**M**		**M**	**M**
✓	**Ellen Ochoa**		Independent	Independent Outsider		F	56	0*	2016	0					
	W. Blair Waltrip	Relative of Employee or Former Employee	Non-Independent	Affiliated Outsider		M	60	29	2017	0					
✓	**Marcus A. Watts**		Independent	Independent Outsider		M	56	3	2018	0			**M**	**M**	**M**
✓	**Edward E. Williams**		Independent	Affiliated Outsider		M	69	24	2018	0				**M**	**M**

Shaded cells indicate that the company considers the director independent while Taft-Hartley Advisory Services has classified the director as affiliated. M = Member | C = Chair | F = Financial Expert
*Indicates director not previously submitted to shareholders for election.

Director Notes

	R. L. Waltrip	1) R. L. Waltrip is a founder of the company. 2) R. L. Waltrip is the father of W. Blair Waltrip, a non-employee director of the company. (Source: DEF14A, 4/1/15, pp. 7, 12, 14.)
▶	Anthony L. Coelho	Taft-Hartley Advisory Services considers directors who have served on the board continually for a period exceeding 10 years to be affiliated outsiders.
▶	Alan R. Buckwalter III	Katherine Buckwalter, daughter of Alan R. Buckwalter, III, and her husband, Bryan Bentley, are employees of the company. (Source: DEF14A, 4/1/15, p. 55.) Taft-Hartley Advisory Services considers directors who have served on the board continually for a period exceeding 10 years to be affiliated outsiders.
▶	S. Malcolm Gillis	Taft-Hartley Advisory Services considers directors who have served on the board continually for a period exceeding 10 years to be affiliated outsiders.
▶	Victor L. Lund	Taft-Hartley Advisory Services considers directors who have served on the board continually for a period exceeding 10 years to be affiliated outsiders.

▶	John W. Mecom Jr.	Taft-Hartley Advisory Services considers directors who have served on the board continually for a period exceeding 10 years to be affiliated outsiders.
▶	Clifton H. Morris Jr.	Clifton H. Morris, Jr. served as vice president for treasury and other financial positions for the company until 1971. (Source: DEF14A, 4/1/15, p. 11.) Taft-Hartley Advisory Services considers directors who have served on the board continually for a period exceeding 10 years to be affiliated outsiders.
	W. Blair Waltrip	1) The board has determined that W. Blair Waltrip is not independent under NYSE rules. 2) W. B. Waltrip is the son of R. L. Waltrip, executive chairman of the company. 3) W. B. Waltrip served in various executive positions with the company until 2000, including vice president of corporate development, senior vice president of funeral operations, chairman and CEO of Service Corporation International (Canada) Limited and executive vice president of the company. (Source: DEF14A, 4/1/15, pp. 7, 12, 14.)
▶	Edward E. Williams	Taft-Hartley Advisory Services considers directors who have served on the board continually for a period exceeding 10 years to be affiliated outsiders.

Director Employment, Compensation & Ownership

Name	Primary Employment	Outside Boards	Total Compensation*	Shares Held	60-day Options	Total	Voting Power (%)
R. L. Waltrip	Chairman - Service Corporation International		**	1,759,790	579,666	2,339,456	1.10
Thomas L. Ryan	CEO, President - Service Corporation International	Chesapeake Energy Corporation, Weingarten Realty Investors	**	1,252,145	2,863,698	4,115,843	1.90
Anthony L. Coelho	Consultant	Warren Resources, Inc.	359,372	57,086	0	57,086	<1
Alan R. Buckwalter III	Retired	Freeport-McMoRan Inc.	320,889	114,287	0	114,287	<1
S. Malcolm Gillis	Academic		290,650	77,117	0	77,117	<1
Victor L. Lund	Retired	Teradata Corporation	334,240	177,625	0	177,625	<1
John W. Mecom Jr.	Financial Services		308,542	96,000	0	96,000	<1
Clifton H. Morris Jr.	Financial Services		293,937	198,227	0	198,227	<1
Ellen Ochoa	Other		0	0	0	0	0.00
W. Blair Waltrip	Financial Services		281,150	1,701,379	0	1,701,379	<1
Marcus A. Watts	Other		290,150	46,600	0	46,600	<1
Edward E. Williams	Retired		310,798	173,292	0	173,292	<1

*Local market currency
**For executive director data, please refer to Executive Pay Overview.

Compensation Profile

EXECUTIVE PAY OVERVIEW

Executive	Title	Base Salary	Change in Pension, Deferred Comp, All Other Comp	Bonus & Non-equity Incentives	Restricted Stock	Option Grant	Total
T. Ryan	President and Chief Executive Officer	1,099	1,180	4,624	1,506	1,929	10,337
R. Waltrip	Chairman of the Board	952	332	2,760	637	814	5,496
M. Webb	Executive Vice President and Chief Operating Officer	684	717	2,406	677	865	5,350
E. Tanzberger	Senior Vice President and Chief Financial Officer	519	485	1,262	364	464	3,094
S. Waring, III	Senior Vice President Operations	489	439	1,161	313	401	2,804
Median CEO Pay	ISS Selected Peer Group	953	97	1,257	1,799	1,491	6,182
	Company Defined Peers	N/A	N/A	N/A	N/A	N/A	**N/A**

Source: ISS. Pay in $thousands. Total pay is sum of all reported pay elements, using ISS' Black-Scholes estimate for option grant-date values. Note: Median total pay will not equal sum of pay elements medians. Company Defined Peers are as disclosed. More information on ISS' peer group methodology at www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/.

OPTION VALUATION ASSUMPTIONS

For CEO's last FY Grant	Company	ISS
Volatility (%)*	27.10	25.18
Dividend Yield (%)*	1.80	1.98
Term (yrs)*	4.00	8.00
Risk-free Rate (%)*	1.10	2.19
Grant date fair value per option*	3.34	4.22
Grant Date Fair Value ($ in 000)**	1,529	1,929

*Source: Standard & Poor's Xpressfeed;**Source DEF14A (company value); ISS (ISS value); Difference between ISS and company grant date fair value 26.16%

CEO TALLY SHEET

CEO	T. Ryan
CEO tenure at FYE:	9.9 years
Present value of all accumulated pension:	$161,958
Value of CEO stock owned (excluding options):	$28,423,692
Potential Termination Payments	
Involuntary termination without cause:	$24,692,963
Termination after a change in control:	$29,421,257

Source: DEF14A

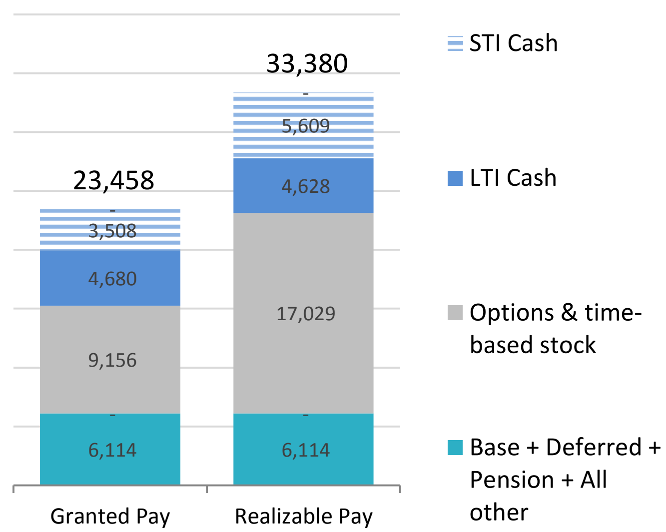
CEO PAY MULTIPLES

Compared to	Multiple
2nd highest active executive	1.88
Average active NEO	2.47
ISS peer median	1.67
Company peer median	N/A

Source: ISS

3-YEAR GRANTED VS. REALIZABLE CEO PAY

3 year TSR: 31.00%



Source: DEF14A and ISS ($ in thousands)

Granted pay equals the sum of, for all of the three prior fiscal years: (1) Salary, Change in Pension Value/Deferred Compensation and All Other Compensation as reported in the Summary Compensation Table (SCT), (2) paid Bonus, (3) target short-term cash incentives, (4) the target value of long-term cash incentives granted, and (5) the grant-date fair value of equity awards granted.

Realizable pay equals the sum of (1) and (2) above, (3) the sum of short-term cash incentives earned, (4) the earned (or target if not yet earned) value of any long-term cash awarded during the period, and (5) the fair value of all equity awarded (or earned, for performance shares where the performance period has ended) during the prior three fiscal years, all valued as of the most recent FY end date (end of the measurement period).

With the exception of exercised options, which are valued at intrinsic value at the date of exercise, all options are valued with the Black-Scholes model using assumptions as of the valuation date (grant date for grant pay, and most recent FY end date for realizable pay). More information at www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/

Dilution & Burn Rate

DILUTION

	Dilution (%)
Service Corporation International	8.97
Peer group median	9.82
Peer group weighted average	6.63
Peer group 75th percentile	14.49

Dilution is the sum of the total amount of shares available for grant and outstanding under options and other equity awards (vested and unvested) expressed as a percentage of total basic common shares outstanding as of the record date. The dilution figure typically excludes employee stock purchase plans (ESPPs) and 401(k) shares. The underlying information for the company is based on the company's equity compensation table in the most recent proxy statement or 10-K.

BURN RATE

	Non-Adjusted (%)	Adjusted (%)
1-year	1.35	1.69
3-year average	1.22	1.60

Burn rate equals the number of shares granted in each fiscal year, including stock options, restricted stock (units), actual performance shares delivered under the long-term incentive plan or earned deferred shares, to employees and directors divided by weighted average common shares outstanding. The adjusted burn rate places a premium on grants of full-value awards using a multiplier based on the company's annual volatility.

Vote Results

ANNUAL MEETING 14 MAY 2014

Proposal	Board Rec	T-H Rec	Disclosed Result	Support Including Abstains (%)[1]	Support Excluding Abstains (%)[2]
1.1 Elect Director Thomas L. Ryan	For	Withhold	Majority	96.5	96.5
1.2 Elect Director Malcolm Gillis	For	For	Majority	98.2	98.2
1.3 Elect Director Clifton H. Morris, Jr.	For	Withhold	Majority	95.1	95.1
1.4 Elect Director W. Blair Waltrip	For	Withhold	Majority	94.2	94.2
2 Ratify Auditors	For	Against	Pass	98.9	99.2
3 Advisory Vote to Ratify Named Executive Officers' Compensation	For	For	Pass	77.7	78.0
4 Declassify the Board of Directors	Against	For	Pass	80.0	80.3

Shaded results reflect a majority of votes cast FOR shareholder proposal or AGAINST management proposal or director election
[1]Support Including Abstains is defined as %FOR/(For + Against + Abstain), as expressed as a percentage.
[2]Support Excluding Abstains is defined as %FOR/(For + Against), as expressed as a percentage, provided if different from For + Against + Abstain.

Meeting Agenda & Proposals

Items 1.1-1.5. Elect Directors

SPLIT

VOTE RECOMMENDATION

WITHHOLD votes for non-independent nominees R. L. Waltrip, Anthony L. Coelho and Edward E. Williams are warranted for lack of a two-thirds majority independent board.

WITHHOLD votes for Anthony L. Coelho and Edward E. Williams are also warranted for serving as non-independent members of a key board committee.

WITHHOLD votes for R. L. Waltrip are also warranted as this nominee serves as a non-independent board chair.

A vote FOR the remaining director nominees is warranted.

BACKGROUND INFORMATION

Policies: Board Accountability | Board Responsiveness | Director Competence | Director Independence | Election of Directors | Taft-Hartley Advisory Services Categorization of Directors | Vote No campaigns

Vote Requirement: The company has a majority vote standard (of shares cast) for director elections, but does not have a carve-out provision for plurality voting in situations where there are more nominees than board seats (contested elections).

Discussion

BOARD AND COMMITTEE INDEPENDENCE

The board is not two-thirds majority independent as only 2 of 12 directors (17%) are independent. In these situations, Taft-Hartley Advisory Services opposes all non-independent nominees. A two-thirds majority of independent directors on a board is a direct way to assure that shareholder interests will be properly represented on a board.

Taft-Hartley Advisory Services prefers that all key board committees include only independent outsiders. Non-independent directors threaten to undermine the purpose of these committees in providing independent oversight and preventing conflicts of interest.

NON-INDEPENDENT CHAIR

R. L. Waltrip serves as a non-independent chair of the board.

Taft-Hartley Advisory Services prefers that the chair of the board be independent and opposes insider or affiliated outsider director nominees who hold this position. The board chair's role is to evaluate and review the performance of management from an independent perspective, and ensure that shareholder interests are being represented by the board and management without bias or conflict; this role is compromised when the board chair has a past or present affiliation with management.

REVISIONS & INEFFECTIVE INTERNAL CONTROL OVER FINANCIAL REPORTING

In the company's Form 10-K, for the year ended Dec. 31, 2014, management noted that the company did not maintain effective internal control over financial reporting. Specifically, management stated that: "We did not design and implement internal controls which address the completion and review of our tax basis balance sheet."

As a result of the material weakness, the company identified misstatements in the determination of certain deferred tax amounts, originating in 2013 and prior periods, primarily relating to the 2006 purchase accounting for the acquisition of Alderwoods Group Inc. The company states that other adjustments were made primarily related to the tax basis of fixed assets, intangibles, and deferred revenue. As a result, the company had to revise its 2012 and 2013 consolidated financial statements, relating to the company's income tax accounts, goodwill and other liabilities, and accumulated deficit.

Conclusion

A material weakness in a company's system of internal controls indicates that there is a reasonable possibility that a material misstatement will not be prevented or detected on a timely basis. Material weaknesses should be corrected promptly after they are identified to ensure that the financial statements presented to investors portray an accurate picture of the company's financial position.

The existence of ineffective internal control over financial reporting, as well as the restatement, may pose serious risks to shareholders if not addressed in a reasonable time frame. However, given that the company may not have had sufficient time to remediate the issues identified, no adverse recommendations are warranted at this time. Shareholder should continue to monitor the company's audit-related practices.

Item 2. Ratify PricewaterhouseCoopers LLP as Auditors — AGAINST

VOTE RECOMMENDATION

A vote AGAINST this item is warranted as the auditor's tenure at the company exceeds seven years.

BACKGROUND INFORMATION

Policies: Auditor Ratification

Vote Requirement: Majority of votes cast (abstentions count against; broker non-votes counted)

Discussion

The board recommends that PricewaterhouseCoopers LLP be approved as the company's independent accounting firm for the coming year.

Accountants	PricewaterhouseCoopers LLP
Auditor Tenure	22 years
Audit Fees	$6,081,000
Audit-Related Fees	$260,000
Tax Compliance/Preparation*	$0
Other Fees	$360,273
Percentage of total fees attributable to non-audit ("other") fees	5.38%

*Only includes tax compliance/tax return preparation fees. If the proxy disclosure does not indicate the nature of the tax services and provides the fees associated with tax compliance/preparation, those fees will be categorized as "Other Fees."

The auditor's report contained in the annual report is unqualified, meaning that in the opinion of the auditor, the company's financial statements are fairly presented in accordance with generally accepted accounting principles.

Analysis

The ratification of auditors is no longer a routine item. Accounting scandals at companies underscore the need to ensure auditor independence in the face of selling consulting services to audit clients. The outside auditing process is the backbone upon which the financial health of a company is measured. To maintain the integrity of the auditing process, the independence of an outside auditor is absolutely essential for rendering objective opinions upon which investors then rely.

The company has retained the same audit firm in excess of seven years. Mandatory auditor rotation could be an effective mechanism for mitigating the potential risks borne by long-term auditor-client relationships, and is a safeguard against improper audits. Under Taft-Hartley Advisory Services' policy, the ratification of an auditor if their tenure at a company exceeds seven years.

Item 3. Advisory Vote to Ratify Named Executive Officers' Compensation

AGAINST

VOTE RECOMMENDATION

A vote AGAINST this proposal is warranted due to questionable pay and perk levels offered to the company's executive chairman, extensive adjustments of performance metrics under the incentive plan, the continued allowance of automatic acceleration of equity awards upon a change-in-control, as well as the lack of engagement by the company despite rising levels of shareholder opposition to prior years' say-on-pay proposals.

BACKGROUND INFORMATION

Policies: Advisory Votes on Executive Compensation

Vote Requirement: Majority of votes cast (abstentions count against; broker non-votes not counted)

Executive Compensation Analysis

COMPONENTS OF PAY

($ in thousands)	CEO				CEO Peer Median	Other NEOS
	T. Ryan		T. Ryan	T. Ryan		
	2014	**Change**	**2013**	**2012**	**2014**	**2014**
Base salary	1,099	2.5%	1,072	1,014	952	2,644
Deferred comp & pension	16		0	37	0	42
All other comp	1,164	39.8%	832	879	82	1,931
Bonus	0		0	0	0	0
Non-equity incentives	4,624	-3.5%	4,794	4,584	1,043	7,589
Restricted stock	1,506	4.1%	1,446	1,296	1,799	1,991
Option grant	1,929	27.4%	1,513	1,467	1,491	2,545
Total	**10,337**	**7.0%**	**9,658**	**9,277**	**6,182**	**16,744**
% of Net Income	6.0%					9.7%
% of Revenue	0.3%					0.6%

Non-Performance-Based Pay Elements (CEO)

Key perquisites ($)	Personal aircraft use: 216,426; Life Insurance: 12,314; CEO Aggregate Other Perks: 51,396
Key tax gross-ups on perks ($)	None
Value of accumulated NQDC ($)*	16,629,726
Present value of all pensions ($)	161,958
Years of actual plan service	19.0
Additional years credited service	None

*Non-qualified Deferred Compensation

Disclosed Benchmarking Targets

Base salary	None Disclosed
Target short-term incentive	50th Percentile
Target long-term incentive (equity)	None Disclosed
Target total compensation	None Disclosed

Severance/Change-in-Control Arrangements (CEO unless noted)

Contractual severance arrangement	Individual Contract
Non-CIC estimated severance ($)	24,692,963

Change-in-Control Severance Arrangement

*Cash severance trigger**	Double trigger
Cash severance multiple	3 times
Cash severance basis	Base Salary + Target Bonus
Treatment of equity	Auto-accelerated equity vesting
*Excise tax gross-up**	No
Estimated CIC severance($)	29,421,257

*All NEOs considered

Compensation Committee Communication & Responsiveness

Disclosure of Metrics/Goals

Annual incentives	Yes
Long-term incentives	Yes

Pay Riskiness Discussion

Process discussed?	Yes
Material risks found?	No

Risk Mitigators

*Clawback policy**	Yes
CEO stock ownership guideline	>8X
Stock holding period requirements	Stock options/Restricted Stock: Until stock ownership guidelines are met

*Must apply to cash incentives and at least all NEOs.

Pledging/Hedging of Shares

Anti-hedging policy	Company has a robust policy
Anti-pledging policy	Company has a robust policy

Compensation Committee Responsiveness

MSOP vote results (F/F+A)	2014: 78.0%; 2013: 82.5%
Frequency approved by shareholders	Annual with 87.7% support
Frequency adopted by company	Annual (year of adoption: 2011)

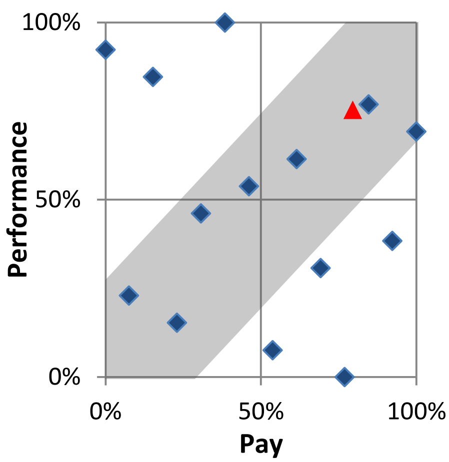
Repricing History

Repriced/exchanged underwater options last FY?	No

Pay for Performance Evaluation

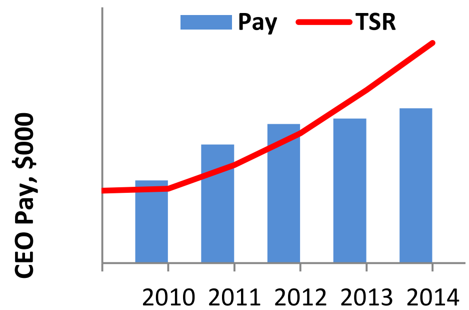
RELATIVE ALIGNMENT

The chart plots percentiles of the annualized 3-year performance and pay rankings for the company (▲) and ISS' derived peers (◆). The gray bar indicates pay and performance alignment.



ABSOLUTE ALIGNMENT

CEO granted pay trends versus value of a $100 investment made on the first day of the five-year period.

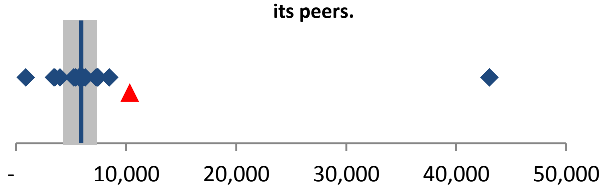


	2010	2011	2012	2013	2014
Pay($000)	5,528	7,912	9,277	9,658	10,337
Indexed TSR	102.68	135.04	179.01	238.58	303.55
CEO	Ryan	Ryan	Ryan	Ryan	Ryan

PAY MAGNITUDE

Pay in $thousands. The gray band represents 25th to 75th percentile of CEO pay of ISS' selected peer group, and the blue line represents the 50th percentile.

The company's total CEO pay is 1.75 times the median of its peers.



PAY-FOR-PERFORMANCE QUANTITATIVE SCREEN

Measure	Result	Level
Relative degree of alignment	**-4**	Better than **45%** of Companies*
Multiple of peer group median	**1.75**	Better than **14%** of Companies
Absolute alignment	**11**	Better than **57%** of Companies
Initial Quantitative Screen	Low Concern	

*Constituents of Russell 3000 Index.

For more information on ISS' quantitative pay-for-performance measures, visit http://issgovernance.com/policy/USCompensation

Peer Groups

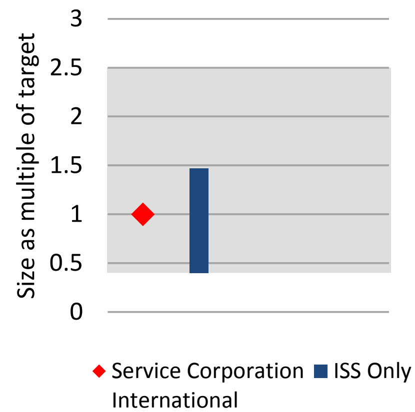
ISS AND COMPANY DISCLOSED PEER GROUPS

ISS-Selected Peers (14)	Boyd Gaming Corporation Chipotle Mexican Grill, Inc. DeVry Education Group Inc. Graham Holdings Company Panera Bread Company Regis Corporation The Wendy's Company	Brinker International, Inc. Cracker Barrel Old Country Store, Inc. Education Management Corporation H&R Block, Inc. Penn National Gaming, Inc. The Cheesecake Factory Incorporated Weight Watchers International, Inc.
Shared Peers (0)		
Company-Disclosed Peers (0)	(Company discloses a "Reference Group" of 147 public companies in "general industry" with revenues between $1 billion and $5 billion, constructed by a compensation consultant).	

For more information on the ISS peer group methodology, visit
www.issgovernance.com/policy/USCompensation

PEER GROUP SIZE ANALYSIS

Size (by revenue) of the ISS, company and overlap peer groups. Gray indicates 0.4- 2.5 times the company's revenue.



Short-Term Cash Incentives

STI performance metrics/goals

Metric	Form	Weight	Threshold	Target	Maximum	Actual
Normalized EPS	Absolute	33.34 %	$0.9761	$1.0591	$1.1421	$1.1075
Normalized free cash flow per share	Absolute	33.33%	$1.3814	$1.5414	$1.7014	$1.6542
Comparable preneed production growth	Absolute	33.33 %	103.00%	107.00%	111.00%	107.2%

Other Short-Term Incentive Factors

*Discretionary bonus?**	No
CEO's last FY award ($)	1,743,973 (159% of base salary)
CEO's last FY award target	110% of base salary
Future performance metrics	Not disclosed

*Based on the Bonus column in the SCT; per SEC rules, amounts disclosed in this column were not based on pre-set goals.

Long-Term Incentives

CEO's last FY LTI target (%)	150.91%% of base salary
NEOs' last FY award type(s)	Performance-based cash award, Time-based options, Time-based stock

Most recent performance metrics/goals

Metric	Threshold	Target	Maximum
3-yr TSR vs. public companies in Reference Group	25th percentile	50th percentile	75th percentile or greater

CEO's last FY long-term cash earned award($)	2,880,000
CEO's last FY options granted (#)	457,000
CEO's last FY stock granted(#)*	86,500
*CEO equity pay mix (by value)**	Performance-conditioned: 0%; Time-based: 100%

*Performance shares, if any, are counted and valued at target.

Executive Summary

Evaluation Component	Level of Concern	Key Reasons
Non-Performance-Based Pay Elements	**Low**	
Peer Group Benchmarking	**Low**	
Severance/CIC Arrangements	**Medium**	Auto-Accelerated Equity Vesting
Comp Committee Communication/Responsiveness	**Medium**	Disregard of prior lower than average vote results
Pay for Performance Evaluation	**Medium**	Sizable Executive Chair Pay, Numerous Adjustments to Metrics
***T-H Recommendation:* AGAINST**		

OVERVIEW

The company has delivered superior shareholder returns and operational performance in the last five years, with TSR outperforming GICS and Russell 3000 peers in each of the last 1-, 3-, and 5-fiscal year periods, and generally steady increases in revenue, net income, EBITDA, and EPS over the period. The CEO's annual pay packages have also increased each year.

Analysis

Taft-Hartley Advisory Services' pay-for-performance policy for Russell 3000E companies begins with an initial quantitative screen, followed by an in-depth qualitative review if concerns are generated, to identify probable causes and/or mitigating factors. In this case, the pay-for-performance screens indicate low concern with respect to CEO pay, as of 2014, relative to peers and TSR performance. CEO Ryan's fiscal 2014 pay package increased 7 percent from the prior year, while TSR was 27.24 percent for the year (and has exceeded the company's 4-digit GICS industry and Russell 3000 peers in the prior 1-, 3- and 5-fiscal-year periods). GAAP financial metrics also were generally higher in 2014 than the prior year. As discussed on page 2 of this report, however, the CtW Investment Group is urging shareholders to Vote No on the say-on-pay proposal, warranting an in-depth qualitative review of the company's executive pay program and practices.

ANNUAL COMPENSATION

- ✓ *2014 bonus plan goals were all set higher than 2013 results*
- × *Company makes numerous adjustments with respect to each metric*

Adjustments to metrics are numerous but consistent and clearly disclosed. The company's annual incentive plan utilizes three equally weighted metrics: normalized EPS; normalized free cash flow per share; and growth in "comparable preneed production." Each metric is explained and adjustments detailed, including the following with respect to EPS (in addition to normalization of results to eliminate the impact of taxes):

1. Litigation costs and/or settlements exceeding $5 million for an individual class of legal cases
2. Special accounting, tax or restructuring charges
3. The cumulative effect of any changes in accounting or tax principles
4. Any extraordinary gain or loss or correction of an error
5. Any gain, loss or impairment charge recorded in association with the sale or potential sale of a business and/or real estate or any impairment(s) related to the evaluation of goodwill, intangible assets, long-lived assets or loss contracts
6. Charges relating to the opening, closing or relocation of market support centers or other overhead centers

7. The gain or loss associated with the early extinguishment of debt
8. Accounting charges or expenses relating to acquisitions and dispositions, system conversions and/or implementations, and/or transitions of major vendors and/or suppliers of the company
9. Currency gains or losses

Adjustments to cash flow per share include exclusion of: cash taxes paid related to gains on the sale of businesses or real estate or audit settlements; litigation and/or settlements exceeding $5 million for an individual class of legal cases, cash payments relating to opening/closing/relocating overhead centers; and cash payments/expenses related to acquisitions, dispositions, system conversions, etc. In addition, forecasted capital improvements and development expenditures are deducted, along with cash taxes related to forecasted normal operating earnings. Adjustments to the growth factor include exclusion of locations planned for disposition as well as the effect of various items that could cause "temporary fluctuations in our production growth."

Although many companies do not provide a detailed list in the proxy, most do adjust incentive plan results to exclude the impact of extraordinary or one-time costs that are deemed not reflective of the on-going business, or not within management's control. SCI's list of adjustments is notably long, but aligned with their disclosures in several prior years. Exclusion of high litigation costs/settlements runs somewhat counter to an approach that would discourage activity leading to such costs.

Performance goals were set above prior year's achieved results. The 2014 corporate goals set under the annual incentive plan utilized the same metrics as the 2013 plan, with all targets set above the actual results reported for 2013. As in 2013, all the goals were exceeded to some degree, resulting in an overall payout percentage at 144.1 percent of target awards. The CEO's target award is 110 percent of salary (which was raised to $1.1 million in 2014), and the Executive Chairman has a target bonus of 100 percent of his salary (set at $952,000 in 2013 but not raised in 2014).

LONG-TERM COMPENSATION

- ✓ *Performance units based on relative TSR cannot exceed target if TSR is negative*
- × *A majority of equity grants are not tied to specific goals*

A third of annual long-term incentive awards are performance-conditioned. The company makes annual LTI awards to NEOs, using a targeted value based on consideration of peer benchmarks, individual performance, job responsibility, and overall company performance in light of economic conditions. The target value is split equally into three award types: stock options, restricted shares, and cash-based performance units (PUs). Options and restricted shares vest one-third per year, and the PUs use a 3-year performance period.

The value of PUs earned is based on company TSR relative to the public companies in its self-selected "Reference Group" of broad industry companies with revenues ranging from $1 billion to $5 billion. While the group does not include any of SCI's publicly held direct competitors -- Carriage Services Inc. and StoneMor Partners L.P. – they are both significantly smaller than SCI, as measured by both revenue (less than $300 million) and market cap (less than $1 billion).

The target number of units is earned for company TSR at the median of the peers, with 25 percent earned at the 25th percentile and 200 percent earned at the 75th percentile or above. The design includes a "collar" that caps the earned units at the target level if the company has negative TSR for the period, regardless of relative performance, however.

Maximum awards earned for 2012-2014 performance period. The proxy states that the company posted TSR at the 76th percentile of the 2012 Reference Group for the cycle that ended in 2014, resulting in 200 percent of awards deemed earned. While the company's performance might be better compared to more direct competitors, many companies use a market or general industry index to gauge relative TSR performance under their long-term incentive programs.

Other Notable Factors

Executive Chair receives substantial pay. R.L. Waltrip has served as Executive Chairman of the SCI board since he stepped down as CEO in 2005. The 84-year-old Waltrip founded the company and took it public in 1969. The proxy states that the board believes that he provides "invaluable and unique leadership and vision for the future success of the Company, and [has] extensive knowledge and experience related to the death care industry and the Company . . . " but does not provide additional insight into his role as an employee at the company. For 2014, Waltrip received a salary of $952,000; 36,600 restricted shares and 193,000 stock options, valued by the company at $637,023 and $645,566, respectively; and a target award of $700,000 in PUs. His non-equity incentive compensation consisted of $1.37 million in annual incentive pay and a $1.39 million payout for the PUs granted for the 2012-2014 performance cycle, and he received more than $300,000 in perquisite compensation related to personal use of the corporate aircraft, reimbursement of his medical expenses not covered by insurance, tax and financial planning, and personal security (including guard and alarm services at his residence) and driving services. The bill for these perks was $300,642 in 2014, and Waltrip's total compensation for the year was reported as $5.237 million.

Single-trigger equity vesting acceleration

Equity award arrangements provide for automatic accelerated vesting of outstanding equity awards upon a change-in-control event. Such single-trigger vesting may result in an economic windfall to the executive without an accompanying termination of employment.

Conclusion

CtW has raised several concerns about the company's pay program, including extensive adjustments to performance plan metrics, absence of direct peers in the reference group, lack of responsiveness to below average support for the last two say-on-pay proposals (which garnered 78 and 82.5 percent support), and provision of substantial pay and perquisites to former CEO and continuing Executive Chairman R.L. Waltrip.

The company makes multiple metric adjustments under its incentive plans. Many companies measure their TSR performance against a broad industry group; SCI also uses the same group to benchmark pay in the absence of similar size direct competitor peers. Notwithstanding, shareholders may wish to consider if such adjustments are appropriate at this company and in their best interests.

The company states that the vote results of prior say-on-pay resolutions reflect satisfaction with its pay program from a majority of shareholders and did not impact any compensation committee decisions. That interpretation does not bode well for SCI's long-term relations with its investors; there is no mention of engagement, for example, which might have given the committee some useful insight into the cause of the relatively low votes that they could address before dissent grows.

Shareholders may indeed question the need for continuing compensation and benefits provided to the Executive Chairman -- whose day-to-day role at the company is not clear – especially given the presence of a CEO who has been in office for 10 years, as well as a COO in the executive suite. While the CEO's pay appears reasonably aligned with company performance and peers at this time, CtW's concerns with Executive Chairman Waltrip's annual pay has some merit and shareholders would benefit from better understanding of the need, at this point, for an executive chair with a sizable compensation package.

Based on the factors highlighted above, shareholders should be concerned with the structure and disclosure surrounding the company's 2014 compensation program. The questionable pay and perk levels offered to the executive chairman, the modification of performance metrics under the incentive plan, and the continued allowance of automatic acceleration of equity awards upon a change-in-control may indicate that the company's compensation philosophy is not fully aligned with shareholders' interests. Furthermore, the company's lack of appropriate disclosure regarding its response to concerns raised by shareholders on its MSOP proposals at the 2013 and 2014 annual meetings is problematic. The company should have and is still encouraged to engage in constructive dialogue with major shareholders, especially in light of the year-over-year rise in shareholder opposition towards its compensation program. For these reasons, support for this year's proposal is not warranted at this time.

Item 4. Declassify the Board of Directors

FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted as it enhances board accountability to shareholders and demonstrates a commitment to shareholders' interests on the part of management.

Vote Requirement: The affirmative vote of 80 percent of shares outstanding (abstentions and broker non-votes count against)

Discussion

PROPOSAL

The company seeks shareholder approval to amend its articles of incorporation to repeal the classified board structure and establish annual elections of all directors.

The board currently comprises three director classes, each of which serves a three-year term. If shareholders approve this proposal, directors will be elected to one-year terms beginning with the 2016 annual meeting. Directors elected at the 2015 annual meeting will be elected for a three-year terms expiring at the 2018 annual meeting, except one director who will be elected for a one-year term expiring at the 2016 annual meeting. Directors currently serving terms that expire at the 2016 and 2017 annual meetings will serve the remainder of their respective terms, and thereafter their successors will be elected to one-year terms. Beginning at the 2018 annual meeting all directors will stand for reelection and will be elected to one-year terms.

BOARD'S RATIONALE

The board states that it has considered the advantages of declassification, including the ability of shareholders to evaluate directors annually. In addition, the board has considered the support of the holders of a majority of shares outstanding for the shareholder proposal to declassify the board at last year's annual meeting.

Analysis

The ability to elect directors is the single most important use of the shareholder franchise. Taft-Hartley Advisory Services believes that all directors should be accountable on an annual basis. A classified board can entrench management and effectively precludes most takeover bids or proxy contests. Even outside the context of a hostile bid, classified boards make it much more difficult for shareholders to send a timely, well-targeted message, through their votes, about the actions or inactions of an individual director or a board committee. The proposed declassification enhances board accountability to shareholders and demonstrates a commitment to shareholders' interests on the part of management. Therefore, support for this proposal is warranted.

Item 5. Stock Retention — FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted as the more rigorous guidelines recommended by the proponent may better address concerns about creating a strong link between the interests of top executives and long-term shareholder value.

BACKGROUND INFORMATION

Policies: Hold Equity Past Retirement or for a Significant Period of Time

Vote Requirement: Majority of votes cast (abstentions count against; broker non-votes not counted)

Discussion

PROPOSAL

The International Brotherhood of Teamsters, on behalf of the Teamsters General Fund (beneficial owner of 141 shares of SCI common stock) has proposed adoption of the following resolution:

> RESOLVED: Shareholders of Service Corporation International (the “Company”) urge the Compensation Committee of the Board of Directors (the “Committee”) to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs until reaching normal retirement age or terminating employment with the Company. For the purpose of this policy, normal retirement age shall be defined by the Company’s qualified retirement plan that has the largest number of plan participants. The shareholders recommend that the Committee adopt a share retention percentage requirement of at least 75 percent of net after-tax shares. The policy should prohibit hedging transactions for shares subject to this policy which are not sales but reduce the risk of loss to the executive. This policy shall supplement any other share ownership requirements that have been established for senior executives, and should be implemented so as not to violate the Company’s existing contractual obligations or the terms of any compensation or benefit plan currently in effect.

SHAREHOLDER'S SUPPORTING STATEMENT

The proponent is concerned that senior executives are generally free to sell shares received from equity plans, as the company's current share ownership guidelines (400,000 shares for the CEO) are too low. The CEO, for example, owns more than three times that requirement, such that he can freely dispose of shares received in the future, reducing the effectiveness of the ownership requirement. The proponent cites a 2009 report from the Conference Board that observed that hold-through-retirement requirements give executives " an ever growing incentive to focus on long-term stock price performance as the equity subject to the policy increases” (available at http://www.conference-board.org/pdf_free/ExecCompensation2009.pdf).

BOARD'S STATEMENT

The board states that it agrees with the proponent that equity ownership by executive officers helps align their long-term interests with shareholders', but stock ownership and compensation programs should balance that objective with the need to permit executives reasonable latitude to manage their personal financial affairs. The board believes that the company's stock ownership guidelines and its performance-based compensation plans and policies successfully strike this balance, while an "inflexible anti-diversification mandate" inherent in the proposal could be harmful in several respects and put the company at a significant competitive disadvantage for attracting and retaining executive officers. Specifically, the board cites (1) the company's current stock ownership requirements, which are exceeded by all NEOs, and (2) the fact that incentive programs tie "a substantial percentage of an executive’s compensation to the attainment of financial and other performance measures" that promote the creation of long-term shareholder value, as achieving "the central objective of this shareholder proposal." The board further argues that because current company policy prohibits hedging transactions with respect to all company shares owned by executives, requiring a disproportionate concentration of executives' assets to be in company stock could influence their decision-making either towards either excessive risk or excessive risk aversion, to the detriment of shareholders; and that the compensation committee is best suited to formulate pay policies for long-term success.

Analysis

Taft-Hartley Advisory Services also agrees that significant stock ownership by company management aligns shareholder interests with those of management. When evaluating stock retention/holding period proposals, Taft-Hartley Advisory Services takes into account the following:

- Rigorous ownership guidelines (at least 10x base salary);
- Holding period requirements coupled with significant long-term ownership requirements;
- A meaningful retention ratio;
- Actual executive stock ownership compared to the ownership/holding requirements;
- Any post-termination holding requirement policies or policies aimed at mitigating risk taking; and
- Pay practices (past and present) that may promote short-term versus long-term focus.

In this case, based on a March 16, 2015, stock price of $25.89 per share, the CEO's ownership guideline of 400,000 shares ($10,356,000) is somewhat below 10x his 2014 established salary of $1.1 million ($11 million). While the guideline appears reasonably rigorous, it highlights an inherent drawback of such requirements in maintaining a consistently rigorous guideline, given the potential variability of stock price and pay levels. As of the same date, the CEO owned 1,252,145 shares (about 42,309 more than in the prior year, while in 2014 he acquired 791,400 shares through option exercises and 53,133 stock awards that vested, according to the proxy statement. SCI does not currently maintain any retention or holding requirement once an officer has met his or her guideline.

Only a third of equity-based incentives granted each year are tied to specific goal attainment (with the target level of those shares payable for performance only at the median of a peer group), which may not foster a strong focus on long-term performance.

CONCLUSION

The company maintains stock ownership requirements, but they fall slightly short of qualifying as particularly rigorous requirements per Taft-Hartley Advisory Services' policy, and also demonstrate a drawback of these guidelines, given the variability of stock prices and pay levels. Moreover, current retention requirements are only applicable until the ownership guidelines are met, and only a third of executives' annual equity grants is tied to a longer-term performance goal. The current proposal's request that executives hold 75 percent of net shares received is stringent, but a retention requirement may strengthen the link between the interests of top executives and long-term shareholder value. While the board has not demonstrated particular willingness to engage with shareholders and respond to their feedback, it could have leeway, in implementing this non-binding proposal, to arrive at a reasonable retention requirement with which its shareholders concur. In consideration of all factors, a vote FOR this proposal is warranted.

Equity Ownership Profile

Type	Votes per share	Issued
Common Stock	1.00	204,607,913

Ownership - Common Stock	Number of Shares	% of Class
Fidelity Management & Research Co.	26,729,099	13.17
The Vanguard Group, Inc.	11,868,584	5.85
EdgePoint Investment Group, Inc.	11,744,283	5.79
BlackRock Fund Advisors	11,582,189	5.71
Iridian Asset Management LLC	10,483,640	5.17
The London Co. of Virginia LLC	9,148,487	4.51
SSgA Funds Management, Inc.	6,728,999	3.32
Owl Creek Asset Management LP	3,650,721	1.80
Dimensional Fund Advisors LP	3,631,837	1.79
Pyramis Global Advisors LLC	2,930,959	1.45
Delaware Management Business Trust	2,862,956	1.41
Ivory Investment Management LP	2,613,968	1.29
Canyon Capital Advisors LLC	2,533,895	1.25
Westfield Capital Management Co. LP	2,307,320	1.14
NewSouth Capital Management, Inc.	2,013,604	0.99
Pyramis Global Advisors (Canada) ULC	1,958,800	0.97
Kalmar Investments, Inc.	1,930,315	0.95
Handelsbanken Fonder AB	1,871,600	0.92
WALTRIP ROBERT L	1,759,790	0.87
State Teachers Retirement System of Ohio	1,711,000	0.84

Additional Information

Meeting Location	Conference Center Heritage I and II, Service Corporation International 1929 Allen Parkway Houston, Texas
Meeting Time	9:00 a.m. Central Time
Shareholder Proposal Deadline	December 2, 2015
Security IDs	817565104(CUSIP)

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